PitchBook

Global Fund Performance Report

as of Q4 2019

Contents

Horizon IRRs by strategy*

	1-year	3-year	5-year	10-year
Private capital	11.6%	12.6%	11.5%	12.3%
Private equity	15.8%	15.2%	13.9%	14.1%
Venture capital	15.9%	15.1%	11.3%	12.6%
Real assets	3.8%	8.2%	8.1%	9.4%
Private debt	7.0%	7.5%	6.7%	8.8%
Funds of funds	10.1%	12.5%	11.4%	10.3%
Secondaries	11.7%	14.0%	12.0%	13.1%

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Credits & contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President, Market Development & Analysis

Research

James Gelfer Senior Strategist and Lead Analyst, VC
Dylan Cox Lead Analyst, PE
Wylie Fernyhough Senior Analyst, PE
Hilary Wiek, CFA, CAIA Senior Analyst, Fund Strategies and Performance
Zane Carmean Senior Data Analyst

reports@pitchbook.com

Data

Zane Carmean Senior Data Analyst

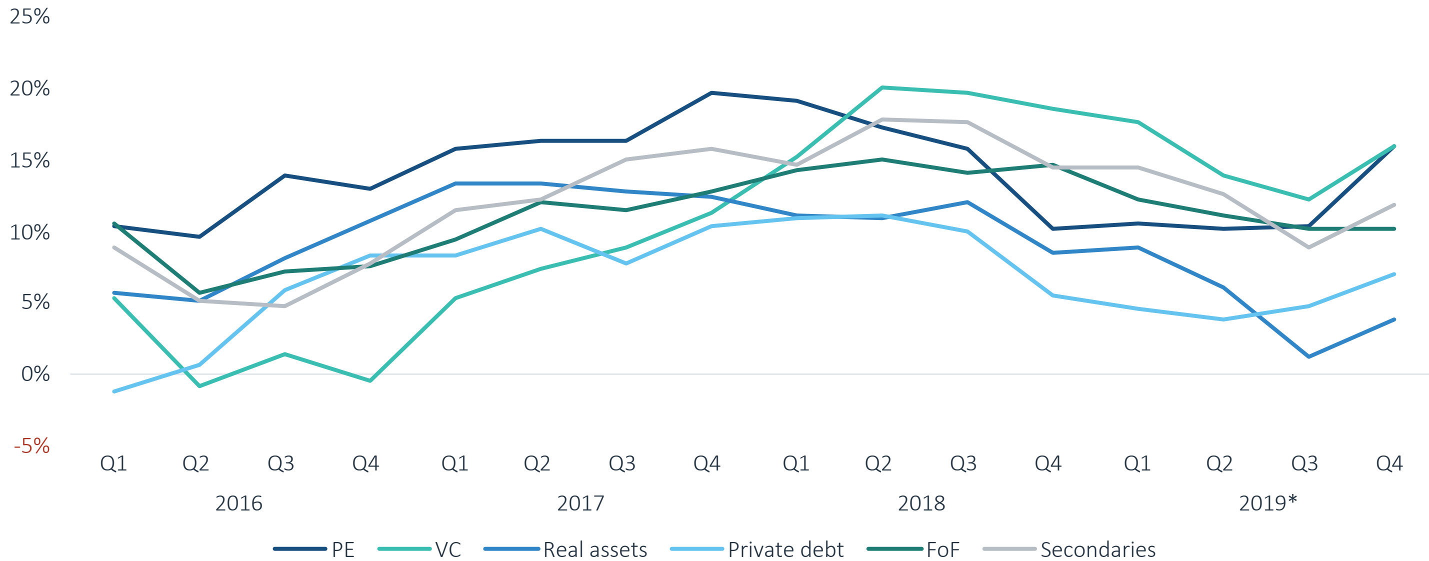
Design

Report design by Jennifer Sam
Cover design by Mara Potter

Click here for PitchBook's report methodologies.

Overview

Rolling one-year horizon IRRs by strategy



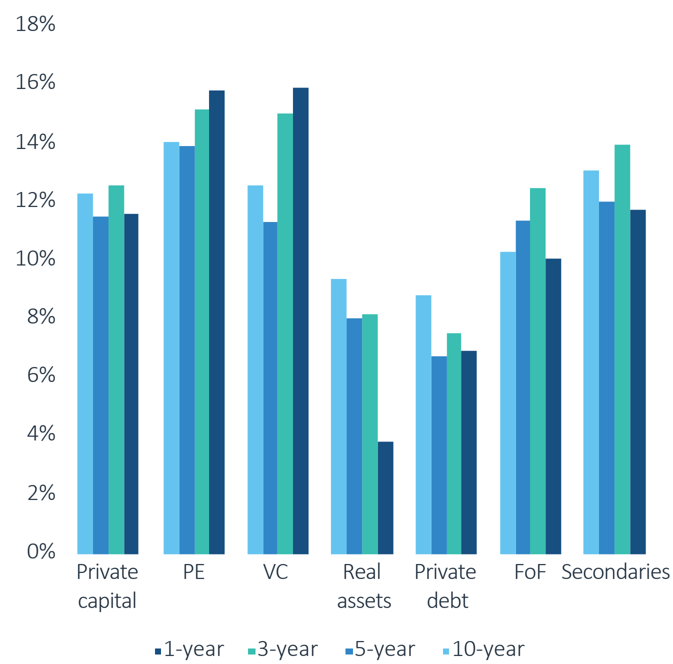
Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Hilary Wiek, CFA, CAIA Senior Analyst, Fund Strategies and Performance
hilary.wiek@pitchbook.com

As expected in a quarter when the S&P 500 was up 9.1%,[1] private markets finished 2019 on an upswing, with no foreshadowing of the volatility to come in early 2020. PE and VC were neck and neck for highest returns in the year through Q4 2019, coming in at 15.8% and 15.9%, respectively. Real assets continued to lag the other private market asset classes, in part because oil-related assets had begun to struggle in the fourth quarter.

Only funds of funds (FoF) did not improve performance figures from Q3 to Q4 2019, potentially a function of doubly lagged reporting causing underreporting for that strategy. The one-year horizon IRR for private capital funds was 11.6% through Q4 2019—off the recent Q4 2017 peak of 15.9% but a significant improvement over the Q3 2019 return of 7.6%. We do, of course, expect that trend to reverse when Q1 2020 data is reported.

Horizon IRRs by strategy*



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

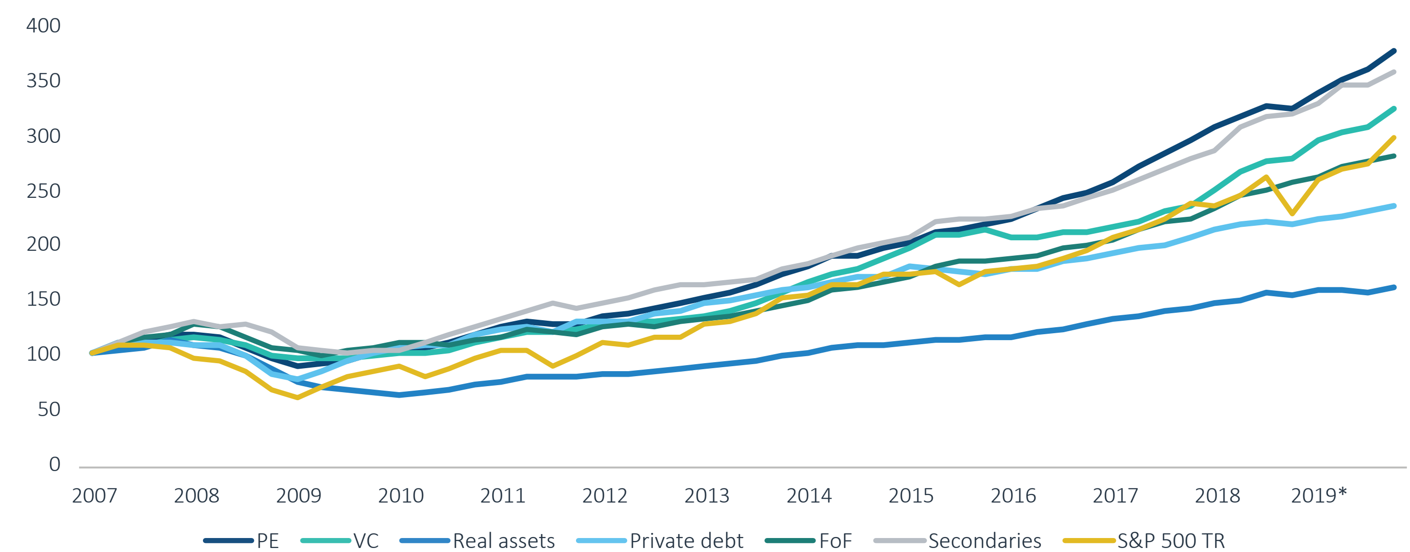
1: This is a one quarter time-weighted return, as opposed to the one-year horizon IRRs discussed in the rest of this section.

Horizon IRRs by strategy*

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

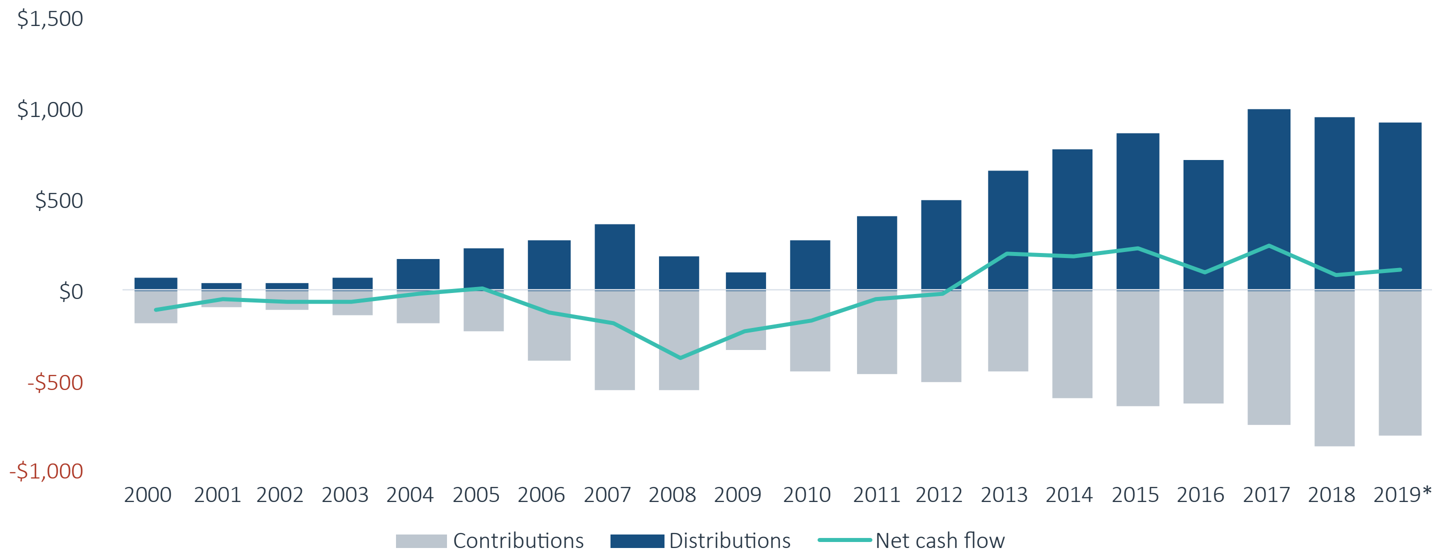
Over a longer horizon, private capital has provided low double-digit IRRs over one-, three-, five-, and 10-year horizons. PE and VC have generally exceeded the broader private capital returns, with real assets and private debt providing more modest single-digit returns. This dynamic may be in flux, however, as PE and VC firms are likely to take losses from portfolio companies exposed to pandemic-related shutdowns and may be forced to dedicate remaining capital commitments to supporting existing investments at terms less favorable than those negotiated in the original transaction. Real assets and private debt, on the other hand, could potentially provide some stability to portfolios if economic and business conditions do not deteriorate too badly, though areas within each strategy will certainly struggle in 2020, as described in the respective sections in this report.

