

Q&A ON BENCHMARKING IN PRIVATE MARKETS

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What are the main data/measurement challenges investors face with private markets that are different to their public markets experience?

Private market investors face challenges in data availability, measurement, and performance assessment that differ from public markets. Lack of standardized reporting, infrequent valuations, and limited liquidity hinder risk analysis, investment comparison, and data-driven decision-making.

Limited transparency and standardization are key issues. Unlike public markets with strict regulatory frameworks, private markets lack universal reporting standards. Self-reported data by fund managers leads to inconsistent valuation methods and metrics, complicating comparisons across funds, asset classes, and geographies.

How does the performance of private market funds differ from public market funds

Unlike public market investments, which are marked to market daily, we do not capture the highly frequent market value data on private market investments to be able to infer relative returns for investors and frequently enough to be able to support highly parameterized performance and risk analysis.

Private market investors rely on cash flow data exchanged with their General Partners (GPs) and quarterly valuation reports from GPs to evaluate fund performance. This involves a trade-off in measurement: Internal Rate of Return (IRR) is highly sensitive to the timing of cash flows, while Multiples on Invested Capital (MOIC) disregard the timing of capital calls and distributions. Both metrics provide valuable insights but capture different aspects of performance.

How does benchmarking in private markets help?

Unlike public markets, where risk-adjusted returns help control for systematic risks across stocks, private markets require a more tailored benchmarking approach based on vintage year, region, industry sector, and other fund or deal characteristics to ensure meaningful comparisons.

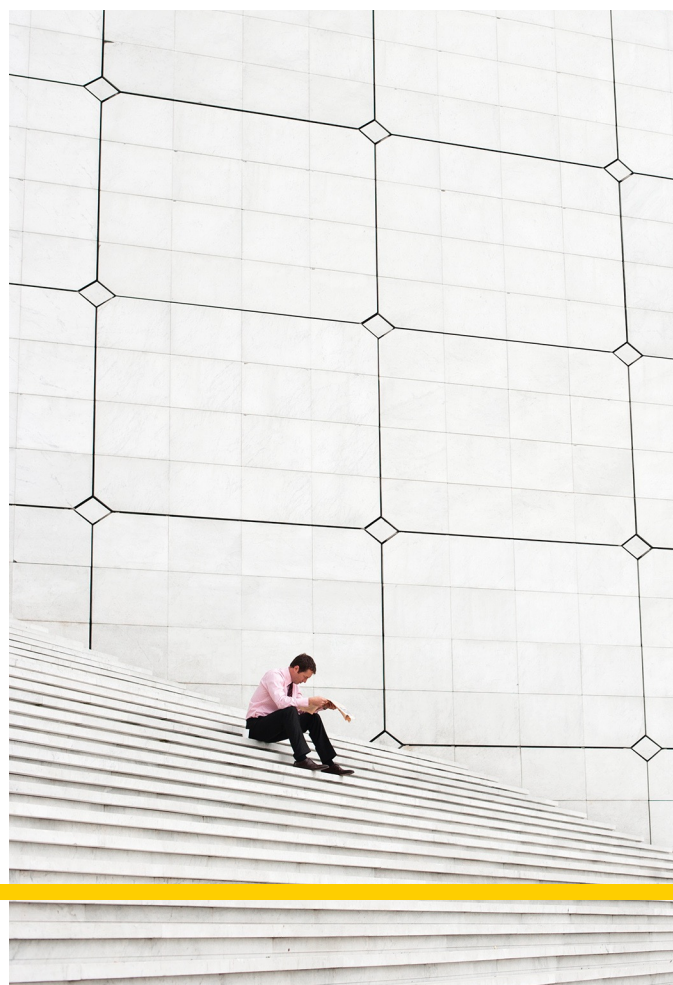
Benchmarking plays an important role in both pre-investment manager selection and post-investment performance monitoring. Before committing capital, investors assess managers by ranking them based on their track records and conducting advanced performance attribution analysis. While opinions differ on whether average private market returns surpass those of public markets, top-quartile private market funds are consistently recognized as strong performers.

Beyond manager selection, ongoing performance monitoring is essential to understanding how value is created and sustained within private market investments. An important tool in this process is valuation bridge analysis, which helps investors break down the factors driving changes in a fund's valuation over time.

What benchmarks are available? And how are they constructed

Private market benchmarks vary based on their construction. Some are built using cash flow data and interim valuations of residual portfolio investments, while others are derived from performance metrics reported by fund managers to investors. These two types of benchmarks are complementary, providing a holistic view that enables investors to conduct comprehensive performance monitoring and attribution analysis across their portfolios.

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