



Private Markets: Fundamental Drivers of Return

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Private Market Equity Returns





Private markets



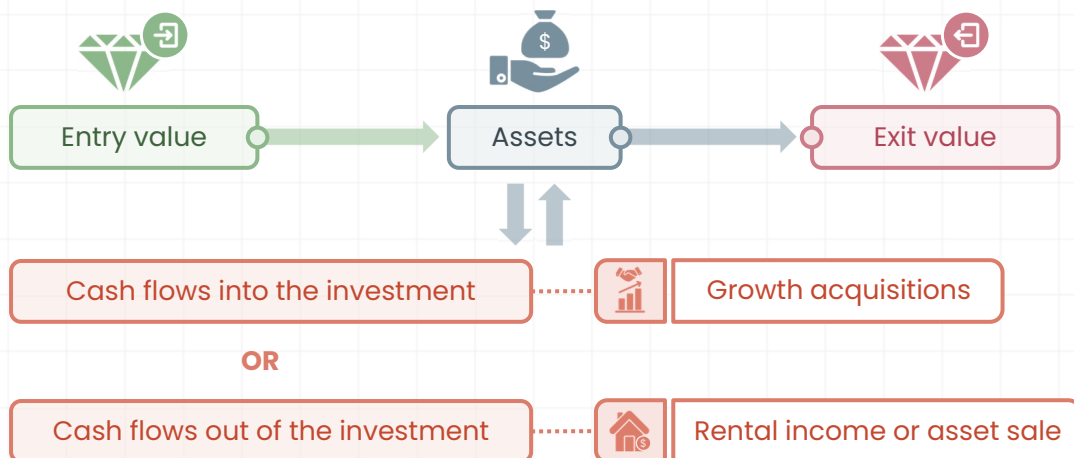
Refers to all assets which **aren't publicly listed**



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Private markets



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Drivers of Returns in Private Markets – Part 1

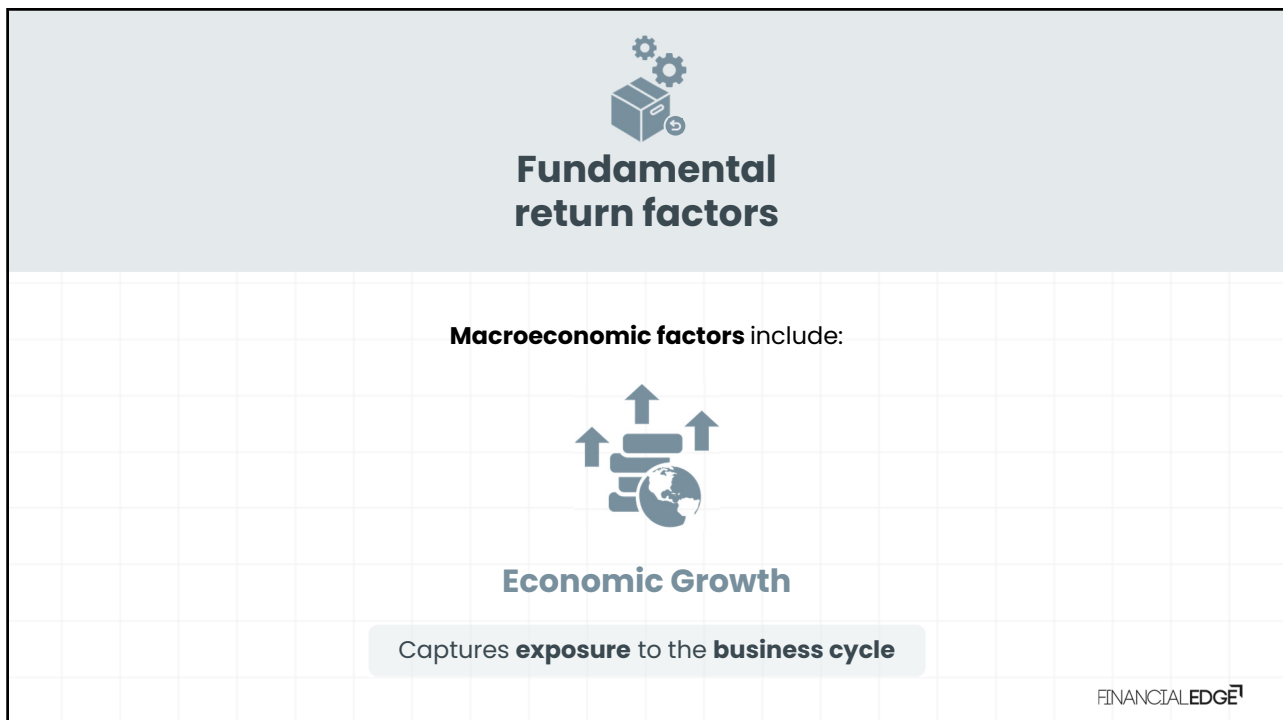
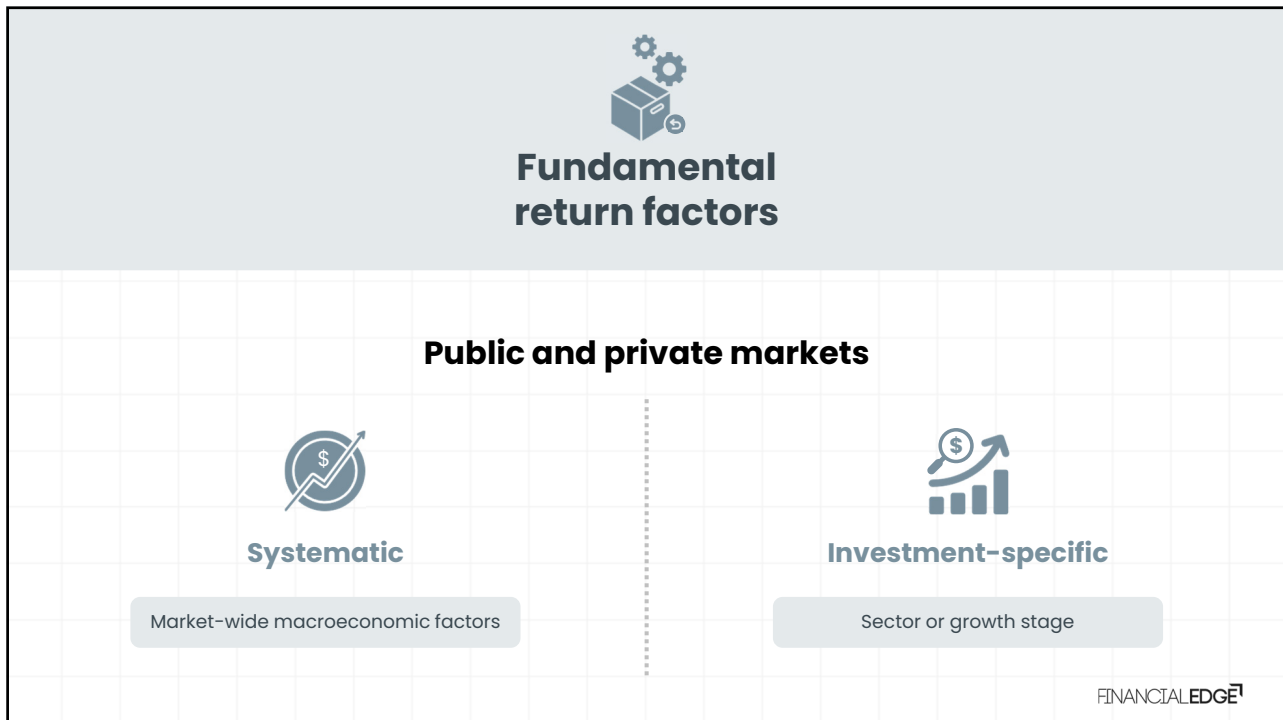
Drivers of returns within **private markets**



