BEACON POINTE ADVISORS

BEACON POINTE RESEARCH
WHITE PAPER

INTRODUCTION TO PRIVATE EQUITY
JULY 2003

CONFIDENTIAL – PROPRIETARY

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HIGHLIGHTS

- *Summary:* Despite its tremendous growth and increased importance for corporate funding, the private equity market remains a relatively enigmatic asset class. Over the past twenty years, it has been the fastest growing market for corporate finance – by an order of magnitude over other markets such as the public equity and bond markets and the market for private placement debt. This growth is largely due to the institutionalization of the private equity market by way of the limited partnership structure. The lack of information is due partly to the nature of the instrument itself. A private equity security, or fund, is exempt from registration with the Securities and Exchange Commission by virtue of its offering outside the public marketplace. Thus, information about private transactions is often limited, and analyzing developments in the market is difficult.

  This paper examines the economic foundations of the private equity market, investigates the market's development, describes the market's institutional structure, and evaluates the distinctive determinants of returns with an eye towards major secular and cyclical drivers. Finally, drawing from various trade journals and academic working papers, our study also attempts to estimate the size of the market.

- *Conclusion:* Although, the non-public nature of private equity creates complexities in research, analysis, and ultimately, investment, historical rates-of-return offer a compelling reason to perform a deeper examination of this asset class. Beacon Pointe believes in the viability and attractiveness of private equity investments within a well-diversified portfolio.

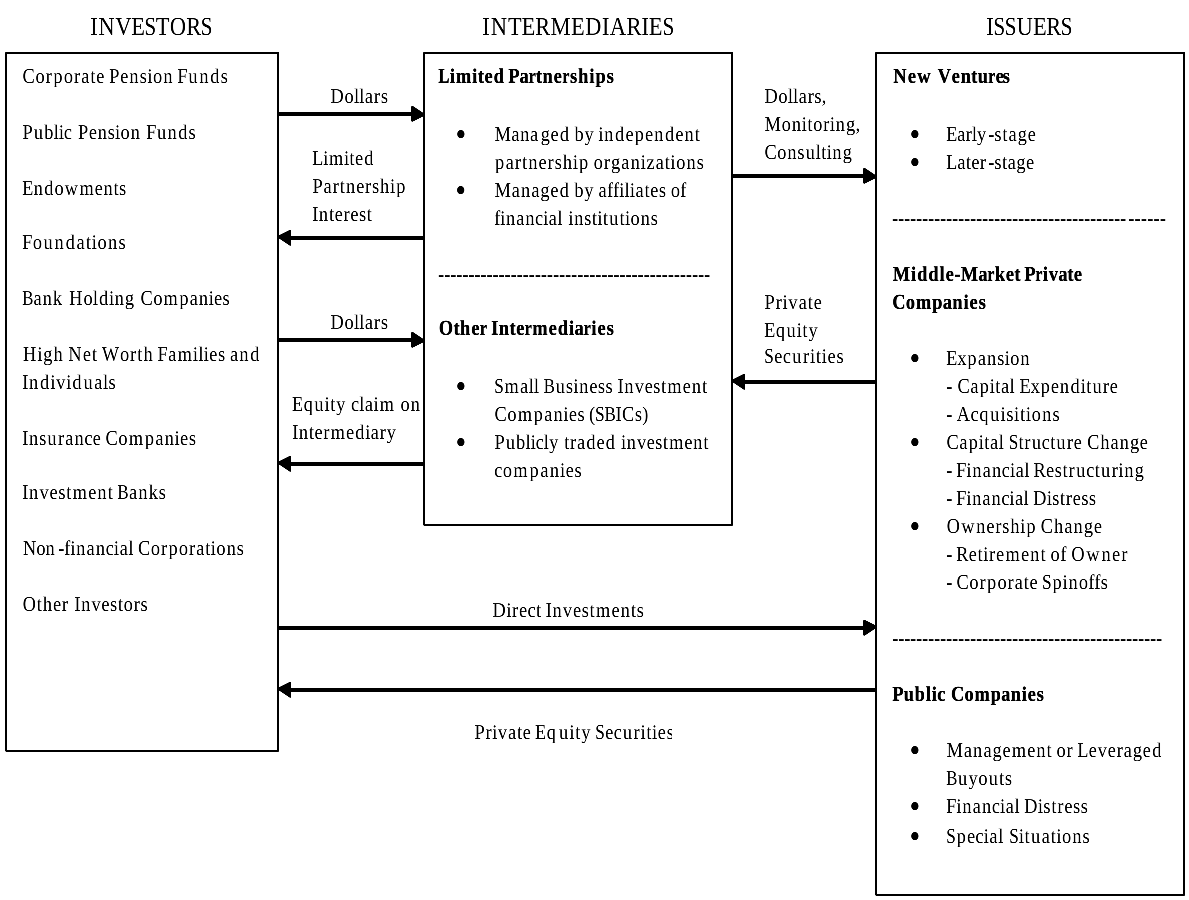
Overview

The organized private equity market refers to professionally managed equity investments in the unregistered securities of both private and public companies.[1] Professional management is provided by specialized intermediaries in the form of limited partnerships and, to a far lesser extent, direct investment by major institutional investors. Private equity managers acquire large ownership stakes and take an active role in monitoring and advising underlying portfolio companies.

