



eFront Quarterly Report

Private Equity Performance Overview

Returns, risks and liquidity
of LBO Funds
in Q4 2019

Source: eFront Insight

Introduction

eFront is the leading provider of alternative investment technology, focused on enabling industry professionals to achieve superior performance. This report leverages high quality data and powerful analytics coming from eFront Insight. eFront Insight combines multiple data sources into one analytical platform. It includes a proprietary benchmark for alternative investment performance, counting over 4,000 funds across geographies, strategies, sizes and vintage years. This is the main data source of this report. On a quarterly basis, eFront publishes an updated report showing the performance of LBO and VC funds in terms of returns, risks and liquidity. The performance of LBO and VC funds are analyzed in a sequence one quarter after the other.

The aim of this report is to provide readers with elements of analysis and understanding of the private finance universe, based only on data collected by eFront Insight. It does not intend to draw any definitive conclusion, nor judge the performance of fund managers. By providing a guided reasoning, this report hopes to contribute to the overall progress of understanding of the asset class in a short quarterly format, with all the limits that this entails.

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1. Global Market Performance Overview

Summary of the analysis

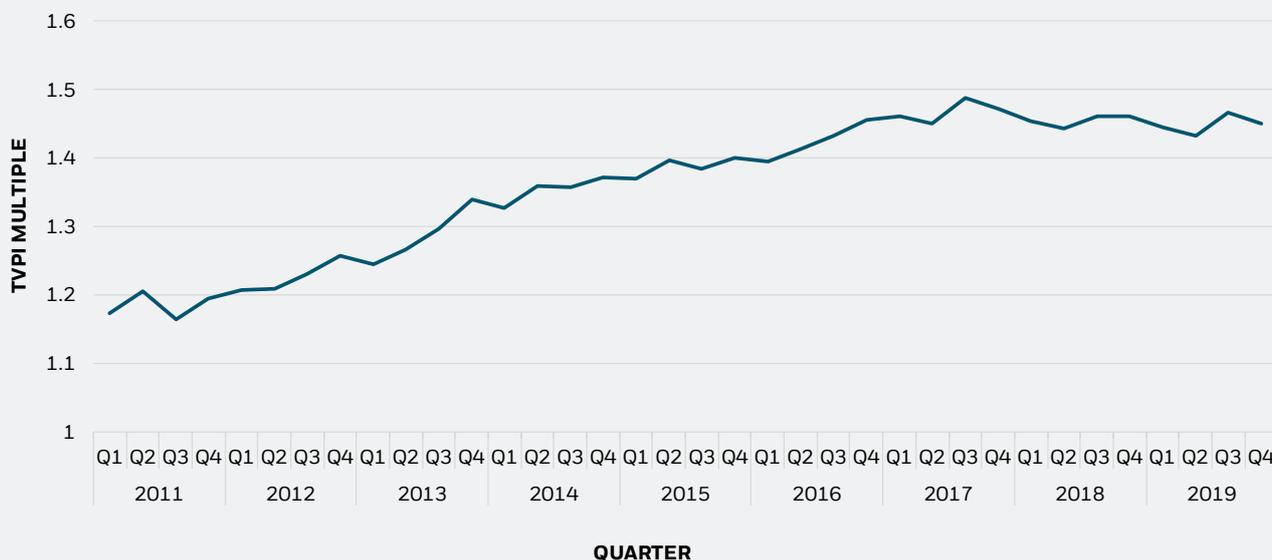
Throughout 2019, performance and risk have jointly stabilized at levels set in 2017 while selection risk also stabilized at a low level. Time-to-liquidity remains short, as fund managers maximize the use of debt markets and exit options. These ideal conditions are being tested during the first semester of 2020.

Return analysis (Fig. 1 and 2)

From this report, the 2010 vintage year will be considered as part of the historical data. Active funds encompass vintage years 2011 to 2019. Throughout the last semester in 2019, the performance of active LBO funds stabilized, as was also seen during the second semesters of 2018 and 2017. Active funds outperformed the ten-year average of 1.359x by 0.089x. This average has increased by 1.71% as 2010 dropped from the sample. The year-on-year TVPI has decreased by 0.47%.

