

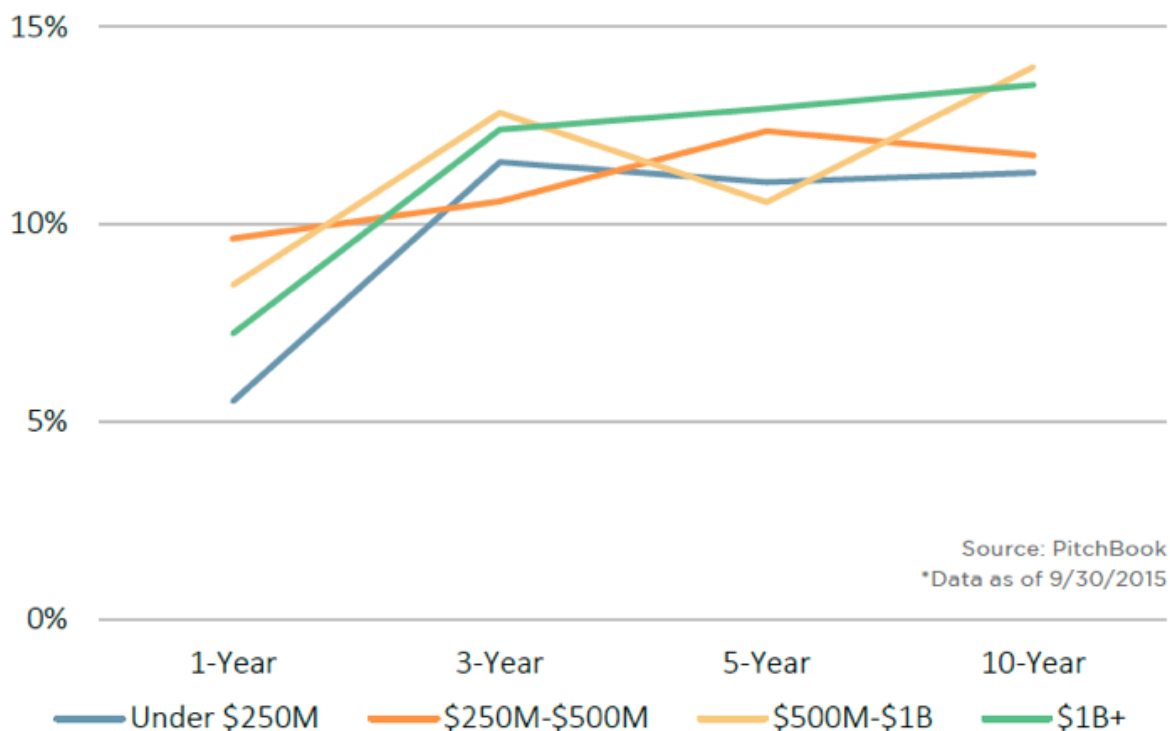
The Pulse of Private Equity – 5/16/2016

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Larger PE Funds Continue to Realize Gains at Longer Horizons

From the one-year mark to the 10-year, the horizon internal rates of return (IRR) of private equity funds worldwide gradually advance from 8.2% to 13.1%. Breaking down fund performance by size bucket yields further insights, most notably that on a sufficiently long time horizon, funds of \$500 million or more are the only vehicles seeing improvement. This could be attributable to larger fund managers' greater resources, as they have the wherewithal to devote significant resources over a longer timeline and potentially reap gains even on portfolio companies that have been held for that long. It could also be a result of larger acquisitions simply requiring more time to turn around before exits can be achieved. In addition, larger funds can employ a more generalist strategy, seeing more diversification and perhaps larger exits at correspondingly greater returns.

Global PE horizon IRR by size bucket



Looking at smaller funds, it's instructive that vehicles under \$250 million in size essentially do not see their performance budge once past the one-year horizon. Basically, the passage of time does not hurt the performance of the smallest category of funds, with capital flows essentially plateauing at a certain level, implying an unrelenting if unspectacular realization of most investments. In a similarly stable fashion, mid-sized funds—those between \$250 million and \$500 million—have seen the least fluctuation in IRR over all horizons. This could be a product of the recent exit environment, with strategic buyers looking more frequently to companies in PE fund portfolios of that size range to achieve growth in an environment where it's hard to come

by organically. As such exit activity slides overall, however, and aging holdings remain in PE portfolios, there have been declines in IRRs across multiple horizons. 10-year horizon IRRs across all PE vehicles slid lower for the fourth consecutive period to 13.1%, while five-year horizons came in at their lowest level since 4Q 2013, at 12.2%.

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