PitchBook

Global Fund Performance Report

as of Q3 2019

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Horizon IRRs by fund type

	1-year	3-year	5-year	10-year
Private capital	8.3%	12.2%	11.5%	12.6%
Private equity	9.6%	13.9%	13.7%	14.5%
Venture capital	10.6%	13.1%	11.6%	12.4%
Real assets	1.5%	8.3%	7.5%	9.1%
Private debt	5.1%	7.3%	6.4%	9.3%
Funds of funds	11.4%	12.4%	11.9%	10.5%
Secondaries	8.6%	13.7%	11.6%	12.7%

Source: PitchBook | **Geography:** Global
*As of September 30, 2019

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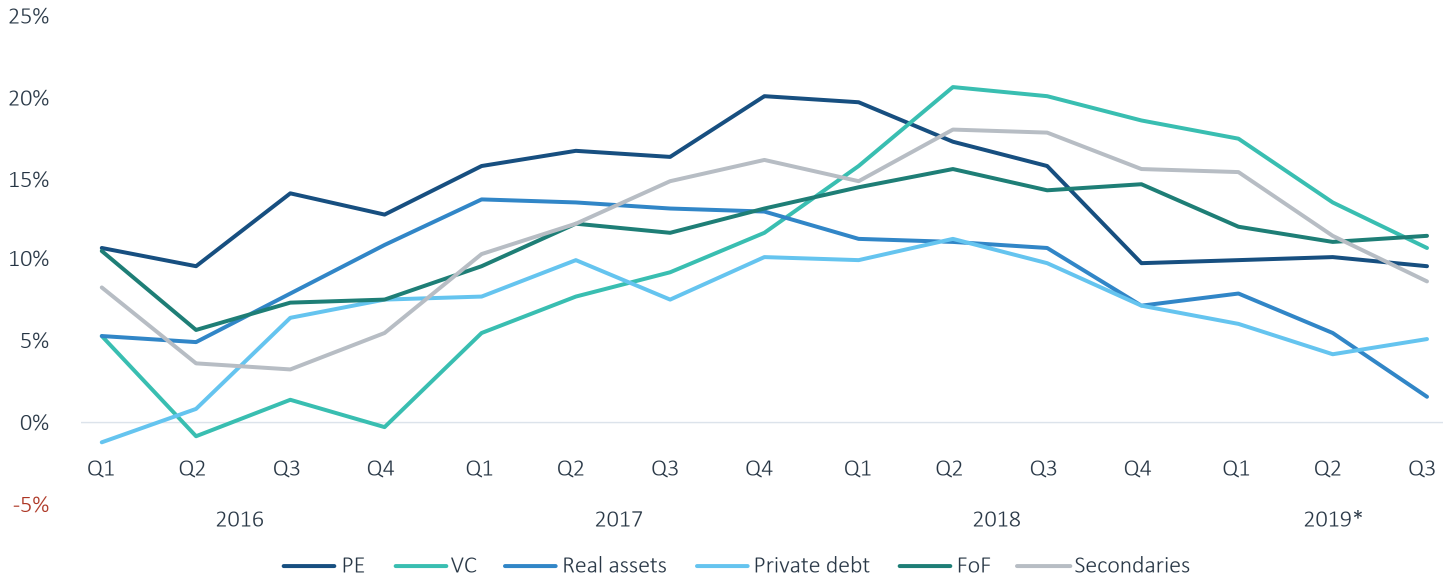
Overview

Rolling one-year horizon IRRs by fund type



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

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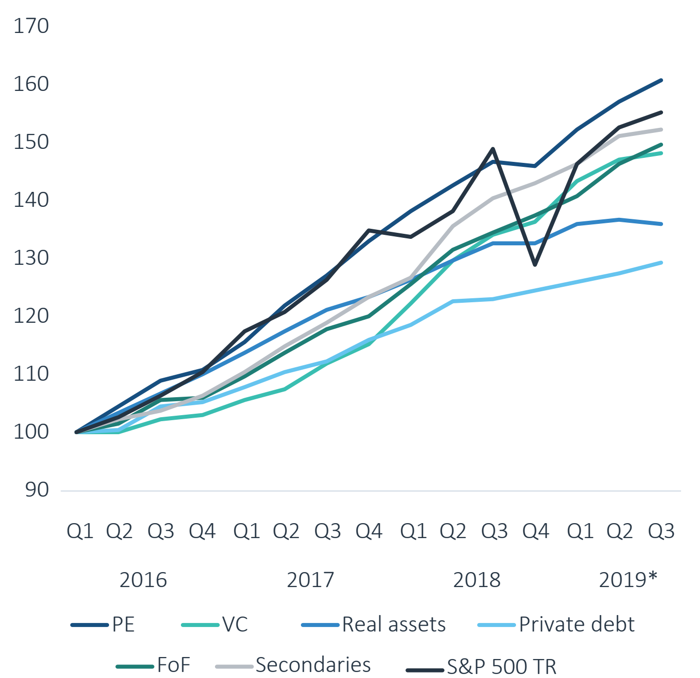
While the world had not envisioned the effects of a pandemic at the end of September 2019, returns in the private markets had already started to lose their luster. Private capital funds posted positive but diminished one-year returns, well off the highs seen over a year earlier. Overall, rolling one-year horizon IRRs for private capital funds registered at 16.4% in Q4 2017 but were only 8.3% through Q3 2019, the seventh straight quarter of flagging returns since the peak. Years of elevated fundraising and valuations were already taking a toll on performance even before global spending ground to a halt with stay-at-home orders. 10-year horizon IRRs across all private capital strategies aggregated to 12.6%, so the recent returns have dropped off significantly from that longer-term level.

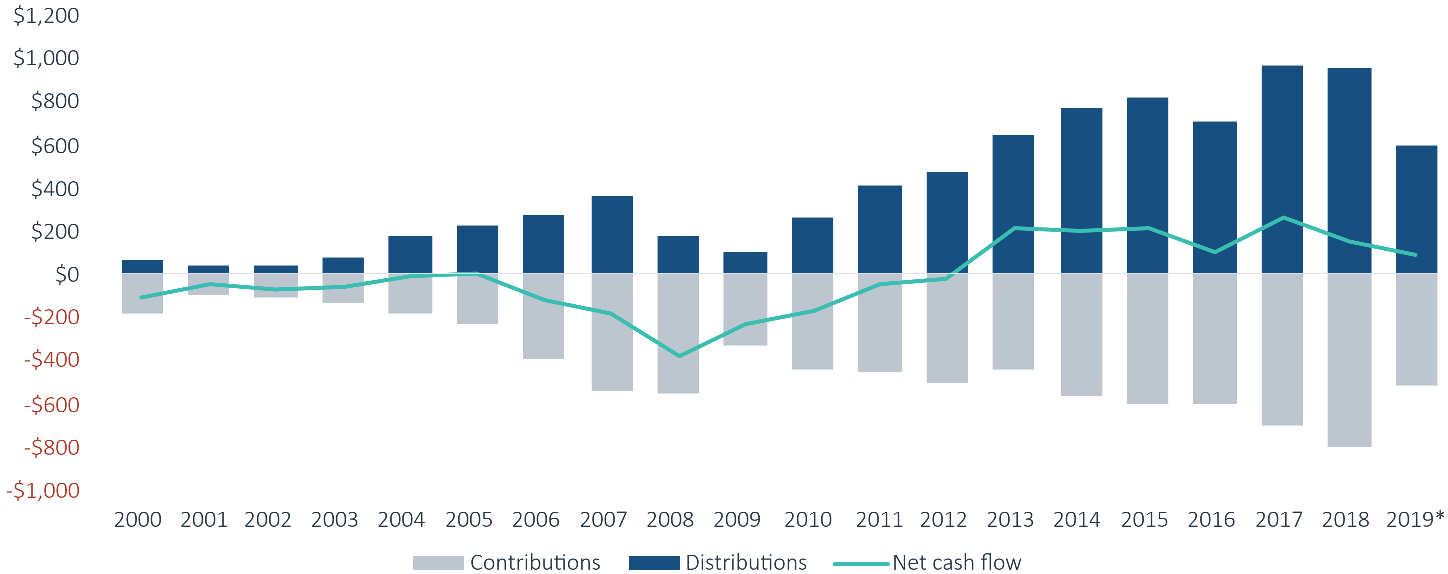
Based on our own data analysis and conversations with industry professionals, we anticipate that even Q1 2020 data will not fully reflect the pandemic's impact on private market valuations. Yet the first quarter ended with large-cap US stocks down 19.6% (S&P 500 Index), small caps dropping 30.6% (Russell 2000 Index), and

NAV growth rebased to 100 at end of Q1 2016



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Private capital cash flows ($B)

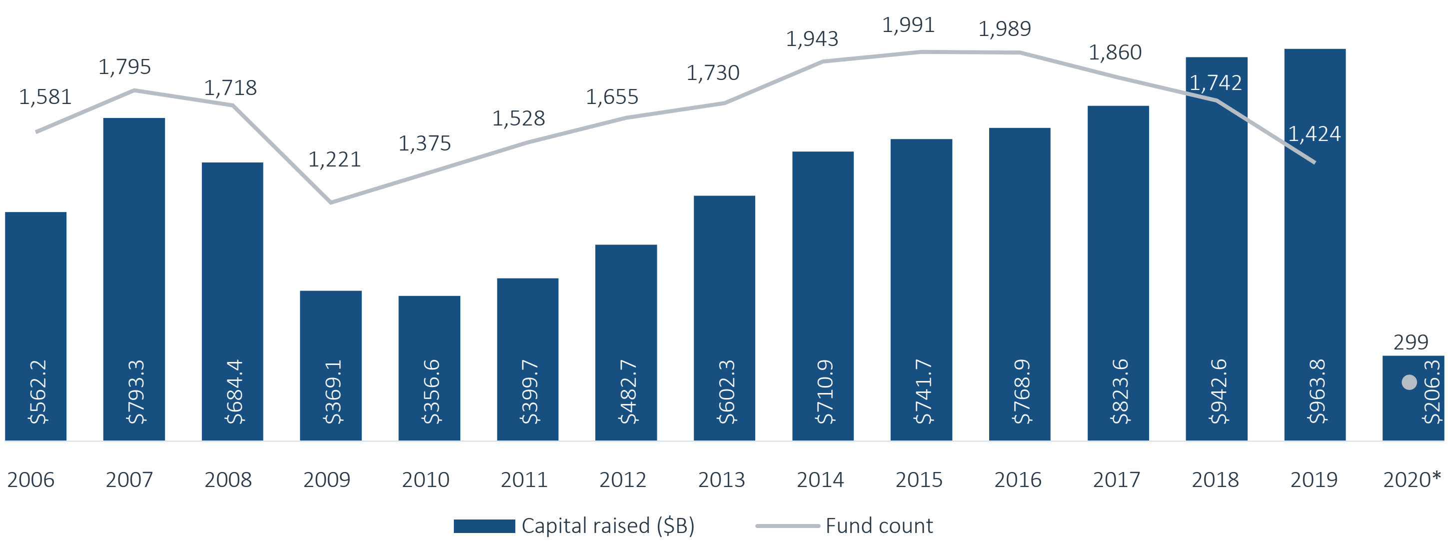


Source: PitchBook | **Geography:** Global
*As of September 30, 2019

global stocks off 21.4% (MSCI All Country World Index). We have been told that we won't start seeing significant write-downs from most private market funds until Q2 2020 data is available. That said, we have seen recent write-downs on par with the public market declines from publicly traded PE firms, each of which has a broad collection of funds that give some insight into what we expect when NAVs are finally reported.

Despite the lag in private market data, we can deduce what outcomes will be. First, the record amount of capital raised was followed by record capital calls for

Private capital fundraising activity

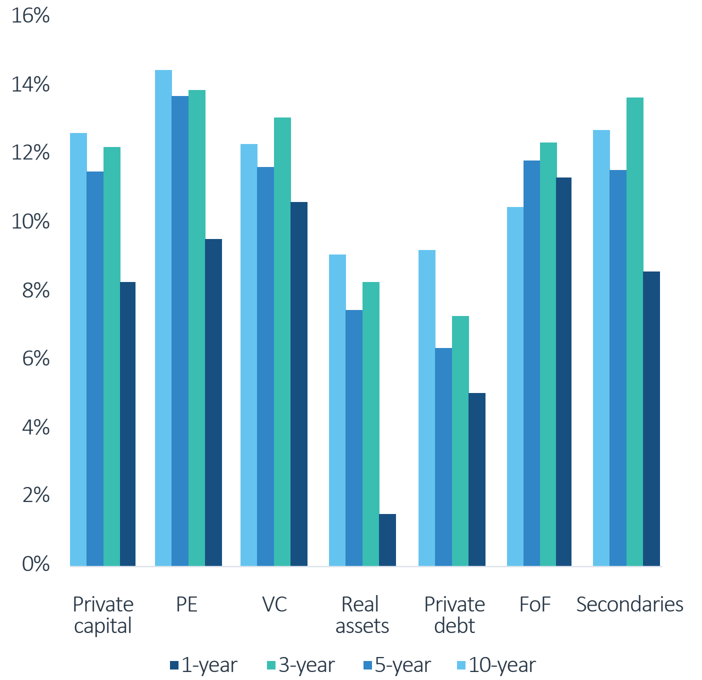


Source: PitchBook | **Geography:** Global
*As of March 31, 2020

investments from GPs before the most recent crisis. In both 2017 and 2018, more than $950 billion was called from LPs for private capital funds. Most of the closed deals in those years will likely be impaired by the COVID-19 situation. That said, we estimate that GPs have $2.3 trillion in committed capital they have yet to put to work. Second, the inflated valuations we saw in recent years have pulled back, so funds that have dry powder right now should be investing in businesses at attractive entry points. If managers can improve the companies they buy during the crisis, an eventual resolution to the pandemic should cause multiples to rise again, giving returns a double boost when it comes time to exit. We would thus expect 2020 vintages to generally do well on an absolute basis.

Lastly, investors in private funds have enjoyed more than six years of positive net cash flows from profitable private markets funds, so more money came back than was called. All of the exit avenues were widely available in recent years, as strategic acquirers, fund buyers and IPOs provided ready capital to investors seeking to lock in gains. In 2020, we have observed that private market transactions have tailed off markedly, which has drastically slowed the distributions coming back to LPs. Fund investors have told us there was a spike in capital calls in March attributable to subscription lines being zeroed out to ensure all the closed investments were fully funded by LPs. While we would expect capital calls to also decline as markets recalibrate for the unknowns resulting from a global shut-down, the potential for bargain purchases will make it likely that calls will exceed distributions at least through 2021.