2019 was a year of stabilization: high on performance, low on selection risk and time-to-liquidity.

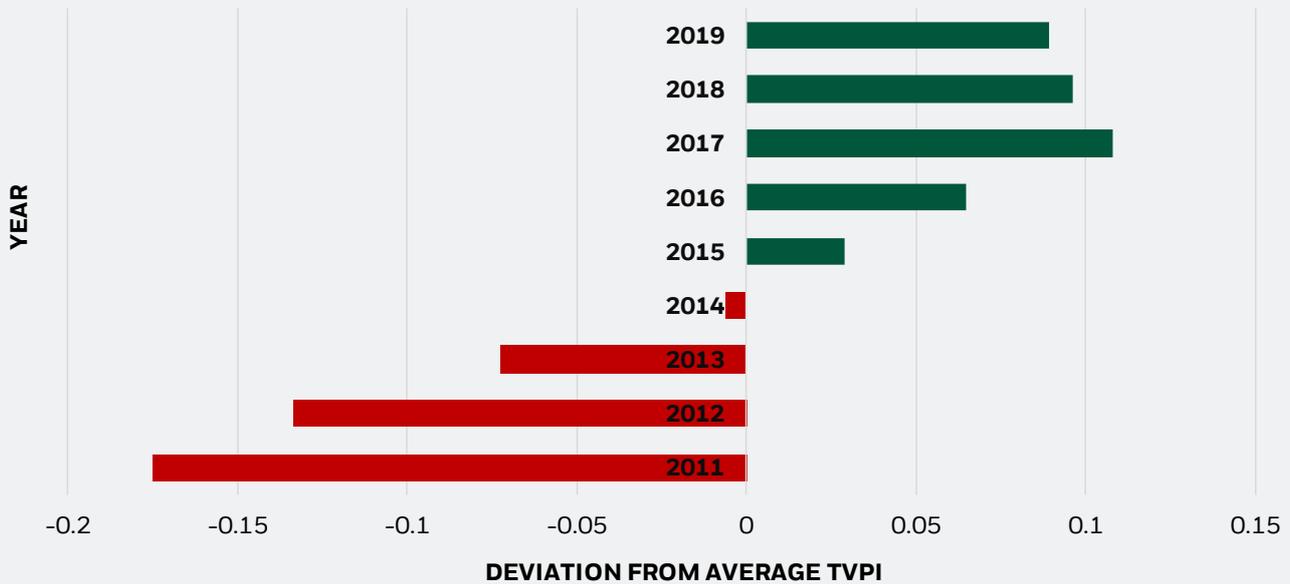
Fig. 1 – Return evolution of active LBO funds



Source: eFront Insight, As of Q4, 2019

2019 confirms our view, formulated at the end of 2018, that the progression remains flat as we are in a late-cycle phase. The consequences of the COVID-19 health-crisis-induced economic slowdown are yet to be reflected in the first semester of 2020.

