eFront Quarterly Report

PRIVATE EQUITY PERFORMANCE OVERVIEW

Returns, risks and liquidity of LBO Funds in Q2 2020

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Introduction

eFront is the leading solution suite 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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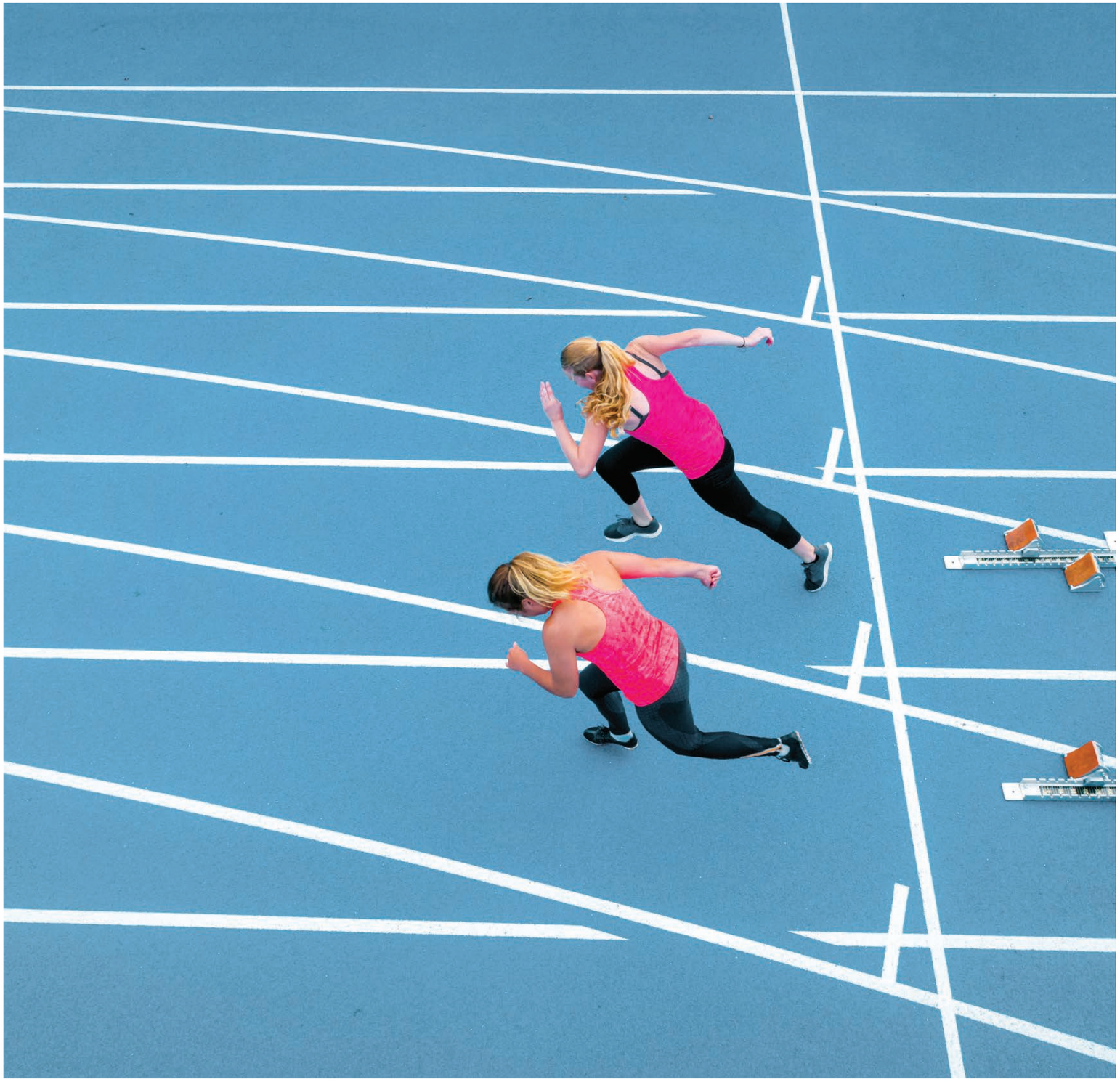
Global Market Performance Overview

The first semester of 2020 recorded a significant drop in active LBO funds' performance, which are now back to 2014 levels. Selection risk has increased and appears to have stabilized. Time-to-liquidity did not drop in Q1 as much as it had been dropping in the first quarter historically. These evolutions could come as a shock, but the contrast with exceptionally favorable conditions. Indeed, performance and risk are back to the ten-year average.

S1 2020 records a correction, but not a crash. So far, indicators have converged towards the ten-year average of active funds.



RETURN ANALYSIS (FIG. 1 AND 2)

First quarters usually register adjustments of TVPI downwards. Q1 2020 follows this trend, but the drop is sharp from 1.45x in Q4 2019 (and 1.447x for the full year 2019) to 1.36x. Moreover, and unusually, the decrease continued in Q2 2020.

These two unusual evolutions materialize the impact of the Covid-19 pandemic on portfolio companies' value and activity. To some extent, managers have included the evolution of listed stock prices in the fair value of investments. However, listed stock prices have subsequently recovered some lost ground. Net asset values have continued to deteriorate, signaling adjustments due to the impact of the virus on portfolio companies' operations.

So far, this is a significant drop, but not a crash. The fall in S1 2020 is impressive by contrast, as multiples of active funds were high for a long time. Indeed, 2020 is only underperforming the ten-year average of 1.36x by 0.002x. Multiples have dialed back to 2014 levels.