Horizon IRRs by fund type*



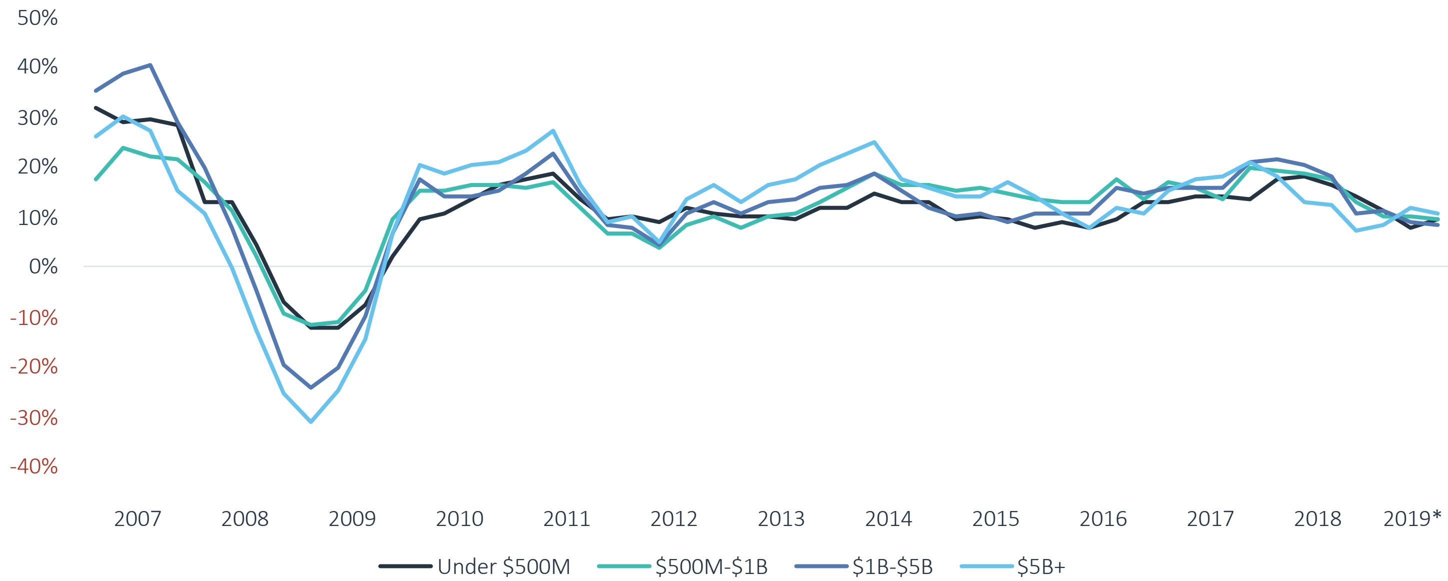
Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Horizon IRRs by fund type*

Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Private equity

Rolling one-year horizon IRR for PE funds by fund size



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

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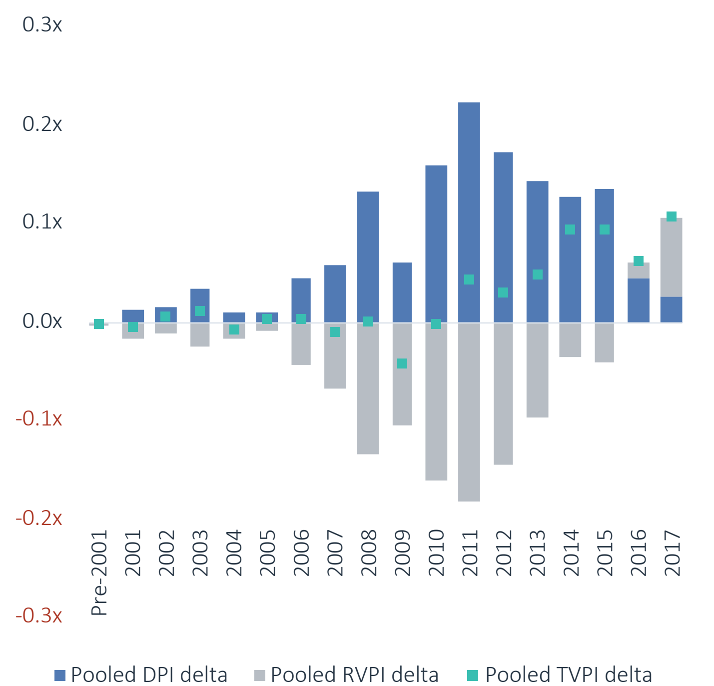
PE performance continued to soften in Q3 2019, posting a mildly positive rolling one-year return of 9.6%. Large public indices, on the other hand, including the S&P 500 and the FTSE 100, were flat to down. Much of PE's returns stemmed from 2014-2018 vintages, which saw healthy TVPI growth. Compared to past returns, the most recent rolling four-quarter results were in line with long-term averages across all fund sizes, though mega-funds ($5 billion+) clocked in marginally above their smaller peers. Looking forward another quarter, global public equity markets rose in Q4, so we do expect 2019 PE performance to end on a high note.

This uptick will be short lived, though. As the COVID-19 pandemic gripped markets in Q1 2020, shares of public indices fell and returns for mega-funds—which tend to be the easiest to mark to market because the large portfolio companies tend to rely on public comps—seem poised to drop substantially. On recent earnings

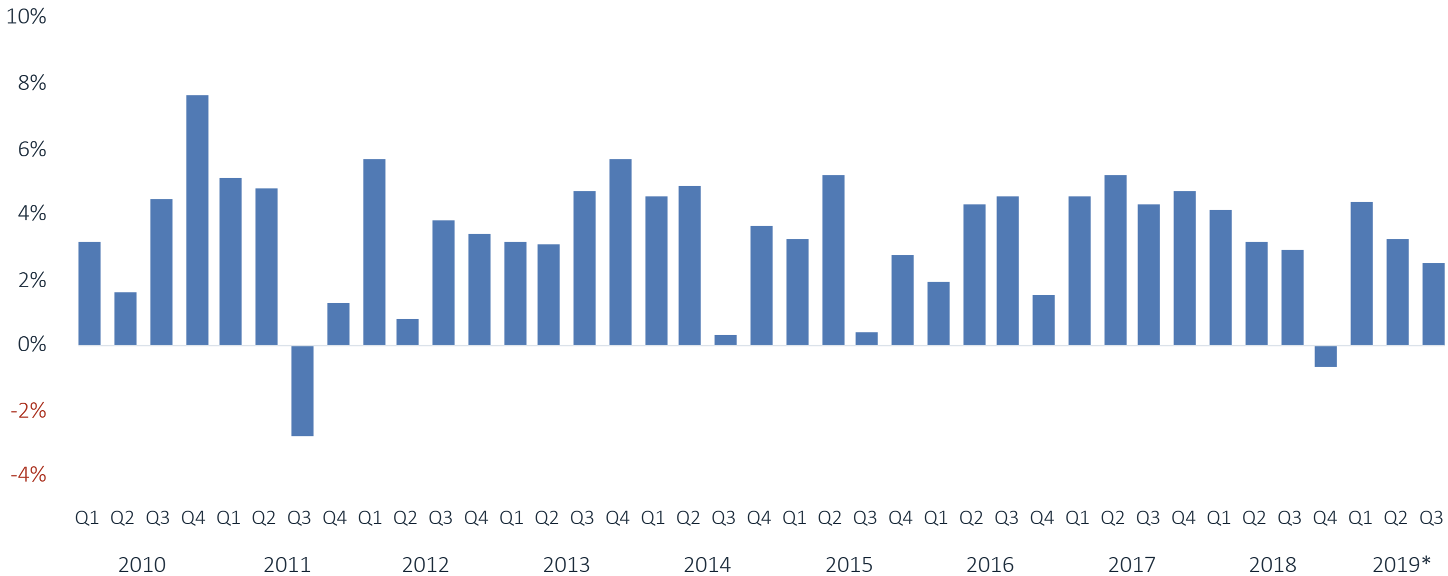
One-year change in pooled cash multiples for PE funds by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

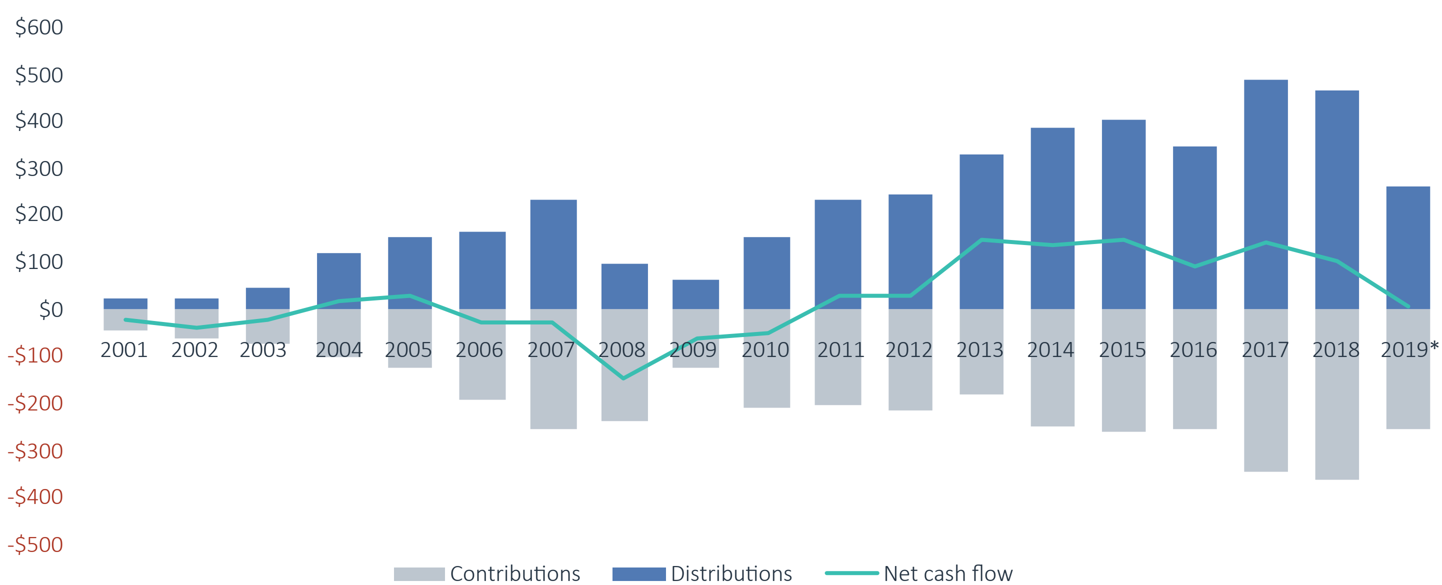
reports, Blackstone and Apollo—the managers of the two largest buyout funds—each marked their corporate PE portfolios down by 21.6% in the quarter, surpassing the S&P 500's 20% fall in Q1. Smaller funds may see even steeper declines in price, though, because their tinier portfolio companies have fewer financing options and have been unable to gain access to Paycheck Protection Program money. Although this crisis is likely to keep prices depressed in the short term, it may also present buying opportunities for PE funds—especially those skilled in distressed and turnaround—and allow them to deliver healthy returns in the coming years.

Quarterly IRR for PE funds



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

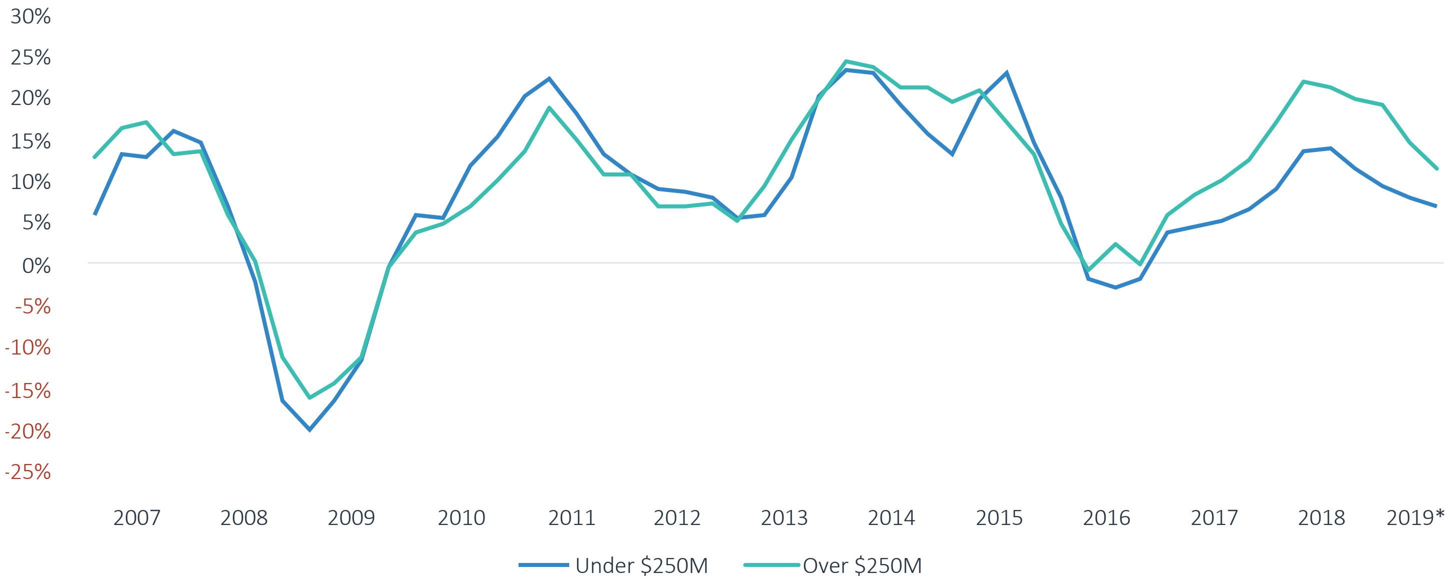
PE cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Venture capital

