Private Equity attribution – Burgiss/Ortec Finance partnership

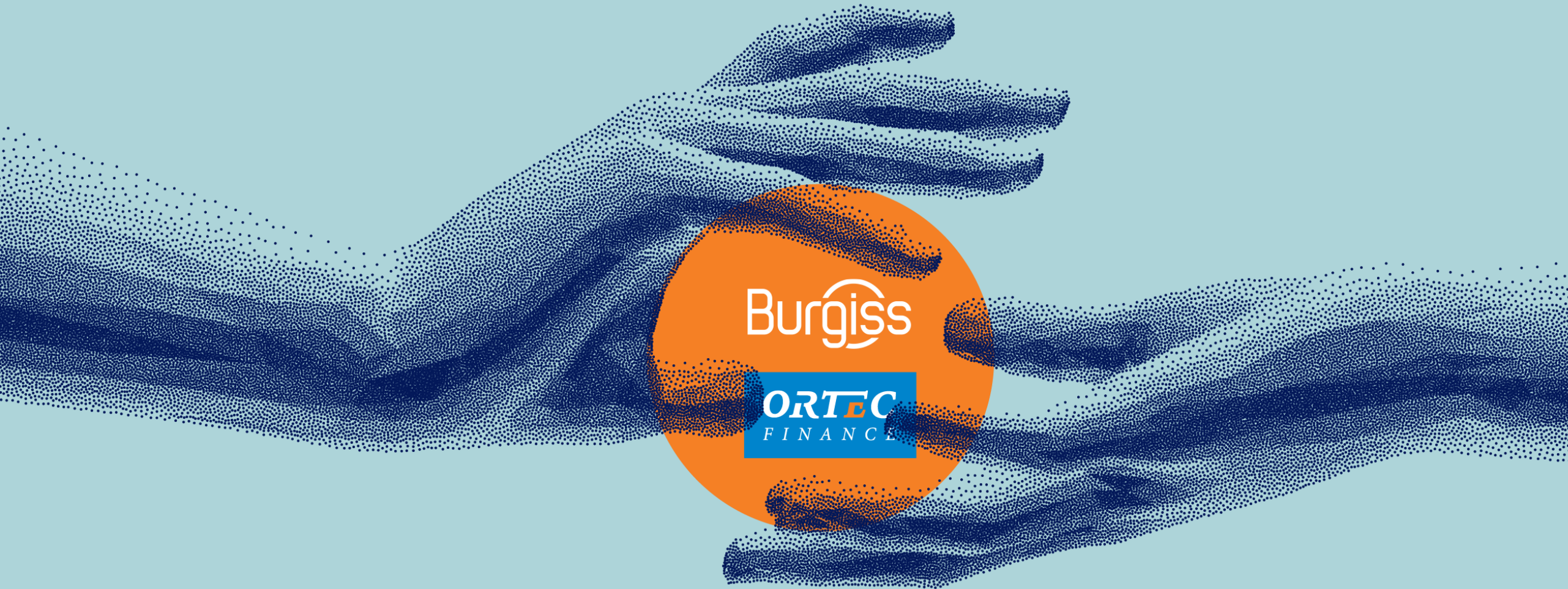Luis O'Shea   Burgiss
Joost Meerwijk   Ortec Finance
11 May

Public

Ortec Finance – Burgiss partnership

Agenda

- Define "private assets" – Private Capital 101
- Outline methodology
- Data requirements
  - Burgiss Manager Universe

Luis O'Shea
(Burgiss)

- *Illustrative decisions*
- *Demonstrate in PEARL*
- *Future directions*
- *Q&A*

Joost Meerwijk
(Ortec Finance)

- Closed-end, draw-down vehicles
    - Prototypically: "private equity"
- Examples: *Buyout*: KKR, Carlyle; *Venture Capital*: Sequoia, Tiger Global; *Private Credit*: Ares Capital, Oaktree; *Private Real Estate*: Blackstone, Brookfield
- Lifecycle:
    - Commitment
    - Capital calls
    - Distributions
- Characteristics:
    - Illiquid: rebalancing is difficult
    - GP as agent: Cash flows not controlled by LP
    - Valuations: subjective
- Consequences: Long-term, money-weighted measures (IRR); TVPI