FIG. 1 – RETURN EVOLUTION OF ACTIVE LBO FUNDS

Source: eFront Insight, As of Q2, 2020

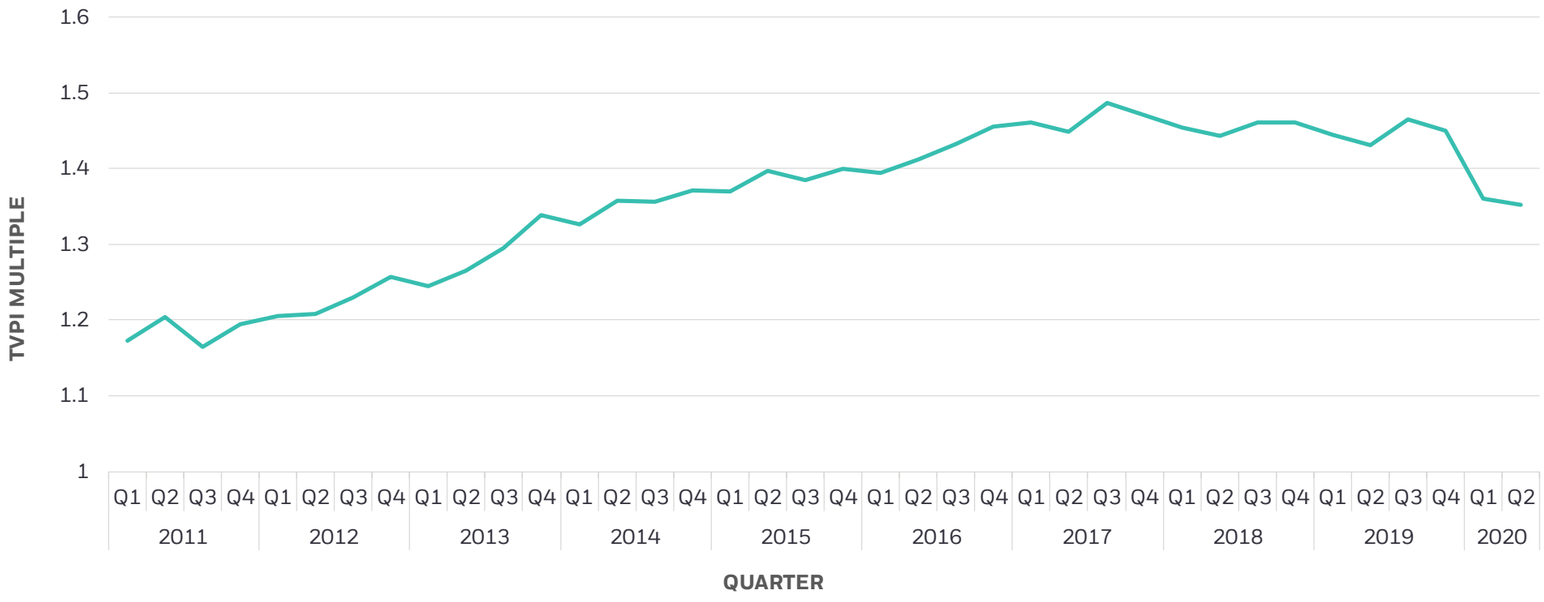
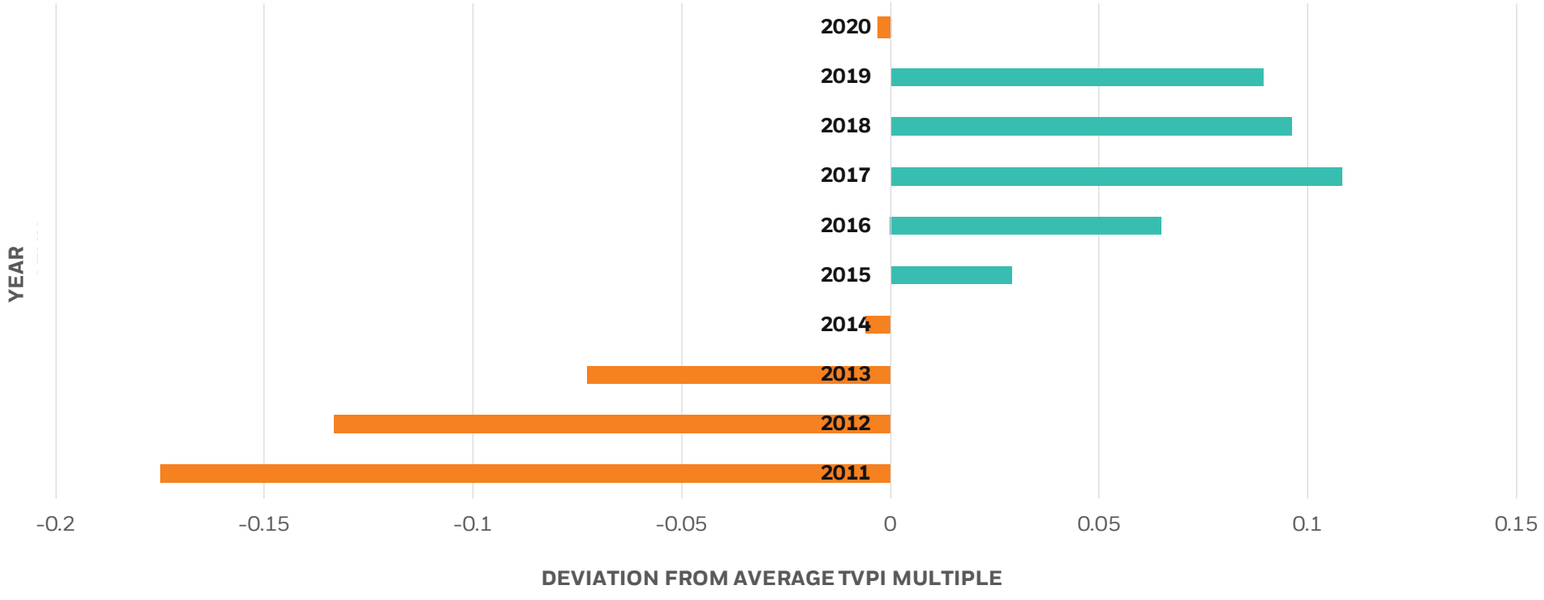