NAV growth rebased to 100 at end of Q1 2016



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Private capital cash flows ($B)

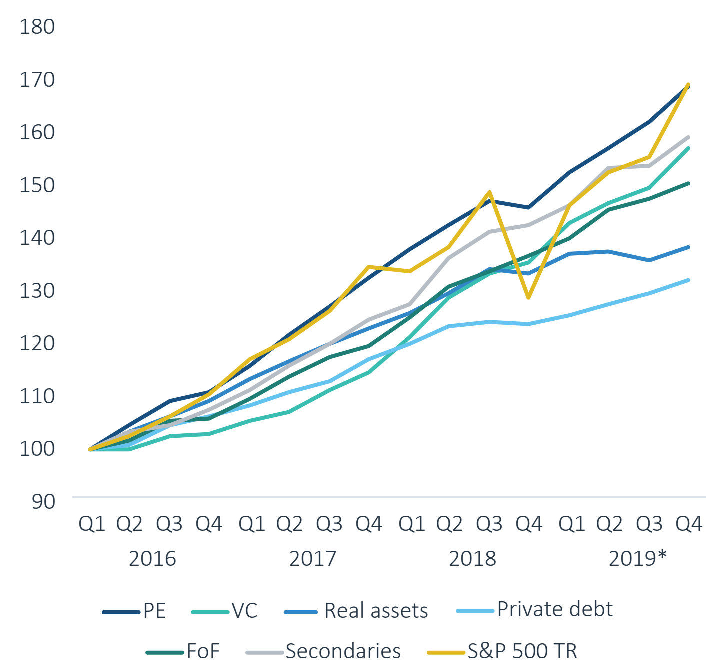


Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Cash flows both to and from private capital funds declined in 2019, so while fundraising activity was peaking, both deal and exit activity were slowing down. Net cash flows for full-year 2019 became slightly more positive than the year prior but were still less than half what LPs saw in 2017. We expect 2020 to see a reversal of this seven-year positive net cash flow trend as exit activity appears to have slowed to a trickle in the first half of the year while GPs continued to call capital down from LPs in H1 2020, with much of that capital being used to pay down subscription credit lines or to support existing companies, neither of which would contribute to exit activity or distributions.

The NAV growth chart tells two main stories: PE has been a consistent winner and private debt a steady laggard among the private capital strategies over the past four years, and none of the private strategies is as volatile as the public equity markets are in times of stress. Focusing in on the latter tale, this chart is instructive for how we might see performance track in 2020. The S&P 500 fell rapidly into bear market territory in March, but GPs do not dogmatically stick to using public markets in their valuation exercises. Portfolio marks are posed to exhibit volatility through H1 2020. While it takes several quarters to ascertain how most PE portfolios fared, five of the largest PE managers are public and post returns on a more real-time basis. Looking at the earnings of public PE firms in Q1 and Q2 2020, we expect many PE funds to exhibit markdowns in Q1 followed by a slight rebound in Q2.

NAV growth rebased to 100 at end of Q1 2016



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

While the public stock indices appear to have taken the pandemic in stride, just a handful of companies propelled that performance. Under the surface, many public businesses—and PE portfolio companies—have not done as well.

PitchBook introduces new commitment pacing and cash flow models


Figure 9. Buyout fund at 2.5 years

Figure 9.1

Year since inception

Capital calls (LHS) Distributions (LHS) NAV (RHS)

Source: PitchBook. Data as of December 31, 2019.

Figure 9.2

Year since inception

Range of net cash flow Base case net cash flow

Source: PitchBook. Data as of December 31, 2019.

Figure 10. Buyout fund at four years

Figure 10.1

Year since inception

Capital calls (LHS) Distributions (LHS) NAV (RHS)

Source: PitchBook. Data as of December 31, 2019.

Figure 10.2

Year since inception

Range of net cash flow Base case net cash flow

Source: PitchBook. Data as of December 31, 2019.

As we have shown throughout this series, fund cash flows are correlated to certain fund characteristics (such as dry powder, performance marks, fund age, etc.) and broader economic factors. Leveraging this research and the PitchBook database, we have constructed a model that both generates theoretical cash flows based purely on hypothetical inputs and can be used to model future cash flows for existing funds from any stage of their lifecycle. Additionally, since GPs provide LPs with regular updates about expectations for specific funds, users can feed these predictions from active funds into the model to generate a customized cash flow projection, with Figure 8 showing the inputs available for customization. To illustrate the impact of these variables on the modeled cash flows, we have modeled a buyout fund from different points of its lifecycle to depict how users can set the model to any point throughout the fund life. Our model produces a baseline scenario for future cash flows, as well as upper and lower bounds based on a 90% confidence threshold.

Figure 8. Qualitative inputs for customization in cash flow model

		Variable changed	
		Contribution pace	Distribution timing
Inputs	Anticipated reserve capital	X	
	Near-term exits		X
	Expected fund life		X

Figure 11. Buyout fund at six years

Figure 11.1

Year since inception

Capital calls (LHS) Distributions (LHS) NAV (RHS)

Source: PitchBook. Data as of December 31, 2019.

Figure 11.2

Year since inception

Range of net cash flow Base case net cash flow

Source: PitchBook. Data as of December 31, 2019.

All charts are for illustrative purposes.

PitchBook Benchmarks 2019 PG 8

Greater transparency.
More flexibility. Differentiated data.

PitchBook has leveraged our massive private fund database to develop several models to help limited partners (LPs) better navigate private markets. These new models offer foresight into planning for commitment pacing and preparing for capital calls, allowing the user to customize for their specific allocations and assumptions.

Download the full series, Basics of Cash Flow Management.
All the models introduced in this series are available to PitchBook clients.
We welcome any questions, comments, or inquiries at benchmarks@pitchbook.com.

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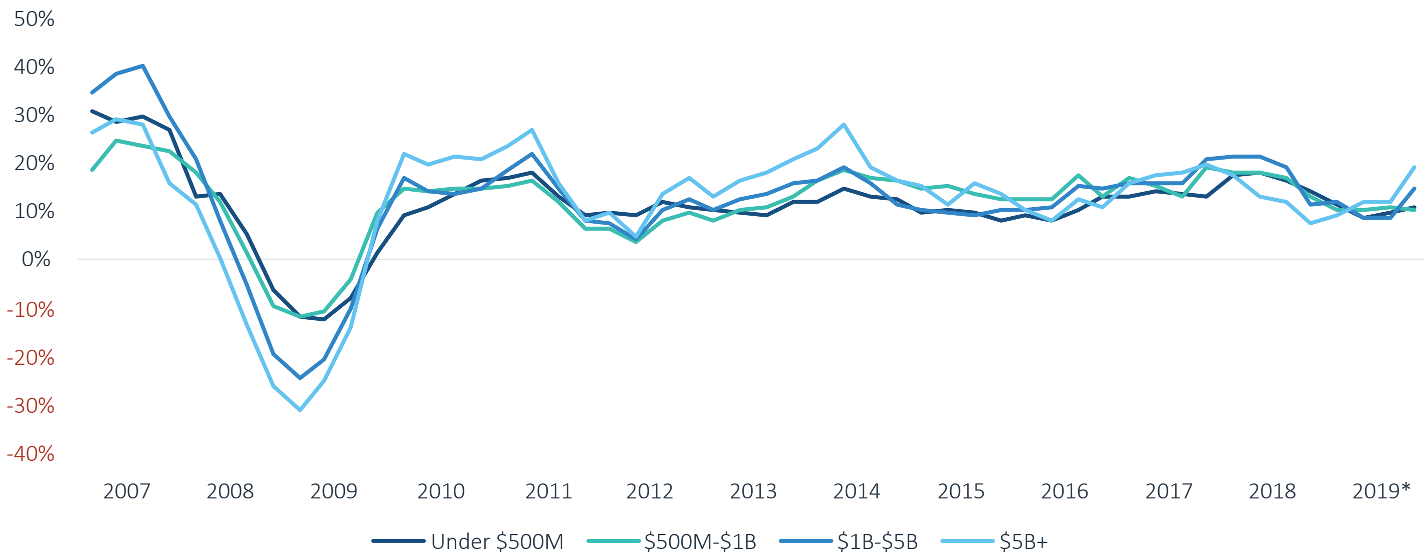
Private equity

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



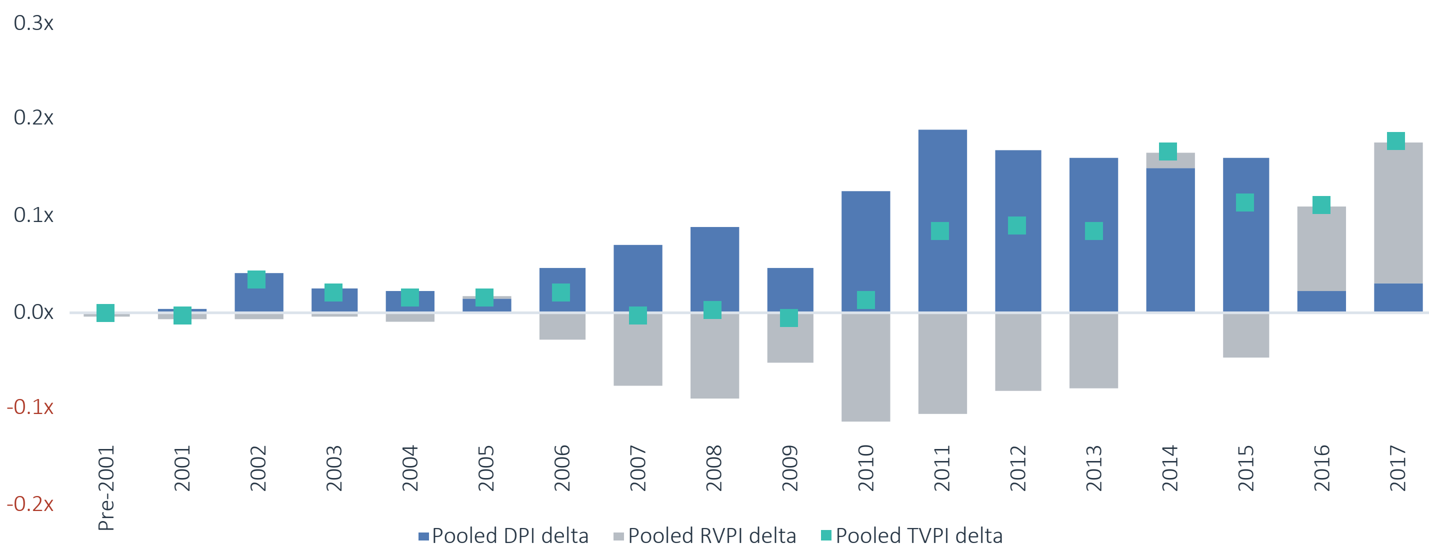
Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Wylie Fernyhough Senior Analyst, PE
wylie.fernyhough@pitchbook.com

PE funds delivered another year of healthy performance in 2019, posting a one-year horizon IRR of nearly 16%. Valuation markups for current portfolio companies drove performance for funds in vintage years 2016 and younger, while robust cash distributions drove performance for funds in vintage years 2015 and older. Realizations led PE funds to distribute over $400 billion to LPs in 2019, marking the third year in a row wherein distributions eclipsed the $400 billion threshold, which has helped assuage some concerns over the strategy's illiquidity. In fact, the only four years in which PE firms returned $400 billion or more to LPs have come since 2015.