**Fundamental
return factors**



**Private market
specific factors**





Fundamental return factors



Global supply

Issues arising from the **2020 pandemic**



Demand factors

Global population growth impacting:

Demand for **energy**

Demand for **real estate**

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Drivers of Returns in Private Markets – Part 2





Fundamental return factors

Macroeconomic factors include:



Real Rates

Risk of **interest-rate movements**

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Fundamental return factors

Macroeconomic factors include:



Inflation

Exposure to changes in **prices or currency devaluation**

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Fundamental return factors

Macroeconomic factors include:



Credit

Default risk from **lending to companies**

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Fundamental return factors

Macroeconomic factors include:



Liquidity

Holding **illiquid assets**

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Return Premiums in Private Markets – Part 1

Availability of Private Companies & Information



Private market specific factors

Additional **risks faced within private markets** in the form of:



Higher returns



Return premiums



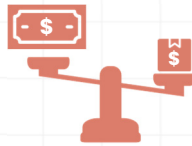
Public market returns



Private market specific factors

The premium between **public and private market returns** exists due to:

Illiquidity



Private market investments are **not traded over any exchange**

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Private market specific factors

The premium between **public and private market returns** exists due to:

Information asymmetry



PUBLIC MARKETS

Significant transparency of information



PRIVATE MARKETS

Much lower informational disclosure requirements



More risk = Higher required return

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Private market specific factors

The premium between **public and private market returns** exists due to:

Information asymmetry

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Private market specific factors

The premium between **public and private market returns** exists due to:

Asset selection



Deliver higher returns driven by **better asset selection decisions**

High levels of **conviction before making an investment**

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Return Premiums in Private Markets – Part 2

Management Quality & Expertise



Private market specific factors

The premium between **public and private market returns** exists due to:

Quality of management



Private markets investors



Day-to-day running of an **asset or investment**



Private market specific factors

The premium between **public and private market returns** exists due to:

Quality of management



Strong management

Drive **improved returns**



Poor management

Returns to be **low/negative**

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Return Premiums in Private Markets – Part 3 Deal Costs & Complexity





Private market specific factors

The premium between **public and private market returns** exists due to:

Transaction costs



Due to the **complexity** and number of **experts involved in completing each deal**

Higher than **public markets**

Transaction costs

Impact returns generated

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Private market specific factors

The premium between **public and private market returns** exists due to:

Deal structuring



Will rely on the **expertise of the investor** with regards to:

Negotiating the terms

Structuring and executing the transaction

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Private market specific factors

The premium between **public and private market returns** exists due to:

Deal structuring



These factors can have a **big impact on returns**:

Better deal pricing

Improved financing rates

Lower transaction costs

Better earnings

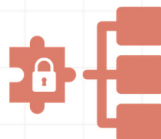
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Private market specific factors

The premium between **public and private market returns** exists due to:

Complexity



Private deals may have **complex deal structure** and completion is **time-consuming**

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Return Premiums in Private Markets – Part 4

“Vintage Effect”



Private market specific factors

The premium between **public and private market returns** exists due to:

“Vintage Effect”

The year in which a fund first makes its investments

Impact on the
fund's returns



Maximum life



Investments
must be sold



Private market specific factors

The premium between **public and private market returns** exists due to:

"Vintage Effect"



Economic conditions



Impact on returns



Financial market conditions

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Private market specific factors

The premium between **public and private market returns** exists due to:

"Vintage Effect"



First year of investment



Economic downturn

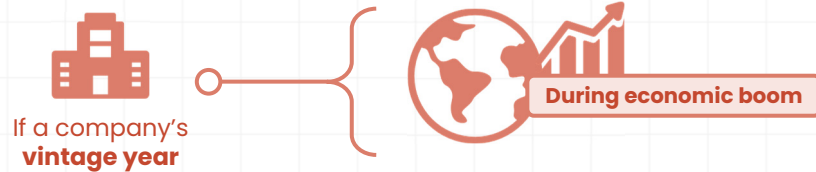
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Private market specific factors

The premium between **public and private market returns** exists due to:

“Vintage Effect”



More momentum in **sales** to support **enhanced growth for the following year**

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Return Premiums in Private Markets – Part 5 Achieving an Exit





Private market specific factors

The premium between **public and private market returns** exists due to:

Timing of exit



Timing of **exiting the investment**



Potentially large impact on **returns**



Market forces at the **time of the exit**

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Private market specific factors

The premium between **public and private market returns** exists due to:

Timing of exit



Strict investment timetable

Internal factors

External factors



Slow sales growth



Economic downturns

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Private market specific factors

The premium between **public and private market returns** exists due to:

Timing of exit



The sale of private market investments will typically have a **longer lead time**

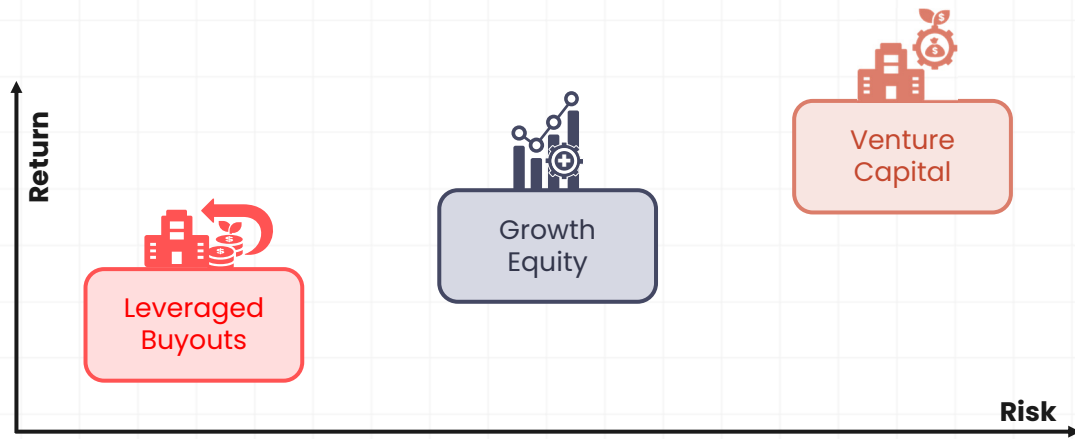
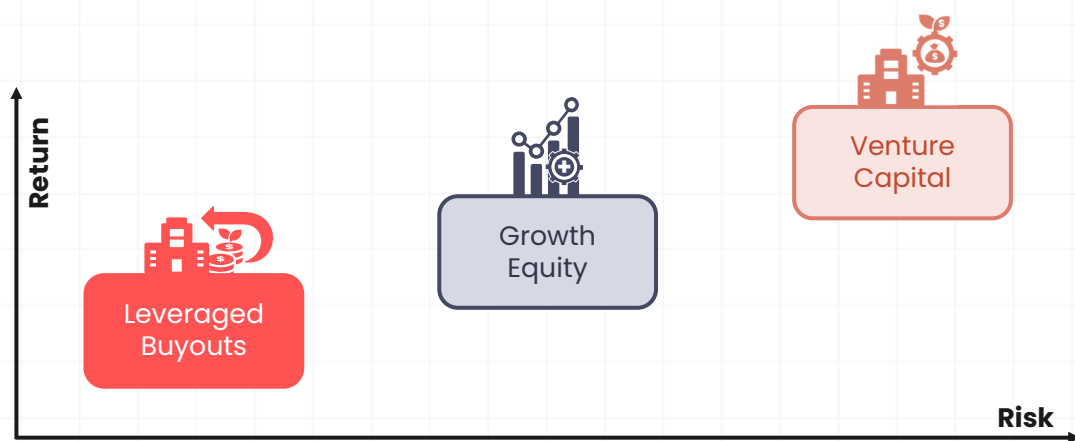
Requires good **foresight into future market conditions**