FIG. 2 – RETURN DEVIATION FROM THE AVERAGE OF ACTIVE LBO FUNDS

Source: eFront Insight, as of Q2 2020. Basis 0 = net average of 1.358x



RISK ANALYSIS (FIG. 3 AND 4)

Not surprisingly, fund selection risk has also significantly increased in Q1 2020. Here again, though, the increase is commensurate to the drop in multiples: it is significant, but not exceptional. It also happened at the beginning of previous years. Interestingly, the dispersion of funds has decreased in Q2, signaling that fund managers have converged in their net asset values correction. Some fund managers might have also dialed back adjustments made in Q1.

The consequence is that, so far, 2020 has reverted to the ten-year average. Here again, the contrast comes from the prolonged period of low dispersion of fund managers' performance. As the economic consequences of the current health crisis unfold and hit specific sectors, while sparring others, selection risk could further increase in S2 2020.

FIG. 3 – RISK EVOLUTION OF ACTIVE LBO FUNDS

Source: eFront Insight, As of Q2, 2020

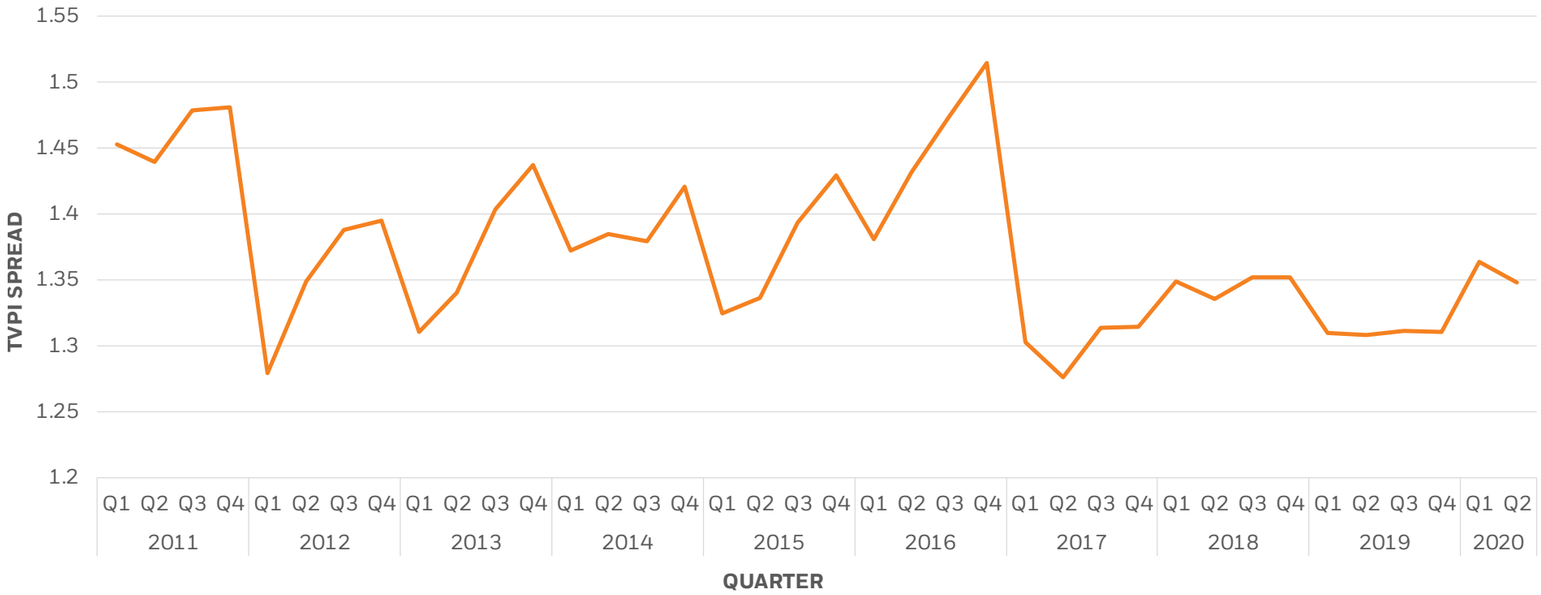
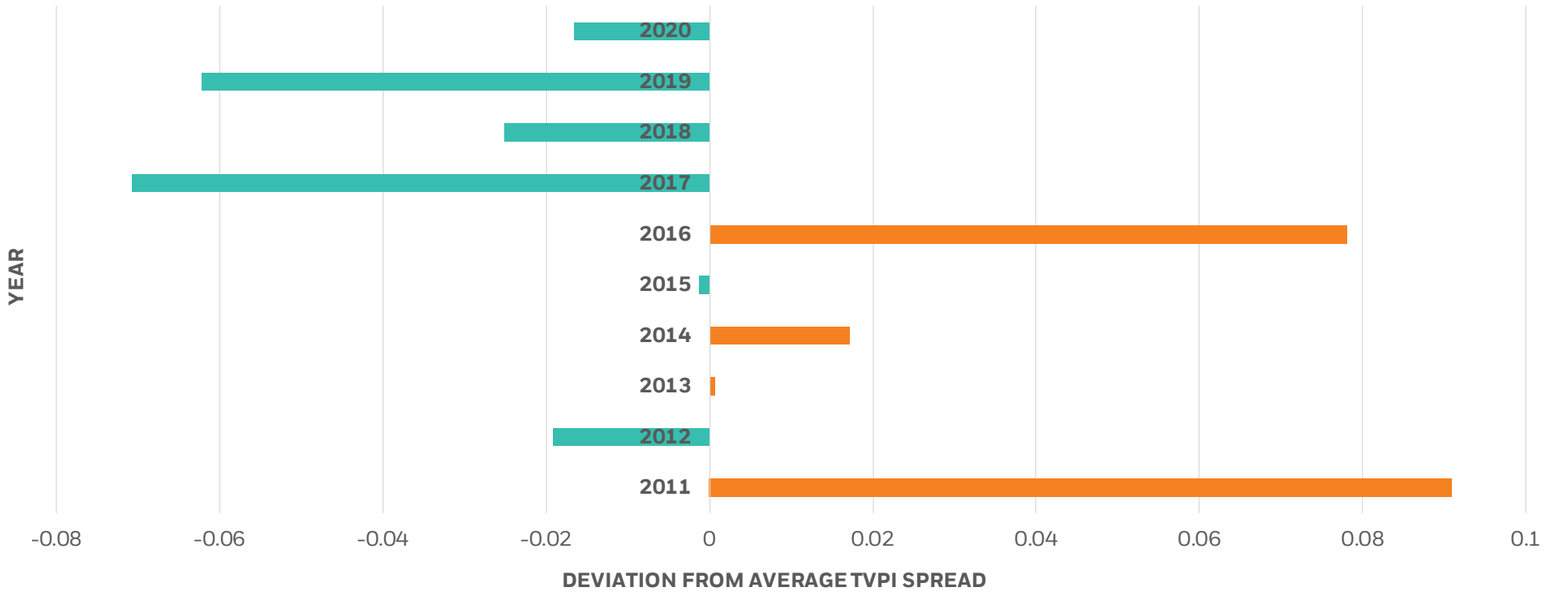