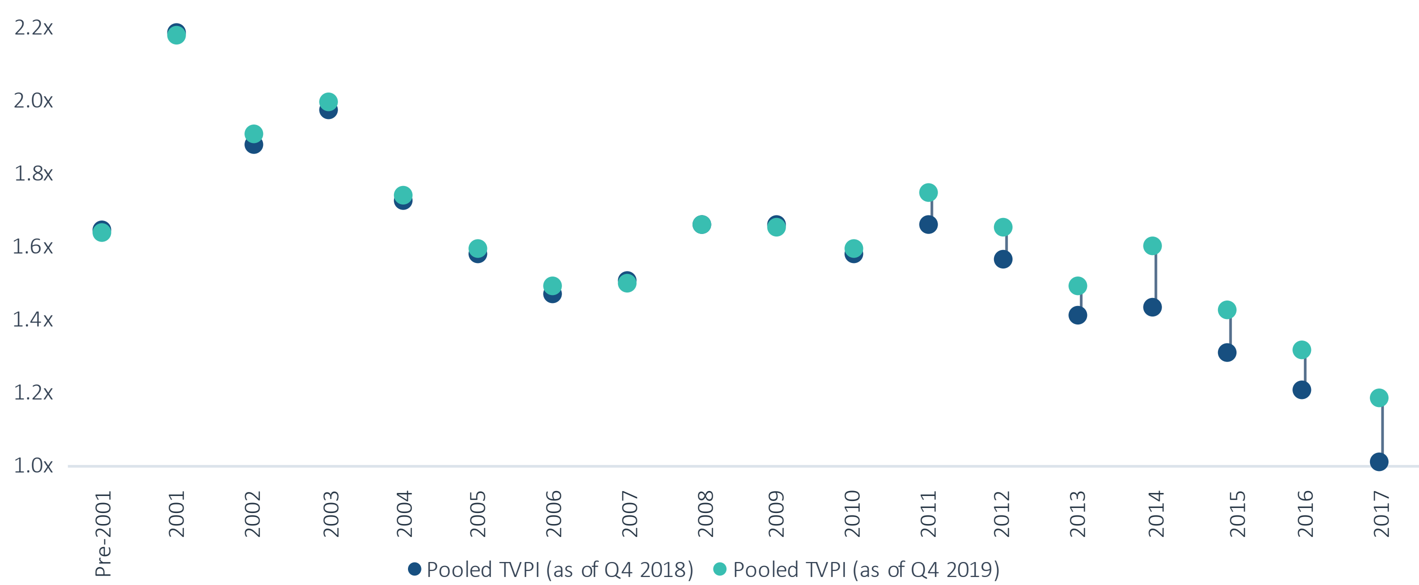
Heading into 2020, distributions and performance figures are primed to diminish dramatically. Realizations, which comprise the majority of the distribution total, are on pace for the lowest totals since 2011. Portfolio marks are poised to exhibit volatility as most PE firms marked down investments in Q1 only to mark them back up in Q2, though to a lesser extent in many cases. While the public stock indices have taken the global pandemic in stride, just a handful of companies propelled that performance. Under the surface, many public businesses and PE portfolio companies have not fared as well. As Ares co-head of PE Matt Cwiertnia said on the company's Q2 2020 earnings call, "Small and medium businesses or the middle market are really struggling more than you would be led to believe if you just follow the S&P 500 or the NASDAQ." We will be waiting to see how portfolio company marks and distributions unfold in LP portfolios and whether this pandemic is a short-term or longer-term performance detractor.

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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

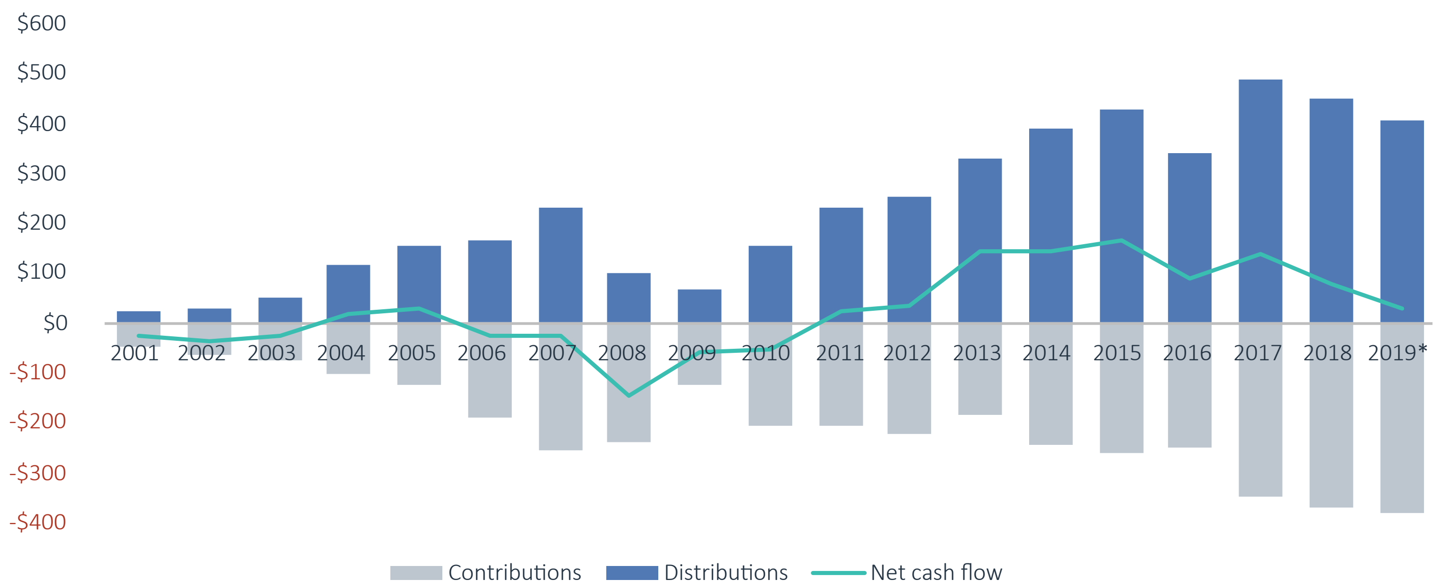


Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Quarterly IRR for PE funds

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

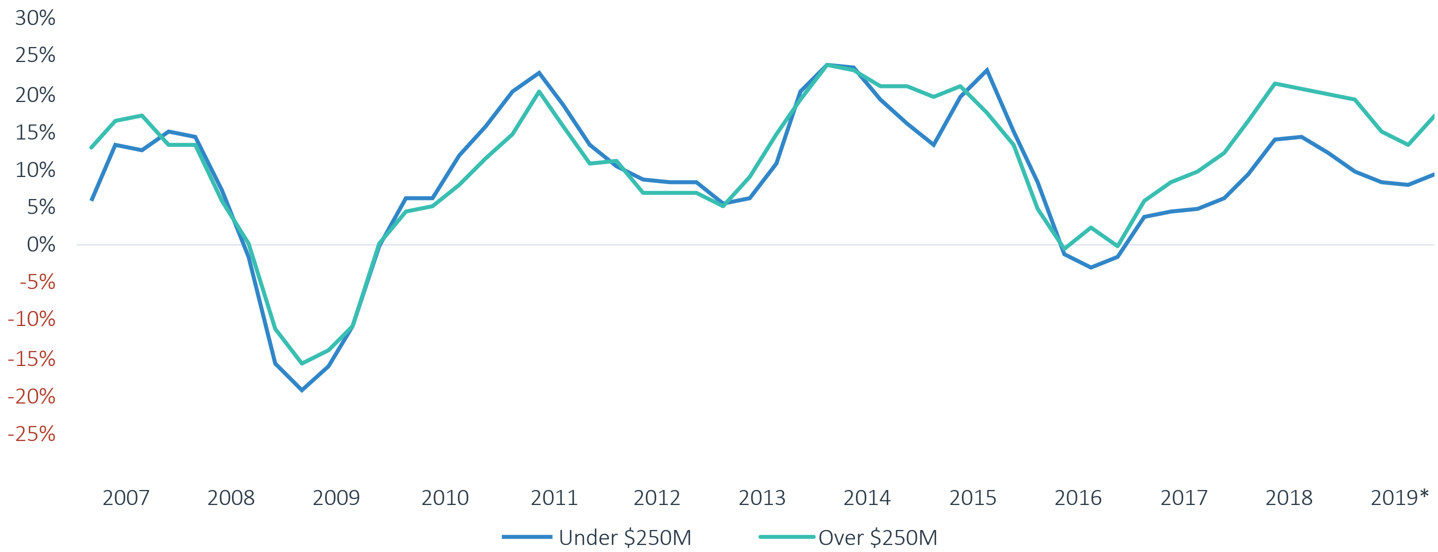
PE cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Venture capital

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

James Gelfer Senior Strategist and Lead Analyst, VC
james.gelfer@pitchbook.com

After trending downward for several quarters, VC fund performance rebounded in Q4 2019, with the one-year horizon IRR rising to 15.9%. Larger funds underpinned the strong showing, maintaining their recent outperformance of smaller vehicles. The biggest performance gains came from 2014-2016 vintage funds, with the lion's share deriving from write-ups in the portfolio, as opposed to distributions. Each vintage cohort from 2012 to 2016 reported a pooled RVPI of 1.3x or greater in 2019; we expect the lofty RVPI values are at significant risk of write-downs in the following quarters, so we will be watching these vintages closely as 2020 performance data comes into focus.

In addition to portfolio markups, VC fund distributions surged in Q4 2019—which we anticipated as the lockups expired on IPOs executed earlier in the year. Most of a VC-backed company's value is created before its exit, but in the case of an IPO, VCs often retain substantial positions through the lockup period or longer. This can be a boon when newly listed stocks perform well, as was the case in 2019, and our recent analysis shows that VC-backed IPOs performed relatively well through the first half of 2020 too. The $103.0 billion in aggregate distributions in 2019 constitutes a new high-water mark and pushed net cash flows to a record $21.0 billion in positive territory. The net cash flow figure is even more impressive considering that contributions remain near all-time highs.