Expected Return Outcomes in Private Equity



3 Types of Private Equity Investment

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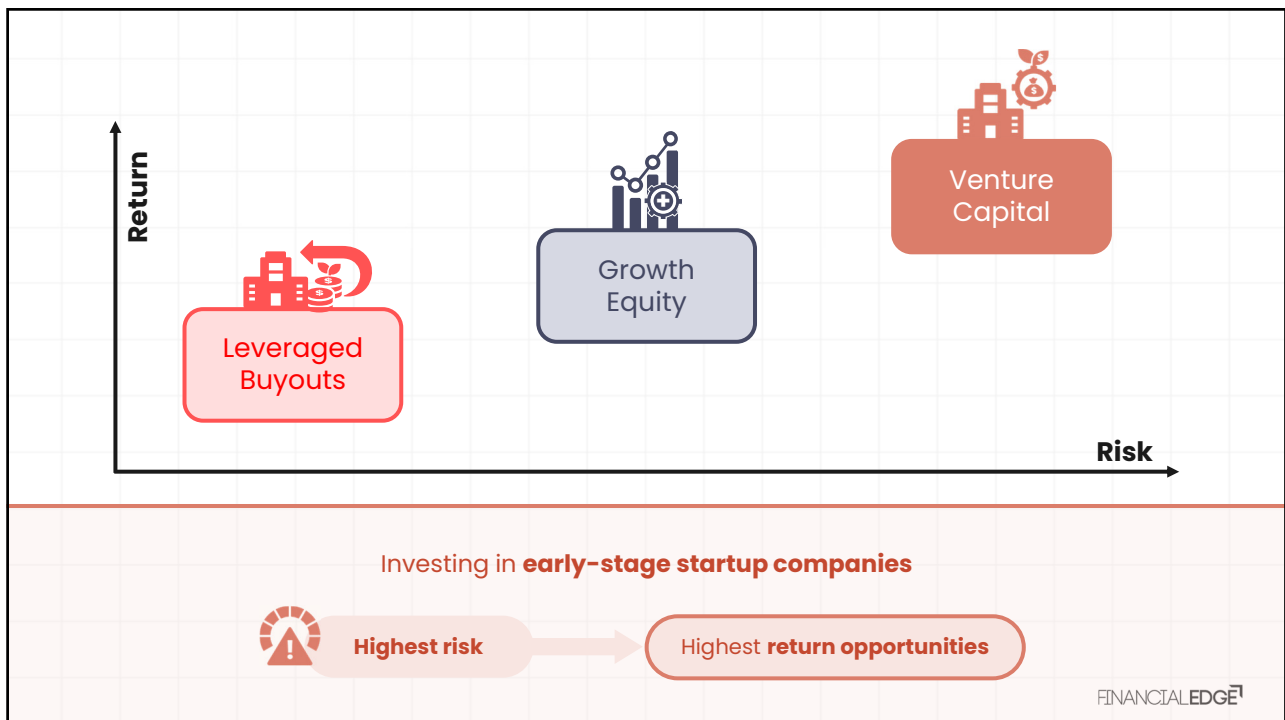
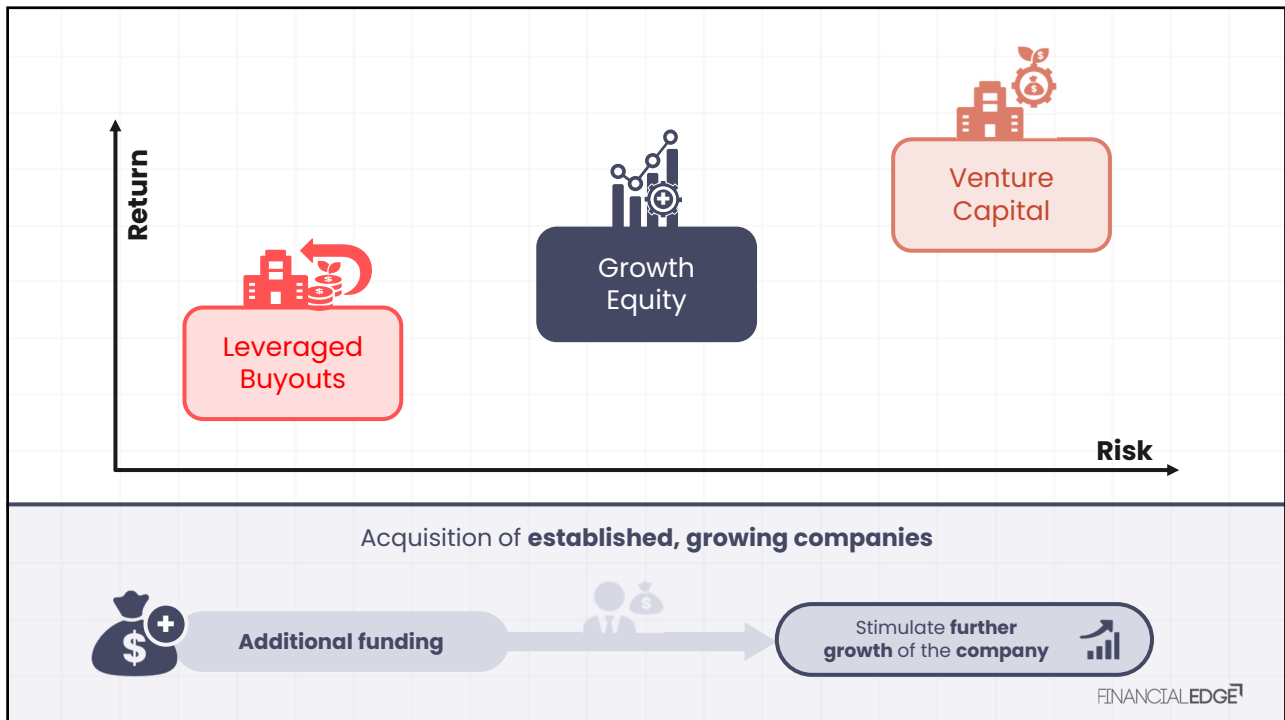
Public company is acquired → Take private and improve operations

Lowest levels of
expected returns

Mature with well-established
revenue streams

Reducing risk for the investor

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Private Equity: Sources of Return



Private equity will look at
different return metrics compared to a pure **VC fund**

VC Investing



Private Equity Investing



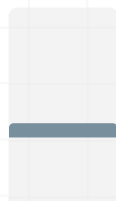
Private equity fund
would **invest** in
established companies

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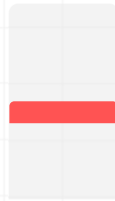
Equity Value Growth