Example Fund
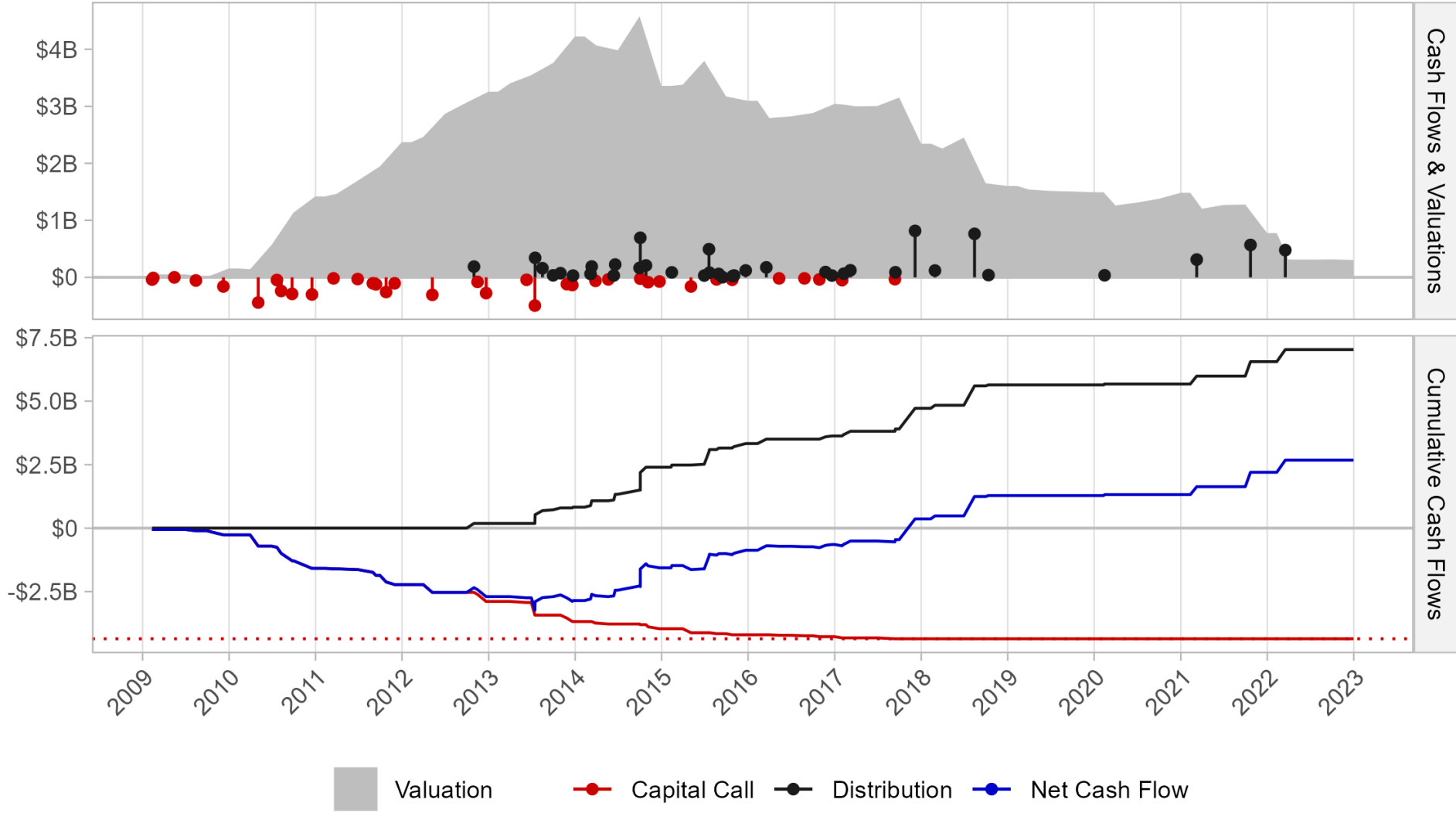
Anonymized data from BMU 2022 Q4

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Outline of Methodology

- Key ideas:
  - Decisions = commitment amounts[1]
  - Results in: notional portfolios of private assets
  - Allows any measures to be attributed (IRR, TVPI, etc.)
- Example of decisions:
  - Which funds to invest in (i.e., *commit* to)
  - How much to allocation to (private) asset classes (e.g., buyout, venture capital, …)
  - Whether under- or overweight each vintage
  - Whether to invest in private assets at all

- Similar to "*Performance Attribution in Private Equity: A Case Study of Two North American Pension Funds*" by Ott and Pfister