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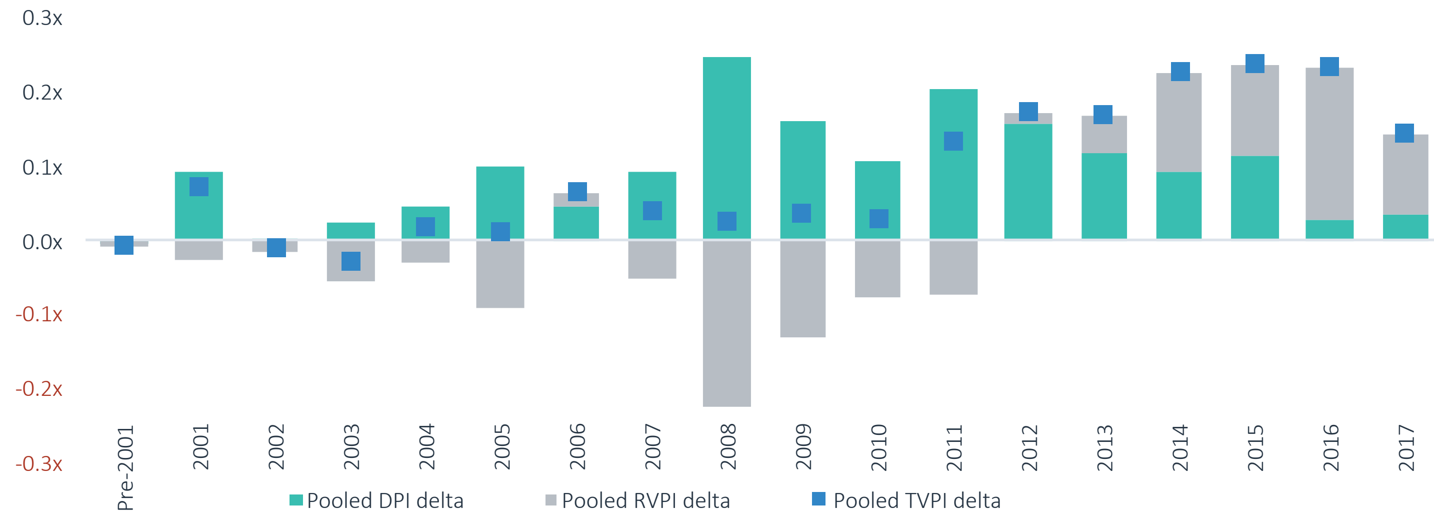
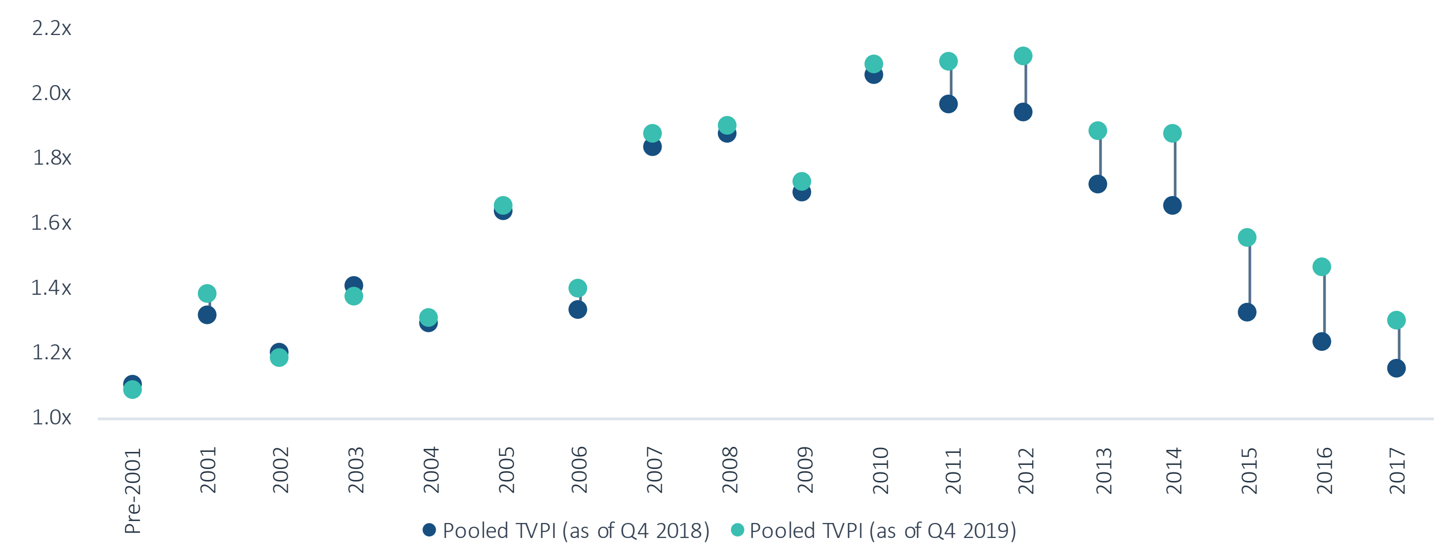
Venture capital

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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

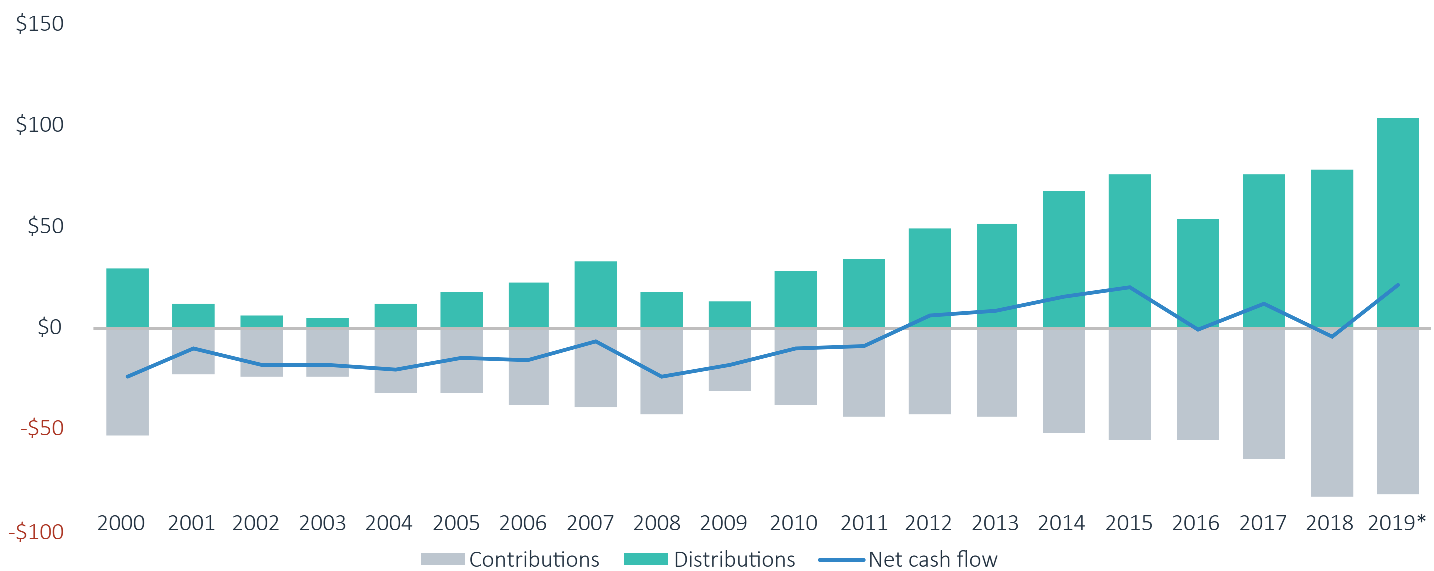


Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Quarterly IRR for VC funds

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

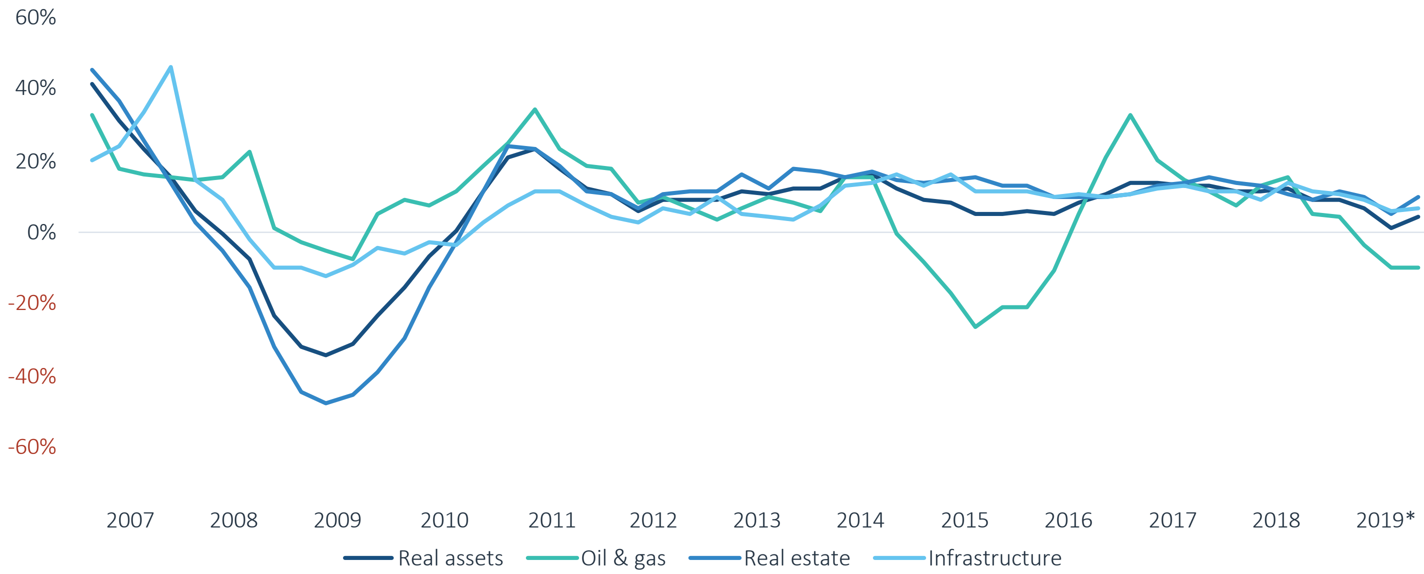
VC cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Real assets

Rolling one-year horizon IRR for real assets funds by substrategy



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Zane Carmean Senior Data Analyst
zane.carmean@pitchbook.com