Fig. 2 – Return deviation from the average of active LBO funds



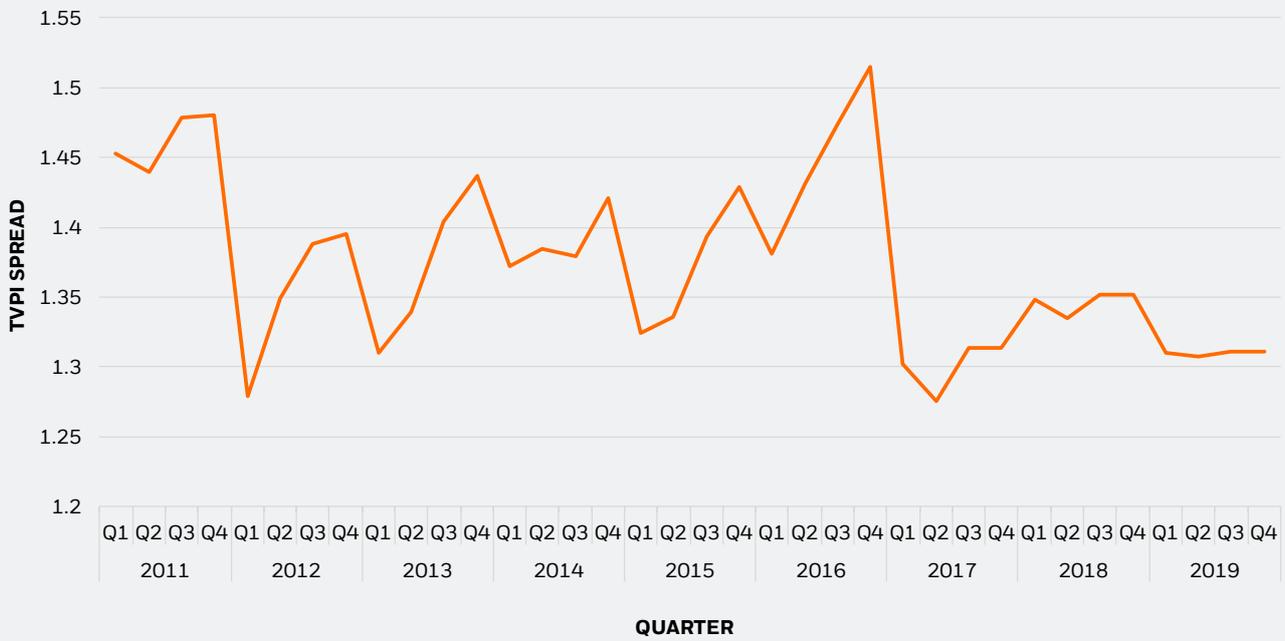
Source: eFront Insight, as of Q4 2019. Basis 0 = net average of 1.359x

Risk analysis (Fig. 3 and 4)

As for fund selection risk, measured through the dispersion of performance between the top and bottom 5% of fund managers, the stabilization continues with a slight reduction when compared with 2018 (around 1.35 for 2018 vs. approximately 1.3 for 2019). Since 2016, the dispersion of performance has decreased substantially. The evolution of selection risk has been flat during the whole of 2019, with a year-on-year increase of 0.7%. Selection risk and returns are thus evolving in concert, within a limited range. With the exclusion of 2010 from the active vintage years, the net average dispersion went down from 1.387x to 1.373x.

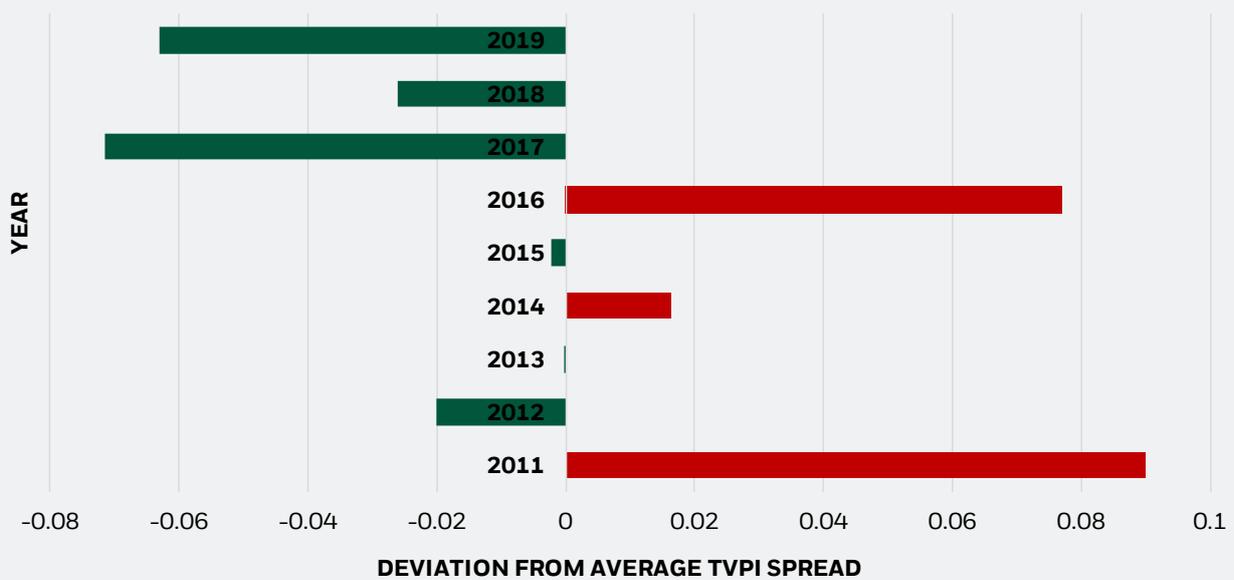
2019 dispersion risk has not changed since the first-semester report, with a dispersion within the 1.3x range. The effect of the ongoing COVID-19 downturn on selection risk will be assessed once the data from Q1 and Q2 2020 becomes available. Even though we cannot be certain about how symmetric this shock will be in affecting the top and bottom 5% performers, it is reasonable to expect that the selection risk measure will increase. Learning from the Great Financial Recession, the bottom 5% of funds suffered a more significant loss in their NAVs compared with top performers that proved to be more resilient.