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[1]More on this later.
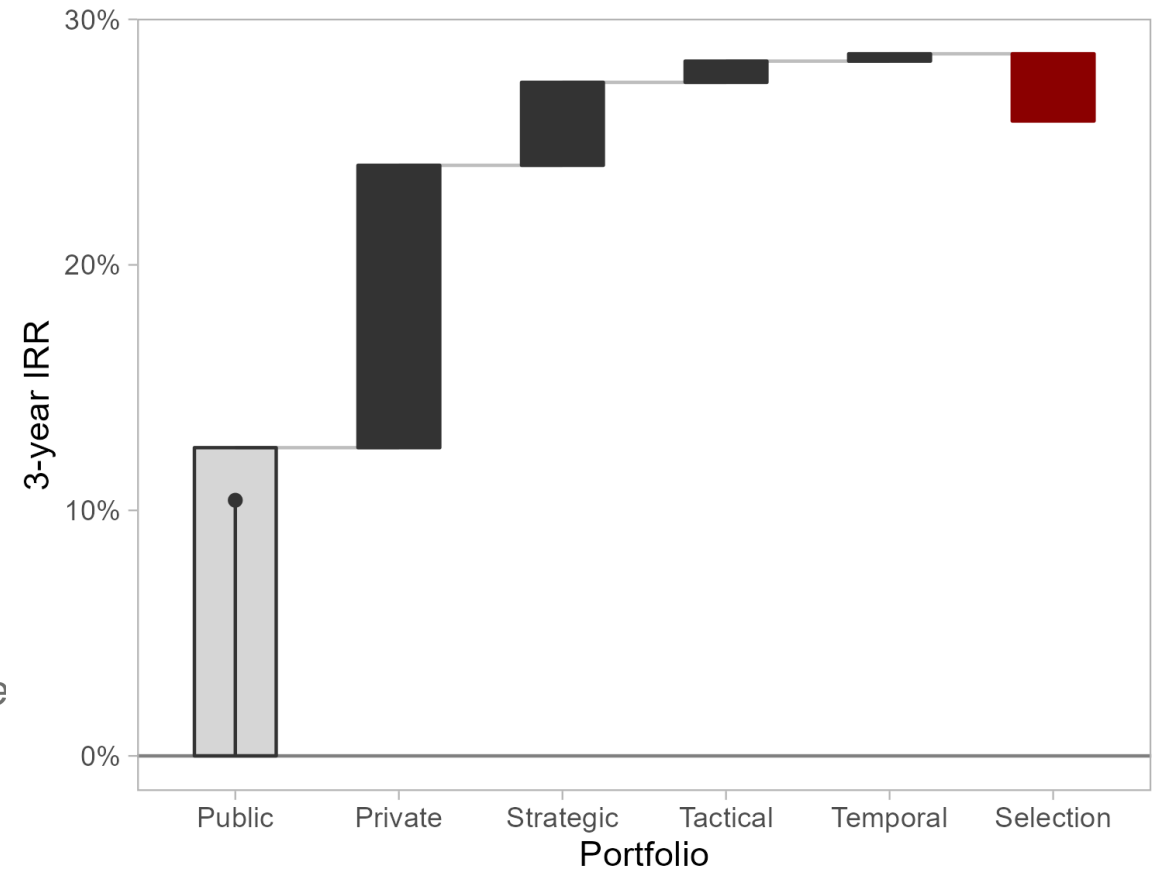
BMU: 2022 Q3; index: S&P 500 (TR); analysis date: 2022-06-30

- Client's private portfolio

- Sequence of decisions

- Dataset of private assets
  - Covers entire investable universe
    - Unbiased
  - Sufficient attributes to allow for the construction of notional portfolios

- Sourced via Burgiss Private i Platform integration with PEARL

- Burgiss Manager Universe
  - LP-sourced data from 1,000+ clients; geographic and investor-type diversity
  - Strict criteria for universe eligibility
  - Cash flows (with date-level precision) and valuations
  - Extensive profiling of funds (and their investments)
  - Premier data source for private capital; used by practitioners and academics (via PERC)
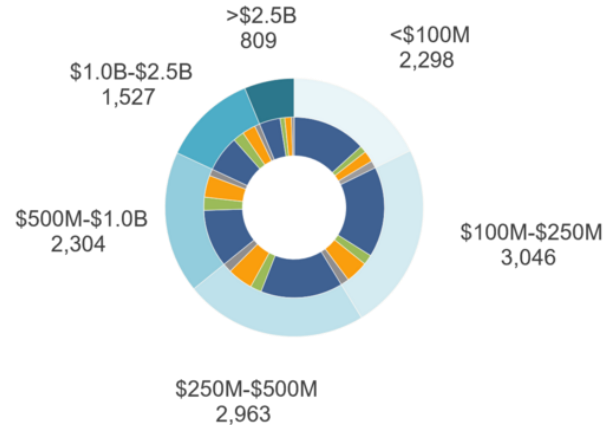
Count and Capitalization by Asset Class