Rolling one-year horizon IRR for VC funds by fund size



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

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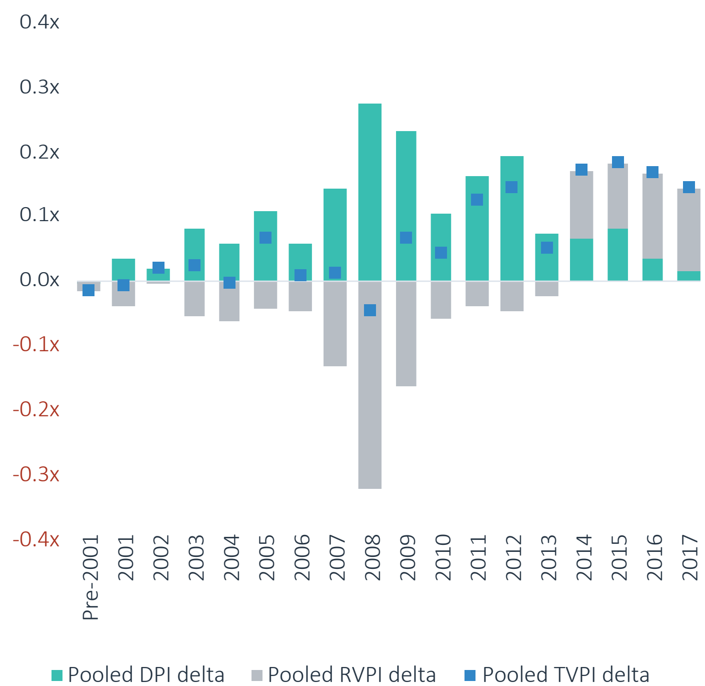
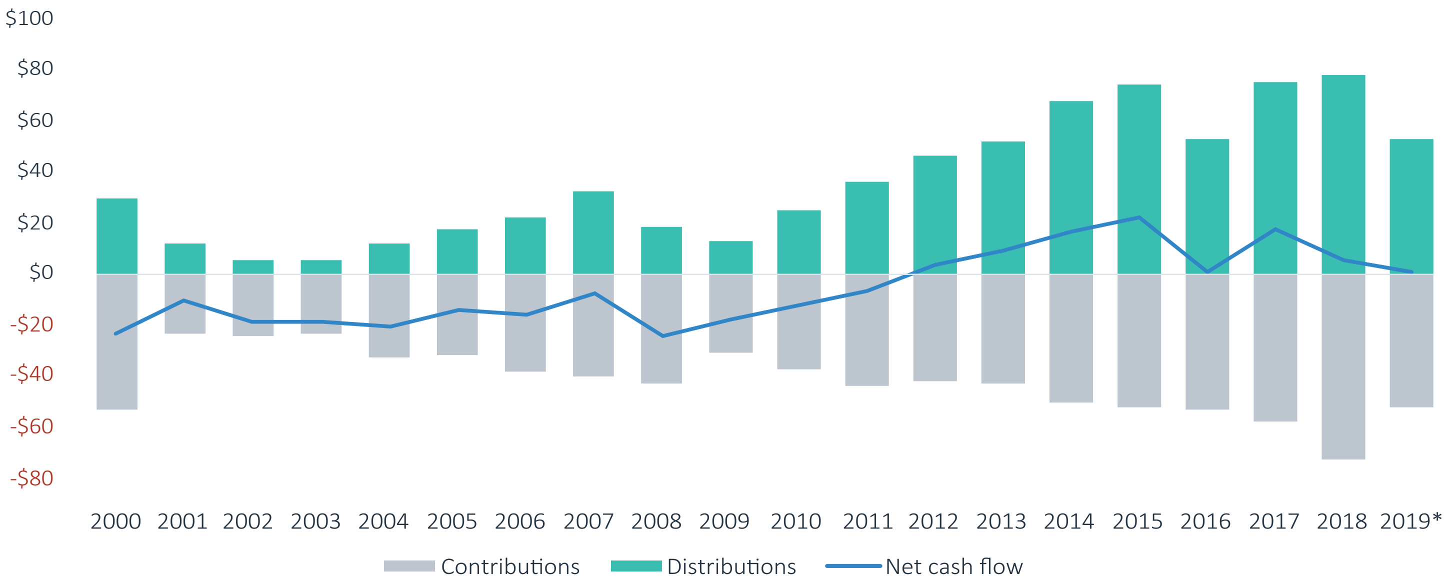
While still in double-digits as of Q3 2019, the one-year IRR for VC funds fell for the fifth consecutive quarter. Performance is likely to remain strong through the end of 2019 before the fallout from the disruptions of COVID-19 begins to register in 2020's performance data. Large VC funds continue to outperform by a considerable margin, but the gap has narrowed to its closest point since mid-2017. The downward trajectory of VC fund performance is particularly interesting considering the record-breaking exit activity of 2019. One primary reason is that the step-up in valuation at IPO tends to be small relative to exiting via acquisition, as much of that value is already recognized on the RVPI side of the ledger.

One-year change in pooled cash multiples for VC funds by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

VC cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

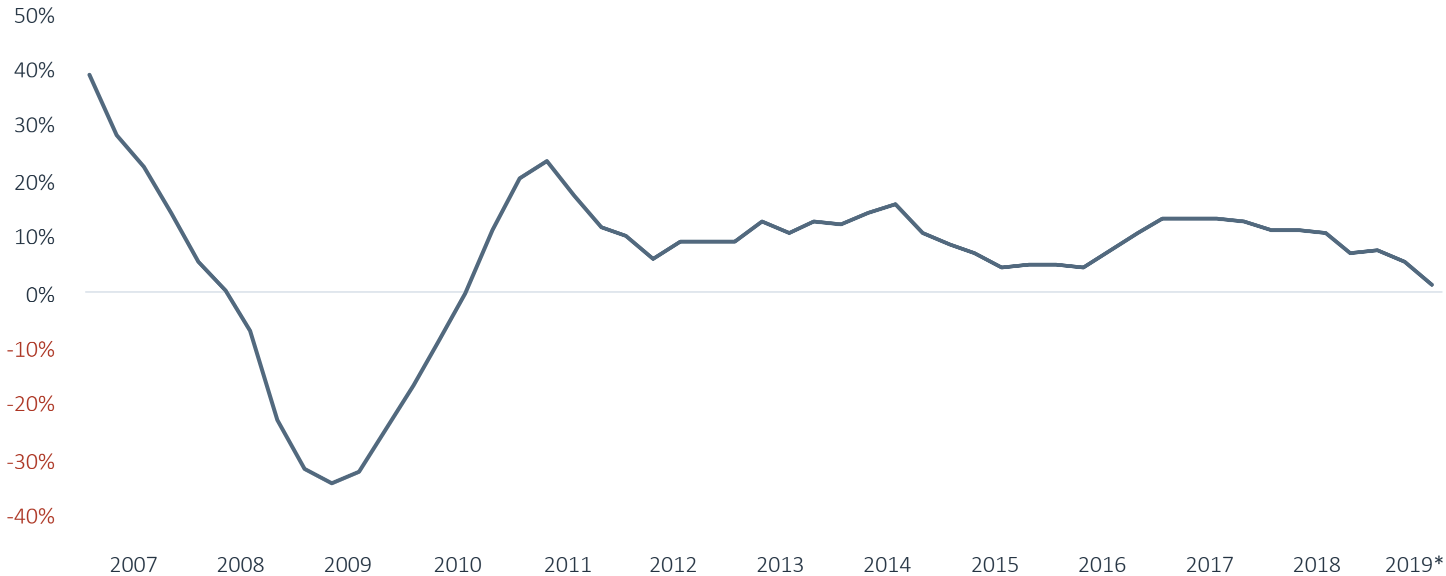
Distributions have also failed to reflect the booming exit environment of 2019. We expect the data to show strong distributions in Q4 2019 when the 180-day lockup period ended for many investors with exposure to the record-breaking VC-backed IPO activity of the first half of the year. Robust distributions will not necessarily result in a boost to aggregate performance figures such as IRR and TVPI, however, given the lackluster aftermarket performance of large VC-backed IPOs—including some of the massive listings in 2019, including Uber and Lyft. This phenomenon of distributions being decoupled from changes in overall performance can be seen in the 2008 vintage (see chart on previous page), which recorded the highest one-year change in DPI but actually saw TVPI fall.

Quarterly IRR for VC funds

Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Real assets

Rolling one-year horizon IRR for real assets funds



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

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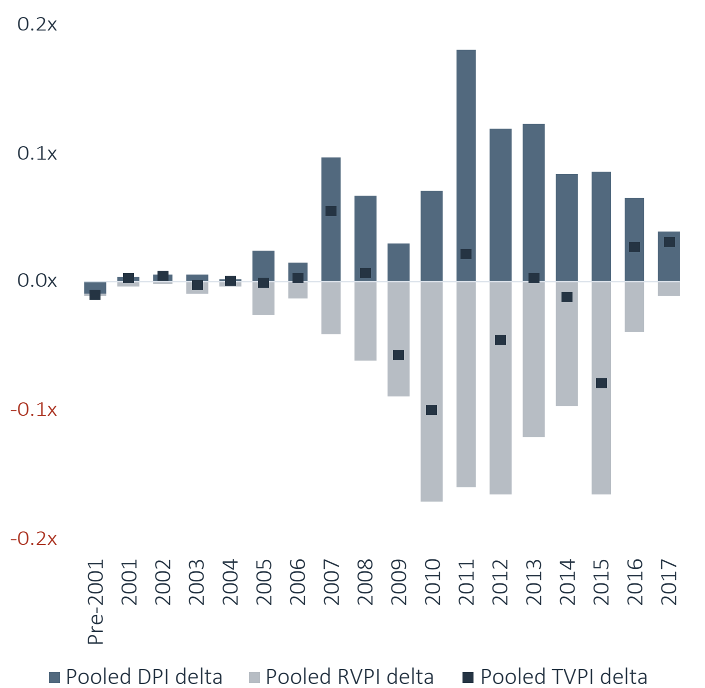
Of the major private market strategies, real assets had the lowest one-year IRR as of Q3 2019, coming in at just 1.5%. The negative returns of oil & gas funds were the major culprit, damaged by low commodity prices even before Russia and Saudi Arabia's oil price war began in early 2020. Real assets returns have been declining since 2017 and will certainly worsen with the global shutdown caused by the pandemic. There will be a bifurcation of winners and losers within real assets, as those with heavy exposure to oil assets, retail and lodging properties, and traditional transportation infrastructure have felt the brunt of the economic downturn thus far. On the other side of the trade, investments in data centers and telecom, renewable energy and logistics real estate properties have been relative winners, helping to buffer returns for the strategy in the coming quarters.

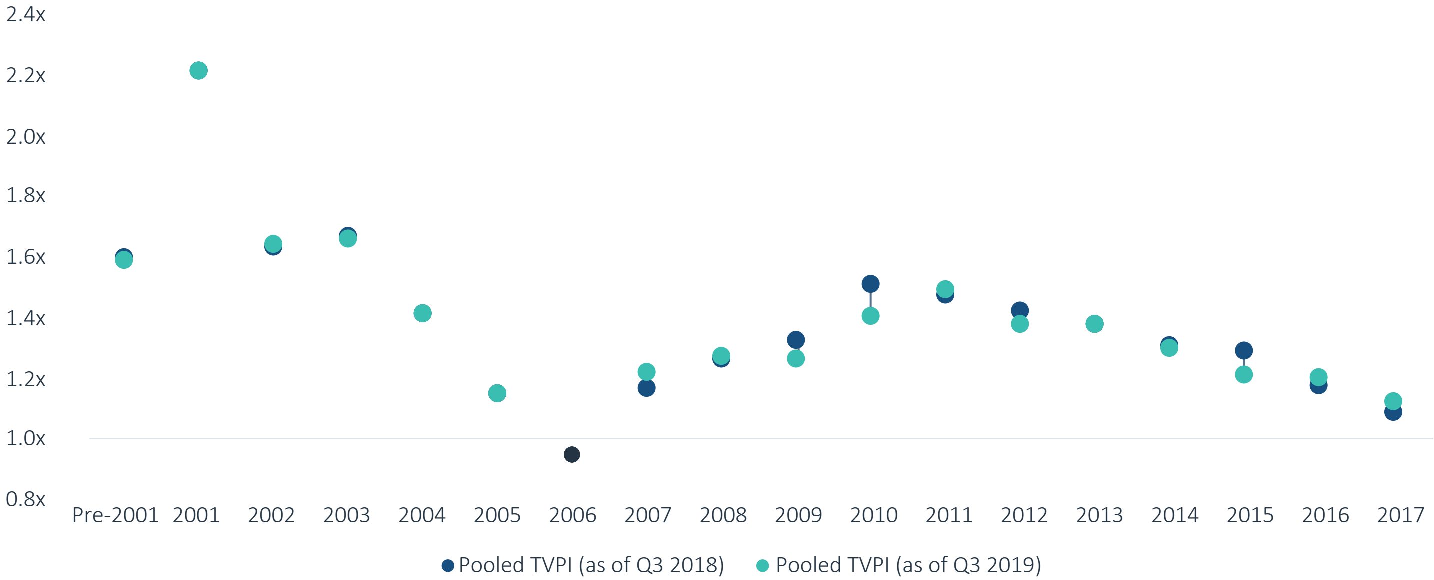
Net cash flows to LPs were positive in 2019 through September, but multiples on paid-in capital in Q3 2019 showed little growth over the year prior, coinciding with

One-year change in pooled cash multiples for real assets funds by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

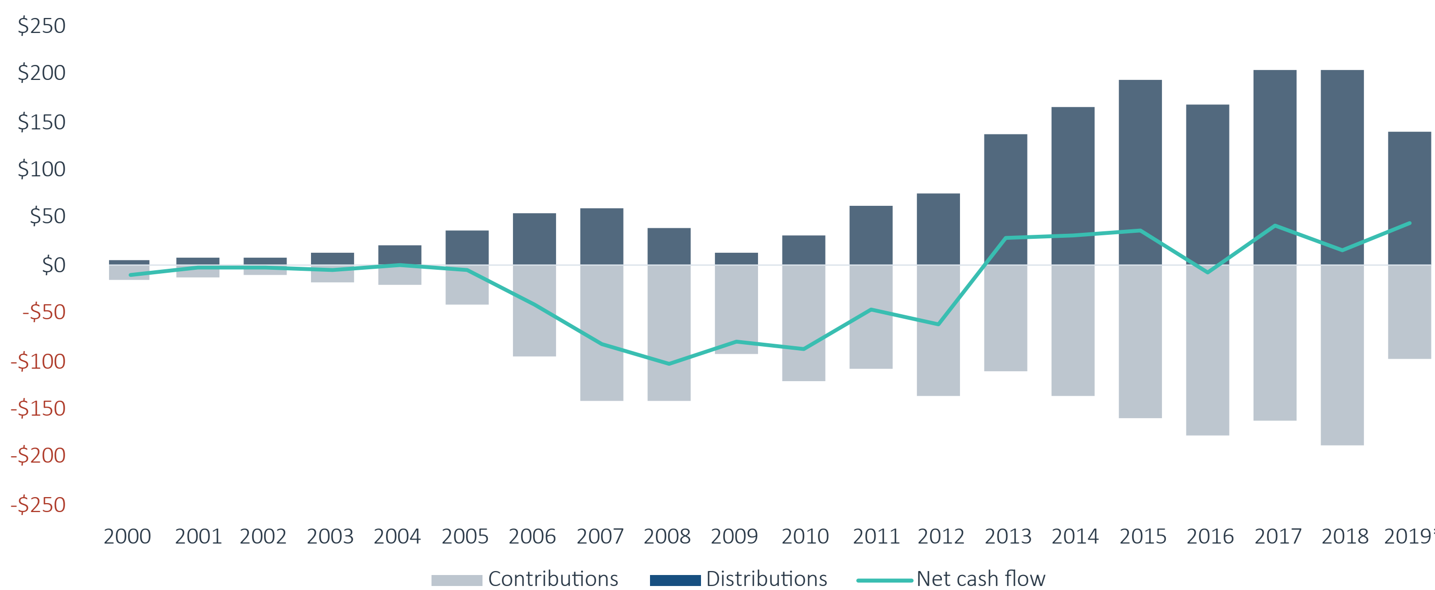
One-year change in pooled TVPI multiples for real assets funds by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

the low rates of return. Several vintage year cohorts experienced a net decline in TVPI since Q3 2018. Oil & gas was partially to blame, as mentioned previously, but real estate has also been weak as valuations have topped out, rent growth has slowed and ecommerce continues to disrupt traditional brick-and-mortar retail. Q4 2019 will likely be more of the same, but 2020 might just set records for lack of distributed capital. One reason: Real estate market activity has all but evaporated. Data from Real Capital Analytics suggests that US commercial real estate transactions fell 71% in April, despite peak levels of fresh dry powder looking to find a home.[1] For GPs looking to liquidate holdings and return capital, 2020 will be a challenge.