Fig. 3 – Risk evolution of active LBO funds



Source: eFront Insight, As of Q4, 2019

Fig. 4 – Risk deviation from the average of active VC funds



Source: eFront Insight, as of Q4 2019. Basis 0 = average of 1.373x.

Liquidity analysis (Fig. 5 and 6)

The long-term average time-to-liquidity of active vintage years has increased from 3.12 years up to 3.20 years, as the 2010 vintage year dropped from the count. The average time-to-liquidity has remained stable and at a rather low level (2.73 years) throughout 2019. Our limit of 2.5 years in excess of the average time to liquidity that points to a critically high period is not yet reached. Some have used debt markets to operate dividend recapitalizations, while others have benefited from a robust exit environment.

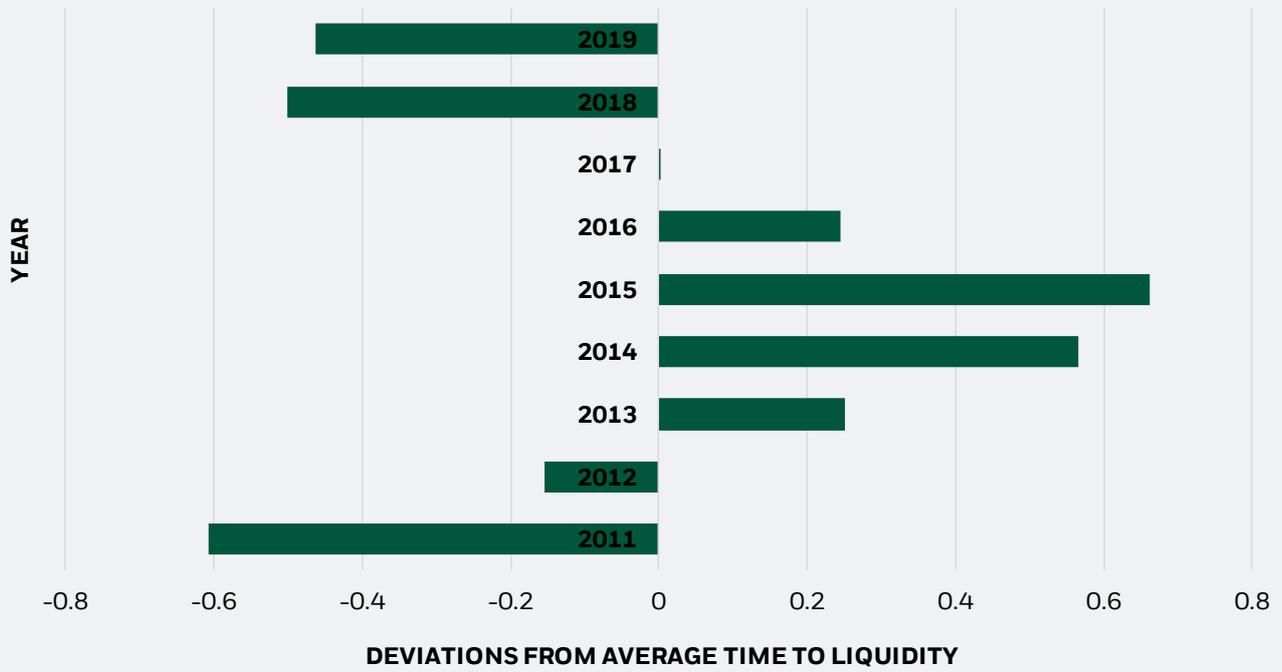
Fig. 5 – Liquidity evolution of active LBO funds