The private equity marketplace has three major players: issuers, intermediaries, and investors.

Figure 1

Private Equity Market Participants



[1] There is also a more informal private equity market that is typical of the angel capital market and other forms of direct investments by accredited investors.

Issuers

Issuers differ greatly in their reasons for raising capital and vary widely in size. However, a common trait shared by issuers is their inability to obtain financing in the public debt and equity markets. In traditional venture capital, issuers are young firms most often engaged in developing innovative technologies that are projected to generate very high growth rates in the future. They may be early-stage companies still in the research and development phase or the earliest stages of commercialization, or later-stage businesses that have several years of sales but are still seeking to expand rapidly. A few well-known examples of successful venture capital start-ups that are now well-known publicly traded companies include Apple Computers, Intel, Genentech, Federal Express, Yahoo!, and eBay.

Non-venture private equity is typically categorized by middle-market companies in low-technology manufacturing, distribution, services, and retail industries with more stable, low-growth, but profitable businesses. This segment uses the private equity market to finance expansion in capital structure or change the ownership composition of the company.

Public companies are also issuers in the private market. To go private, public companies issue a combination of debt and private equity to finance a management or leveraged buyout in an attempt to restructure the organization and ownership of the firm. A classic illustration of this type of transaction is the leveraged buyout of a financially distressed RJR Nabisco in the 1980s. Public companies also issue private equity in periods of difficulty and to avoid the registration and public disclosures associated with public offerings.

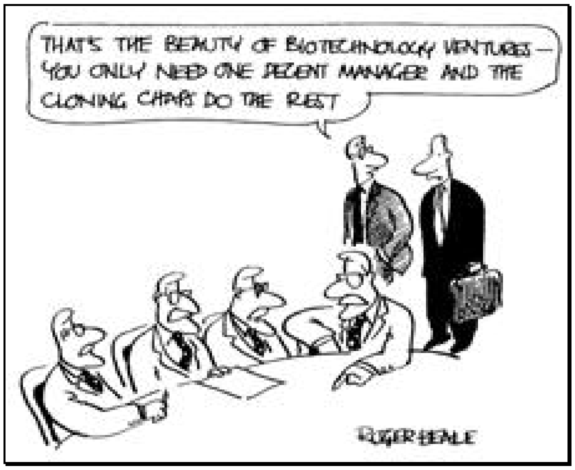
The following table (Figure 2) presents a general classification of firms that issue in the private equity market based on firm characteristics such as age, size, and reason for raising capital.

Figure 2

Characteristics Of Major Issuers In the Private Equity Market

Characteristics	**Later-stage New Ventures**	**Early-stage New Ventures**	**Middle-Market Private Firms**	**Public and Private Firms in Financial Distress**	**Public Buyouts**	**Other Public Firms**
Size	Revenues Between $0 and $15 million	Revenues Between $15 million and $50 million	Established with stable cash flows between $25 million and $500 million	Any Size	Any Size	Any Size
Financial Attributes	High Growth Potential	High Growth Potential	Growth prospects vary widely	May be overleveraged or have operating problems	Underperforming / High levels of free cash flow	Various reasons for seeking financing
Reason(s) for Seeking Private Equity	To Start Operations	Plant expansion and operations / Cash-out early-stage investors	To finance a required change in ownership or capital structure / Expansion	Turnaround play	To finance a change in management or in management incentives	To ensure confidentiality / Small issue size / Convenience / Expediency / Access
Major source(s) of Private Equity	"Angels" / Early-stage venture partnerships	Later-stage venture partnerships	Later-stage venture partnerships / Non-venture Partnerships	"Turnaround" partnerships	LBO and mezzanine debt partnerships	Non-venture partnerships
Extent of Access to Other Financial Markets	For more mature firms with collateral, limited access to bank loans	Access to bank loans to finance working capital	Access to bank loans / More mature firms with stable cash flows have access to private placement debt	Very limited access	Generally, access to all public and private markets	Generally, access to all public and private markets

Intermediaries



Predominantly represented by limited partnerships, intermediaries manage an estimated 80 percent of private equity investments. Under the partnership arrangement, investors are the limited partners and professional private equity managers serve as the general partners. In most cases, the general partners are associated with a partnership management firm such as the venture capital partnership of Kleiner, Perkins, Caulfield, and Byers or the buyout firm The Blackstone Group. Some management firms are affiliates of a financial institution such as an insurance company, a bank holding company, or an investment bank. However, affiliated firms are generally structured and managed no differently than independent partnership management firms.

Limited partnerships generally have a ten year life, during which investors forgo virtually all control over the management of the partnership. Although this arrangement has the potential to create conflicts between investors and the general partners, two important characteristics of the partnership reduce these conflicts. If partnership managements intend to raise new partnerships in the future, they must establish favorable track records in order to preserve their reputation and attract additional pools of capital. In addition, and of equal significance, general partners receive a significant share of their compensation based upon the fund's profits.