FIG. 4 – RISK DEVIATION FROM THE AVERAGE OF ACTIVE LBO FUNDS

Source: eFront Insight, as of Q2 2020. Basis 0 = average of 1.372x.



LIQUIDITY ANALYSIS (FIG. 5 AND 6)

Since 2015, each year's first quarters were a signal for a drop in time-to-liquidity, as deals were exited and new ones signed. It happened this year, but not as much as in previous years. The exit and deal environments have proved to be challenging. As a result, the time-to-liquidity decreased, but only moderately. However, as time-to-liquidity in 2019 was stable around 2.75 years, even with a modest drop in Q1 2020, currently standing at 2.7 years approached the record low registered in 2018.

Managers have thus reduced their deal activity to focus on the management of companies in their portfolios. Active LBO funds appear to have been in "wait and see" mode during the first semester of the current year.

FIG. 5 – LIQUIDITY EVOLUTION OF ACTIVE LBO FUNDS

Source: eFront Insight, As of Q2, 2020

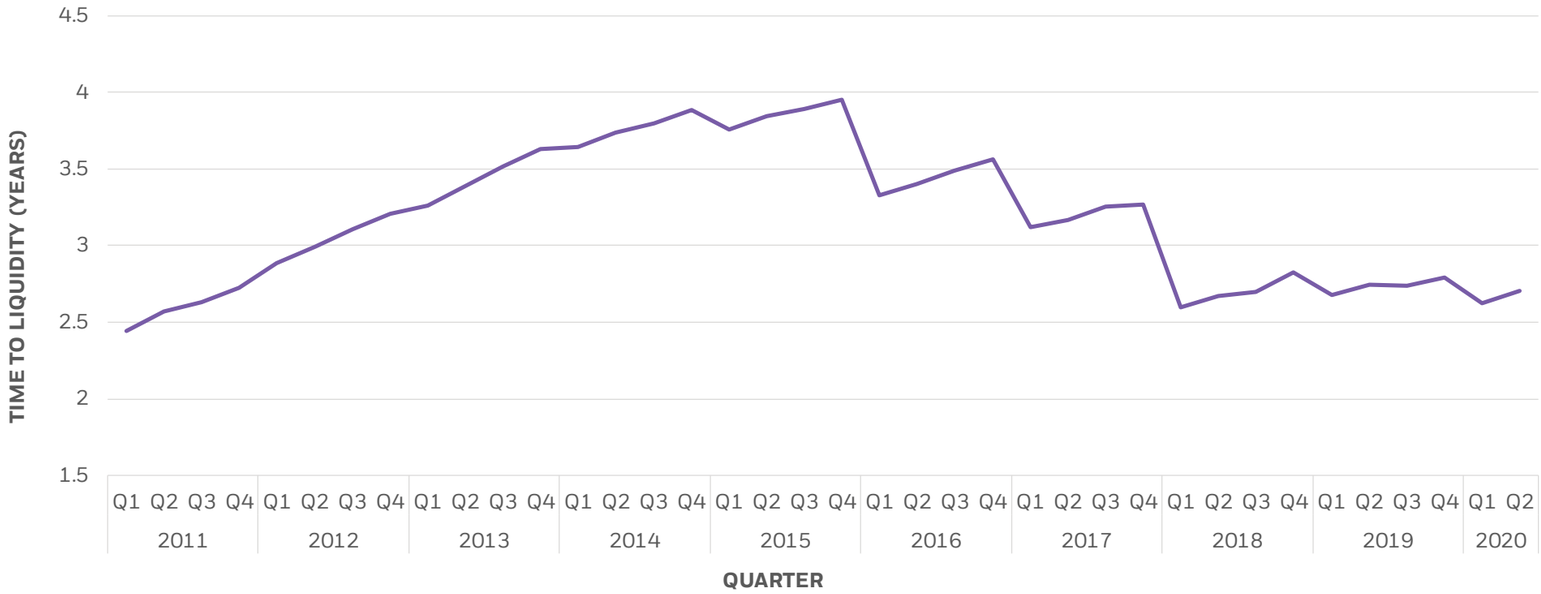
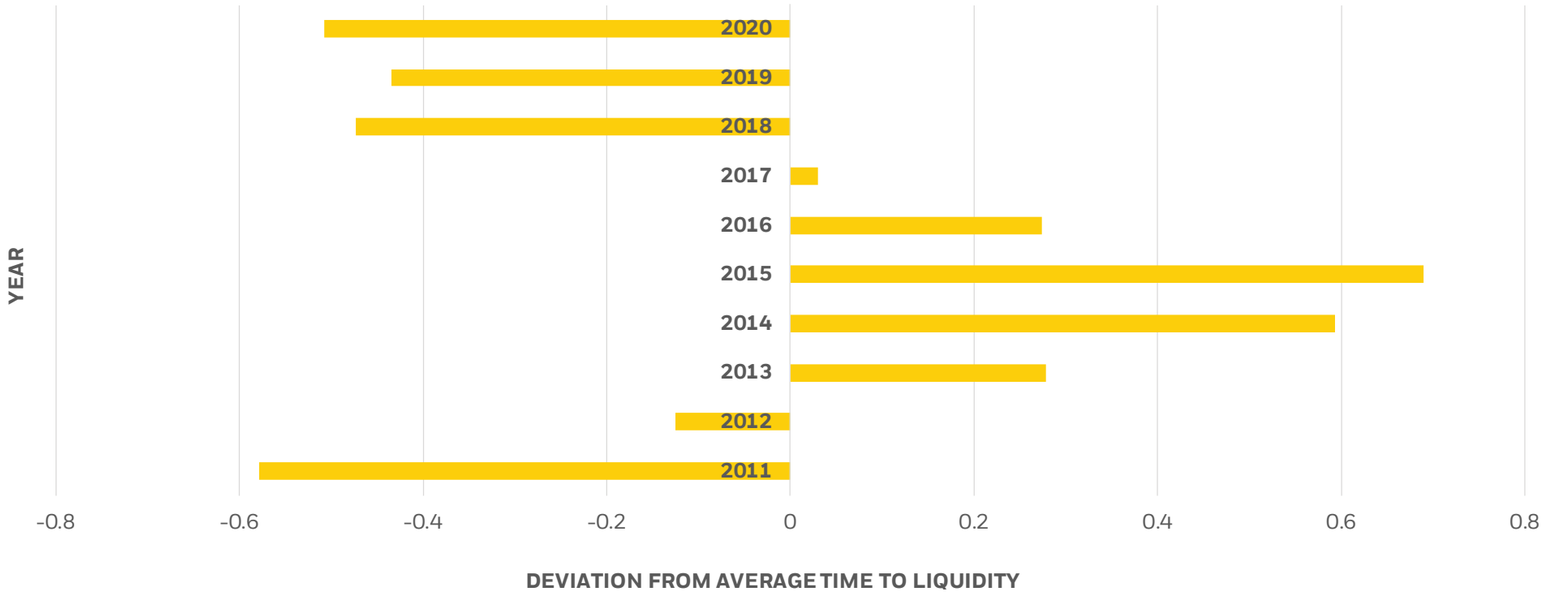


FIG. 6 – LIQUIDITY DEVIATION FROM THE AVERAGE OF ACTIVE LBO FUNDS

Source: eFront Insight, as of Q2 2020. Basis 0 = average holding period of 3.17 years.



Vintage Year & Regional Performance Overview

SUMMARY OF THE ANALYSIS

Q1 2020 recorded sharp adjustments of multiples. Managers reflected quickly the changes affecting financial markets and the macro-economic environment. Q2 shows the stabilization of the performance of active funds, illustrating the conservative stance of managers.

Managers have adjusted quickly and sharply the value of their funds in Q1, and prudently remained conservative in Q2.

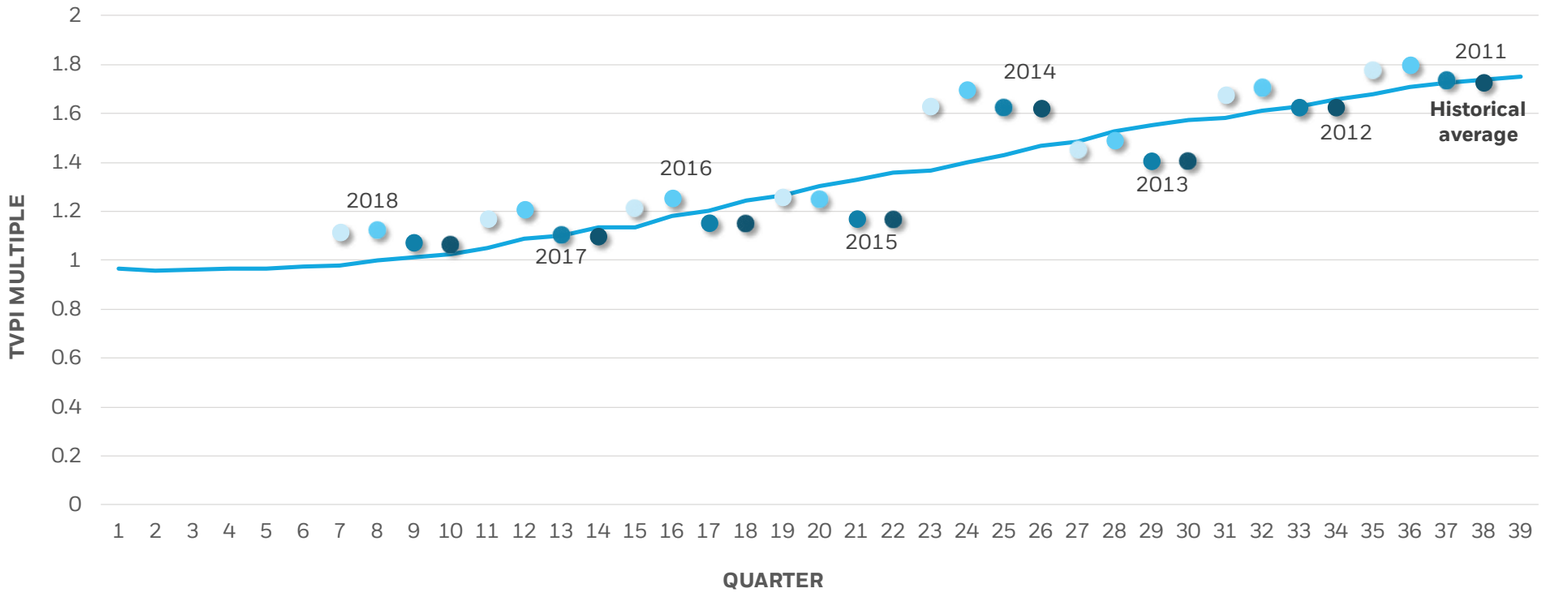
GENERAL EVOLUTION (FIG. 7)