Real assets cash flows ($B)

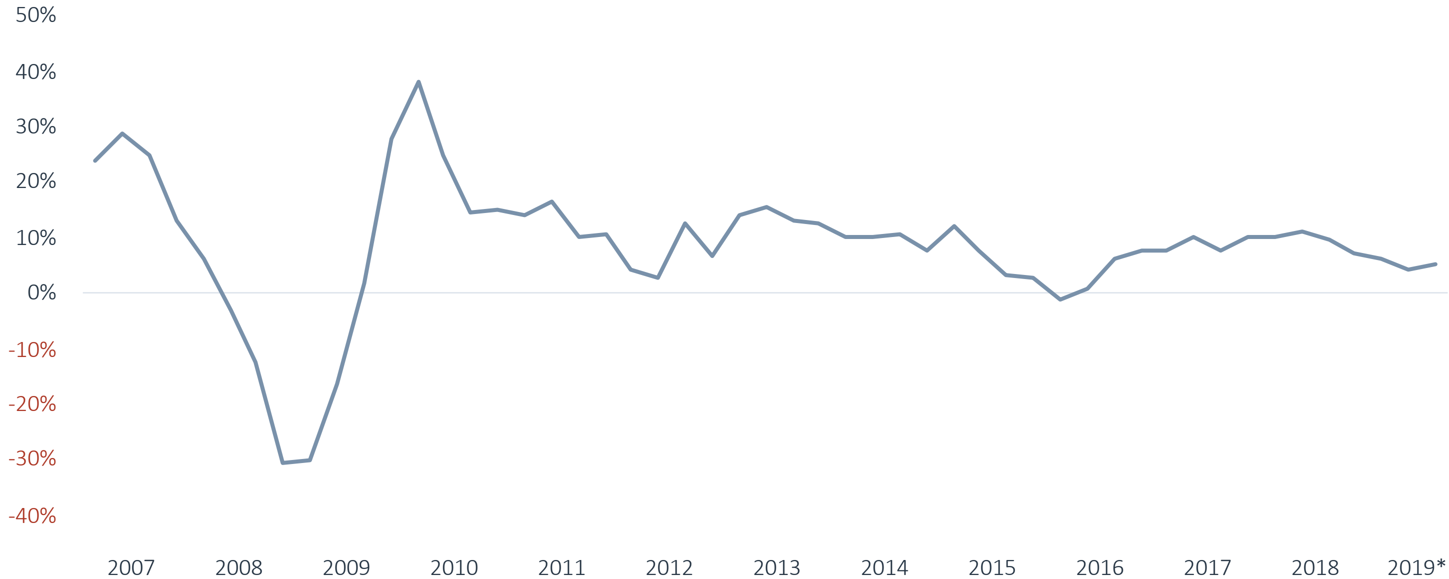


Source: PitchBook | **Geography:** Global
*As of September 30, 2019

1: "US Commercial Property Prices Continue to Grow in April," Real Capital Analytics, Wyatt Avery, May 21, 2020.

Private debt

Rolling one-year horizon IRR for private debt funds



Source: PitchBook | **Geography:** Global
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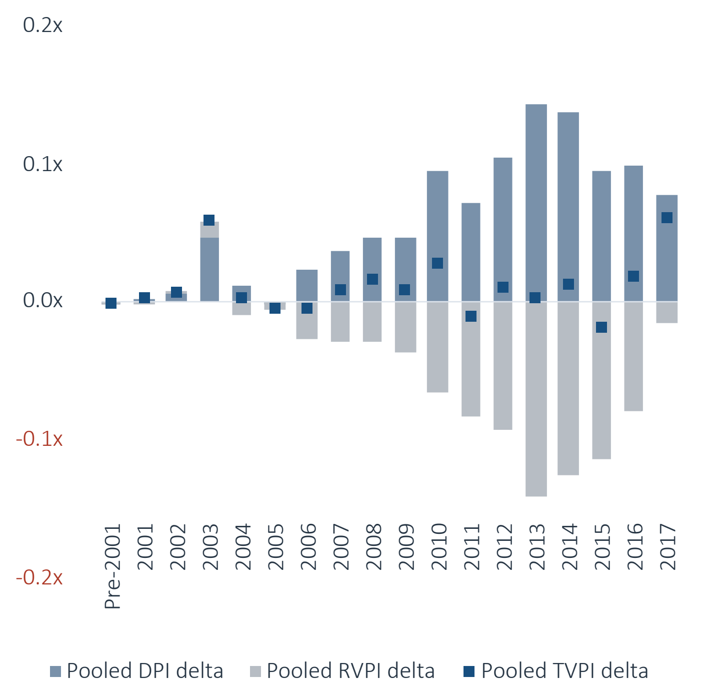
Performance figures for private debt funds hardly budged in Q3 2019, reflecting a remarkably placid market environment when compared to the early stages of 2020. The rolling one-year horizon IRR for the strategy inched up to 5.1% from 4.1% in the prior quarter. Similarly, few vintages saw any meaningful changes in TVPI figures, with the majority clocking trailing 12-month changes of .02x or less. To be sure, these figures include unrealized mark-to-market changes in portfolio holdings and are sure to dip with the market turmoil stemming from COVID-19. For reference, the S&P/LSTA US Leveraged Loan 100 Index fell by 9.9% in Q1 2020, with drawdowns as much as 22.3% from where it began the year.

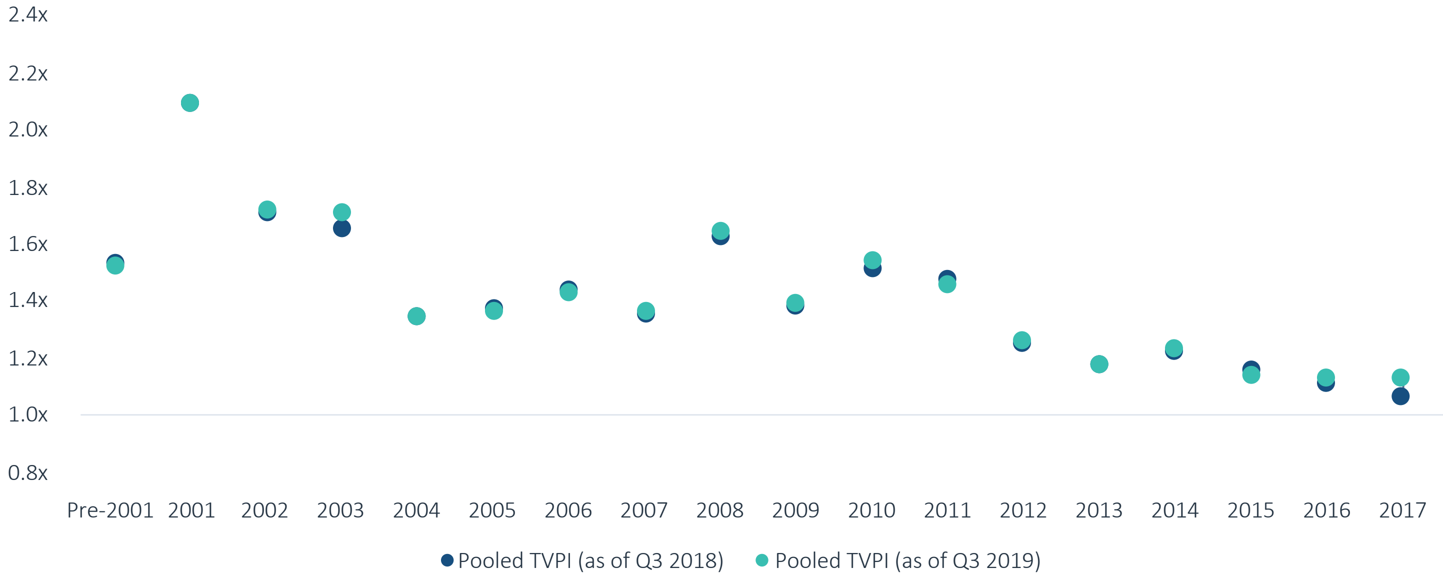
While performance figures have been steadfast, cash flows from the strategy have changed dramatically. Ample capital raised led to record capital deployment in 2018 ($111.9 billion), with 2019 nearly on pace to match. Distributions, meanwhile, have not quite kept

One-year change in pooled cash multiples for private debt funds by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

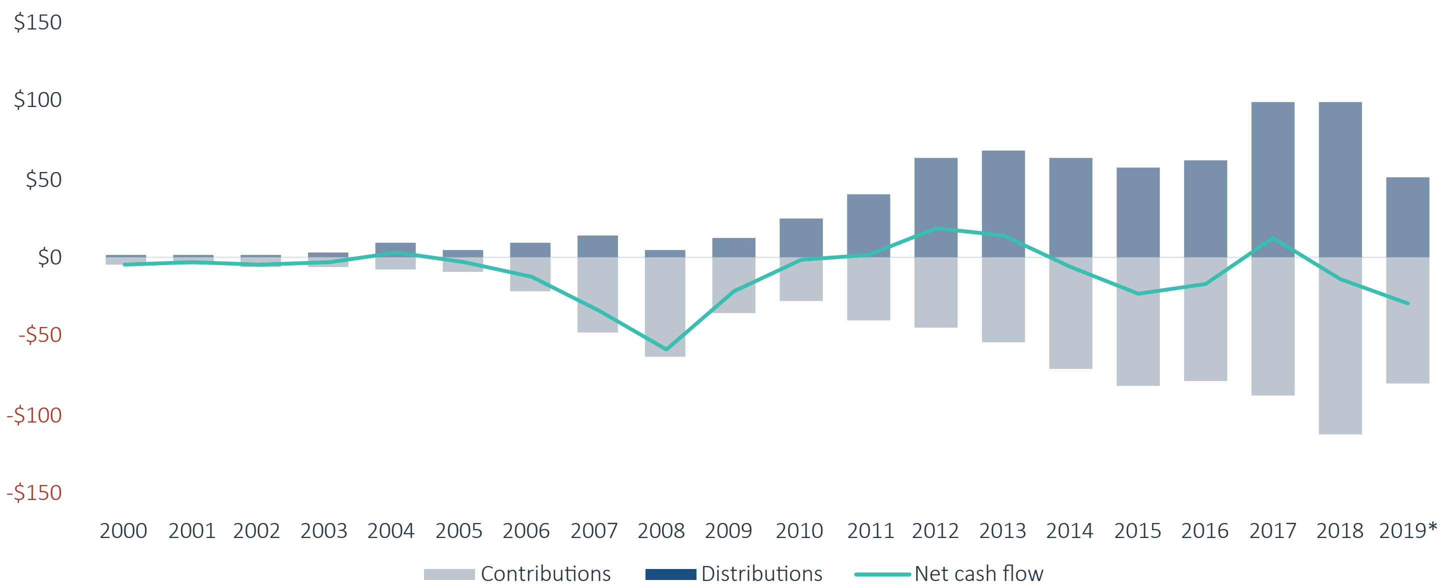
One-year change in pooled TVPI multiples for private debt funds by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

pace, meaning that net cash flow to LPs (distributions minus contributions) is on track to be negative for the second consecutive year. We view this as a result of the growing LP interest in the space, not as a sign of weak distributions. That said, distributions are likely to dampen in 2020 as companies of all stripes could struggle to make debt repayments amid the COVID-19 pandemic.