Source: eFront Insight, As of Q4, 2019

This evolution will be tested in the first semester of 2020 and within the next LBO funds report (as of Q2 2020). If we could extrapolate from the past, it is to be expected that active LBO funds will delay the exits in the face of a challenging exit environment in the first semester of 2020. This development would contribute to increasing time to liquidity.

Fig. 6 – Liquidity deviation from the average of active LBO funds



Source: eFront Insight, as of Q4 2019. Basis 0 = average holding period of 3.20 years.

2. Vintage Year & Regional Performance Overview

Summary of the analysis

Q4 2019 looks like a pivoting moment, marking a break in the progression of performance of LBO funds during the first three quarters. Some vintage years were more affected than others by this break.

General evolution (Fig. 7)

2010 was a disappointing vintage year in terms of overall aggregated performance, compared to the historical average and other active funds. It is now part of historical average and has thus led to its small decrease. Active vintage appears to be performing slightly better as a consequence, and this has notably helped some vintage years, which were previously underperforming, to reposition themselves closer to the average.

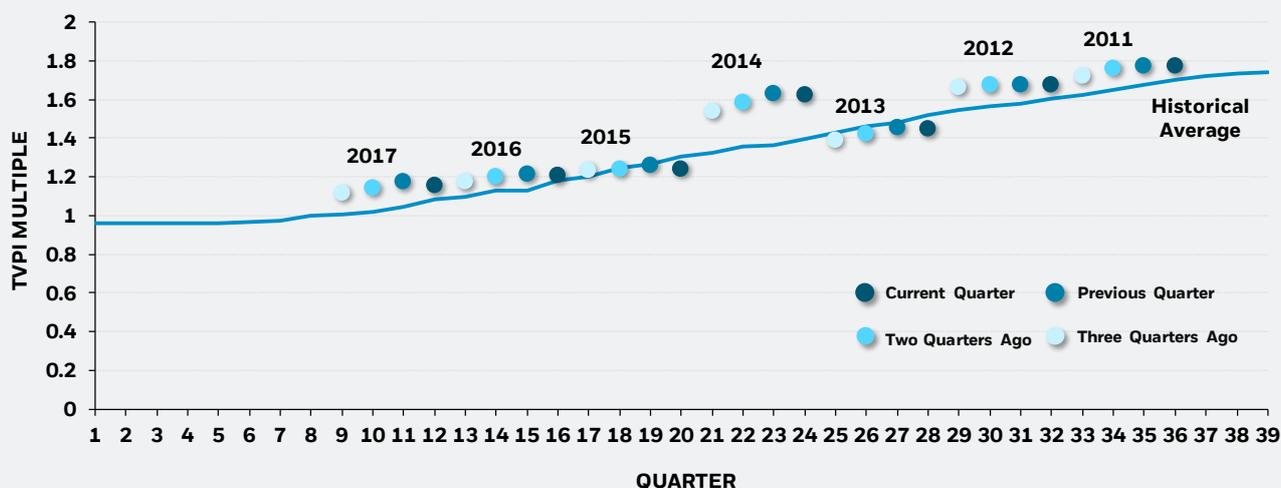
Q4 2019 saw a stabilization of the evolution of multiples of invested capital. Vintage years 2011, 2012 and 2014 are outperforming the historical average. 2013 appeared to have edged closer to the threshold as of Q3 2019 before reverting to underperforming territory in the latest quarter. 2015 has also begun to underperform in Q4 2019.

The effect of the COVID-19 health crisis on vintage year performance still remains to

Though 2019 appears as rather uneventful, the last quarter marks a break after a progression of performance during the first three quarters.

be seen and will be assessed in the years that follow. Based on past experiences, it is reasonable to expect that funds that have been heavily investing in the pre-downturn period will experience the most substantial adverse effects on their performance. Still, this outcome is a function of various components. In predicting the performance of LBO funds from different geographic markets, an essential factor to be considered is the scope of national economic stimulus policies.