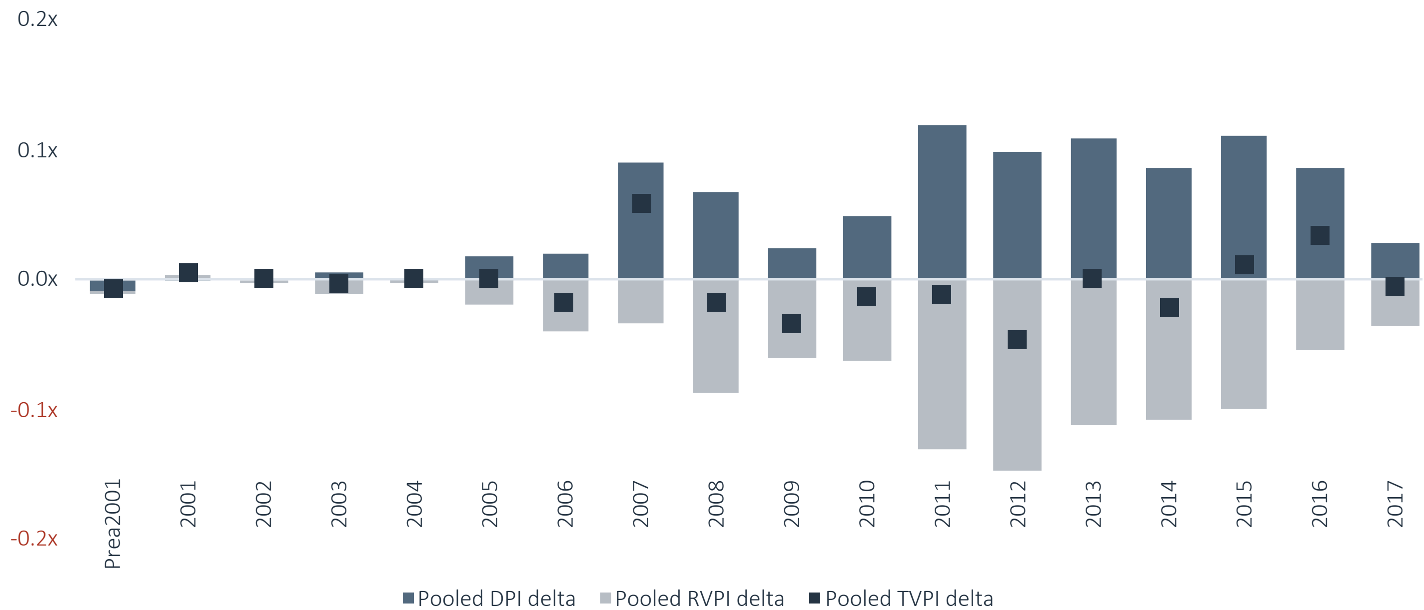
Through Q4 2019, real assets had the weakest performance of the major private capital fund strategies on a rolling one-year horizon IRR basis, achieving pooled returns of just 3.8%. Its oft-compared peer private debt, by contrast, came in at 7.0% for the year. On the plus side, net cash flows to LPs totaled $64.8 billion with $239.1 billion in distributions—setting annual records for both metrics. As data comes in for 2020, we expect to see a sharp downturn in horizon returns through Q1, followed by a slight rebound in Q2 and the first half Q3 as public markets have rebounded, energy prices have risen from their lows, and lockdowns have been (tentatively) lifted.

However, the story will play out quite differently among the diverse mixture of asset choices within real assets. Industrial properties and data centers have seen expanding demand with the acceleration of ecommerce and work-from-home adoption. Meanwhile, major retailers, already struggling prior to 2020, have declared bankruptcy in droves. Investors that are heavily weighted to retail, travel, and fossil fuels (oil & gas and some infrastructure funds) are experiencing near-term pressure that is unlikely to abate until the pandemic threat dissipates. The spill-over into other real assets sectors may still be coming. Extra unemployment benefits in the form of an additional $600 from the CARES Act expired in July. That means less money for individuals to purchase goods from Amazon, order take-out, and pay apartment rents. Of 73.1 million US households that live in rental housing, 14.8 million did not pay rent in July.[2] That is 2.5 million more households than in April.[3]

2: "Week 12 Household Pulse Survey: July 16-July 21," US Census Bureau, July 29, 2020.
3: "Week 1 Household Pulse Survey: April 23-May 5," US Census Bureau, May 20, 2020.

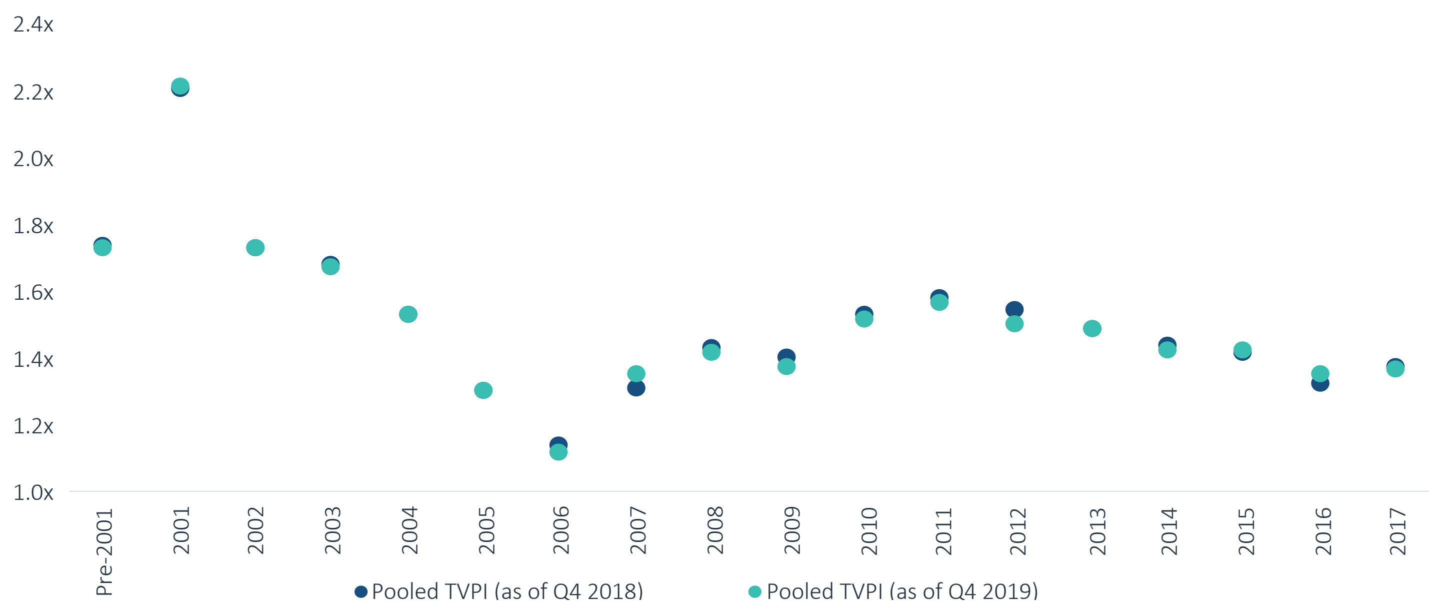
Real assets

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



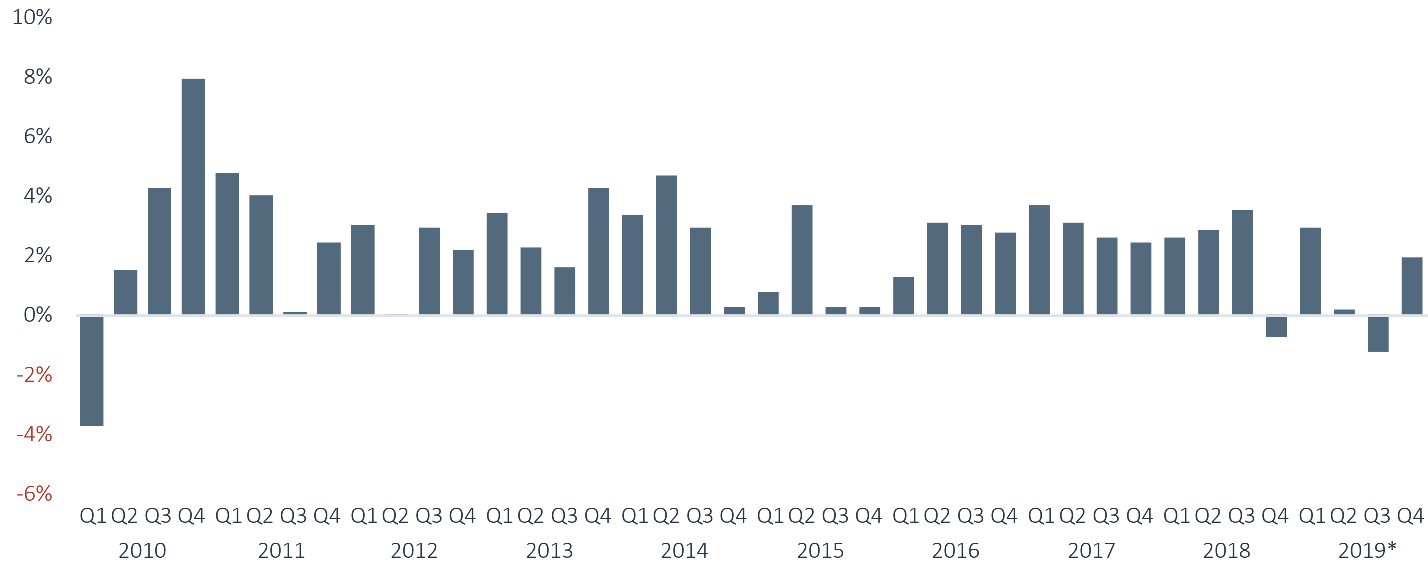
Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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



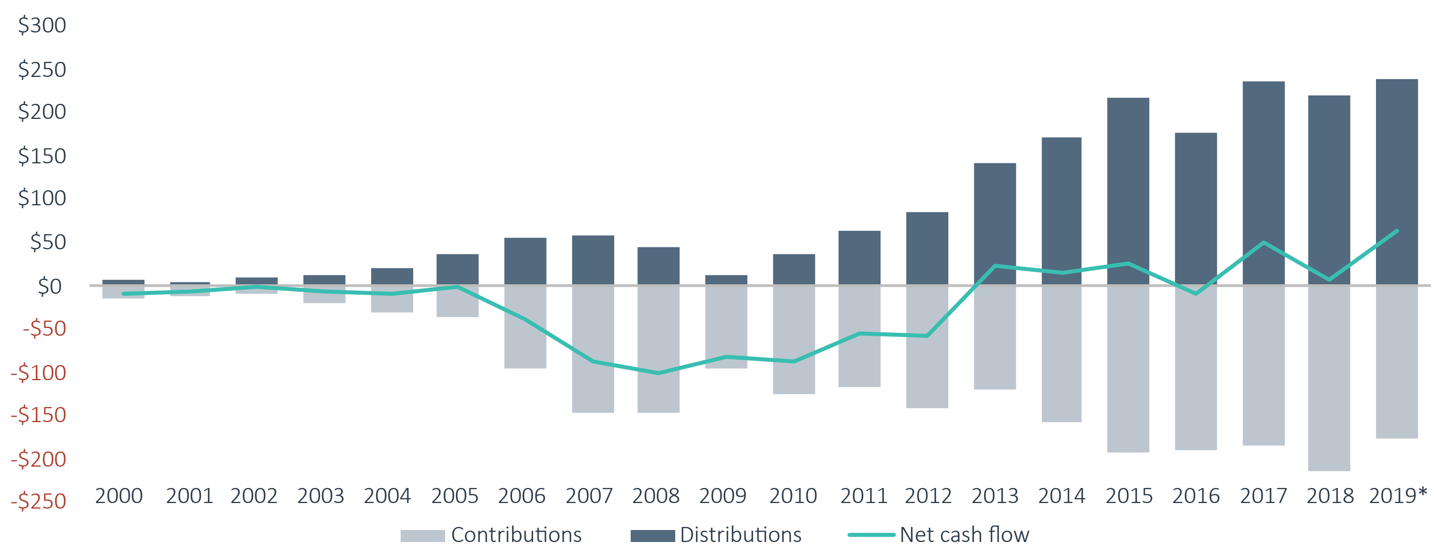
Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Quarterly IRR for real assets funds