Cash Flow Generation



Revenue
Growth



EBITDA Margin
Improvement

Value of a **venture capital investment** could **increase**

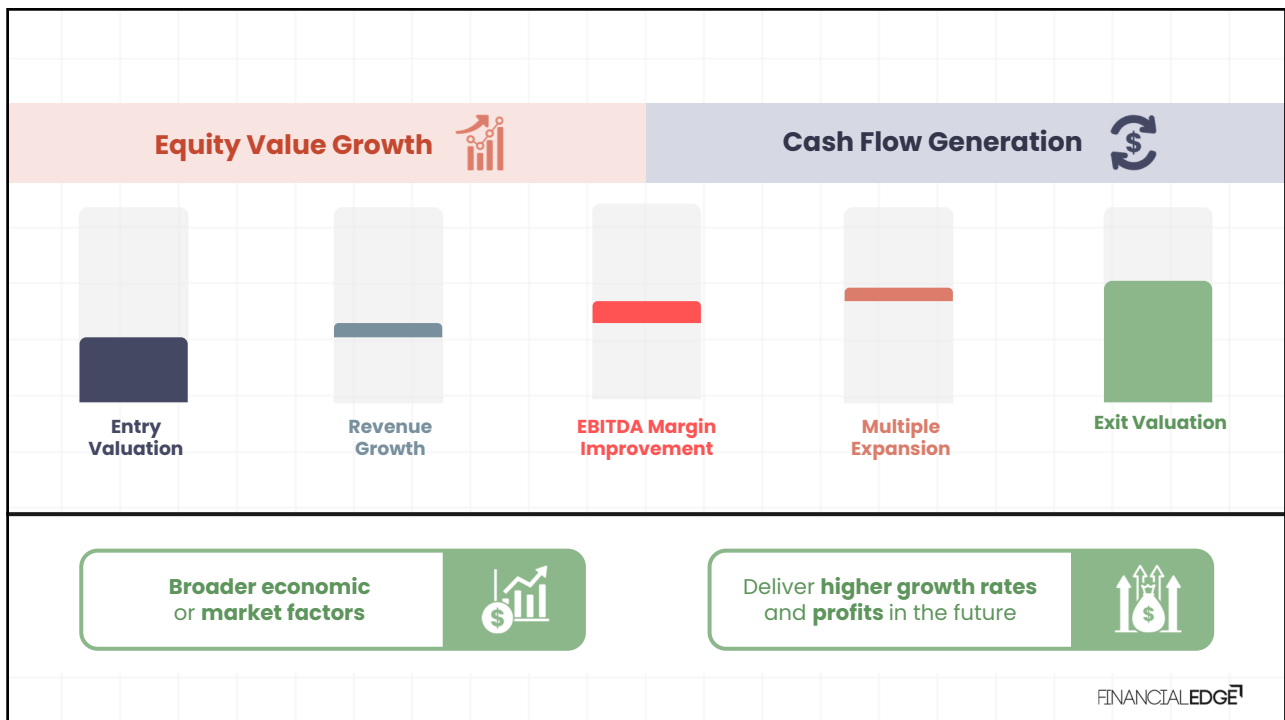
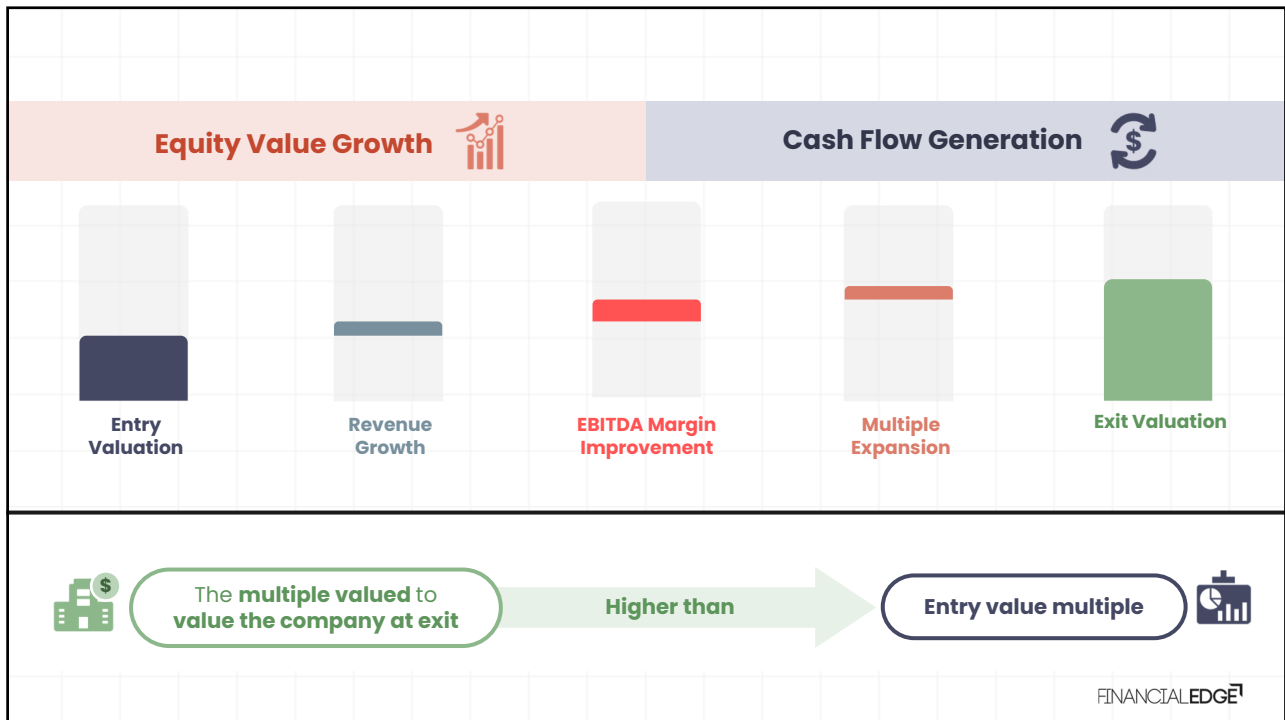


Revenue growth



Improvement of the **company's EBITDA margin**

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Private Equity: Fundamental Return Drivers

Market Growth



**Manager
Experience**



**Incentivizing
Company
Management**

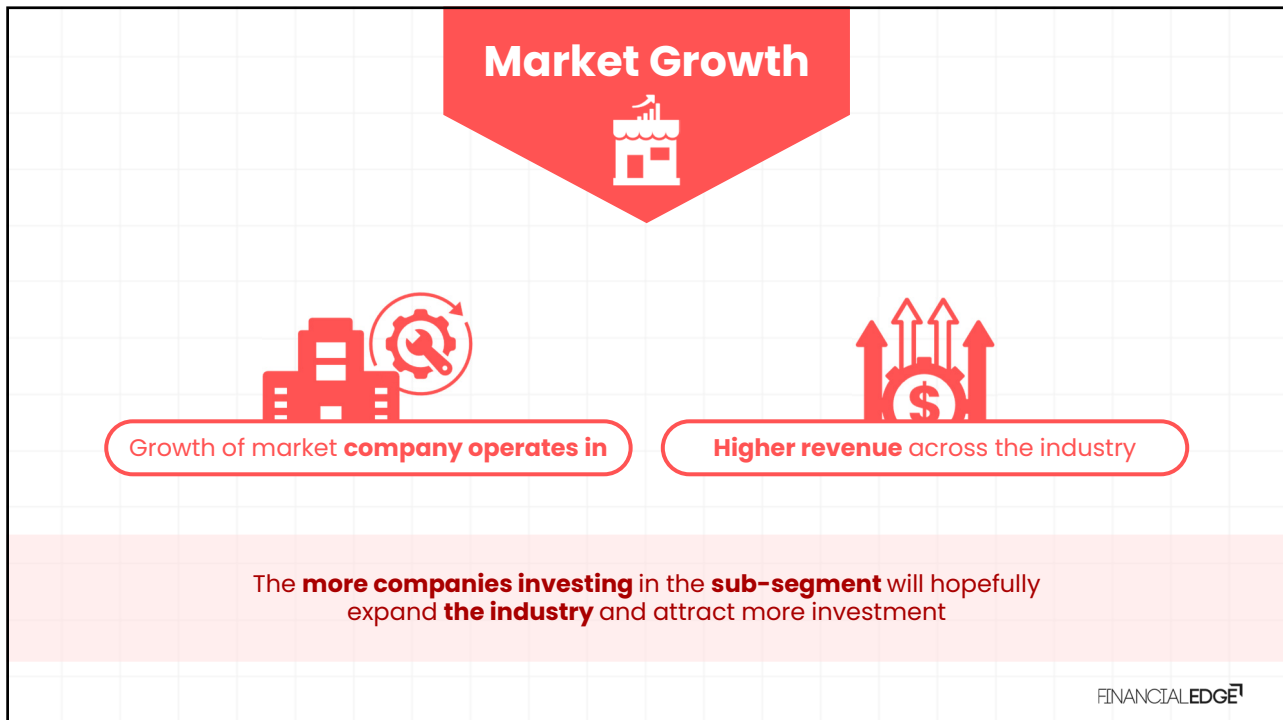


**Improve
Operational
Efficiency**



**Right Valuation
Methodology**





VC funds will have **expertise** in either:

Particular **phase of growth**



Sector specialist

**Improve
Operational
Efficiency**

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Market Growth



**Manager
Experience**



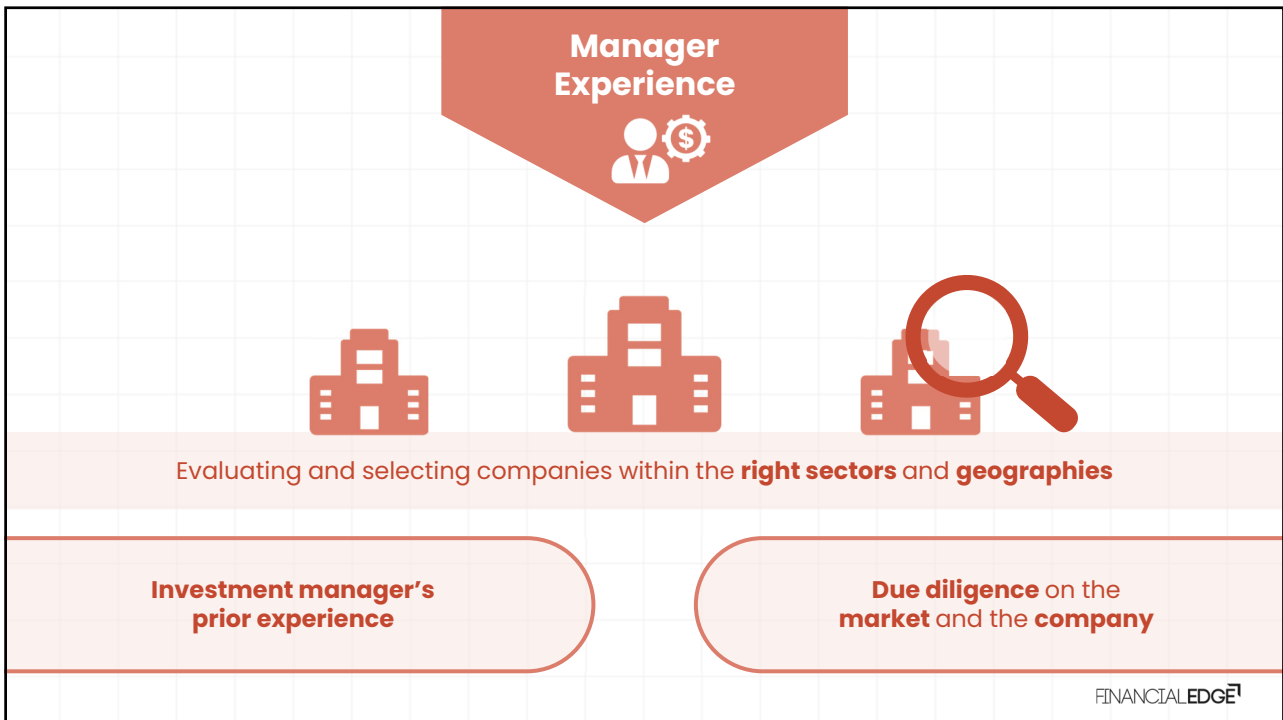