Each vintage year has recorded a decrease in multiple of invested capital during the first semester, including relatively mature ones such as 2011 and 2012, which are now aligned with the historical average. 2014 is still performing well above historical levels, despite adjustments. 2013, 2015, and 2016 are now performing significantly below the average. More recent vintage years (2017 and 2018) are tracking it.

Further examination shows that most of the downward adjustments were made in Q1 2020. Managers appear to have entirely made painful adjustments immediately. The following quarter led to a general stabilization of multiples, signalling the prudent and conservative stance of LBO fund managers.

FIG. 7 – EVOLUTION OF MULTIPLES OF ACTIVE LBO FUNDS

Source: eFront Insight, as of Q2 2020. Active funds grouped by vintage year. The current average includes only fully realized funds to 2010. Reference currency: USD.



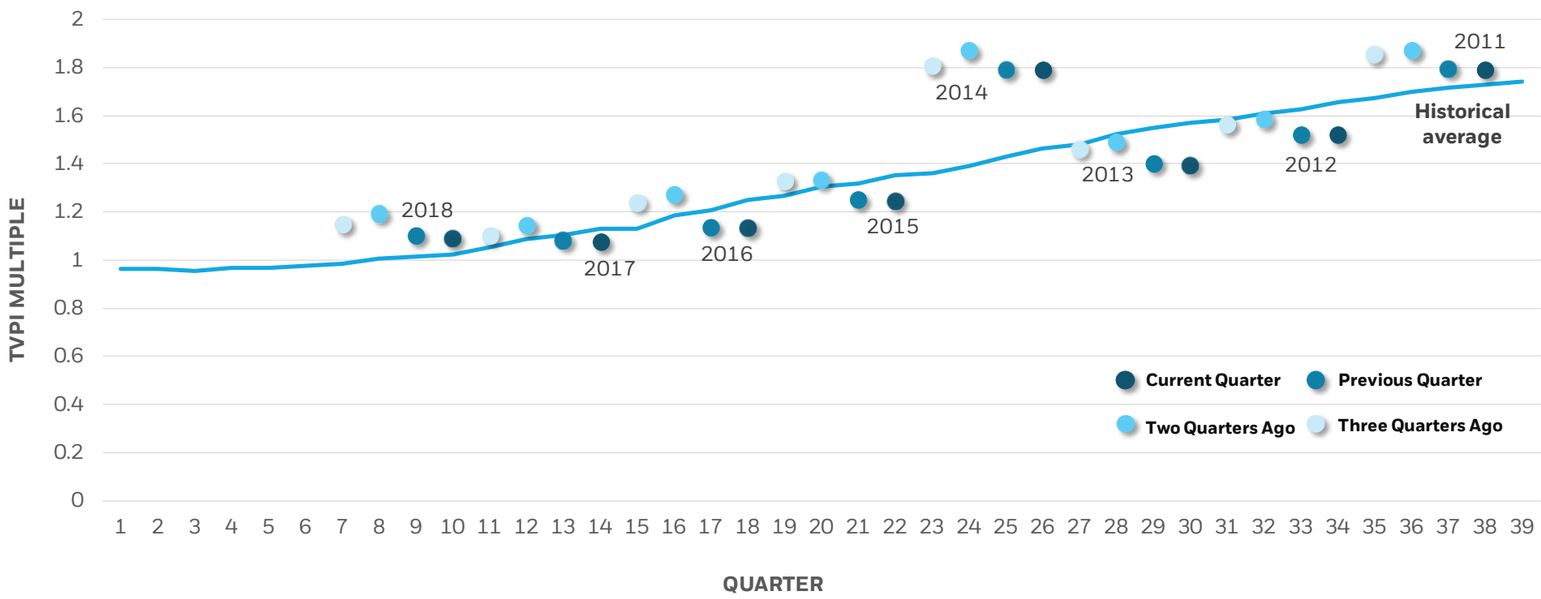
US LBO FUNDS (FIG. 8)

US LBO funds are usually reasonably representative of the global evolution. This is the case again, although the evolution of their active vintage years is slightly more contrasted. 2011 remains above the historical average, while 2012 is now installed below, along with 2013.

Other vintage years perform in line with the global average. 2014, in particular, distinguishes itself and provides an explanation of the outlier in the global analysis.