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Real assets cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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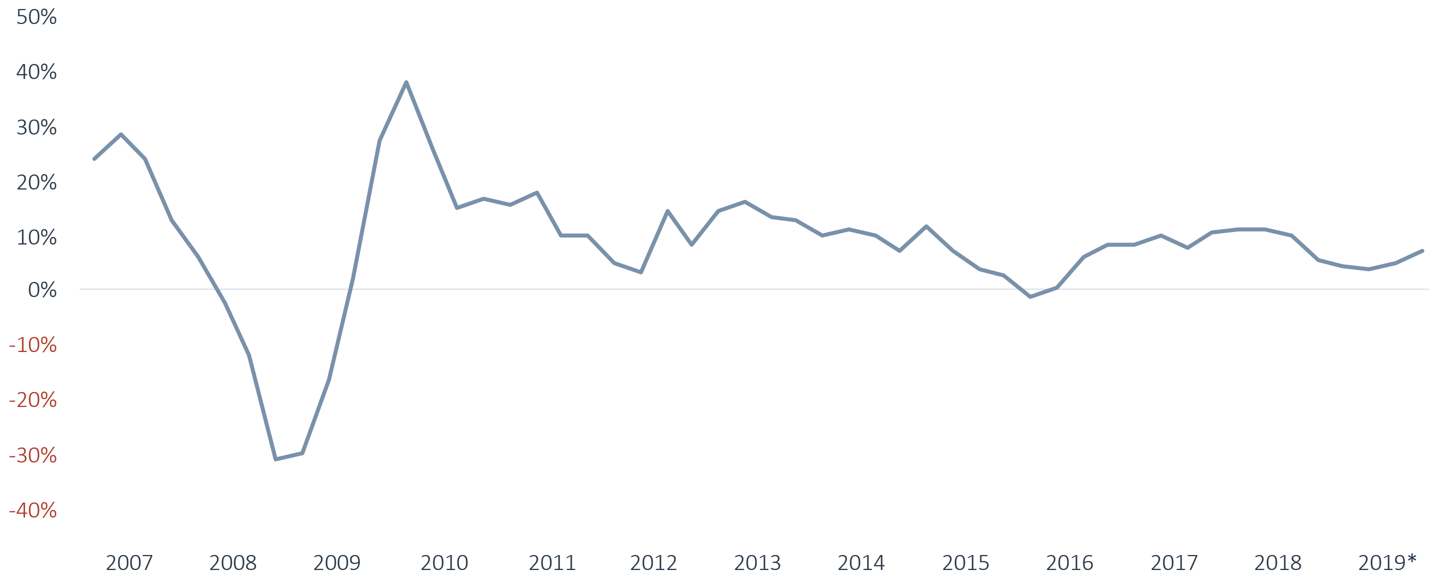
Private debt

Rolling one-year horizon IRR for private debt funds



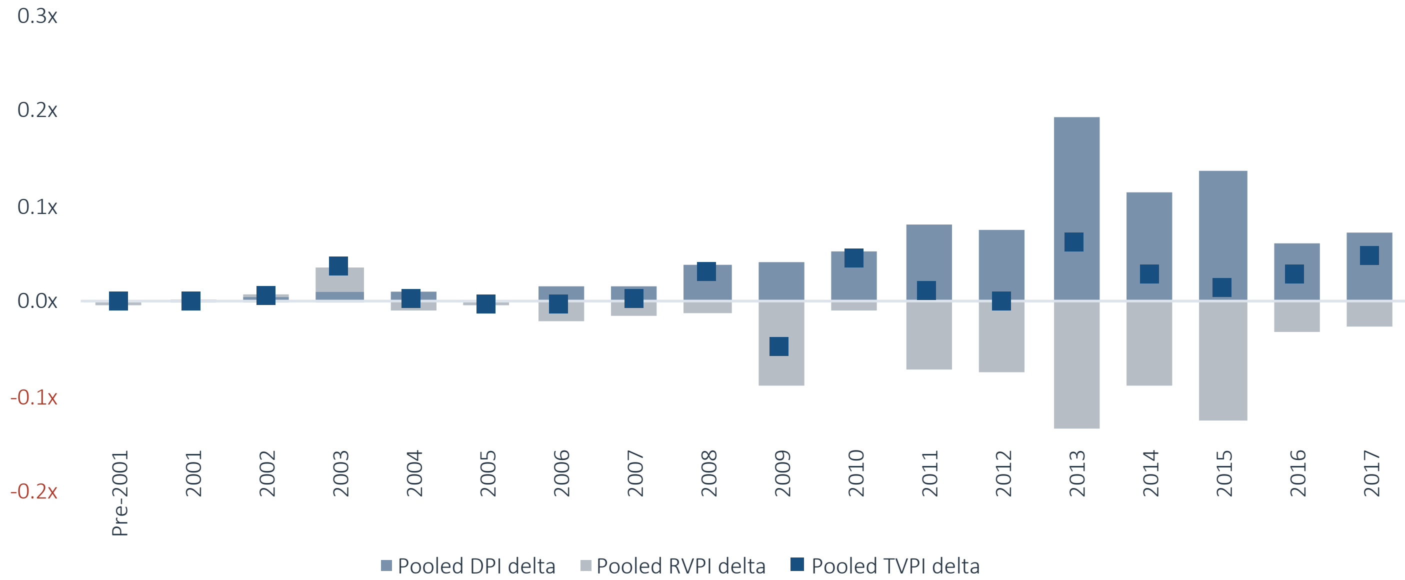
Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Dylan Cox Senior Analyst, PE
dylan.cox@pitchbook.com

Performance figures for private debt funds ticked upward in Q4 2019, reflecting the relatively strong performance by leveraged loan and public equity indices in the period compared to the selloffs seen in the final quarter of 2018. The rolling one-year IRR for the strategy reached 7.0% in Q4 2019, higher than the 4.8% reported three months prior. Though private debt performance tends to be relatively stable compared to other private market strategies, we are likely to see significant dips in the Q1 2020 figures due to the COVID-19 pandemic. As an early indicator, most credit funds for publicly traded asset managers were marked down in the low-to-mid double digits for the period ending March 31, 2020.

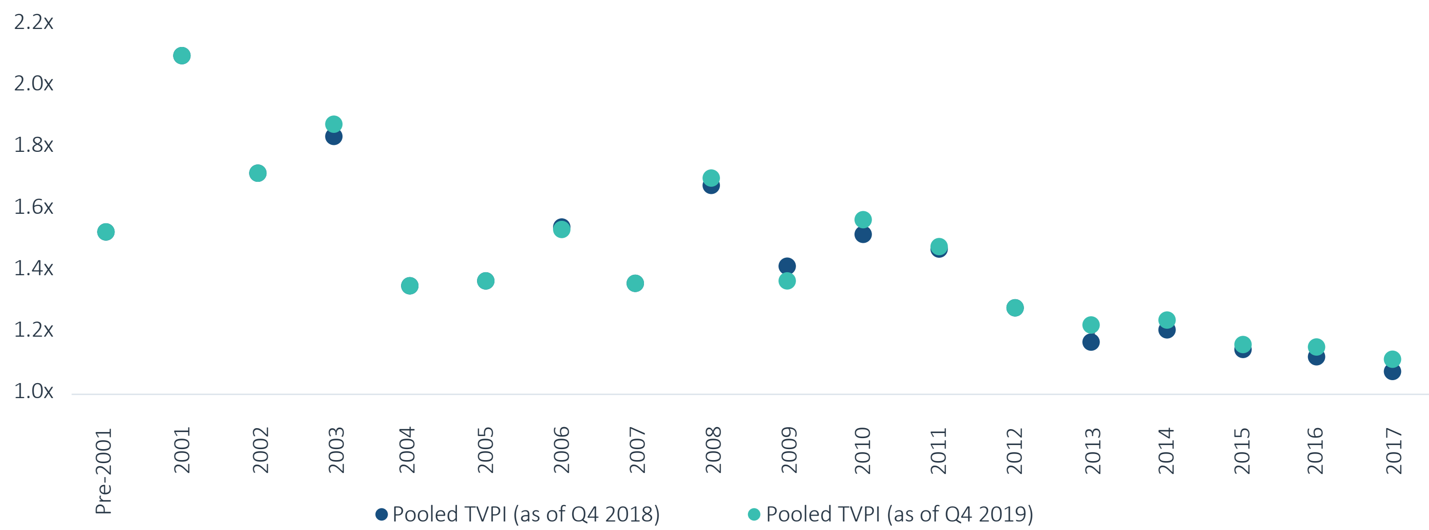
Private debt cash flows have grown immensely over the last few years, even if 2019's figures were slightly below the strategy's record highs. Distributions to LPs totaled $101.5 billion in 2019, more than seven times the amount posted a decade prior. Capital calls for the year reached $108.5 billion, which is 13.2% behind 2018's figure but still the second-highest annual posting on record. We expect the level of both contributions and distributions to fall in 2020, as dealmaking and interest repayments are likely to have slowed amid the pandemic, but the longer-term trend of growing cash flows should remain intact.

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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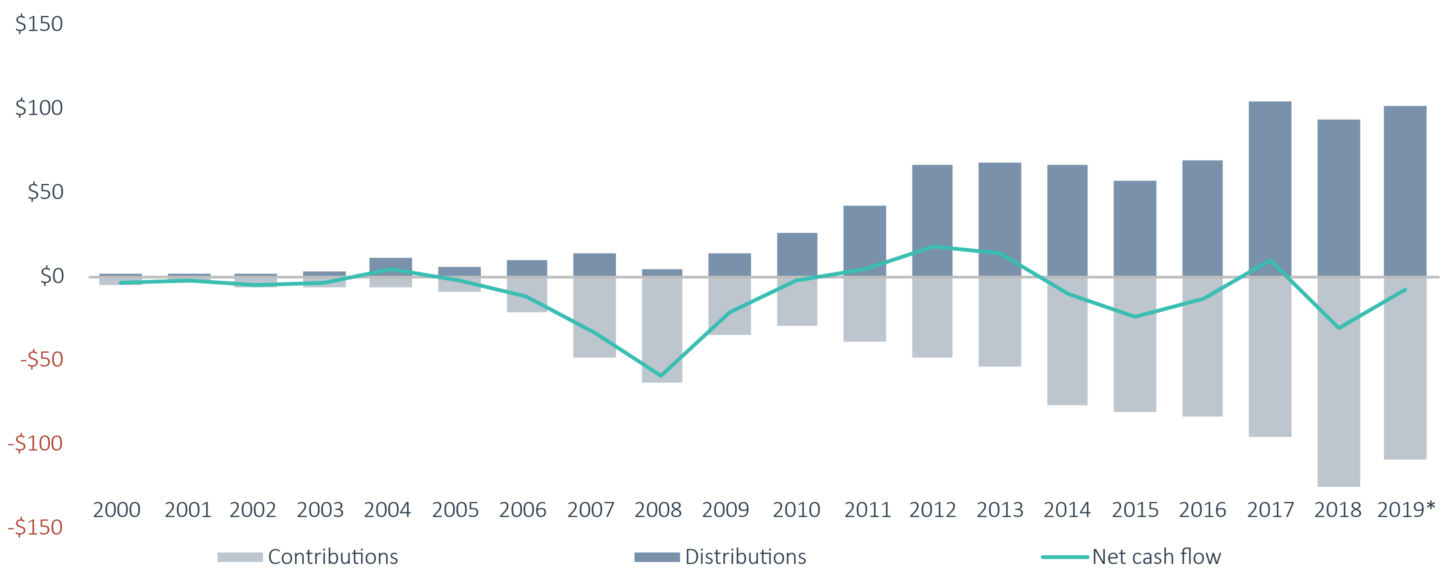
Quarterly IRR for private debt funds