According to statistics gathered by the National Venture Capital Association (NVCA), in 1980, there were only 87 venture capital partnerships and 124 distinct funds with $3.1 billion in capital under management. By the end of 2001, the number of venture capital firms had risen to 761 (1,627 distinct funds) with $299 billion in capital under management. The data table and graph below illustrates the rapid acceleration of both the number of private equity funds and the amount of investor committed capital.

Figure 3

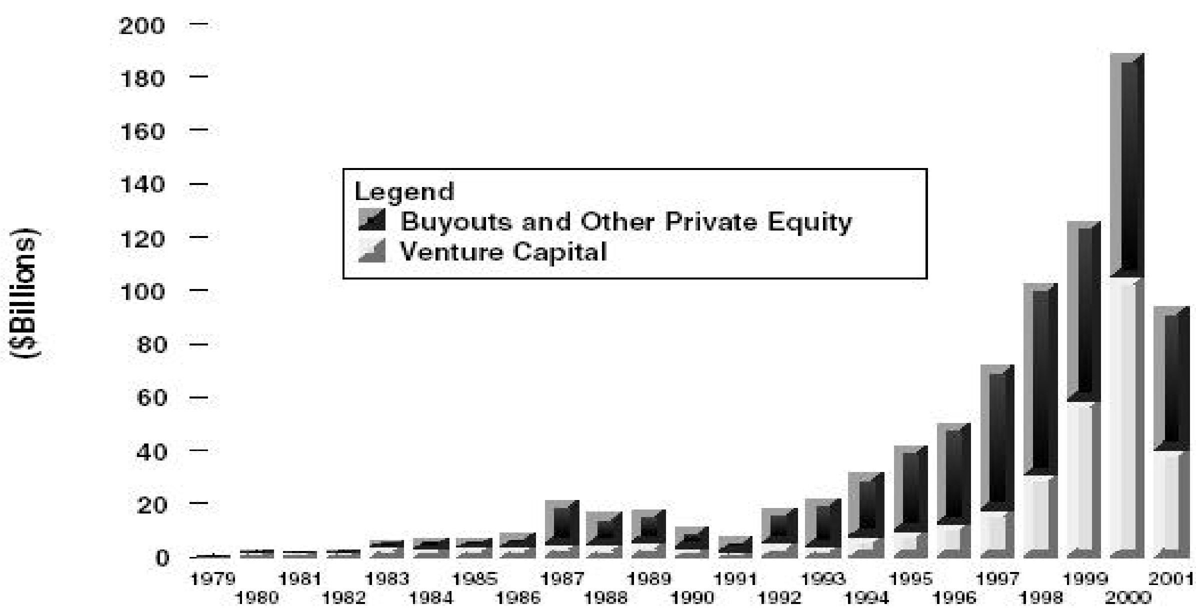
Capital Commitments To Private Equity Funds – 1979 to 2001 ($ Millions)

Year	Venture Capital $Mill	No. Funds	Buyouts and Mezzanine Capital $Mill	No. Funds	Other Private Equity Capital $Mill	No. Funds	Private Equity Capital $Mill	No. Funds
1979	558.9	18	50.0	1	33.3	1	642.2	20
1980	2,094.7	56	183.2	4	0.0	0	2,277.9	60
1981	1,569.6	76	290.8	6	0.0	0	1,860.4	82
1982	1,999.4	85	611.3	13	236.5	2	2,847.2	100
1983	4,230.4	141	1,374.6	18	318.3	3	5,923.3	162
1984	3,152.0	120	3,482.5	22	202.3	3	6,836.8	145
1985	3,693.5	119	3,148.6	25	283.5	4	7,125.6	148
1986	3,694.9	105	4,975.4	33	225.4	3	8,895.7	141
1987	4,755.1	120	16,304.8	48	472.4	5	21,532.3	173
1988	4,416.5	104	11,978.0	54	678.9	9	17,073.4	167
1989	5,440.7	110	11,978.8	84	262.3	6	17,681.8	200
1990	3,252.8	87	7,974.9	65	918.9	7	12,146.6	159
1991	1,869.6	41	5,449.9	32	453.6	5	7,773.1	78
1992	5,108.7	78	12,893.5	65	671.0	8	18,673.2	151
1993	3,777.1	93	17,817.7	83	1,079.4	8	22,674.2	184
1994	7,805.1	137	23,804.1	112	2,150.0	10	33,759.2	259
1995	9,928.8	156	31,701.2	118	1,966.5	18	43,596.5	292
1996	12,420.9	166	37,473.5	123	6,265.7	23	56,160.1	312
1997	17,599.3	233	54,210.4	151	4,433.9	23	76,243.6	407
1998	30,741.3	281	71,831.2	177	11,250.3	43	113,822.8	501
1999	58,811.5	421	66,757.5	166	15,719.3	63	141,288.3	650
2000	104,878.7	614	83,753.6	162	22,849.7	75	211,482.0	851
2001	40,265.4	299	53,377.1	120	17,197.9	72	110,840.4	491

Source: NVCA 2002 Yearbook

Figure 4

Capital Commitments To Private Equity Funds – 1979 to 2001 ($ Millions)



Source: NVCA 2002 Yearbook

Investors

Investors are composed of a variety of groups. Public and corporate pension funds have become the largest investor group, together holding roughly 40 percent of capital outstanding and currently supplying over 50 percent of all new funds raised by partnerships.[2] Endowments and foundations, bank holding companies, and wealthy families and individuals follow, each holding approximately 10 percent of total private equity. Insurance companies, investment banks, non-financial corporations, and foreign investors make up the remaining investor groups.