Private debt cash flows ($B)



Source: PitchBook | **Geography:** Global
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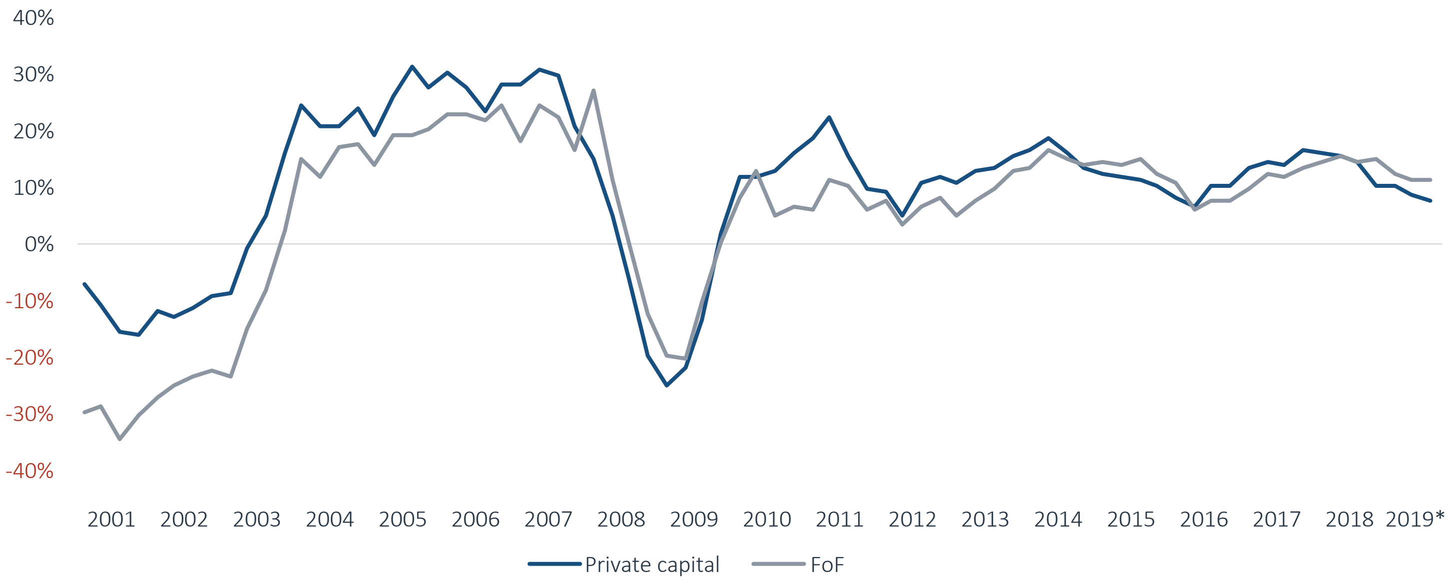
Funds of funds

Rolling one-year horizon IRR for FoF



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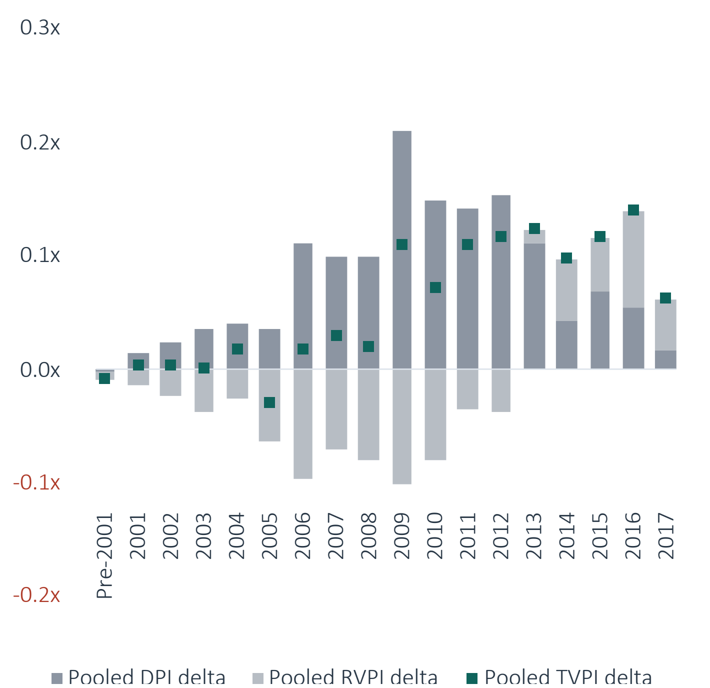
For the first time in a long while, FoF was the top-performing strategy in a 12-month period. In fact, while the one-year return figure for the overall private capital marketplace declined, this metric for FoF ticked up from 11.1% in the prior quarter to 11.4%, making it the 10th straight quarter with double-digit one-year returns. No other strategy has had such a remarkable run of consistently good returns in recent years. This is particularly interesting as FoF could be considered a proxy for the private markets as a whole, yet, at least recently, FoF GPs have managed to make more effective decisions than other private market managers. Looking at one-, three-, five- and 10-year horizon IRRs, FoF have outpaced other private capital funds in all but the 10-year timeframe. Also interesting is that FoF is the only grouping that performed better in the shorter term than in the 10-year span, perhaps a sign that attrition in the FoF space has resulted in a set of managers who are more skilled than the set of 10 years ago.

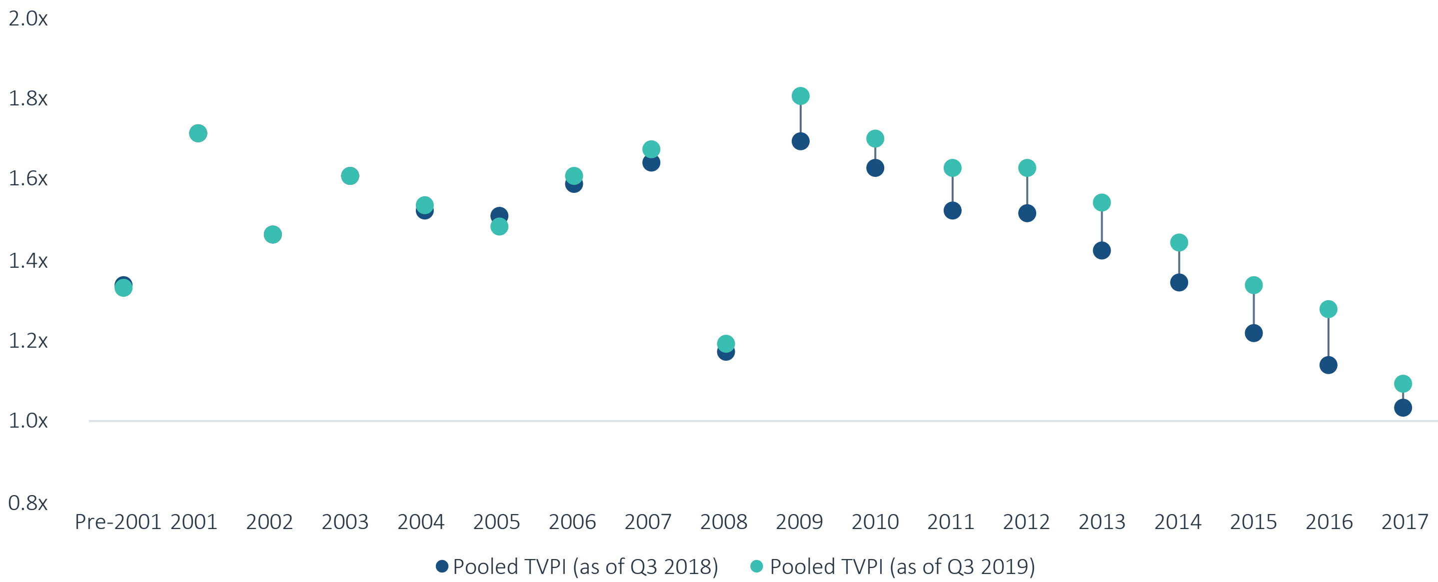
One-year change in pooled cash multiples for FoF by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

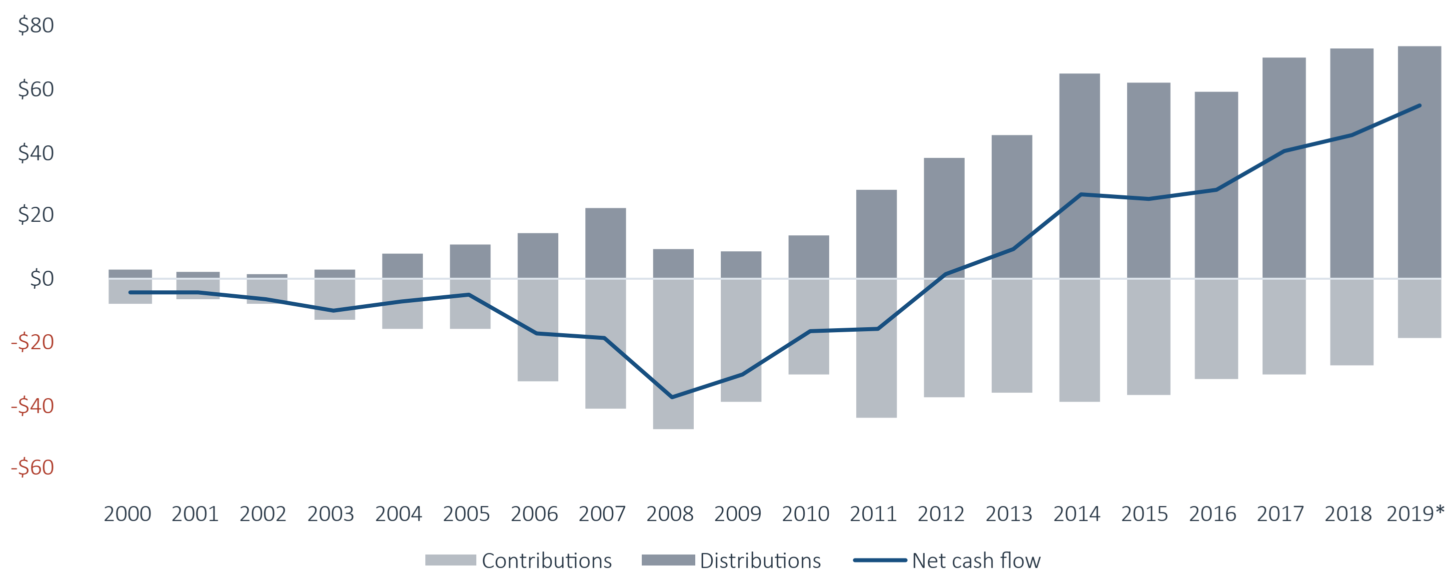
FoF net cash flows have been remarkably positive, with capital returns outpacing calls since 2012 and increasing most years in the interim until, in 2019, the pace was $4.03 of distributions for every $1 of contributions. Just as we expect distributions to slow in the overall market, we would expect this ratio to fall for FoF in 2020 as GPs find the exit environment much more difficult.

One-year change in pooled TVPI multiples for FoF by vintage



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

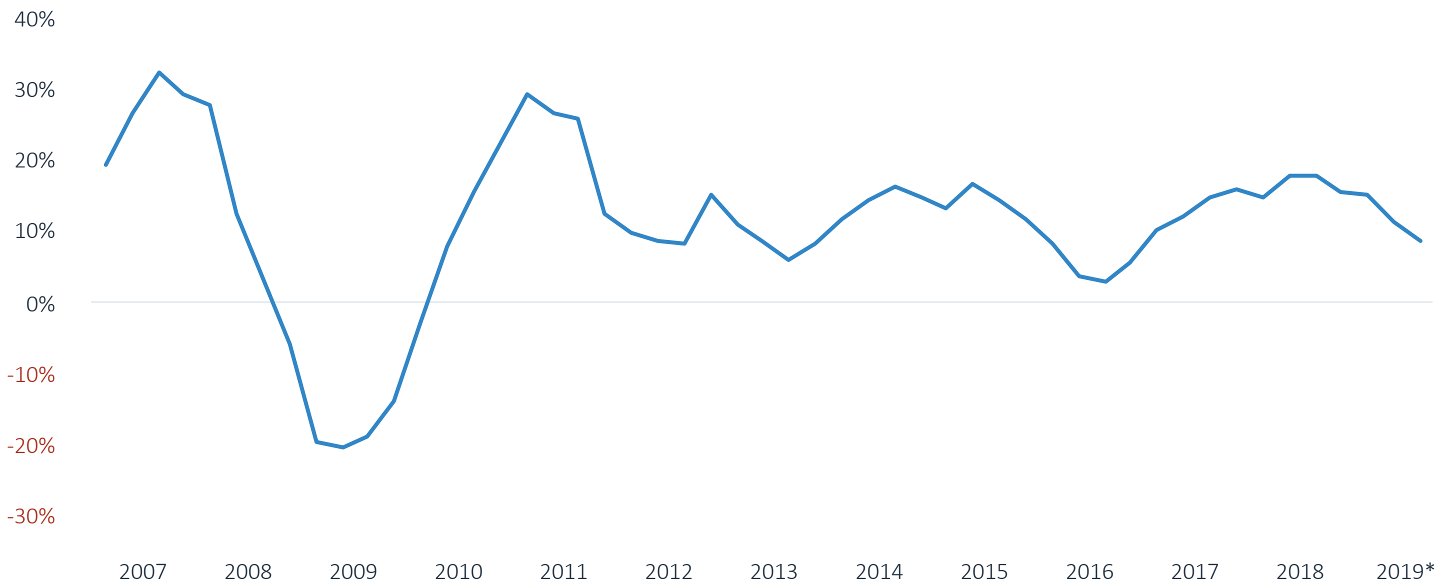
FoF cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Secondaries

Rolling one-year horizon IRR for secondaries funds



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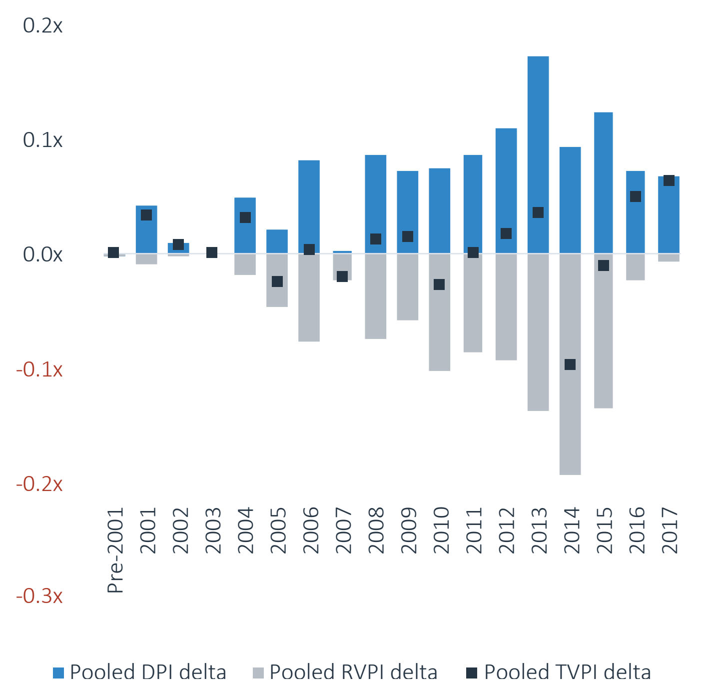
Returns from secondaries funds have been diminishing since the second quarter of 2018, when the rolling one-year horizon IRR was 18.0%; the most recent figure was only 8.6%. The market to trade LP stakes in private market funds has become more competitive as most medium to large portfolios go to auction, and those hoping to sell as part of a portfolio management strategy will stay on the sidelines if the price is not attractive enough. With the recent market turmoil, we would expect unnecessary sales to dry up, and there is little sign that LPs are in the sort of widespread distress that could lead to forced sales. While secondaries fund managers may be salivating at the coming drop in NAVs, they may find very little for sale for the remainder of 2020.