FIG. 8 – EVOLUTION OF MULTIPLES OF US LBO FUNDS

Source: eFront Insight, as of Q2 2020. Active funds grouped by vintage year. The current average includes fully realized funds to 2010. Reference currency: USD.



WESTERN EUROPEAN LBO FUNDS (FIG. 9)

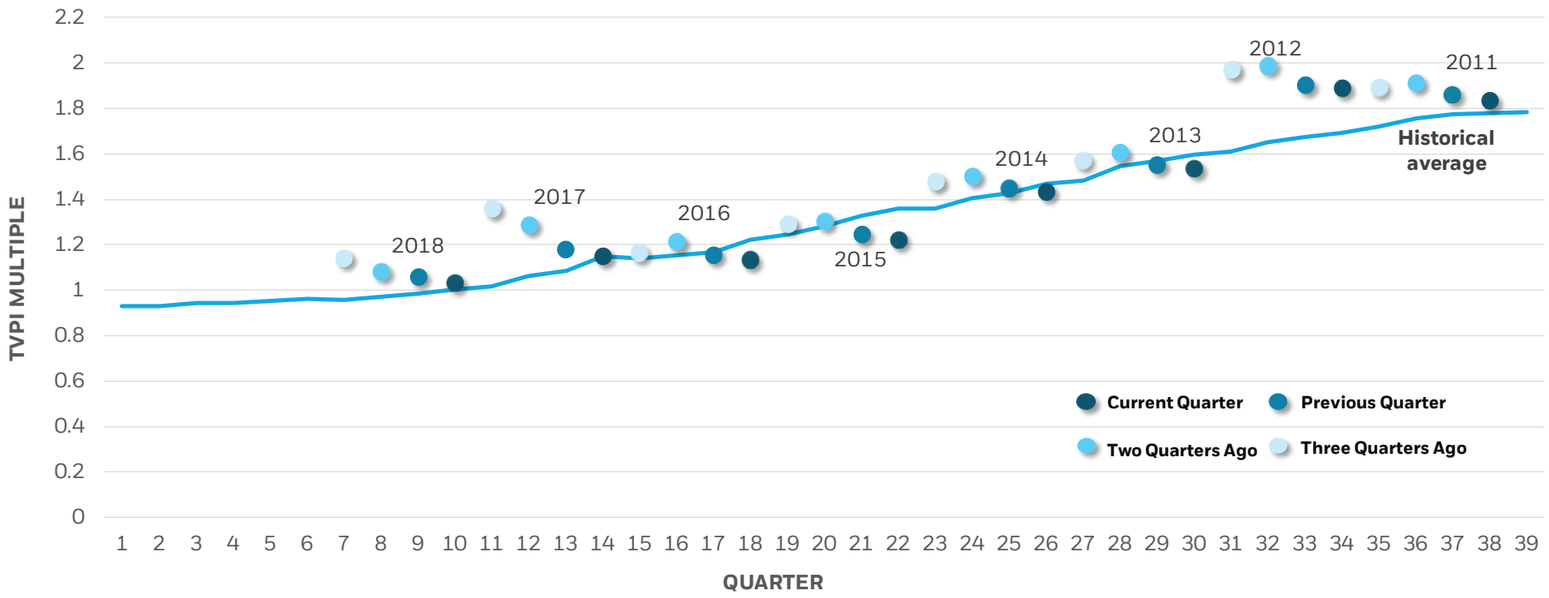
Western European LBO funds also suffered from a correction of their multiples in Q1 2020. However, the vintage years 2011 and 2012, which had the wind in their back, are still expected to outperform the historical average.

Surprisingly, the vintage years 2013 and 2014 did not suffer much and remain close to the historical average. 2015 and 2016 were probably the most affected and are now significantly lagging their historical peers at the same maturity level. Although 2017 and 2018 are very recent vintage years, they have also reverted to the historical average.

