Press Release – For Immediate Release

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COVID-19 Set to Shake Up Private Equity Performance

Preqin-FRG model shows that 2018/19 vintage funds will see higher returns as a result of the pandemic, while earlier vintages will suffer

The global COVID-19 health crisis has prompted the most extreme volatility seen on financial markets in a decade. Given private equity's reputation as a strong performer in the aftermath of the 2008 Global Financial Crisis, many investors have been seeking more exposure to the asset class in anticipation of another market downturn.

Research from Preqin and FRG finds that market upheaval will reduce both capital calls and distributions in 2020, providing some leeway to investors facing an incipient short-term liquidity crisis. However, capital calls are set to spike in 2021, as fund managers take advantage of lower prices to acquire attractive opportunities.

Newer Funds Set to Benefit

This is a boon for funds currently finishing their fundraising process and looking to deploy capital. Previous predictions suggested that 2018/19 vintage funds would struggle to make satisfactory returns for investors, as they face record-high asset pricing and fierce competition. But under the new model, these vehicles will be ideally placed to acquire portfolio companies at the bottom of the pricing curve, once markets settle after the current volatility.

Conversely, 2012-17 vintage funds are set to see their returns depressed by the pandemic. Those funds looking to make exits in the next 12-24 months will be facing a lower pricing environment, while vehicles currently operating their portfolios will see disruption to their holdings' industries. The most recent vintages of 2016/17 are likely to be most affected, having bought at the pricing peak and potentially being unable to recoup their investments through exits. Collectively, 2012-17 vintages hold 77% of the unrealized capital invested in private equity, suggesting the effect could be significant.

Investors Must Take the Long View

"Right now, people are primarily concerned with helping to combat the spread and mitigate the impact of the COVID-19 pandemic, as they should be," said Dmitri Sedov, Chief Product & Marketing Officer at Preqin. "But in the coming months investors will have to look at the disruption in financial markets and ask if they are ideally positioned to achieve their investment goals. Many have looked to private equity to help provide returns through good times and bad, and so the need to accurately predict their cash flows in this area is critical."

"Cash flows from private capital portfolios are difficult to accurately model at the best of times, but under certain economic scenarios an inaccurate forecast can adversely affect client portfolios," said John Bell, FRG's CEO. "How can managers optimize the performance of these investments? It's vital that they have the clearest possible picture of future cash flows, and their impact on the overall investment strategy."

Key Findings:

- New research from Preqin and FRG shows that **COVID-19 and its impact will depress both capital calls and distributions in 2020**, as fund managers delay making acquisitions or exits.
- **2012-17 vintage funds will see performance suffer**, due to a challenging exit environment and disruption to portfolio companies. Collectively these funds account for 77% of the unrealized value in private equity.
- 2016/17 vintages are particularly exposed, having made acquisitions when pricing was at a peak.
- **2018/19 vintage funds, however, will see their returns boosted by the pandemic**, as they will be making acquisitions after a pricing correction.
- Vehicles of earlier vintages are less likely to be impacted, as they will have already made some exits and will have distributed the bulk of their capital back to investors.

For more analysis on the impact of COVID-19 on private equity performance, please see our latest blogs:
https://www.preqin.com/insights/blogs/why-covid19-means-investors-should-expect-lower-capital-calls-and-distributions-in-2020/26796
https://www.preqin.com/insights/blogs/how-a-covid19-recession-is-likely-to-affect-buyout-performance/26806

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About Preqin:

Preqin is the Home of Alternatives™, the foremost provider of data, analytics and insights to the alternative assets community. From pioneering rigorous methods of data collection to developing a revolutionary platform, we have committed ourselves to furthering the understanding of alternatives for over 16 years. Through close partnership with our clients, we continuously build innovative tools and mine new intelligence to enable them to make the best decisions every day.

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About FRG:

FRG is an international risk management firm dedicated to helping clients around the world maximize the effectiveness and value of their investments in risk management technology, methodology and processes. The firm was founded in 2002 with the concept of becoming the premier risk management services firm. Originally focused on providing clients with expertise and guidance on risk technology projects, FRG has since expanded to include business advisory services for risk management, data governance alignment strategies, program management and platform services for ongoing support.

Building from their extensive experiences in enterprise risk analytics and technology implementations, FRG has developed product offerings aimed at driving deeper insights and increased value throughout the investment risk management lifecycle. By streamlining data aggregation, analytics and reporting and providing a componentized risk and performance platform, FRG provides its clients with a unique set of capabilities, in a tailored fashion, true to its roots.