Secondaries have not seen the boom in distributions that many of the other strategies have experienced in recent years. Fewer distressed LP stakes have been for sale, and more portfolios now go to auction, causing discounts to be squeezed and making outsized returns more

One-year change in pooled cash multiples for secondaries funds by vintage



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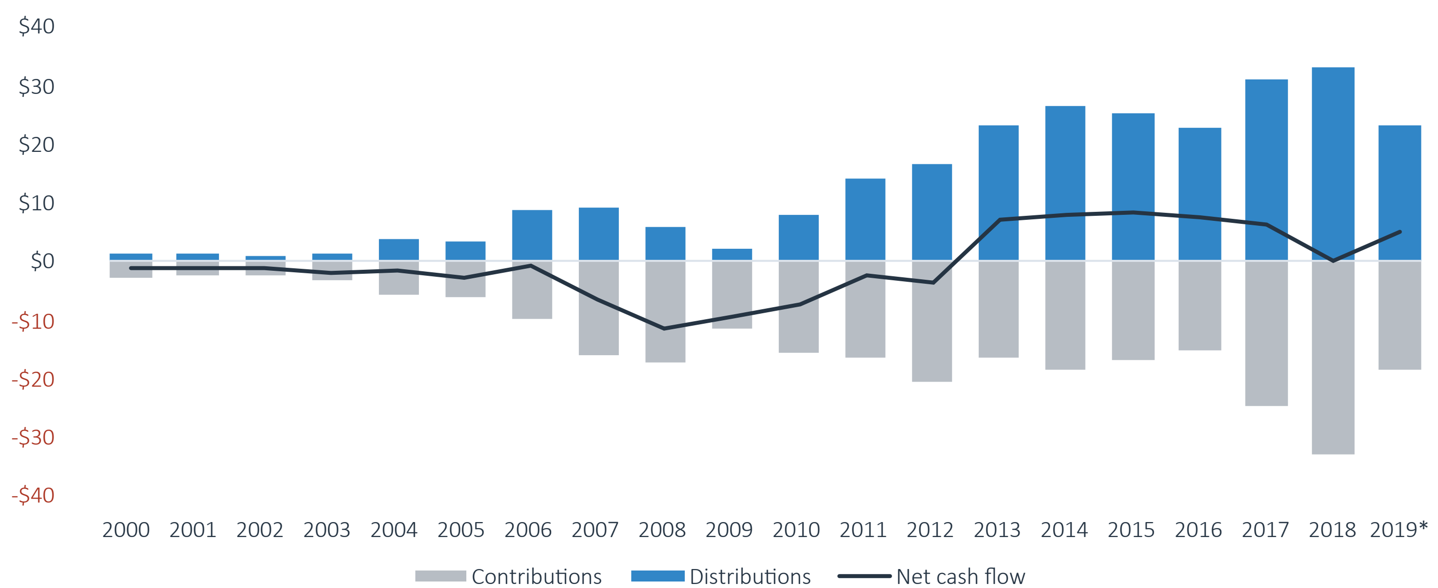
difficult to achieve. In addition, with fewer mature stakes available for purchase, secondaries funds are sometimes buying funds earlier in their lives, dragging out the time when distributions might be expected. We anticipate that while GPs may have raised massive secondaries funds in recent quarters, they are going to find it difficult to put the money to work in any material way, at least not at very attractive price points. LPs should keep an eye on their funds' leverage, as that may be how GPs expect to reach attractive returns.

One-year change in pooled TVPI multiples for secondaries funds by vintage

Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Secondaries cash flows ($B)



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Spotlight: Distribution profiles across private market strategies

This section appeared originally in the most recent PitchBook Benchmarks report, written by James Gelfer, Dylan Cox and Zane Carmean. It is the fifth installment in a series called Basics of Cash Flow Management.

Links to previous installments

Basics of cash flow management: PE contributions
Basics of cash flow management: PE distributions
Basics of cash flow management: Allocation construction
Basics of cash flow management: Contribution profiles across private market strategies

Key takeaways

- Distribution rates have accelerated for every private fund strategy over the last decade, with newer vintages returning more capital earlier in the fund's life.

- There are fundamental differences in distribution profiles across private market strategies. Private debt and real asset funds, which often have income-producing features, produce distributions and reach full liquidation more quickly than other strategies. Secondaries funds are also quick to produce initial distributions but tend to have long tails, as they often have exposure to a multitude of underlying positions given the nature of the strategy.

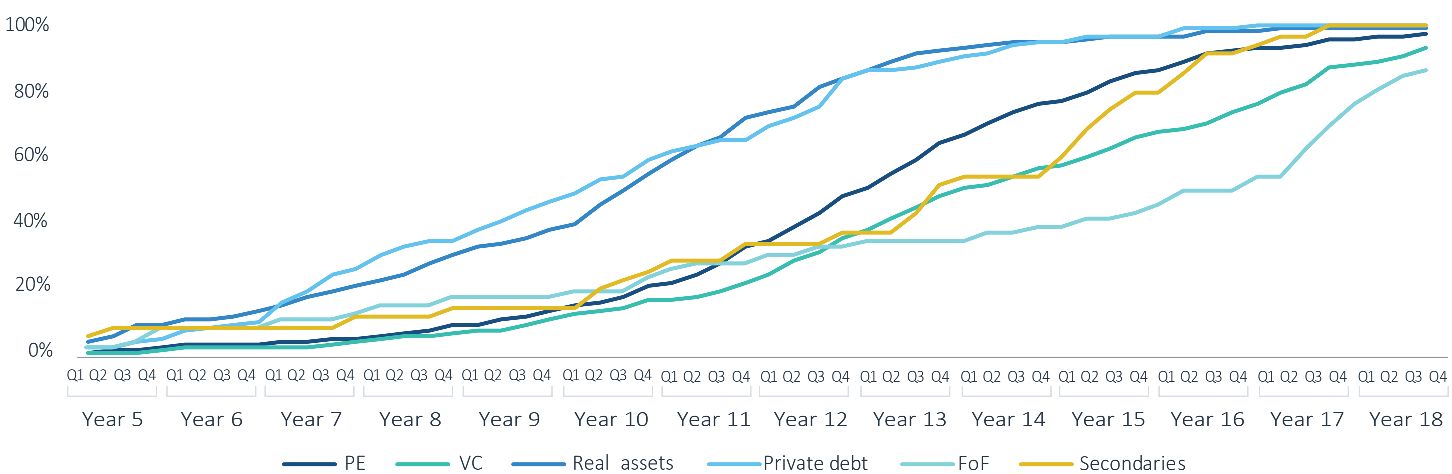
- Distribution rates have exhibited significant cyclicality, with a high correlation to broader macroeconomic conditions. We expect this correlation to persist amid the market disruptions in the first half of 2020, leading to a slowdown in near-term distributions from the historically high levels of recent years

Introduction

In the previous installment of our Basics of Cash Flow Management Series, we investigated capital call rates across private market strategies to provide insight into how LPs can better manage the uncalled portion of their private capital commitments.[2] But contributions are only one side of the equation. In order to maintain an allocation over time, LPs must also grapple with the challenge of reinvesting capital as it is distributed.

While the size and timing of capital calls are largely constrained by the initial commitment size and parameters outlined in the limited partnership agreement, distributions are much more variable in size and sporadic in frequency. As a result, while aggregate data can be a helpful guide in scenario planning, it is important to keep in mind that absolute performance is the biggest variable in distribution rates.

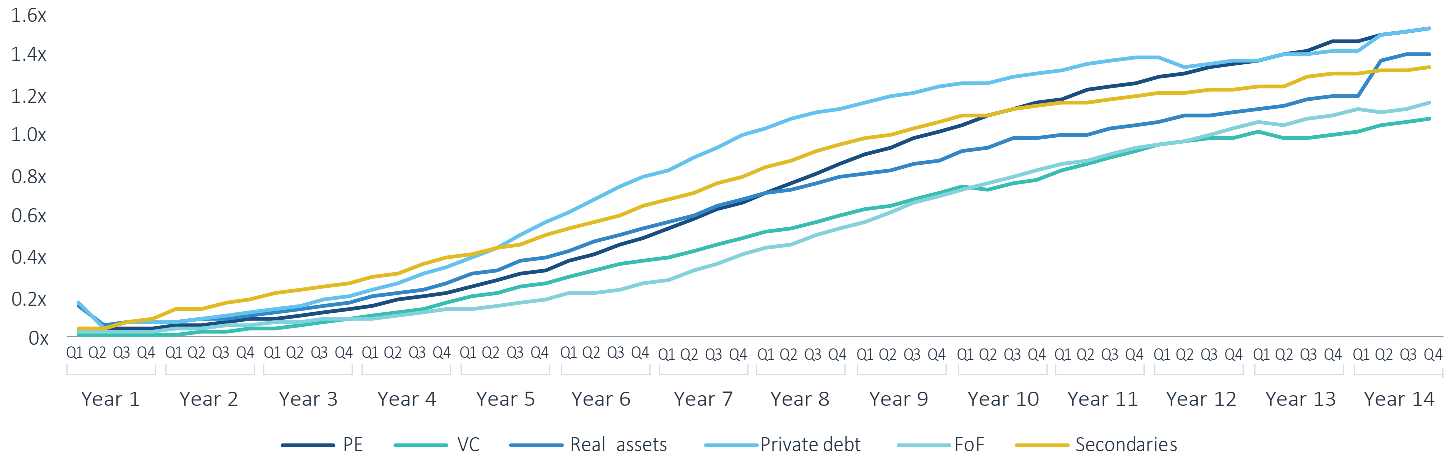
Proportion of private capital funds to fully liquidate by time since inception



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

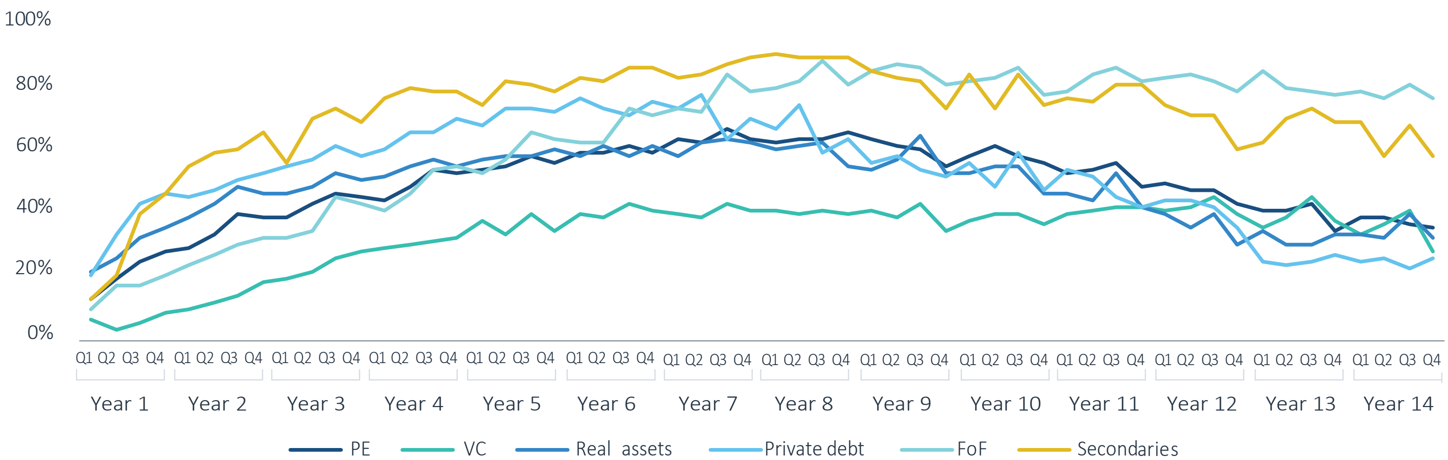
2: For an in-depth analysis of PE distribution rates, please refer to the second installment of the Basics of Cash Flow Management series.

Average DPI for private capital funds since inception



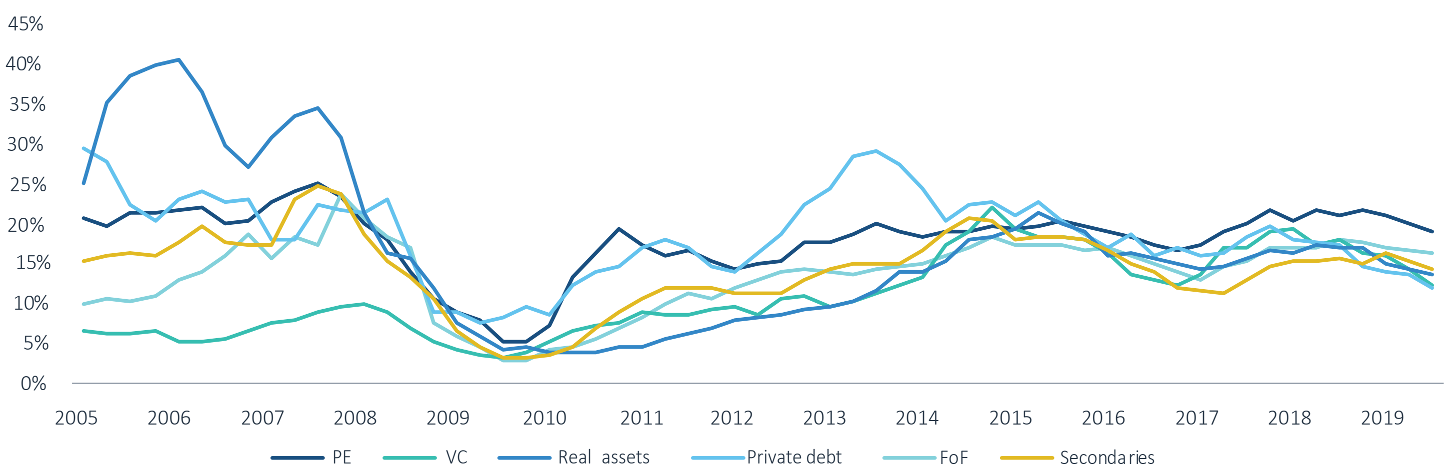
Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Proportion of private capital funds making a distribution each quarter since inception



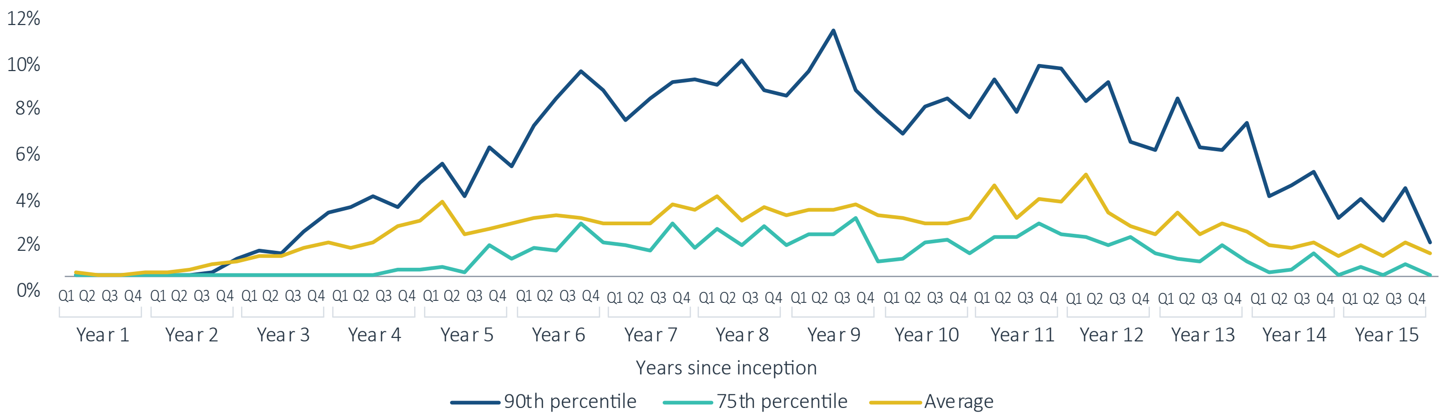
Source: PitchBook | **Geography:** Global
*As of September 30, 2019