Fig. 7 – Evolution of multiples of active LBO funds



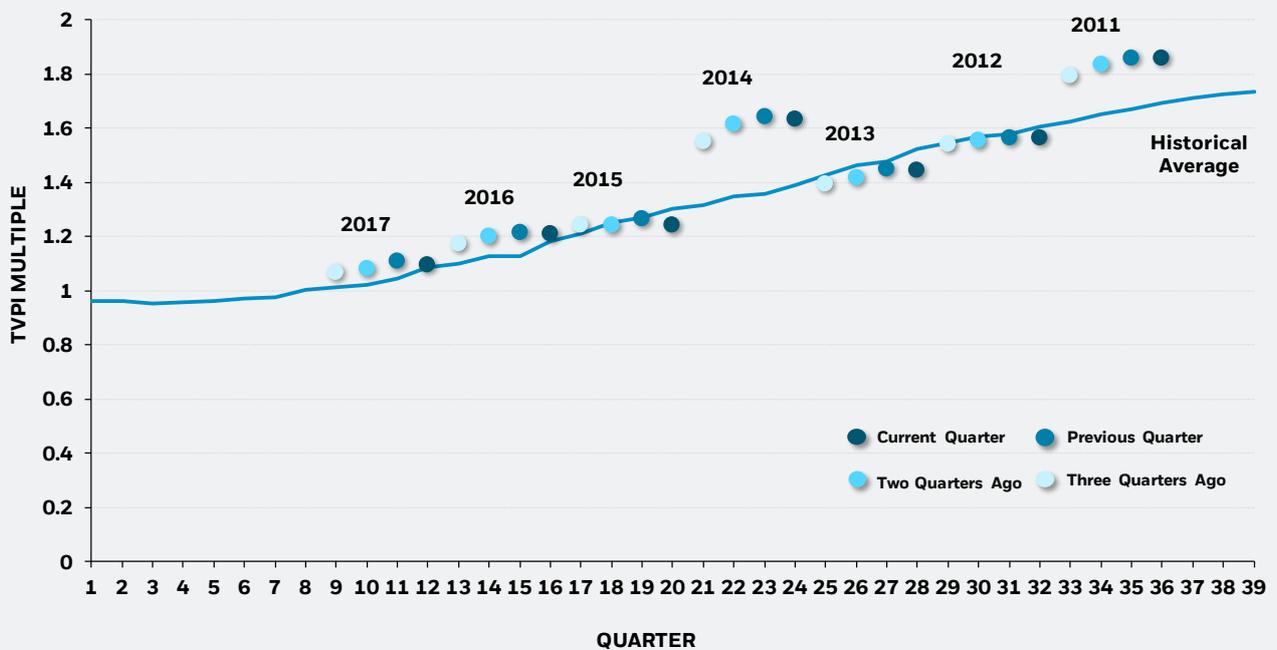
Source: eFront Insight, as of Q4 2019. Active funds grouped by vintage year. The current average includes only fully realized funds to 2010. Reference currency: USD.

US LBO funds (Fig. 8)

US funds follow the same pattern, given their weight in the global sample, with only some differences. The 2012 vintage year is underperforming the average in the US. 2011 largely outperforms the historical average.

Funds of the 2013 vintage year, along with those of 2015, seem to have faced some challenges. Though they are on track to generate profits, on aggregate, they will not do as well as their peers historically.