Most investors devote a portion of their investments to private equity for strictly financial reasons. Specifically, they expect the risk-adjusted returns on private equity to be higher than the risk-adjusted returns on other investments. An equally crucial element of this asset class is the complementary potential it brings to a well-diversified portfolio. Historically, private equity has exhibited low levels of correlation to traditional asset classes.

Figure 5

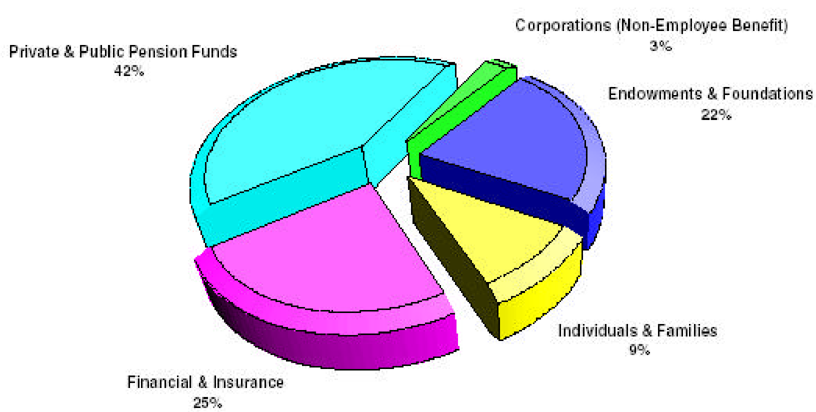
Private Equity Capital Commitments By Limited Partner Type – 2000 to 2001 ($ Billions)

Limited Partner Type	Buyouts and Other Private Equity 2000	Buyouts and Other Private Equity 2001	Total Private Equity 2000	Total Private Equity 2001
Corporations	1,918.9	776.3	6,555.9	1,995.1
Endowments & Foundations	14,178.2	9,527.6	40,393.1	19,175.4
Individuals & Families	11,833.0	6,775.2	23,686.0	10,529.8
Financial & Insurance	15,031.1	11,080.3	44,199.7	21,613.9
Pension Funds	63,642.2	42,415.6	96,647.3	57,526.2
Total	**106,603.3**	**70,575.0**	**211,482.0**	**110,840.4**

Source: NVCA 2002 Yearbook

Figure 6

Private Equity Capital Commitments By Limited Partner Type – 2001



[2] These figures are our estimates based on information from a number of industry sources.

Development of the Private Equity Industry: A Brief History

Organized and professionally managed investments in private equity can be traced back to 1946 with the formation of the American Research and Development Corporation (ARD), a publicly traded company. The formation of ARD was an outgrowth of an intense concern during the 1930s and 1940s for the lack of new business formation and the scarcity of financing for new ventures. The primary goal of ARD's founders was to establish a private-sector solution to this lack of financing for new enterprises and start-ups. Another major goal was to create an institution that could provide the managerial and business expertise to operate these new businesses. Although eventually profitable, ARD was regarded as only moderately successful, indicated by its difficulty in obtaining investment capital from both institutional and individual investors. For that reason, there was little effort to imitate it. Instead, many private equity investments that followed in the 1950s were funded on an ad hoc, deal-by-deal basis. The short supply of capital persisted throughout this period until Congress took steps to promote venture capital investments by passing a major piece of legislation in the form of the Small Business Investment Act of 1958.

Small Business Investment Companies (SBICs) are private corporations licensed by the Small Business Administration (SBA) to provide professionally managed capital to risky companies. To encourage their formations, SBICs were allowed to supplement their private equity capital with SBA loans and were eligible for certain tax benefits. As a result, these firms were able to raise $464 million of private capital which included 47 publicly owned SBICs that raised $350 million through public offerings.[3] However, the success of this program was not without its defects. First, because SBA loans required regular interest payments, the advantages of leverage promoted investments not in new ventures, but in small businesses that already generated positive cash flows. Second, SBICs attracted mainly individual rather than institutional investors. This resulted in a third shortcoming in that it did not attract investment managers of the highest caliber.

Despite these difficulties, SBICs channeled record amounts of equity financing to small, fast-growing companies and provided a training ground for many venture capitalists whom would go onto form their own private equity partnerships. The hot initial public offerings market in 1968-69 brought to a successful conclusion many of the new venture investments made during the sixties and presented the impetus for the formation of several venture capital limited partnerships.