Average rolling one-year distribution as proportion of private capital fund size



Source: PitchBook | **Geography:** Global
*As of September 30, 2019
Note: Analysis based on distributions in each fund strategy's peak distribution years, defined respectively as PE 6-10 years, VC and FoF 7-11 years, private debt, real assets and secondaries 4-8 years

Range of VC distributions as proportion of fund size since inception



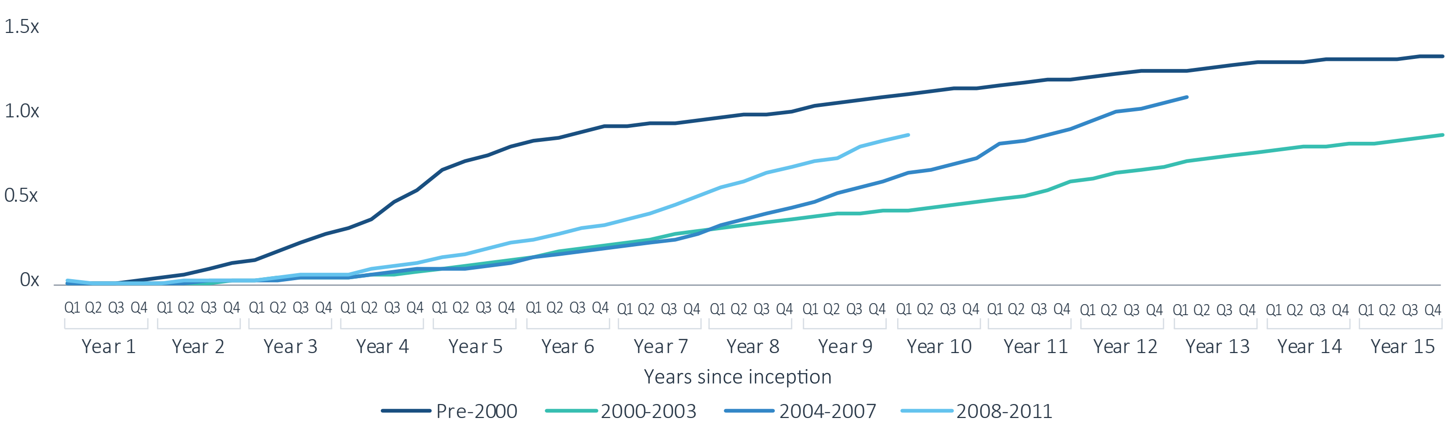
Source: PitchBook | **Geography:** Global
*As of September 30, 2019
Note: Data includes funds that did not make a distribution in the period.
(For example, if there is no median value, that means fewer than 50% of funds made a distribution.)

Venture capital

Due to the high failure rate of startups, VC undisputedly has the lowest performance floor of any private market strategy. Bottom-quartile funds generate an average DPI value of just 0.15x at Year 12. Even the median VC fund historically achieves a DPI of only 0.70x at Year 12 and will leave LPs in the red when all is said and done. Investors typically assume that higher-risk strategies are associated with greater payoffs. When it comes to VC, however, even the relative best performers often leave much to be desired, with the top-decile DPI values for VC funds often lagging the top-quartile returns for PE, private debt and real assets. To that end, while gaining access to the highest caliber managers is paramount in all private market strategies, it is particularly important in VC and often more difficult due to the capacity-constrained nature of the strategy. For successful venture funds, the payouts can be enormous; several such vehicles in our dataset distribute the entirety of their original size—and sometimes several multiples of it—in a single quarter.

The path to liquidity for successful venture investments tends to be long, resulting in distributions from VC funds being few and far between. The proportion of these funds making a distribution in a given quarter peaks at 40%, whereas vehicles in every other private market strategy have periods—typically between Years 6 through 9—when at least half of them are making a distribution each quarter. As a result, while the size of distributions peaks by Year 10 in most strategies, we find that distributions tend to be the most frequent and robust during Years 11

Average DPI for VC funds since inception by vintage year



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

and 12 for VC funds, and only half of these vehicles fully liquidate by Year 14.

The data is likely to shift going forward, however, as VC funds have undergone a series of sea changes and continue to evolve. Deconstructing the data by vintage year underscores the extreme volatility experienced during the dotcom era; pre-2000 vintages produced distributions at a clip unlikely to be matched again, while the 2000-2003 vintage cohort suffered permanent impairment. After a prolonged downturn in VC performance following the dotcom boom, the rate of distributions has been quicker for vintages of the 2010s, which have benefited from a sustained economic expansion. Over the last decade, both absolute and relative distribution rates have grown considerably for old and new funds alike. In addition to economic tailwinds, VC funds have enjoyed a favorable exit environment with record levels of M&A activity, improvements in the IPO process and the development of more robust secondaries markets for both fund positions and private company equity.

Real assets

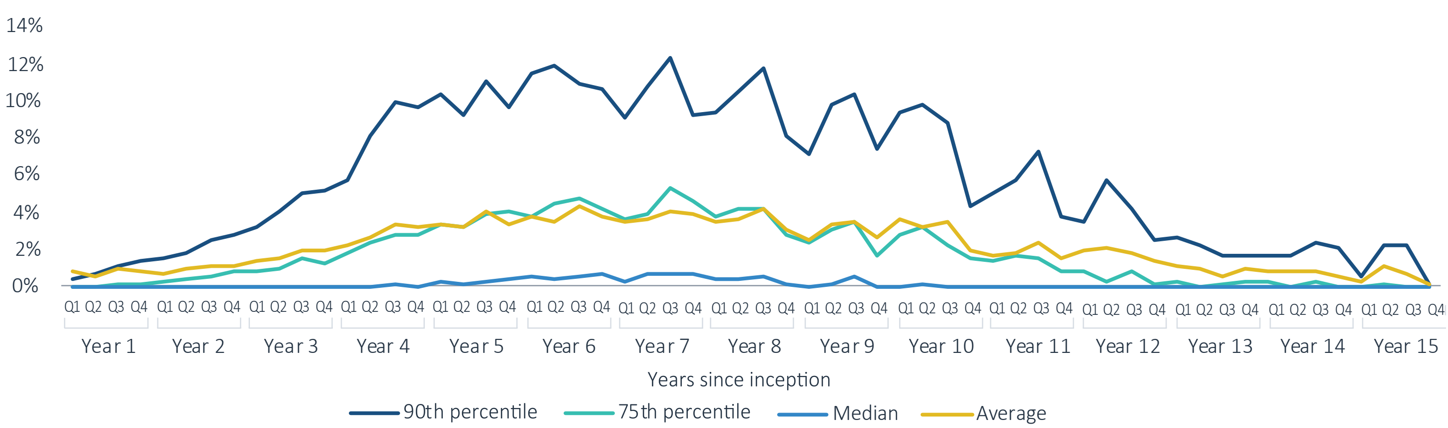
Real assets funds have become increasingly popular among institutional investors due to their low correlation with public equity markets and inflation-hedging attributes. Steady cash flows from rental income and infrastructure assets are attractive to many LPs looking to allocate to private market funds, particularly given the low-yield environment of the last decade; they also produce a relatively low standard deviation in quarterly distributions compared to many private fund strategies. Additionally, real assets funds boast a quicker average liquidation period, and strong performance is possible for top managers. Historically, the top-decile DPI for real assets funds clears 1.65x by Year 10, beating out all other strategies except PE (1.85x) and private debt (1.69x).

Even with the perception of steady cash flows, the boom and bust cycles that happen with real assets lead to relatively high volatility in aggregate return on capital. Real estate returns plummeted during the GFC, and oil & gas assets have been hammered by repeated collapses in energy commodities. All told, the strategy has had more duds than one might expect. The bottom-decile DPI reaches 0.23x at Year 10, the second-worst performance for that percentile group behind only risk-laden VC.

Much of the underperformance for real assets can be tied to the collapse of the real estate market at the end of the last cycle. That has weighed heavily on the relative performance between vintage years. The frothy real estate market prior to the GFC led to a quick return of capital for those invested in the 2000-2003 vintage cohort, averaging a 1.0x DPI by Year 4. Meanwhile, the 2008-2011 vintages needed 10 years on average before achieving the same multiple on invested capital .

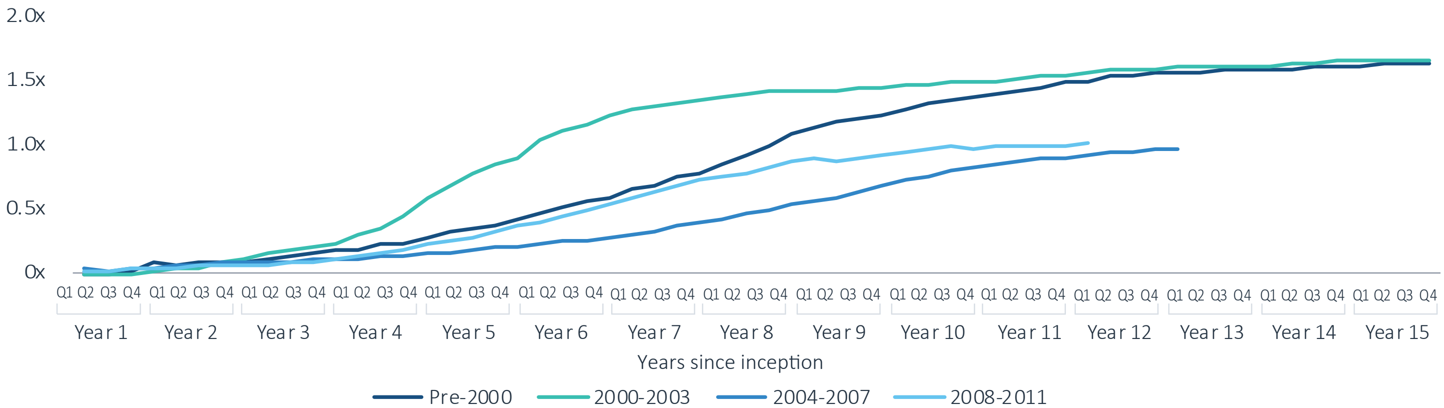
The real assets strategy continues to shift focus over time. Not only is capital accumulating in the largest funds, but the concentration of capital within substrategies is changing. Infrastructure and renewable energy have supplanted oil & gas the last few years, and real estate has

Range of real assets distributions as proportion of fund size since inception



Source: PitchBook | **Geography:** Global
*As of September 30, 2019
Note: Data includes funds that did not make a distribution in the period.
(For example, if there is no median value, that means fewer than 50% of funds made a distribution.)

Average DPI for real assets funds since inception by vintage year



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

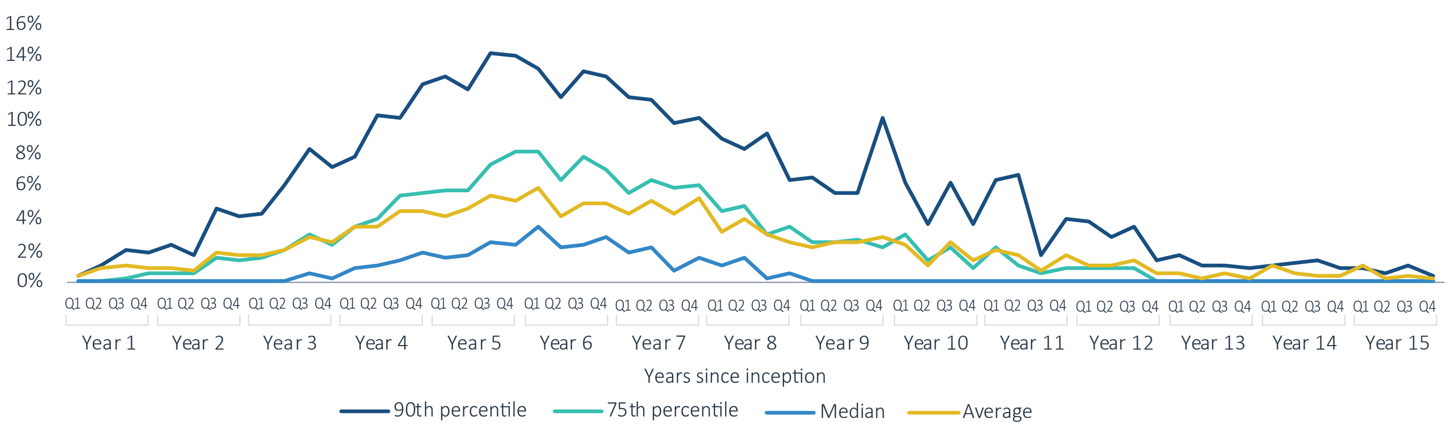
its own dichotomy of risk-reward profiles among property sectors. These changes, exacerbated by the present crisis, will alter the cash flow characteristics for real assets funds in the future.

Private debt

Given their focus on income generation, private debt funds tend to return capital more quickly than any other private market strategy. The amortizing nature of many of the underlying loans also enables a consistent return of principal over time, whereas investors typically have to wait for a full sale of the portfolio company. On average, private debt funds return the entirety of paid-in capital between seven and eight years from inception. This compares favorably even to real assets—a strategy also predicated on income generation—which reaches the same mark in Year 11.