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Private debt cash flows ($B)



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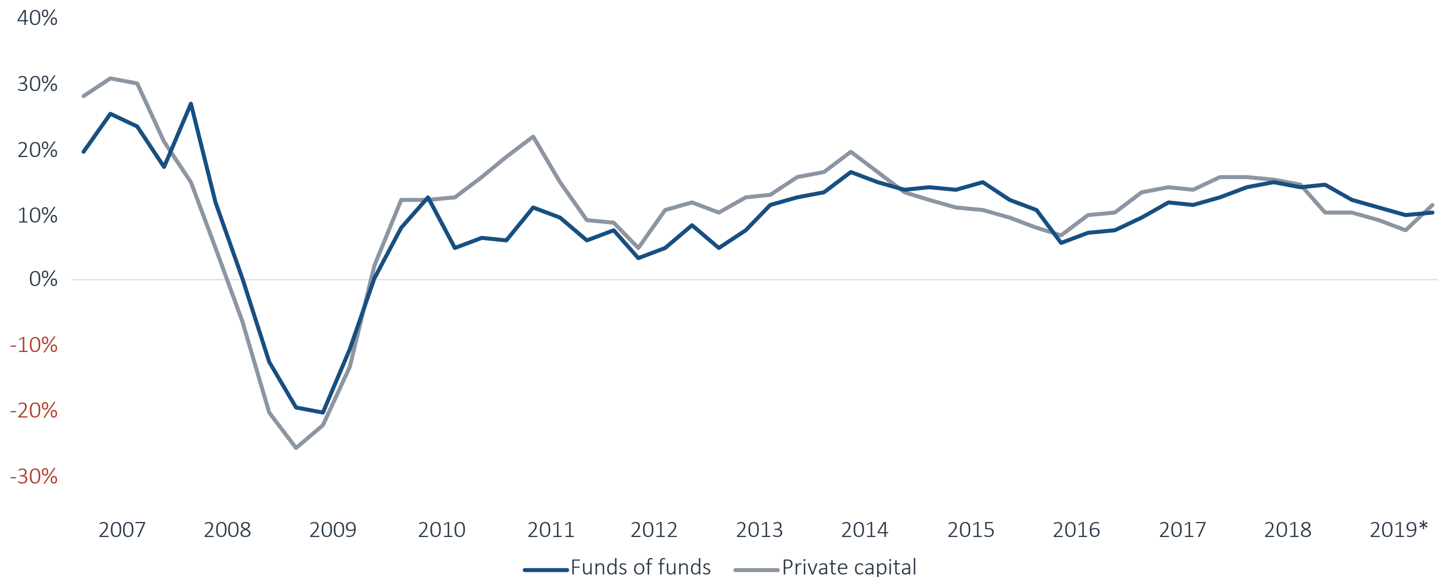
Funds of funds

Rolling one-year horizon IRR for FoF



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

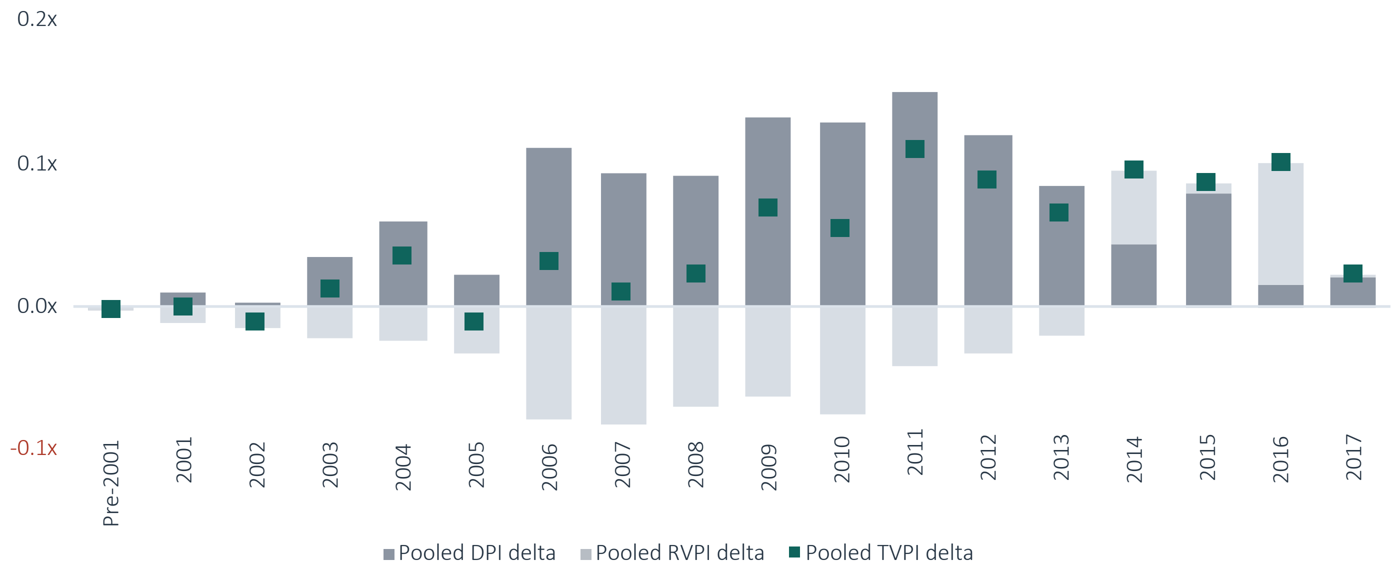
Hilary Wiek, CFA, CAIA Senior Analyst, Fund Strategies and Performance
hilary.wiek@pitchbook.com

Like private capital investors overall, the large FoF that dominate AUM in the space tend to have a strong bias for PE, while allocating to a smattering of the other strategies as well. The rolling one-year horizon IRRs for FoF and for private capital funds in aggregate track fairly closely to one another as a result. Given the returns that PitchBook reports are net of fees, this is a positive sign for those LPs looking to simply gain exposure to the illiquidity premium beta via the FoF access point. LPs would need more concentrated commitments to potentially garner outsized returns beyond what the average return of private capital funds offers. All that said, FoF and private capital funds did reverse positions as 2019 closed out, with FoF falling behind the broader industry as measured by one-year horizon IRRs, down to 10.1% compared to overall private capital at 11.6%.

Most vintage year cohorts were able to increase their TVPIs from 2018 to 2019, largely by locking in gains via distributions. Recent vintages saw the largest boost, though some of that came from RVPI, which is vulnerable to valuation changes stemming from the COVID-19 crisis.

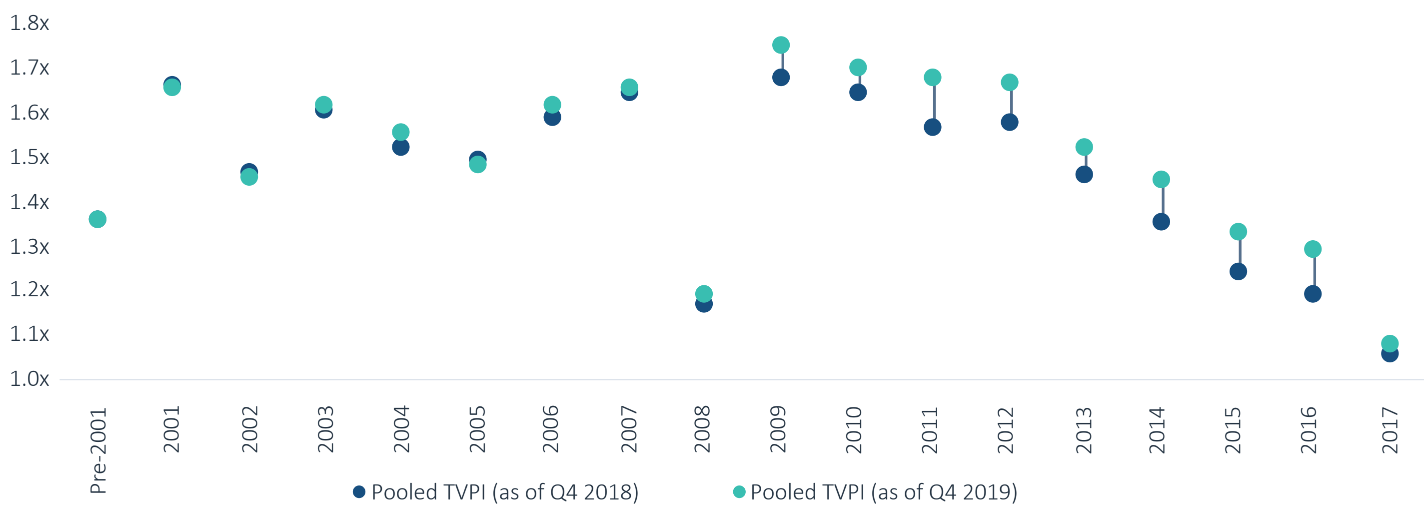
Net cash flows remained significantly positive for FoF in 2019 but were off from 2018's $44.1 billion. Part of this is because FoF as a group have seen a decline in capital raised, so older funds with more capital are in a distribution phase with less new capital being called to replace it. Like private capital strategies as a whole, individual FoF have continued to receive capital calls in 2020 to pay back subscription credit lines and support existing investments, but distributions have dried up, as few GPs were willing to transact when valuations were in question. Investors may not be able to count on distributions to fund capital calls, as they have done going back to 2012.