Several factors converged during the 1970s to slow venture capital investment for nearly a decade. The market for initial public offerings virtually disappeared in the mid-1970s, especially for smaller firms. Around the same time, a recession and weak equity markets held back the investment and acquisition activities of corporations. Consequently,

[3] "SBICs After 25 Years: Pioneers and Builders of Organized Venture Capital," *Venture Capital Journal*, October 1983.

acquisitions as an exit strategy to cash out of private equity investments were shut off. Given the difficult exit conditions, private equity managers became extremely reluctant to finance new ventures. Another important factor slowing venture capital investment, according to industry participants, was a shortage of qualified entrepreneurs to run start-up companies. As a result, relatively few start-ups were financed during the decade.

As public concern focused once again on the shortage of capital available to finance new ventures, members of the venture capital industry recommended changes in Employee Retirement Income Security Act (ERISA) regulations, taxes, and securities laws as a way of revitalizing the industry. Several of the recommendations were implemented during 1978–80 and appear to have been instrumental in fueling the rapid growth in venture capital and private equity that followed.

The most significant change was the decision by the Department of Labor regarding the ‘‘prudent man’’ provision. This ERISA provision required that pension fund investments be based on the judgment of a ‘‘prudent man’’ and had been widely interpreted as prohibiting pension fund investments in securities issued by small or new companies and venture capital funds. The Labor Department ruled that such investments were permitted, provided they did not endanger an entire portfolio. This interpretation, proposed in September of 1978 and adopted nine months later, triggered a response in the market for small-company stocks and the new-issues market. The reinvigorated new-issues market enabled partnerships to exit more of their investments, return funds to investors, and raise new partnerships. It also made investments in new ventures more attractive to partnership managers. More importantly, the Labor Department’s decision long-run impact encouraged investments by pension funds in private equity partnerships.

The progression of the limited partnership structure in combination with the numerous favorable regulatory and tax changes spurred the flow of capital to the private equity market. Commitments to private equity partnerships in 1980 totaled more than $2.3 billion (figure 3), three and one-half times the commitments just a year earlier. Capital commitments continued to surge throughout the decade and reached dizzying heights in the internet-driven 1990s. The languishing public equity markets of the past three-years has significantly decreased both the rates-of-return generated by private equities (limited exit opportunities combined with valuation write-downs) as well as investor capital commitments.

Taxonomy of Private Equity Classes

Private equity is one of the most expensive forms of finance. Thus, firms that pursue private equity capital are most often those unable to raise funds in other markets such as bank loans, private placement debt, or the public equity market. Many of these firms are simply too risky and require a large amount of due diligence on the part of potential investors because little public information is available. These firms may also need additional guidance and expertise in developing their businesses.

Venture Capital

Firms seeking venture capital are generally classified by their developmental stage. Typical distinctions are made between "early-stage" and "later-stage" venture capital. Early-stage new ventures are firms that have substantial risk of failure because the technology behind their production method or the logic behind their marketing approach has yet to be proved. Later-stage new ventures have a more proven technology or market for their product or service – their risk comes less from their business concepts than from the numerous uncertainties that affect expanding small businesses. Their common objective, however, is identical: to grow fast enough to ultimately go public or be acquired by another company.

Early-Stage Venture Capital

Early-stage firms vary in size, age, and reasons for seeking external capital. A typical example is the entrepreneur who needs financing to conduct research and development in order to determine if the new concept, be it technology or marketing approach, is viable enough for full fledged development. Financing is generally needed to construct a prototype, conduct a market survey, compose a formal business plan, or recruit more experienced management.

By nature, early-stage venture investments are small and illiquid. Typical investments during this phase might range from $500,000 to fund development of a prototype, for example, to $2 million to finance the start-up of an operating company. Due to the unproven standing and high probability of failure, required rates-of-return for early-stage venture investments are typically in excess of 30% to 40%. Investors in early-stage ventures should recognize the long-standing capital commitment and illiquid nature involved in these investments.