**Incentivizing
Company
Management**

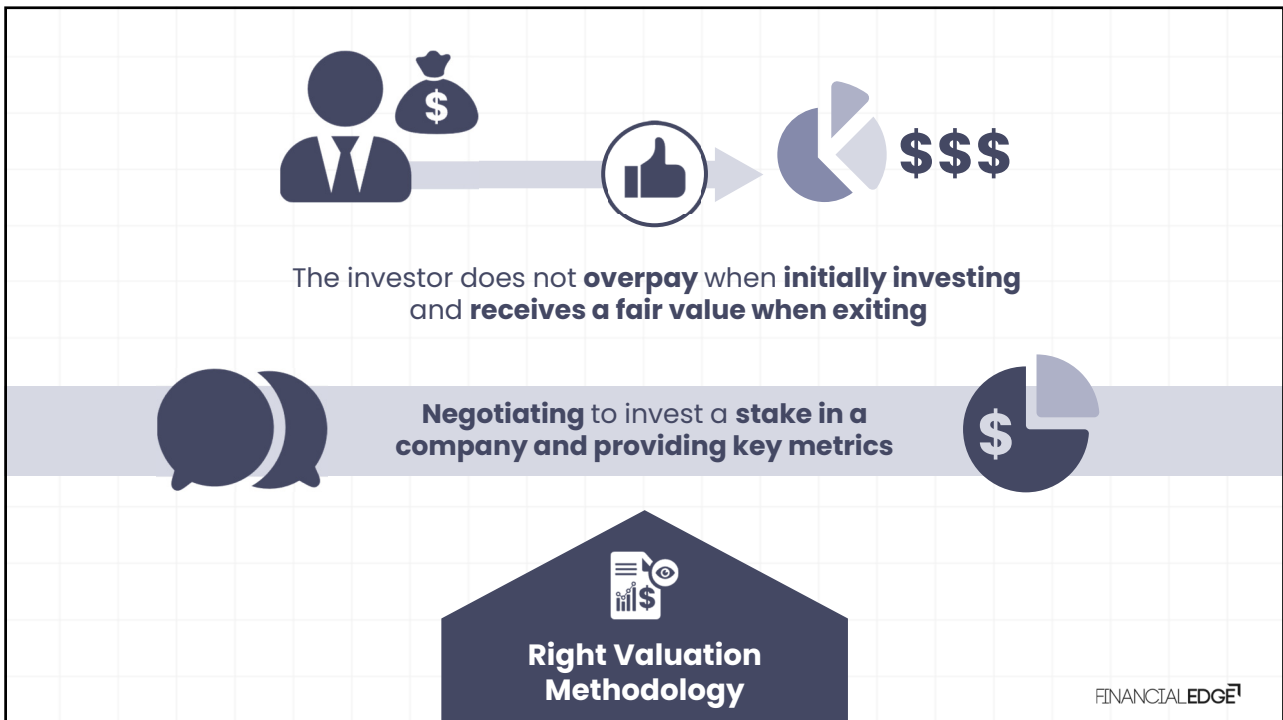


**Improve
Operational
Efficiency**

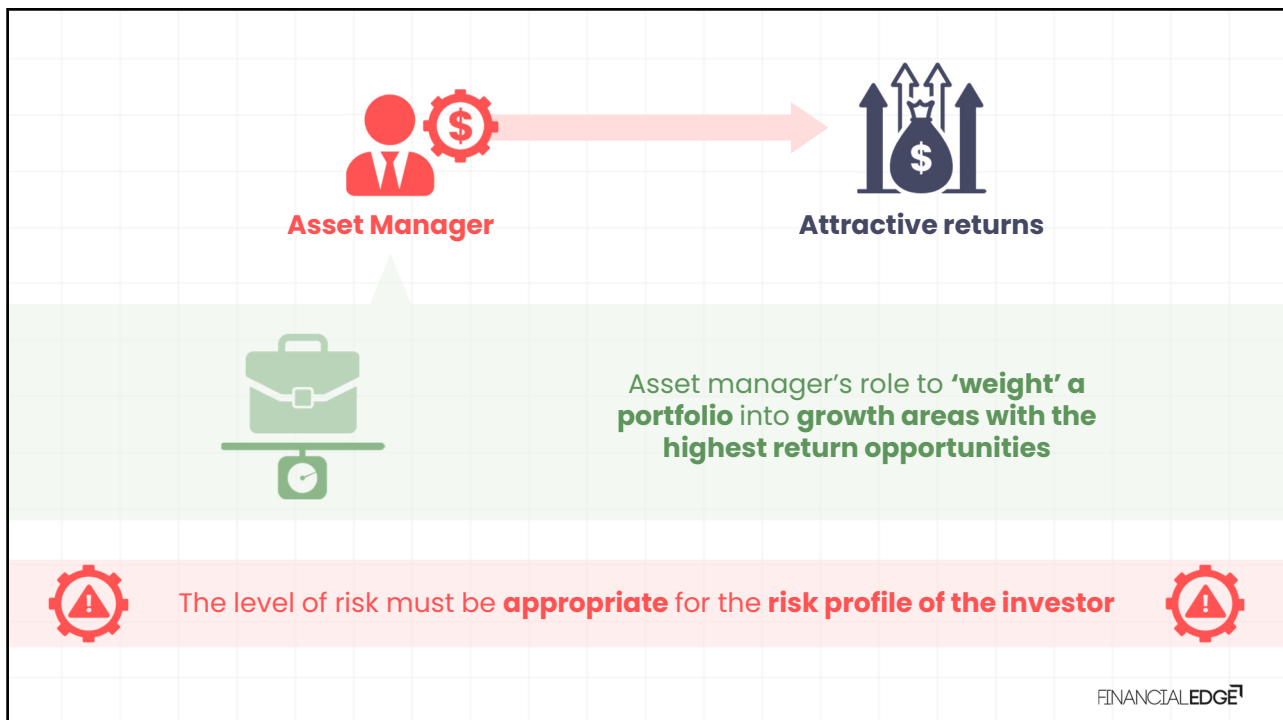
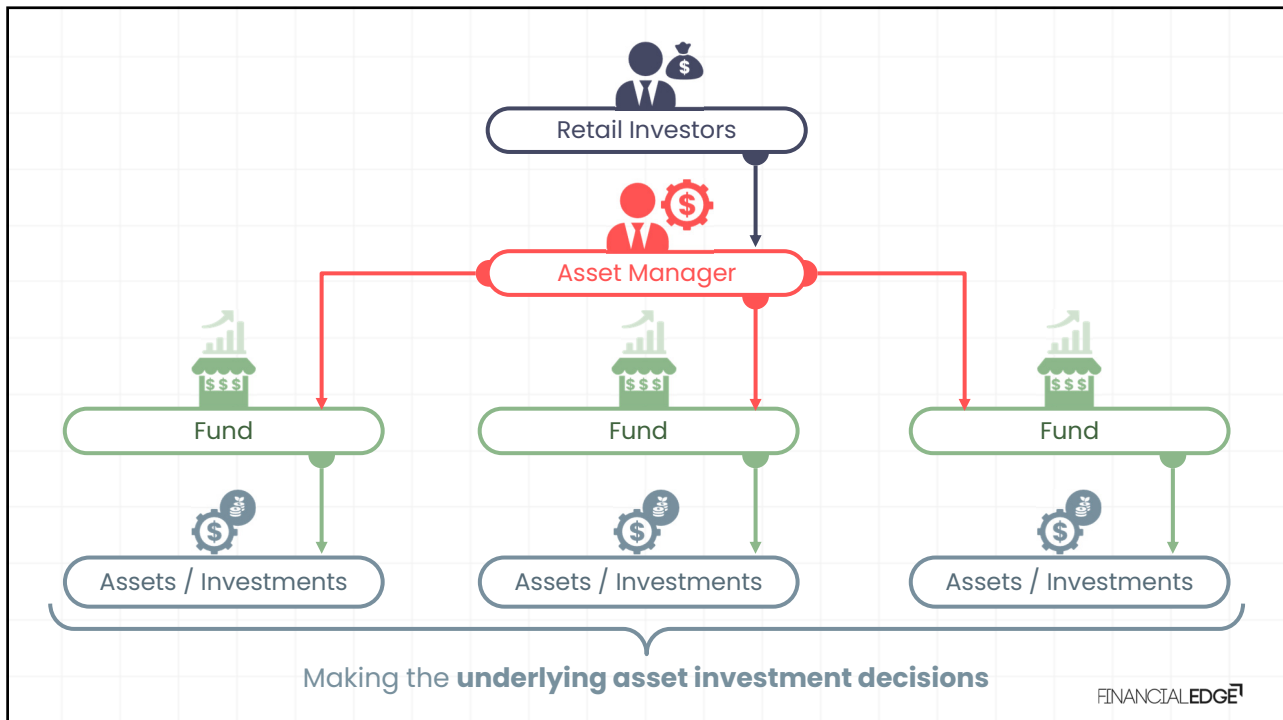
**Right Valuation
Methodology**