Fig. 8 – Evolution of multiples of US LBO funds



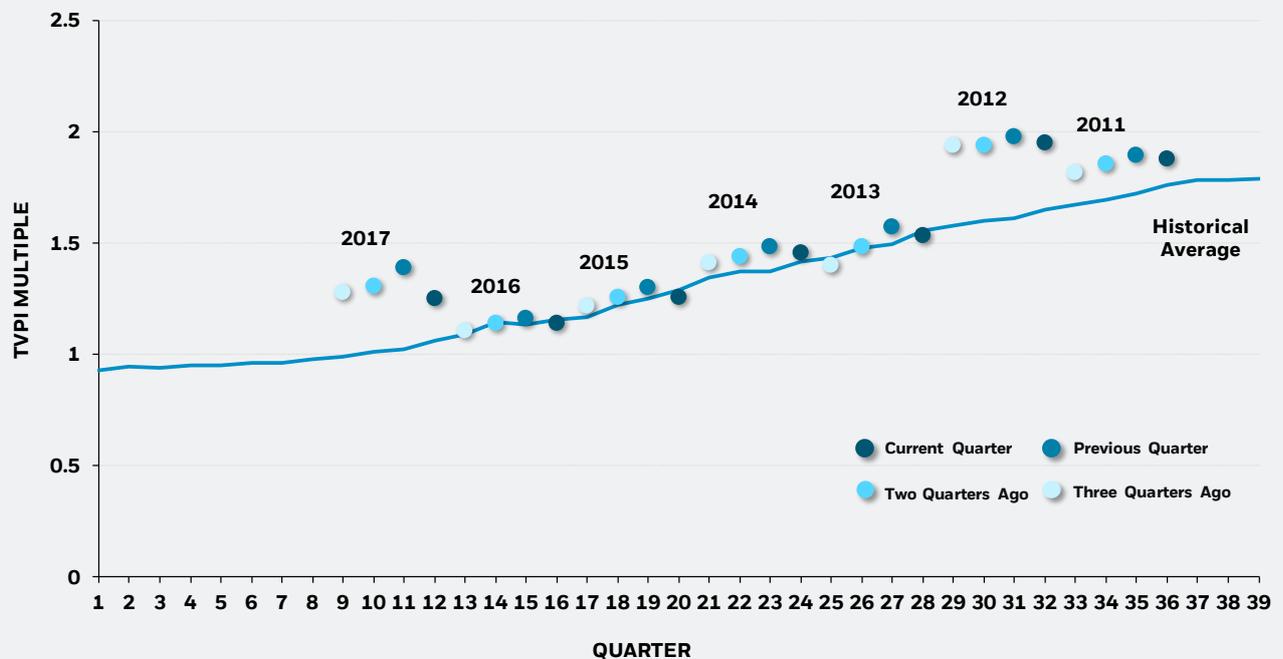
Source: eFront Insight, as of Q4 2019. Active funds grouped by vintage year. The current average includes fully realized funds to 2010. Reference currency: USD.

Western European LBO funds (Fig. 9)

The picture is more contrasted with Western European LBO funds. Q3 2019 registered a significant increase in performance while Q4 registered a drop. That drop at times canceled the progression of the previous quarter, or at least significantly offset it.

Vintage years 2011 and 2012 are still significantly outperforming the historical average, and this performance is realized considerably, thus reducing the risk of a significant change. Other vintage years are mostly following the historical average. Whether and how this will change will depend on how fund managers will react to major economic shifts caused by the COVID-19 health crisis.

Fig.9 - Evolution of multiples of W. European LBO funds



Source: eFront Insight, as of Q4 2019. Active funds grouped by vintage year. The current average includes only fully realized funds to 2010. Reference currency: EUR.

3. Methodology

Global Overview

Fig. 1 is based on multiples of invested capital (total value to paid-in, TVPI), the sum of capital distributed (distributed to paid-in, DPI) and net asset values (residual value to paid-in, RVPI). The purpose is to exhibit the evolution over time of valuations of active funds only, to get a perspective on performance in the making. Each quarter, a snapshot of the pooled average TVPI of active funds is taken. These funds are active (thus not older than 10 years old) with meaningful performance (thus not younger than two years old). In 2010, active vintage years are from 2001 to 2008. In 2011, active vintage years are from 2002 to 2009. The purpose is to track the evolution of active portfolios and their maturity to compare them over time.

Fig. 2 compares quarterly deviations of TVPIs of active funds from the historical average of TVPIs of active funds (as a base 0). The purpose is to exhibit evolutions over time when compared to a long-term reference point. Except for the quarter considered (or full year when considering Q4), historical deviations are grouped per year (thus the snapshots taken in Q1, Q2, Q3, Q4 2010 are grouped as an average under "2010"). If TVPIs are above average, they exhibit a relative excess of performance during the period considered. If TVPIs are below average, they exhibit a relative lack of performance during the period considered.