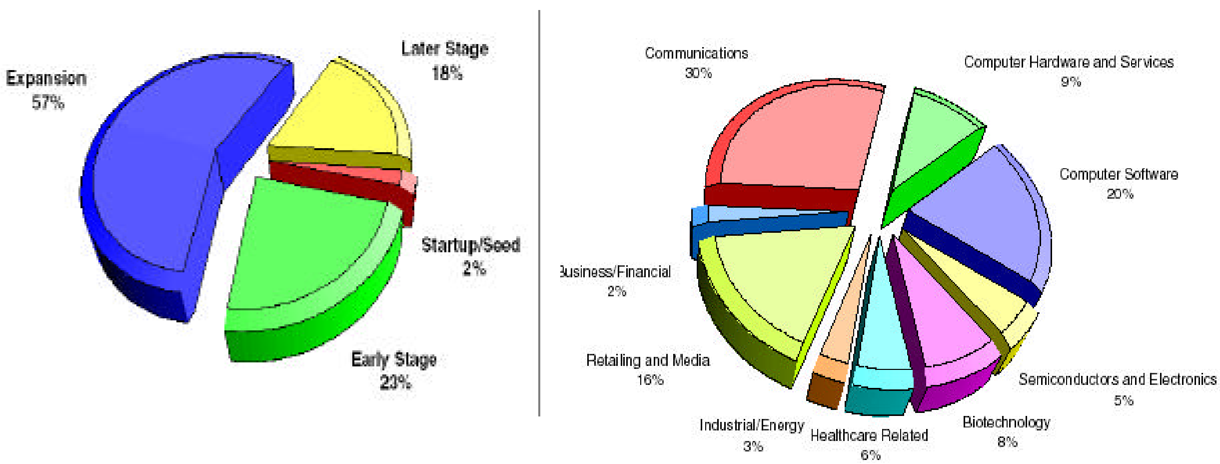
Later-Stage Venture Capital

Firms needing later-stage funding have less uncertainty associated with their business concepts – there is a proven technology and market for their product. They are typically growing fast and generating profits. Such firms need additional capital to add production and distribution capacity in order to sustain their rapid growth. The need for liquidity before an IPO or sale to another company will sometimes prompt the firm's original investors (management or venture capital limited partnerships) to seek later-stage private equity financing to support a limited cash-out or a restructuring of positions among its original investors.

Generally, later-stage investments range from $5 million to $10 million, and are held for a shorter term because the company is closer to being sold in the public markets or to another firm. In addition, because the risks are lower and liquidity higher, compared to early-stage venture capital, the required rates-of-return are lower.

Figure 7

Venture Capital Investments By Stage & Industry Sector – 2001



Source: NVCA 2002 Yearbook

Non-Venture Capital

Middle-Market Private Firms

Middle-market firms differ in a number of ways from firms seeking venture financing. They are generally well established, having been in business for decades rather than months or years. Moreover, they are typically not in high technology oriented sectors, but are most often in older and more basic industries such as retail and manufacturing. In addition, most have stable cash flows and experience much lower growth rates than firms seeking venture financing. Lastly, many have a significant asset base to borrow against and consequently have access to bank loans and sometimes even the private placement bond market.

The reason these companies seek an external source of equity financing are thus drastically different than venture firms. Many are family-owned businesses that have no desire to go public. Such firms generally seek private equity to achieve two important goals: to effect change in ownership or capital structure, or to finance an expansion in the form of an acquisition of another firm or plant and equipment.[4] [5] Although these firms have access to private placement debt, they often cannot meet all their financing needs through that method exclusively.

Just as the typical middle-market firm is larger than firms seeking venture capital, the investments in middle-market firms are also larger, generally between $10 million to $150 million. Required rates-of-return are thus lower than venture capital financing, reflecting the greater stability of cash flows and the slower growth rates of the underlying businesses.

Firms in Financial Distress

Firms – private and public – in financial distress represent another group of issuers in the private equity market. Focused “turnaround” partnerships typically supply private equity funding in hopes of restoring the firm to profitability and then selling it. Included in this type of private equity are public buyouts, commonly referred to as leveraged-buyouts (LBOs). These are probably the most familiar and most publicized form of buyouts. A common strategy employed by these specialized partnerships is to target firms that have already triggered a default provision on their outstanding loans. As mentioned previously, target firms are usually in the manufacturing or distribution sectors and were once profitable.

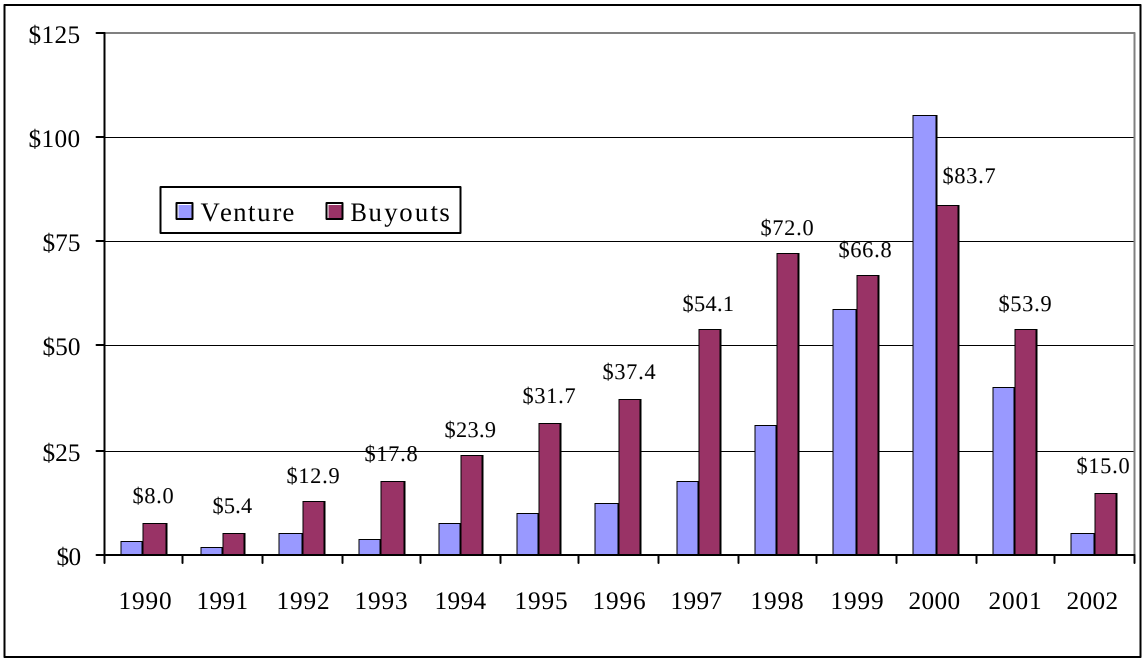
Turnaround partnerships generally receive controlling interest of the firm and seek to improve the financial condition of the distressed firm by renegotiating with existing lenders, finding new markets, and cutting costs. Frequently, a new management team with experience in turnaround situations is brought in to replace existing management. Required rates-of-return vary from 30% to 40%, reflecting the various risks associated with the venture.