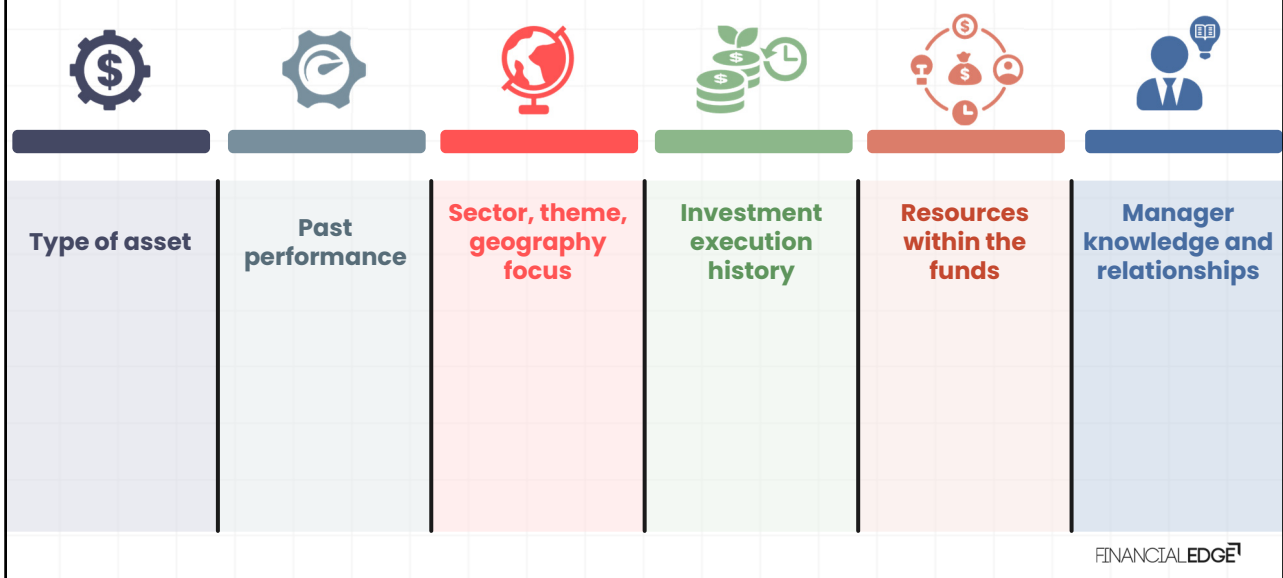


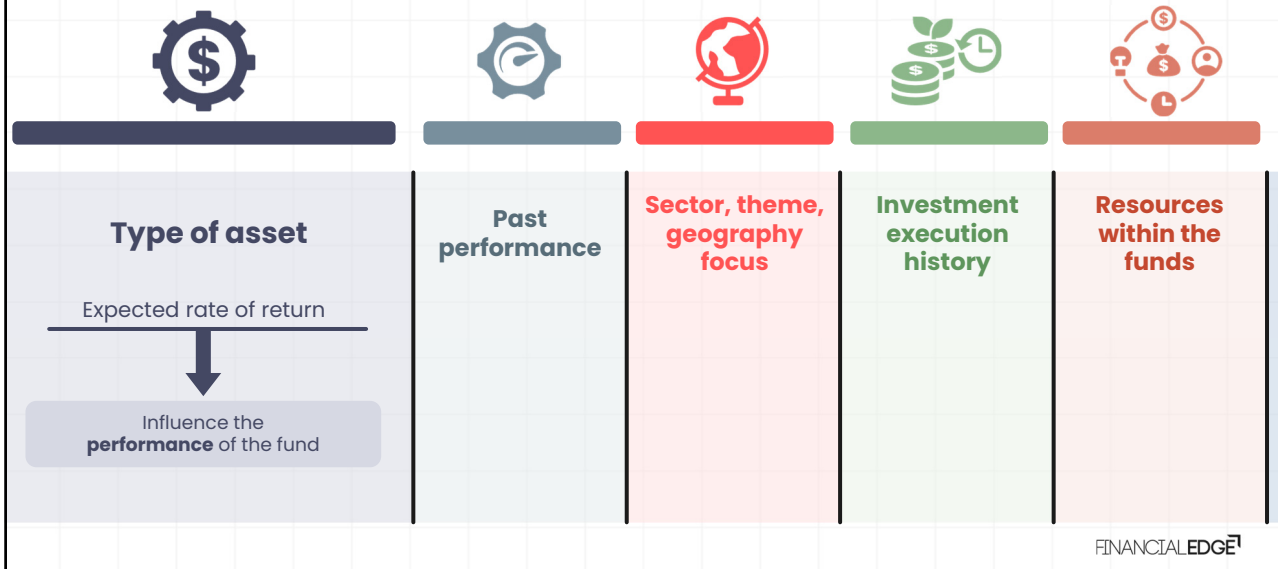
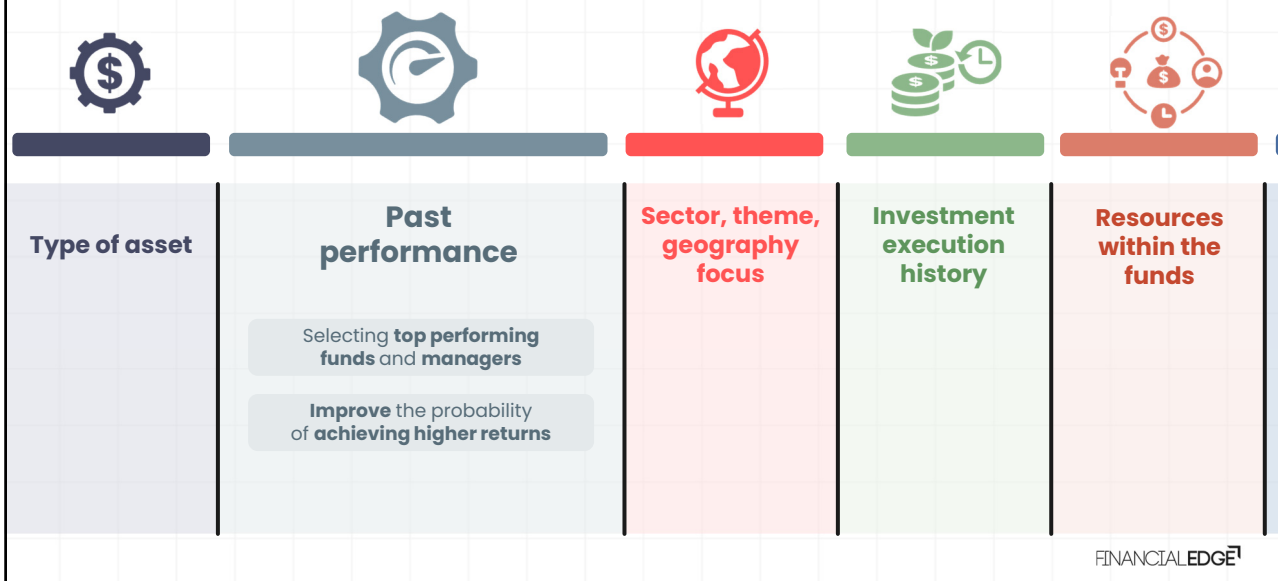


Drivers of Return for Equity Asset Managers – Selection Factors

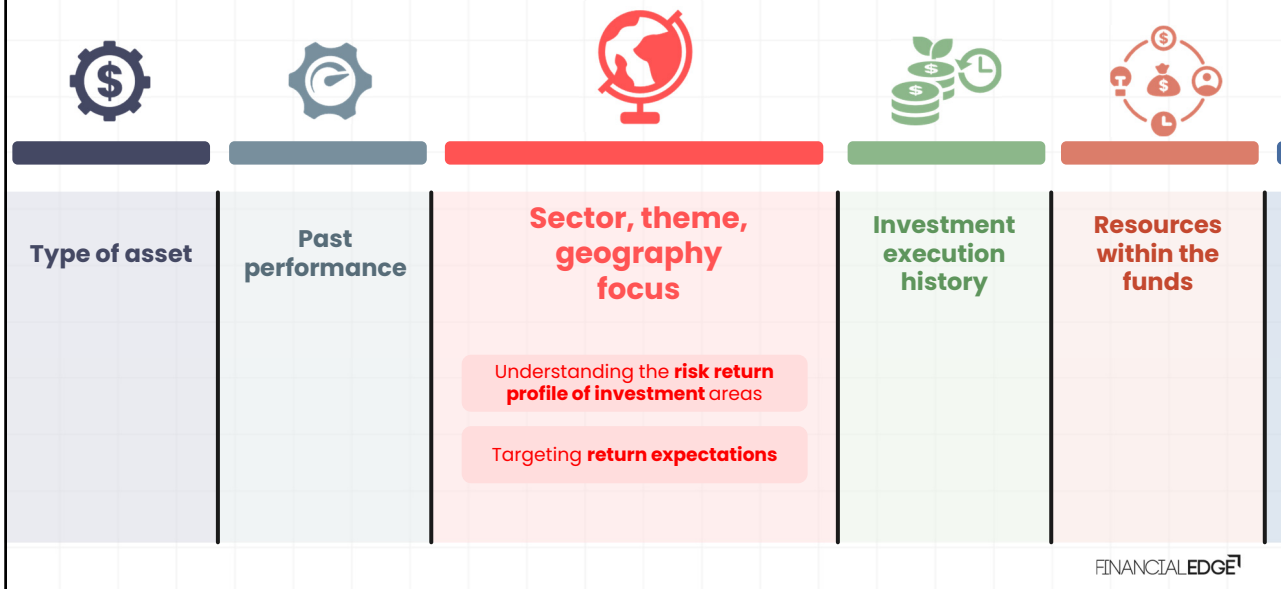


Selection factors of the **underlying fund manager**:

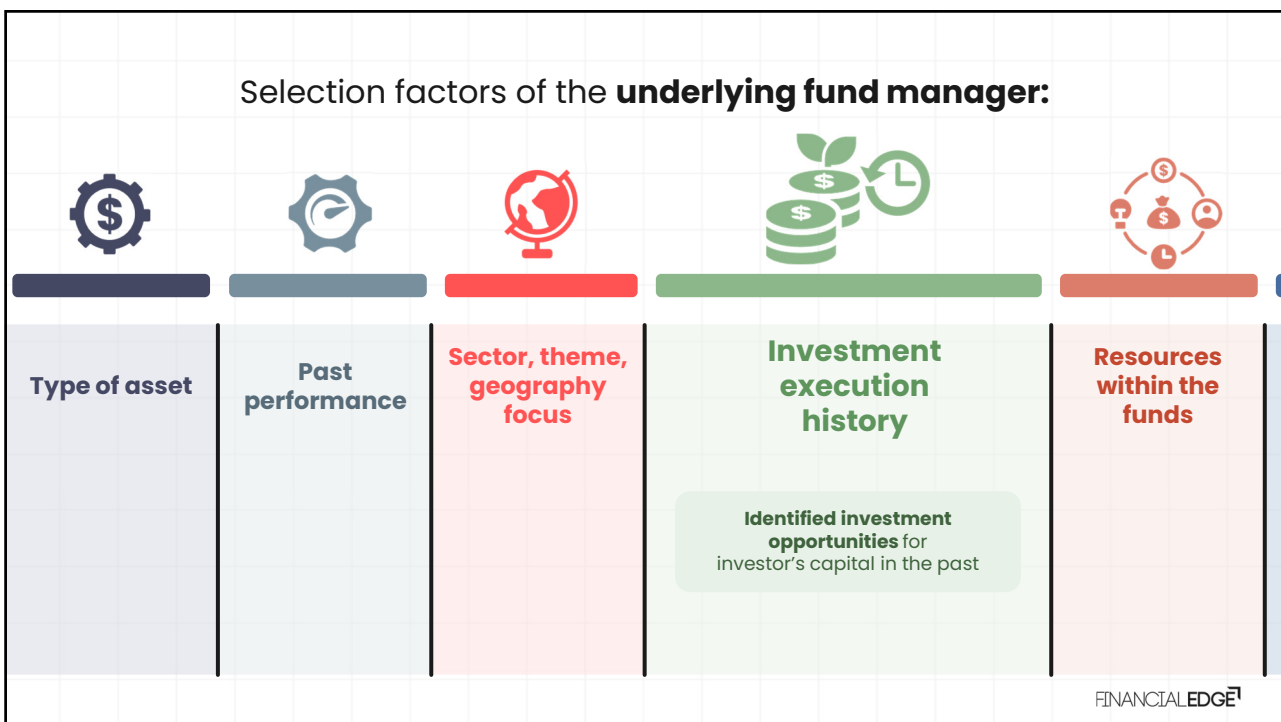


Selection factors of the **underlying fund manager**:Selection factors of the **underlying fund manager**:

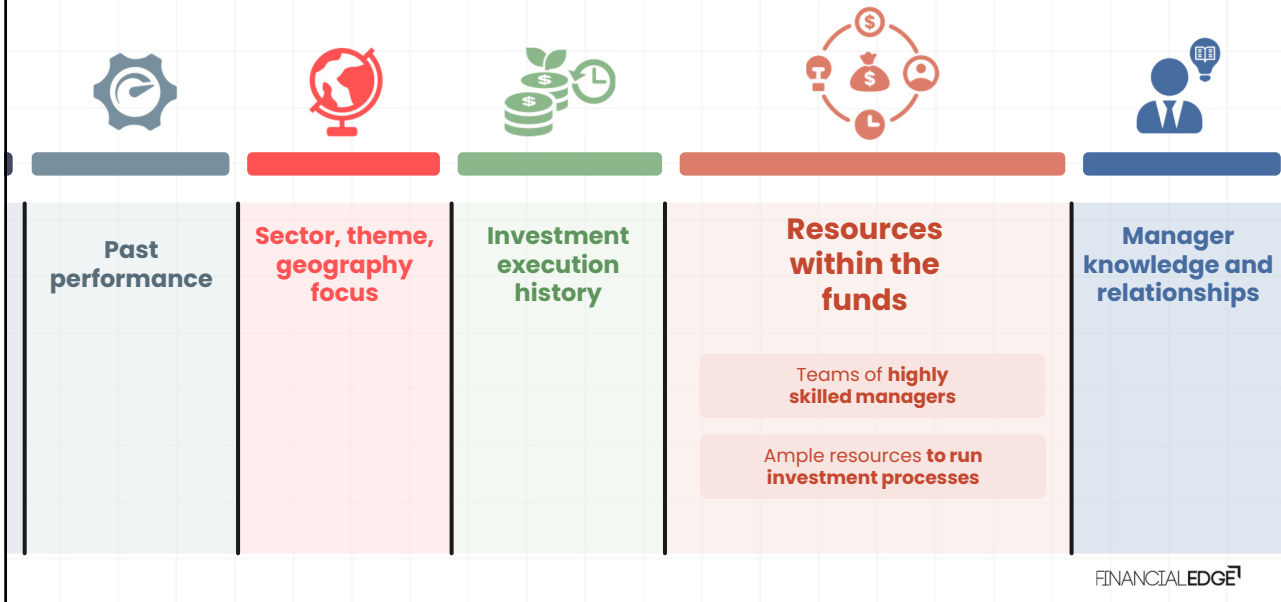
Selection factors of the **underlying fund manager**:



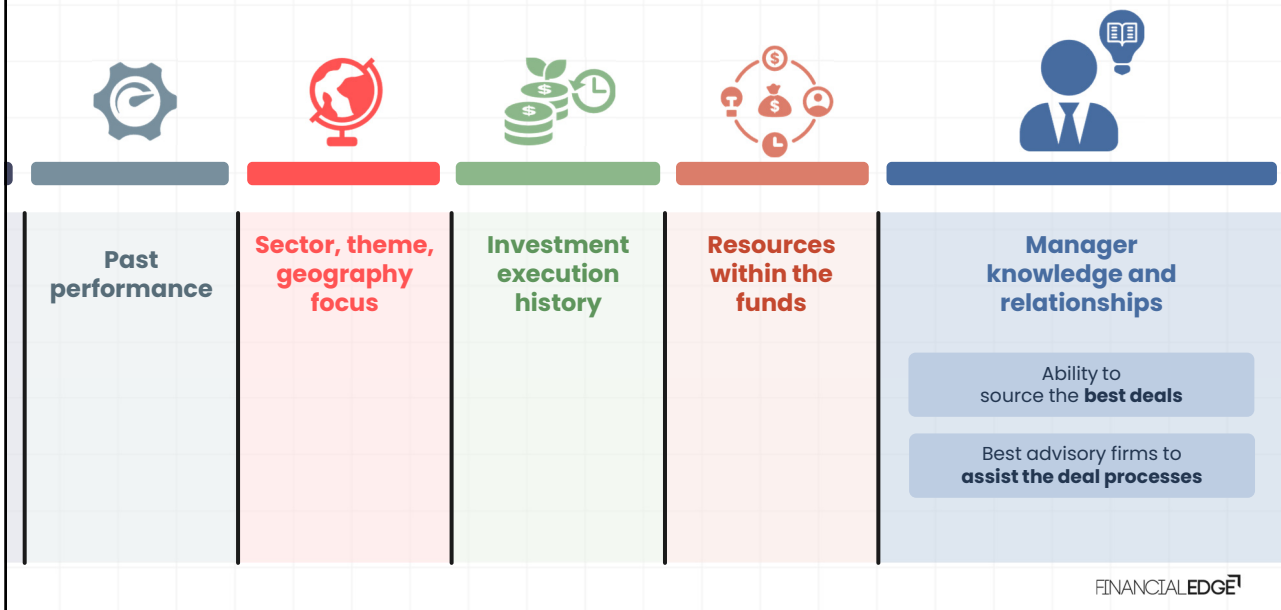
Selection factors of the **underlying fund manager**:



Selection factors of the **underlying fund manager**:



Selection factors of the **underlying fund manager**:



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