Fig. 3 is based on the difference between top 5% and bottom 5% TVPI (TVPI spread), which is used as a measure of LBO fund selection risk. The resulting graph shows a quarterly evolution. The purpose is to exhibit the evolution over time of the dispersion of performance of the best and worst fund managers. Each quarter, a snapshot of the TVPI spread of active funds is taken. These funds are active (thus not older than 10 years old) with meaningful performance (thus not younger than two years old). In 2010, active vintage years are from 2001 to 2008. In 2011, active vintage years are from 2002 to 2009. The purpose is to track the evolution of active portfolios and their maturity to compare them over time.

Fig. 4 compares quarterly deviations of TVPI spreads of active funds from the historical average of TVPI spreads of active funds (as a base 0). The purpose is to see evolutions over time when compared to a long-term reference point. Except for the quarter considered (or full year when considering Q4), historical deviations are grouped per year (thus the snapshots taken in Q1, Q2, Q3, Q4 2010 are grouped as an average under "2010"). If TVPI spreads are above average, they exhibit a relative excess of risk during the period considered. If TVPIs are below average, they exhibit a relative lack of risk during the period considered.

Fig. 5 is based on the calculated time-to-liquidity (measured as a function of TVPI and IRR, to extract the time necessary to achieve the second from the first). The purpose is to exhibit the evolution over time of the time necessary to generate liquidity, whether through exits, dividend recaps, but also write-offs. This measure is theoretical and sensitive to the assumption that portfolios are considered as liquid during the quarter in which the snapshot is taken. Each quarter, a snapshot of the pooled average TVPI and IRR of active funds is taken. These funds are active (thus not older than 10 years old) with meaningful performance (thus not younger than two years old). In 2010, active vintage years are from 2001 to 2008. In 2011, active vintage years are from 2002 to 2009. The purpose is to track the evolution of active portfolios and their maturity to compare them over time.

Fig. 6 compares quarterly deviations of time-to-liquidity (measured in years) of active funds from the historical time-to-liquidity of active funds. The purpose is to exhibit evolutions over time when compared to a long-term reference point. Except for the quarter considered (or full year when considering Q4), historical deviations are grouped per year (thus the snapshots taken in Q1, Q2, Q3, Q4 2010 are grouped as an average under "2010"). If the time-to-liquidity falls below 2.5 years or exceeds 4 years, it is considered sub-optimal. In the case of a time-to-liquidity shorter than 2.5 years, fund managers do not have the time to maximize their performance. In the case of a time-to-liquidity above 4 years, fund managers struggle to exit or refinance their assets and might have difficulties to maximize performance.

Vintage Year and Regional Overview

This analysis is based on the fact that private equity funds follow a certain course from inception to their liquidation. To shed a light on the funds currently active, we plot their pooled average TVPI during the current and past three quarters. These funds are aggregated by vintage year. TVPIs provide a perspective on realized and unrealized returns. TVPIs of active funds at a certain stage of their development can usefully be compared with the TVPIs of fully realized funds at the same stage of their development. The latter ones are materialized by the continuous blue line on the graphs and aggregated funds fully realized funds of vintage year up to 2010.

About eFront

eFront is the leading pioneer of alternative investment technology, focused on enabling alternative investment professionals to achieve superior performance. With more than 850 Limited Partner, General Partner, and Asset Servicer clients in 48 countries, eFront services clients worldwide across all major alternative asset classes. The eFront solution suite is truly unique in that it completely covers the needs of all alternative investment professionals end-to-end, from fundraising and portfolio construction to investment management and reporting. For more information, please visit www.efront.com

In 2019, eFront was acquired by BlackRock and since then operates as a specialized business unit within BlackRock Solutions, alongside Aladdin Institutional and Aladdin Wealth.

About eFront Insight

eFront Insight is a sophisticated web-based analytical platform dedicated to alternative investments and combining granular, high quality investment data reported by General Partners, leading market benchmarks and other relevant sources in order to generate unique insights and facilitate investment decision making. eFront Insight is available to both General Partners to digitize data exchanges with investors and to Limited Partners to enhance decision making.

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