[4] All family-owned or closely held private companies eventually face the issue of succession or the liquidity needs of existing owners. This can usually be resolved by selling the company to heirs of the founding family or to a new management team. In either case, funds must be made available to cash out the existing owners.

[5] The widespread move to consolidate a number of basic industries in the U.S. over the past two decades has contributed to increased mergers & acquisition activity.

Figure 8

Total U.S. Private Equity Annual Capital Commitments ($Billions) – 1990 to 2001



Source: Presentation on Private Equity benchmarking by Jesse Reyes, Director, NVCA and Vice President, Venture Economics

Determinants of Returns

The explosive growth of the private equity market since 1980 can be attributed to the anticipation by investors of returns substantially higher than those of traditional markets. Of course, private equity investments are regarded as substantially more risky and more illiquid than other assets. However, data indicates that private equity, as a class, has exceeded returns in the public market over certain time periods. To a certain extent, returns are driven by capital availability: For both venture and non-venture investments, returns have been greatest on investments made during periods when relatively small amounts of capital were available, though other factors can also explain the high returns during these periods. Conversely, there are signs that periods of greater capital availability depress future returns. Indeed, this was the case in the private equity market just three short years ago as investor capital chased the enormous returns generated during the late 1990s. The data also indicate that returns generally have been higher for non-venture and later-stage venture capital partnerships than for early-stage partnerships, a pattern that may partly explain the faster growth of the later-stage and, particularly, non-venture sectors of the private equity market over the last twenty years.

Data Source

The most comprehensive information on returns to venture and non-venture partnerships is available from the commercial firm Venture Economics Investor Services, which provides summary information on returns to limited partners in organized venture capital partnerships formed in 1969–2001 and in organized non-venture partnerships formed in 1980–2001. Returns are measured by the internal rate of return (IRR). IRRs for each partnership are based on capital contributions (negative cash flows), distributions to limited partners (positive cash flows), and a valuation of the assets that remain in the partnership (terminal value). Distributions to limited partners, are net of management fees and other partnership expenses.

It should be noted that returns to partnerships that have not yet been liquidated— a group that includes the majority of partnerships formed since the mid-1980s — reflect the valuation of a residual component comprising investments whose market values are unknown but are often reported at cost. The inclusion of such a valuation presents less of a problem for funds formed in the early 1980s, which have a relatively low residual value component, than for funds formed in the 1990s.

Figure 9

Private Equity Performance Benchmarks – U.S. Limited Partnerships formed between 1969 to 2001
Investment Horizon Returns (Net to Investor) as of December 31, 2001

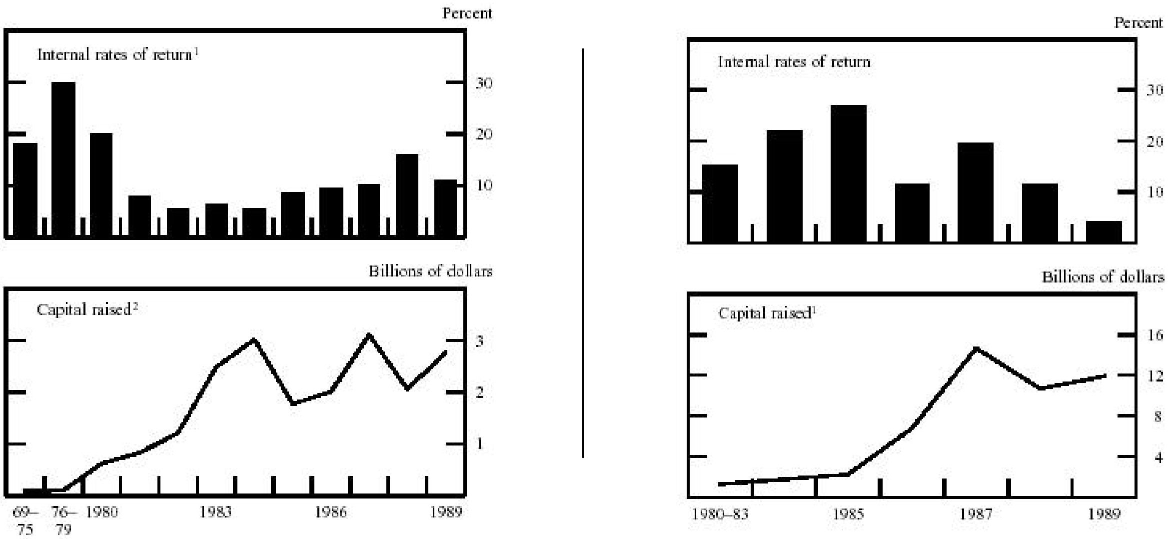
Type	1 YR	3YR	5 YR	10YR	20 YR
Seed Funds	-1.5%	15.5%	14.9%	18.3%	12.3%
Expansion Stage Funds	-35.0%	80.0%	50.7%	33.4%	22.0%
Later Stage Funds	-20.5%	22.0%	20.7%	23.6%	16.6%
All Venture Funds	-27.6%	49.2%	35.9%	26.4%	17.7%
Small Buyout Funds	-11.3%	3.4%	8.0%	15.6%	24.6%
Medium Buyout Funds	-15.0%	6.9%	10.4%	12.4%	17.7%
Large Buyout Funds	-16.8%	1.9%	5.8%	13.5%	15.4%
All Buyout Funds	-14.1%	0.7%	5.1%	10.9%	14.5%
Mezzanine Debt Funds	-3.1%	10.1%	10.9%	12.4%	11.6%
All Private Equity	-18.3%	13.4%	14.9%	17.3%	16.2%

