How Persistent is Private Equity Performance? Evidence from Deal-Level Data

Abstract:

The persistence of returns is a critical issue for investors in their choice of private equity managers. Most academic research, and industry practice, considers the performance of successive limited partnership funds. This is problematic given that performance is only known when the fund has exited all its investments, which often takes a decade or more, and relative performance benchmarking is notoriously difficult. In this paper we approach the issue in a different way, using a unique database containing cash-flow data on 10,637 portfolio company investments by 236 private equity managers. For each fund manager we construct a sequence of portfolios containing only realised deals. We investigate how performance persistence has evolved as the industry has matured, and whether this development is contingent on GP experience. We confirm earlier findings of persistence until the late-1990s: which we find was driven by experienced GPs with strong relative outperformance. However, we find that for investments made since the late-1990s, experienced fund managers no longer exhibit performance persistence. Private equity has, therefore, conformed to the pattern found in most other asset classes where past performance is a poor predictor of the future.

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