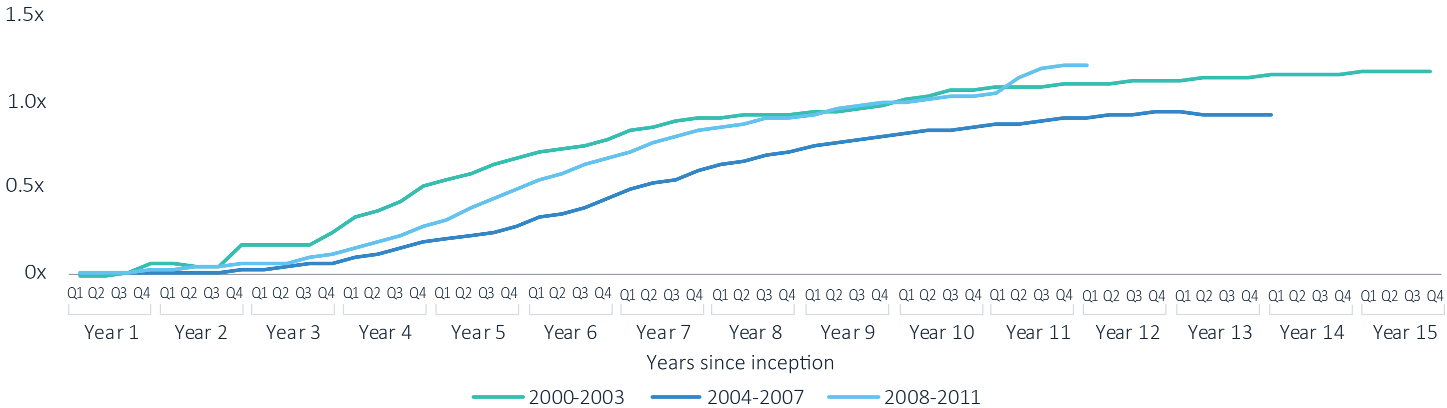
Though the rate of distributions for debt funds is faster as a group, there are still important differences when assessing funds that deployed capital through different periods of the economic cycle. For example, early-cycle vintages raised during downturns (2000-2003 and 2008-2011) tend to reach a DPI of 1.0x around Year 6 on average, whereas late-cycle vintages (2004-2007) take about three years longer to reach this mark. Debt is hardly unique in this way—the global financial crisis (GFC) delayed distributions across strategies—but we are likely to see a similar delay with the advent of the current pandemic.

Range of private debt distributions as proportion of fund size since inception



Source: PitchBook | **Geography:** Global
*As of September 30, 2019
Note: Data includes funds that did not make a distribution in the period.
(For example, if there is no median value, that means fewer than 50% of funds made a distribution.)

Average DPI for private debt funds since inception by vintage year



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

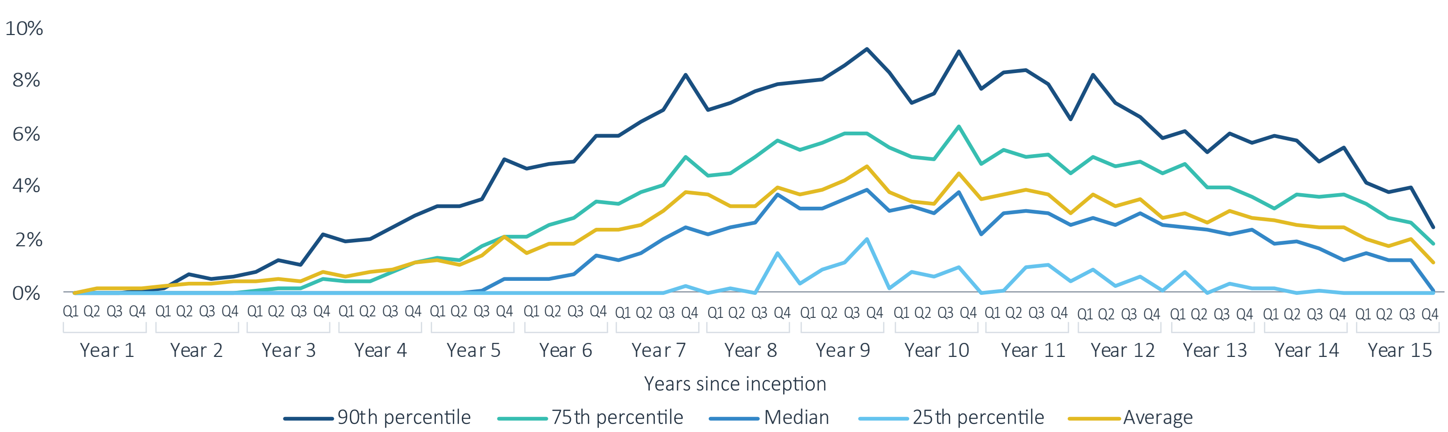
Private debt funds are also less likely to encounter "tail-end" situations and be extended past the 10- or 12-year mark that is typical of private fund structures. Unlike equity-linked investments, debt instruments tend to have fixed maturity dates and payment schedules, which make timely distributions more likely. From Years 3 to 9, at least 50% of debt funds make a distribution in any given quarter,[3] but beginning in Year 12, we see a sharp drop-off in that figure to less than 25%—lower than any other strategy.

Funds of funds

The protracted nature of capital deployment necessitated by the fund-of-fund (FoF) structure, detailed in our prior research, makes it one of the slowest private market strategies to return capital to investors. Distributions tend to start later for FoF, with the average DPI value not reaching 0.5x until midway through Year 8—a year and a half longer than the next slowest strategy. Additionally, the size of quarterly distributions for FoF crests in Years 9 and 10, compared to Year 6 or 7 for most other private market strategies. But thanks to their diversification across several underlying funds, which typically results in hundreds if not thousands of underlying positions, FoF provide some of the most consistent distribution patterns of any private fund strategy.

Beginning in Year 7, at least two-thirds of FoF make a distribution each quarter until they are fully liquidated. Distribution sizes tend to be consistent as well; the standard deviation of FoF quarterly distributions is roughly

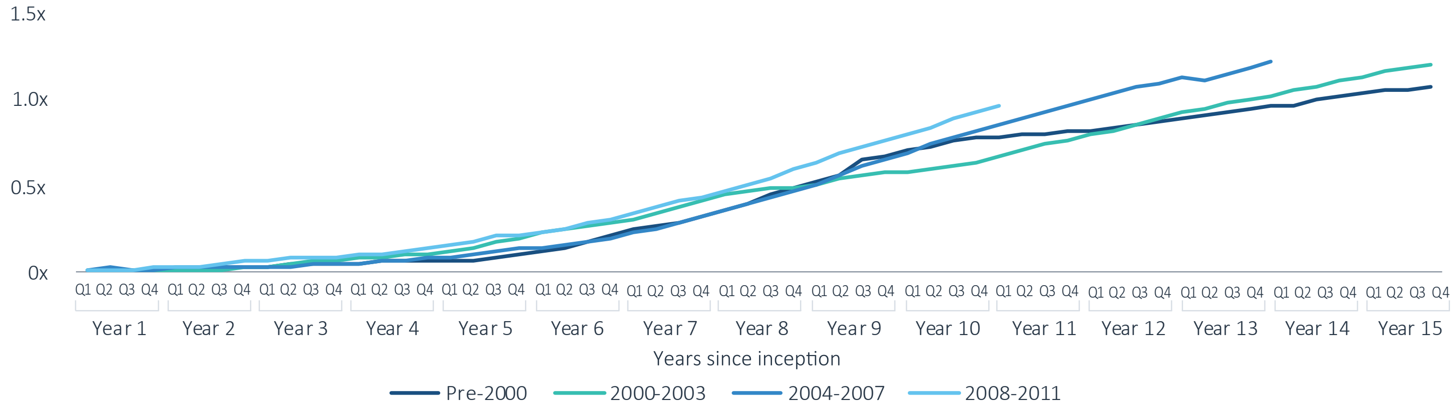
Range of FoF distributions as proportion of size since inception



Source: PitchBook | **Geography:** Global
*As of September 30, 2019
Note: Data includes funds that did not make a distribution in the period.
(For example, if there is no median value, that means fewer than 50% of funds made a distribution.)

3: All except for one quarter

Range of FoF distributions as proportion of size since inception



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

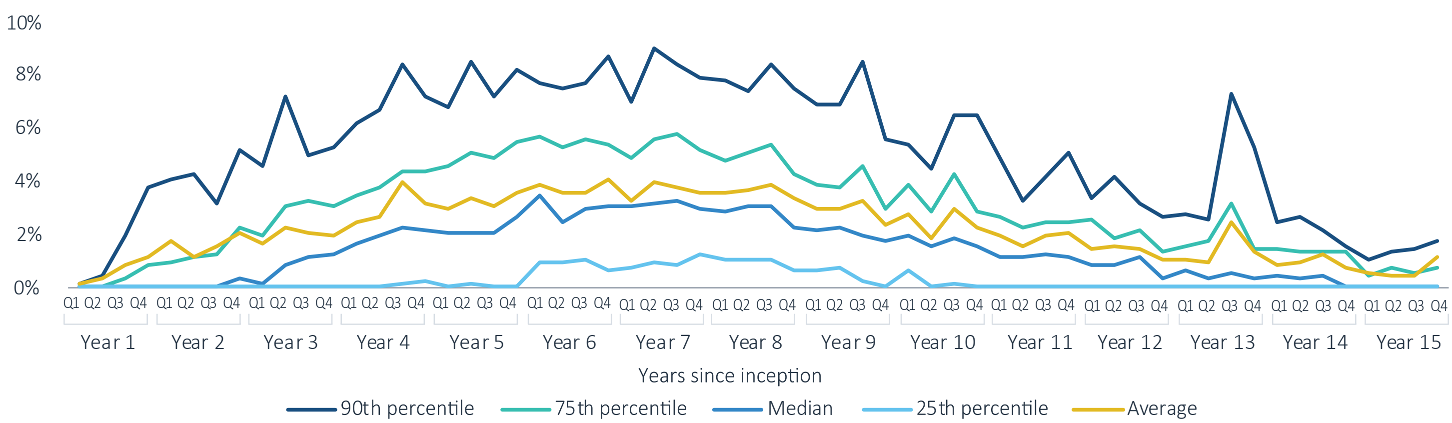
half that of PE funds. The tradeoff for this consistency is that distributions tend to be smaller, and it takes FoF longer than any other private market strategy to liquidate, with only half of funds liquidated by the end of Year 16. As with other private market strategies, distributions from FoF vintages of the mid-2000s were hampered by the great recession. In general, however, the trajectory of distributions for FoF has been fairly consistent across vintage years.

Secondaries

Secondaries have soared in popularity over the last decade due in large part to a range of perceived benefits, with perhaps the most important being J-curve mitigation. As we showed in the prior installment of this series, secondaries funds tend to call down capital at a similar rate to that of primary PE funds. Distributions from these vehicles, however, begin to flow much more quickly than for other strategies because the underlying positions are existing fund positions with mature underlying investments. As a result, secondaries funds achieve an average DPI of 0.19x by the end of Year 2—nearly double most other strategies. Despite the swiftness of the early distributions, which can help to reduce the initial J-curve, more than half of secondaries funds will take 13 years or longer to liquidate. We attribute this to the multitude of underlying positions associated with acquiring portfolios of LP stakes, which provides more opportunities for early distributions but also means that the chance for tail-end situations rises.

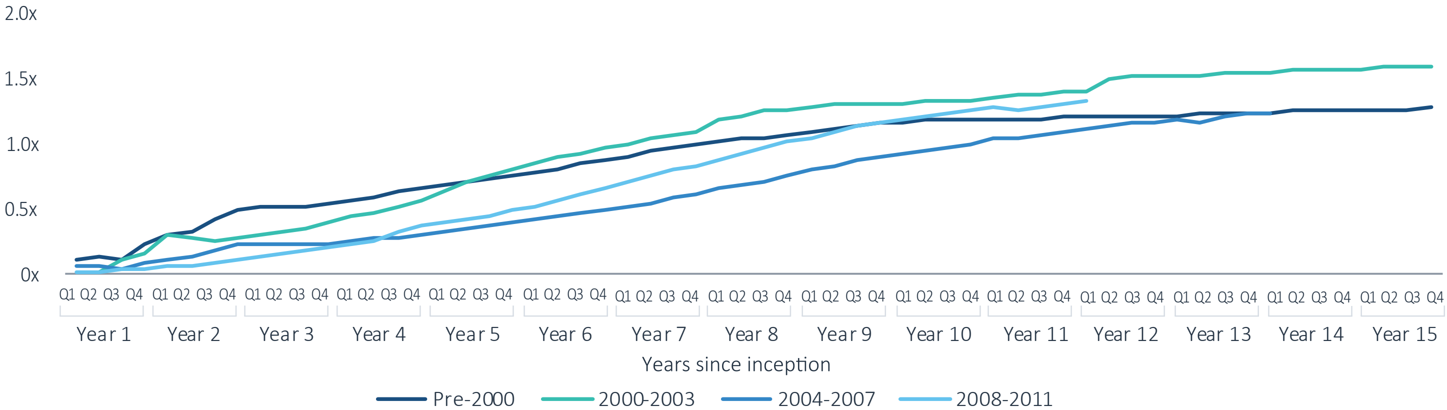
The secondaries market comprises the fewest funds and least amount of capital of any private market strategy covered in this analysis. Therefore, they provide an

Range of secondaries distributions as proportion of fund size since inception



Source: PitchBook | **Geography:** Global
*As of September 30, 2019
Note: Data includes funds that did not make a distribution in the period.
(For example, if there is no median value, that means fewer than 50% of funds made a distribution.)

Average DPI for secondaries since inception by vintage year



Source: PitchBook | **Geography:** Global
*As of September 30, 2019

interesting case study because the space has evolved so rapidly and is heavily influenced by a relatively small number of players. The earliest secondaries funds largely focused on acquiring mature fund stakes, often at steep discounts, enabling unprecedented early distributions. In late-1990s and early 2000s vintages, secondaries funds achieve an average DPI of at least 1.0x by Year 7. Distributions naturally were slower and lower for the mid-2000 funds, which were largely deployed when the GFC hit, as GPs extended holding times and performance across strategies suffered. Distribution rates have rebounded for funds raised through and since the GFC, however. Absolute performance has also risen for these funds due to several factors, including discounted pricing in the early 2010s and an increasing use of leverage. Following this period of strong returns, we think distribution rates are likely to fall in aggregate not only because exits have slowed abruptly during the pandemic but because competition has pushed up pricing and forced secondaries investors to seek out less mature opportunities, resulting in a longer holding time.

Conclusion

As mentioned throughout this analysis, distributions are highly dependent on the specific funds and the success or failure of the underlying deals in question. That said, data can be informative in understanding broad trends and how they evolve over time. Today's environment, marked by truly unprecedented levels of uncertainty and ongoing market intervention, makes it challenging to extrapolate from historical data for answers. Despite this ambiguity, we think that distributions will fall for private market strategies in the near to medium term. One mitigating factor is that fund managers now have more levers than ever before to tap liquidity, including new developments in secondaries markets and lending structures to unlock cash while sometimes remaining invested. Even with these innovations, however, private market investors should brace themselves for a journey through a distribution desert.