Source: Presentation on Private Equity benchmarking by Jesse Reyes, Director, NVCA and Vice President, Venture Economics

The highest returns to venture capital partnerships were those formed during periods when small amounts of capital were raised (Figure 10). For example, returns to venture capital partnerships formed during the late 1970s, when little capital was raised, were relatively high. Conversely, returns to partnerships formed during the early 1980s, when greater amounts of capital were raised, fell to single digits. The pattern of returns for non-venture partnerships is similar: Non-venture partnerships formed during the early 1980s, years during which little capital was being directed to non-venture partnerships, registered higher IRRs than partnerships formed during the second half of the 1980s, when large amounts of new capital were flowing to partnerships of this type.

Figure 10

Venture Capital Partnerships IRR vs. Capital Raised by year	Non-venture Capital Partnerships IRR vs. Capital Raised by year



Source: Venture Economics, 1994 Investment Benchmarks Venture Capital

The limited availability of capital was not, however, the only factor that contributed to the high returns on venture capital partnerships formed during the 1970s and non-venture partnerships formed during the early 1980s. General partners of venture capital partnerships were very selective in the mid-1970s about their investments in new ventures out of concern that only firms that grew to a certain size could be taken public. The development of new investment strategies — for example, non-venture investments in the form of LBOs in the early 1980s —also temporarily boosted returns.

Concerns that returns to private equity partnerships formed during periods of high capital commitments will fall below investor expectations appear legitimate. For various reasons, greater capital availability could lead to a breakdown in discipline in deal pricing and structuring and, hence, to lower returns. During periods of high commitments, the competition for locating deals intensifies, and deals that are found may also have been found by other partnerships eager to invest. This intense competition makes it more likely that general partners will pay a higher price to reduce the risk of losing the deal, also known as “winner’s curse”. Thus, under conditions of intensified competition for a limited supply of investment opportunities, the incentive to put capital to work may outweigh the incentive to invest solely in fairly priced deals.

In conjunction with the possible incentive to make overpriced investments, general partners may have less information on which to base valuations during periods of intensified competition because deals close more quickly than usual. The quick closure does not allow time for sufficient due diligence and careful deal structuring, which are considered the heart of private equity investing, increasing the likelihood of investing in ventures that yield lower returns. Finally, when commitments to partnerships are ample, less experienced general partners manage larger amounts of capital. These general partners may have both fewer concerns about reputation and less ability, making them especially likely to overpay for deals, and by greater amounts.

Conclusion

The needs of issuers and investors combined with the development of intermediaries fueled the rapid growth of the private equity market. New ventures requiring start-up or expansion capital willingly pair-up with investors seeking to add horsepower to their investment portfolios. Meanwhile, intermediaries in the form of general partnerships fill the information void by dedicating their professional resources and industry expertise to better manage both the investment process as well as the underlying businesses that make-up the private equity portfolio.

Historical rates-of-return, which are adjusted on the basis of business type, size, and stage, indicate a cyclical pattern based upon the availability of capital. Indeed, data shows an inverse relationship between asset class returns (measured by IRRs) and the amount of capital raised during the same period. Greater availability of capital could lead to a breakdown in discipline associated with deal pricing and structuring, which ultimately leads to lower returns. The intensified competitive field during periods of high capital commitments also reduces rates-of-return due to the phenomenon of “winner’s curse”.

Although, the non-public nature of private equity creates complexities in research, analysis, and ultimately, investment, historical rates-of-return offer a compelling reason to perform a deeper examination of this asset class. Beacon Pointe believes in the viability and attractiveness of private equity investments within a well-diversified portfolio.

Please feel free to contact your Beacon Pointe consultant if you have any questions.