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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

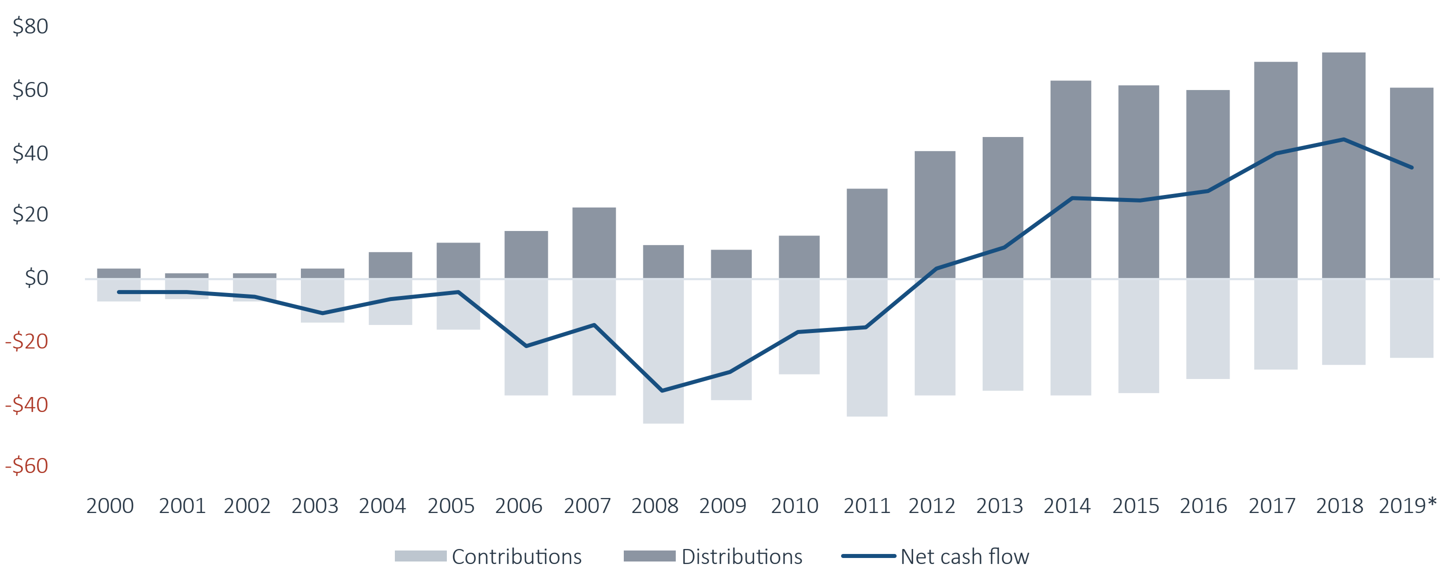


Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Quarterly IRR for FoF

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

FoF cash flows ($B)



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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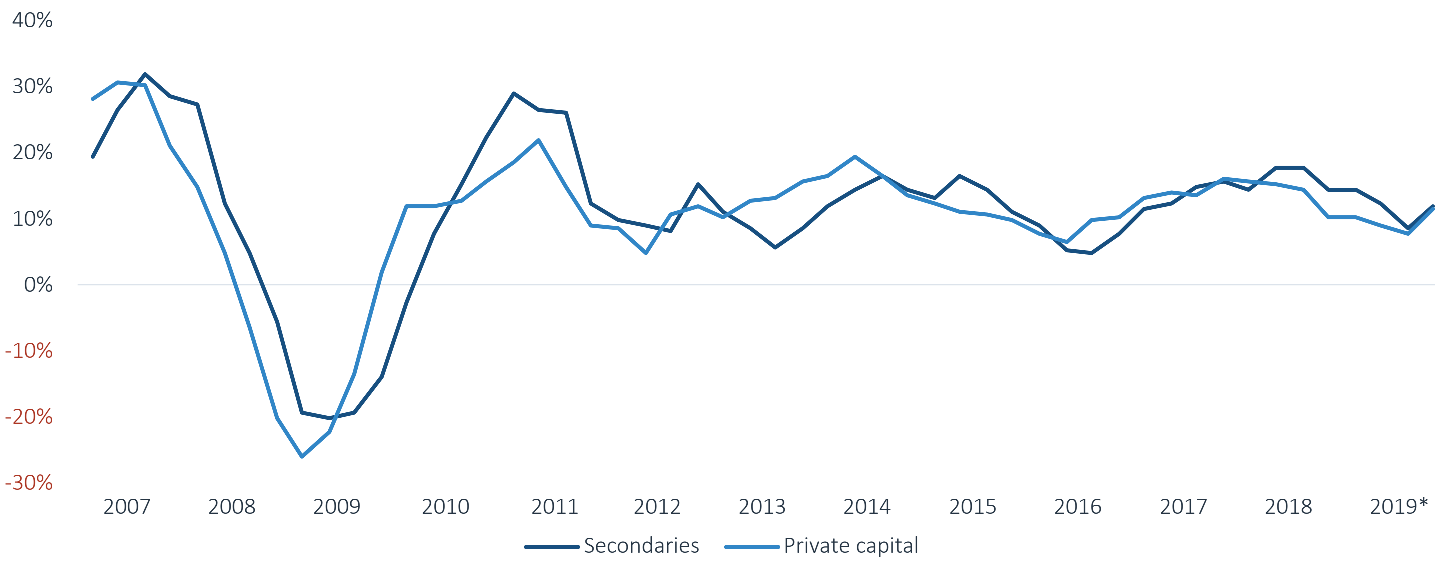
Secondaries

Rolling one-year horizon IRR for secondaries funds



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

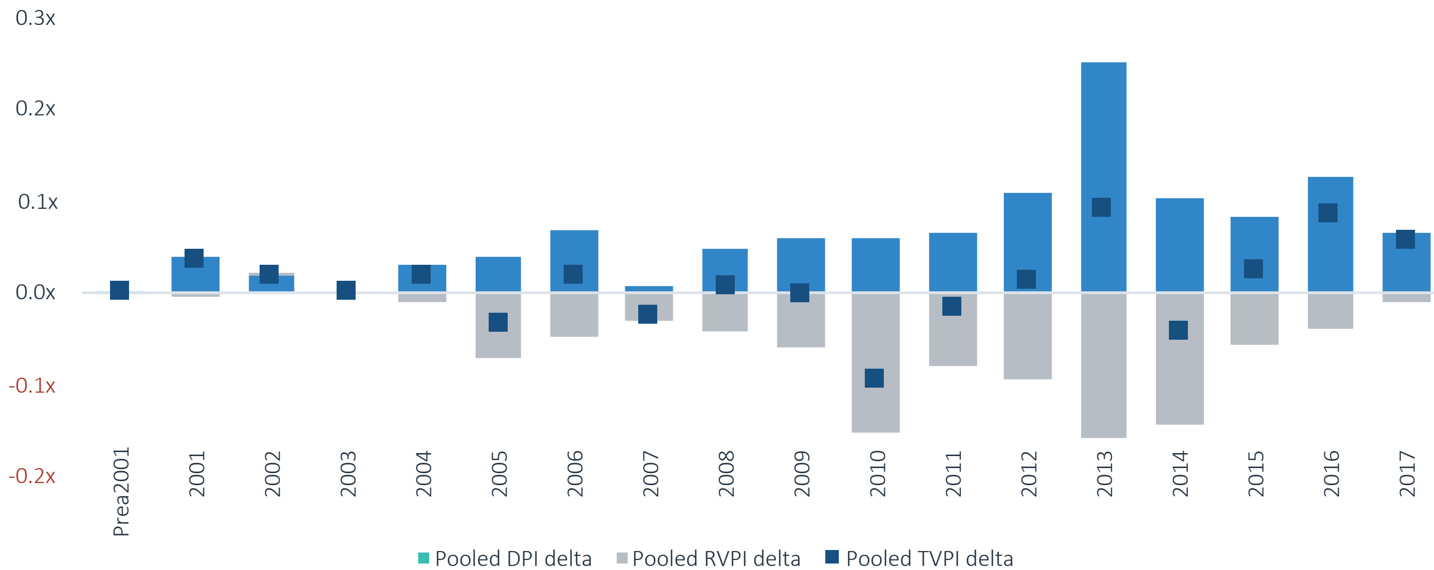
Hilary Wiek, CFA, CAIA Senior Analyst, Fund Strategies and Performance
hilary.wiek@pitchbook.com

One-year horizon IRRs ticked up for secondaries funds during Q4 2019, directionally tracking how the public markets and private capital funds overall performed in the same period. Net cash flows have been less stellar for the strategy, though flows in each direction have been strong. Record-setting fundraising has supported more secondaries deals and led to growing levels of capital calls from secondaries funds, independent of the market environment. Investors in secondaries may actually see improved net cash flows in the first half of 2020 as there are few positions to buy during the pandemic-related uncertainty, but mature funds already purchased into secondaries funds may provide a limited level of distributions. The second half of 2020 is expected to see a pickup in secondary sales, which could flip net cash flows to negative as funds begin to call capital again.

Vintage cohorts within the secondaries space had mixed valuation results YoY. The TVPI multiple for 2010 vintage funds dropped significantly, while the 2013 vintage saw 0.09x added to their figure. As with other private market strategies, secondaries funds of recent vintages have relatively more capital in the ground and at risk to pandemic-related markdowns. Mitigating this issue is the maturity of the holdings in secondaries funds, leading distributions to come more swiftly than in primary funds, as exhibited by the strong distributions over the last year from the 2016 and 2017 vintages. As a result, a secondaries fund will typically return more capital more quickly than other fund strategies of the same vintage.

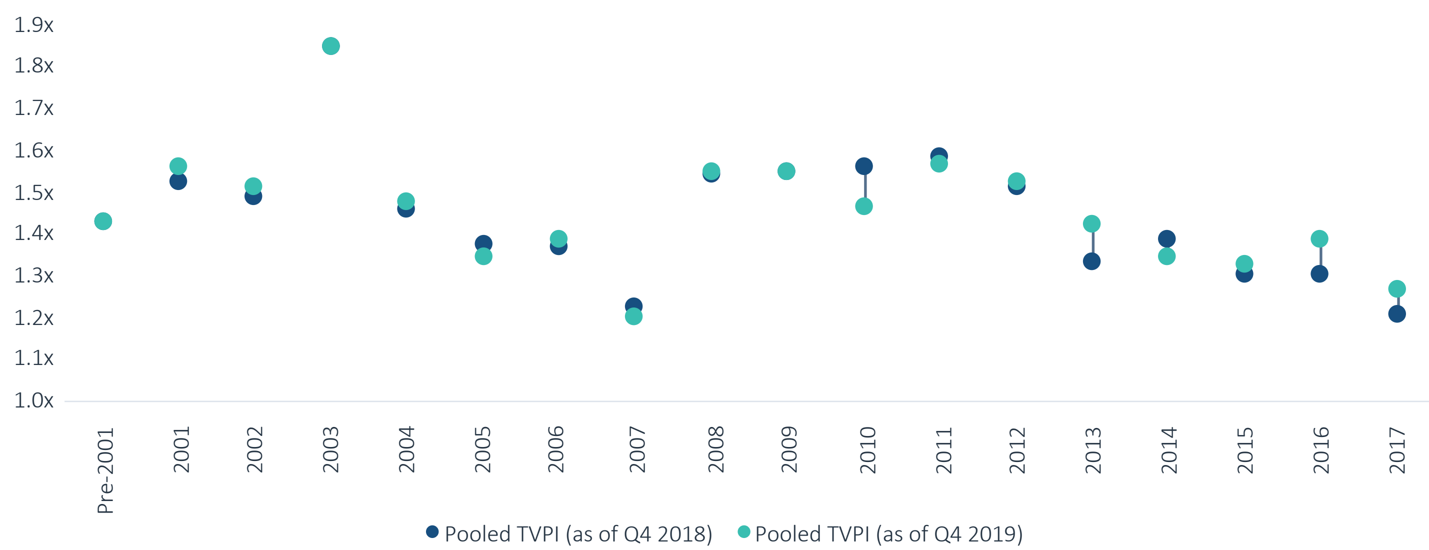
PitchBook

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

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



Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Secondaries

Quarterly IRR for secondaries

Source: PitchBook | **Geography:** Global
*As of December 31, 2019

Secondaries cash flows ($B)

Source: PitchBook | **Geography:** Global
*As of December 31, 2019