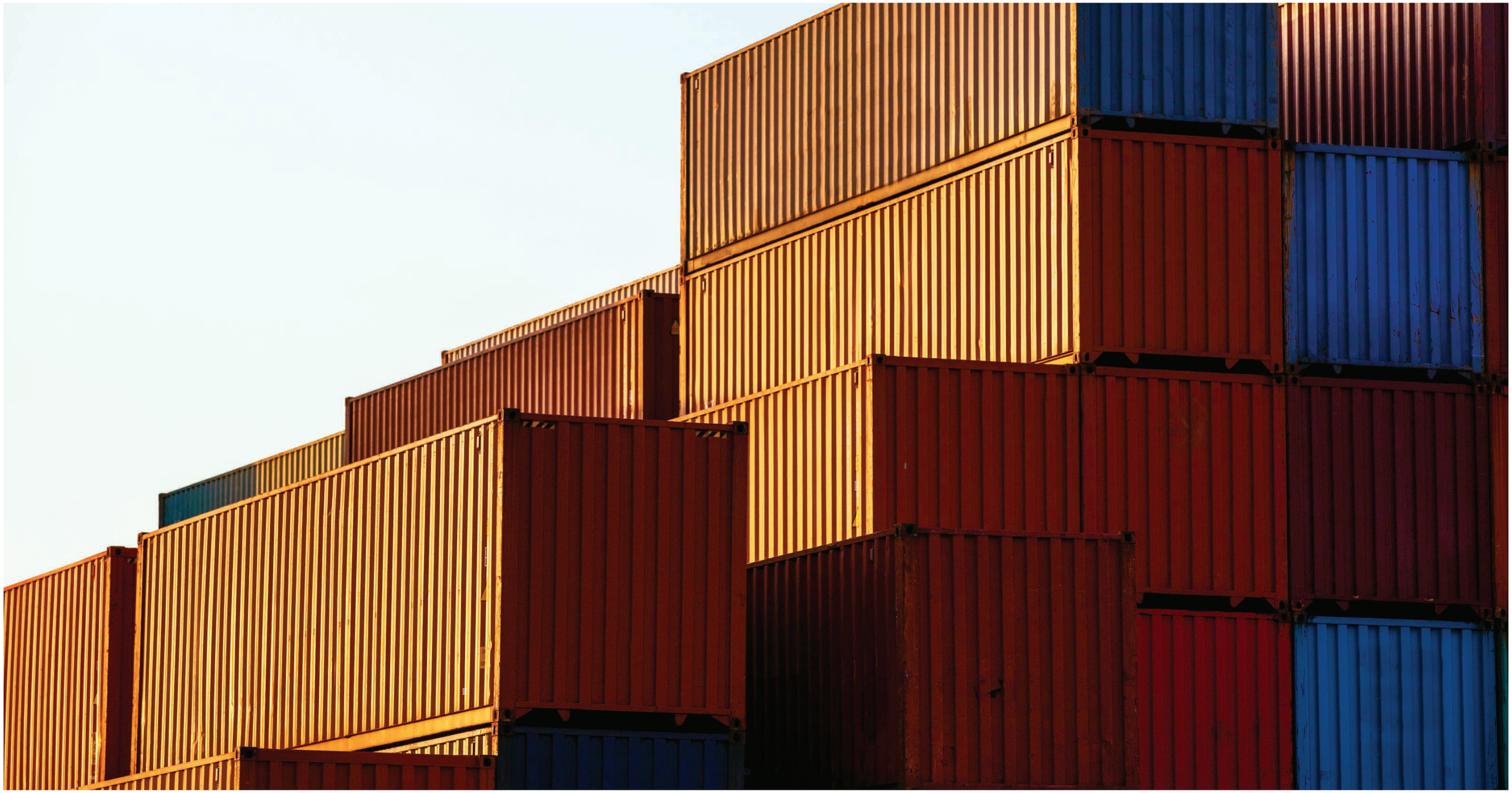
The evolutions of listed stock prices are contrasted in the US and Western Europe. The economic consequences of the pandemic are unfolding differently depending on the geographical region. US and European LBO funds might diverge in their evolution during the second semester of 2020.

FIG. 9 - EVOLUTION OF MULTIPLES OF W. EUROPEAN LBO FUNDS

Source: eFront Insight, as of Q2 2020. Active funds grouped by vintage year. The current average includes only fully realized funds to 2010. Reference currency: EUR.



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 2012, active vintage years are from 2003 to 2010. In 2013, active vintage years are from 2004 to 2011. 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 2012 are grouped as an average under “2012”). 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 2012, active vintage years are from 2003 to 2010. In 2013, active vintage years are from 2004 to 2011. 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 2012 are grouped as an average under “2012”). 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 2012, active vintage years are from 2003 to 2010. In 2013, active vintage years are from 2004 to 2011. 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 2012 are grouped as an average under “2012”). 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 bright blue line on the graphs and aggregated funds fully realized funds of vintage year up to 2010.

How eFront Insight can help LPs manage their private market programs

This paper was produced using eFront Insight which offers data services that collect and validate cash-flows from thousands of unique funds that are then used on an anonymized basis to generate net return calculations and provide an Industry benchmark.

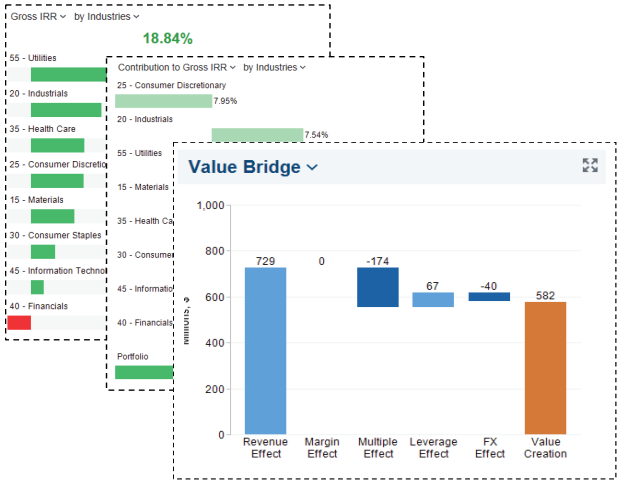
Additionally, eFront Insight provides Limited Partners with a rich data set relating to their portfolio funds and underlying holdings, sourced directly from General Partners and enriched with 3rd party feeds including Public indices, and media sources.

This data set can be interrogated via eFront Insights powerful UI consisting of out of the box analytics, configurable tear sheets, and API interoperability.

Limited Partners are leveraging the platform to generate superior insight regarding Private Markets as a whole, via the industry benchmark, and through unrivalled detail and transparency in relation to their performance and exposures across all investment levels.

The data and toolkit available within eFront Insight enables Investors to assess the constituents of their private market exposure, and attribute performance across multiple dimensions, enabling the assessment of drivers and effects created through changing market conditions and the private market correlations to public markets.

Company level financial data provides sophisticated value creation bridge analysis at the underlying holdings level enabling LPs to evaluate the impact of operational changes and macroeconomic events on the residual value in their portfolios.



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eFront is the leading technology solution for alternative investment management, covering the needs of all alternative investment professionals end-to-end, from fundraising and portfolio construction to investment management and reporting. With more than 850 clients in 48 countries, eFront services clients worldwide across all major alternative asset classes. In 2019, eFront was acquired by BlackRock and integrated with Aladdin®, its investment technology, bringing together public and private asset classes to deliver the industry-leading multi-asset investment platform.

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