Asset Class	Funds	FoFs	Total	Cap. ($M)
Private Capital	**11,579**	**1,368**	**12,947**	**$10,292,171**
Generalist	528	169	697	618,369
Equity	**7,424**	**949**	**8,373**	**6,284,398**
Generalist	967	387	1,354	1,079,937
Venture Capital*	3,518	265	3,783	1,165,619
Expansion Capital	171	-	171	113,146
Buyout	2,641	274	2,915	3,864,482
Unknown	127	23	150	61,214
Debt	**1,298**	**26**	**1,324**	**1,263,119**
Generalist	264	8	272	265,946
Senior	186	-	186	204,229
Mezzanine	361	4	365	301,445
Distressed	326	9	335	420,539
Not Elsewhere Classified	104	1	105	36,459
Unknown	57	4	61	34,501
Real Assets	**2,189**	**146**	**2,335**	**2,036,064**
Generalist	48	15	63	63,679
Real Estate*	1,444	92	1,536	1,085,647
Natural Resources*	381	24	405	227,311
Infrastructure*	310	13	323	657,943
Not Elsewhere Classified	5	-	5	1,362
Unknown	1	2	3	122
Not Elsewhere Classified	97	2	99	63,667
Unknown	43	76	119	26,554

Funds have a third tier not shown here.

Count by Fund Size Range

- >$2.5B: 809
- <$100M: 2,298
- $1.0B-$2.5B: 1,527
- $500M-$1.0B: 2,304
- $100M-$250M: 3,046
- $250M-$500M: 2,963

Data Update Schedule

Results Through	Update Date
Q1 2022	25-Jun-2022
Q2 2022	24-Sep-2022
Q3 2022	17-Dec-2022
Q4 2022 ✓	29-Apr-2023
Q1 2023	*24-Jun-2023**
Q2 2023	*23-Sep-2023**
Q3 2023	*16-Dec-2023**

Estimated

Count and Cumulative Capitalization by Vintage

Count by vintage year: 1978: 2, 1979: 3, 1980: 13, 1981: 10, 1982: 17, 1983: 34, 1984: 32, 1985: 36, 1986: 44, 1987: 57, 1988: 64, 1989: 65, 1990: 49, 1991: 28, 1992: 49, 1993: 70, 1994: 92, 1995: 103, 1996: 96, 1997: 187, 1998: 234, 1999: 281, 2000: 352, 2001: 214, 2002: 158, 2003: 179, 2004: 281, 2005: 420, 2006: 528, 2007: 589, 2008: 544, 2009: 200, 2010: 293, 2011: 401, 2012: 400, 2013: 421, 2014: 575, 2015: 628, 2016: 582, 2017: 598, 2018: 757, 2019: 781, 2020: 784, 2021: 962, 2022: 734

---- ● ---- Cumulative Capitalization ($Trillions)

Burgiss Private Capital Indexes
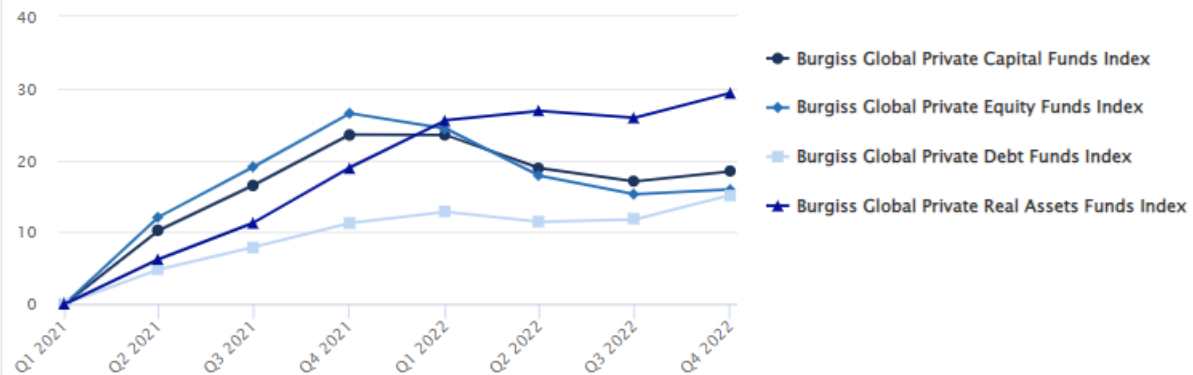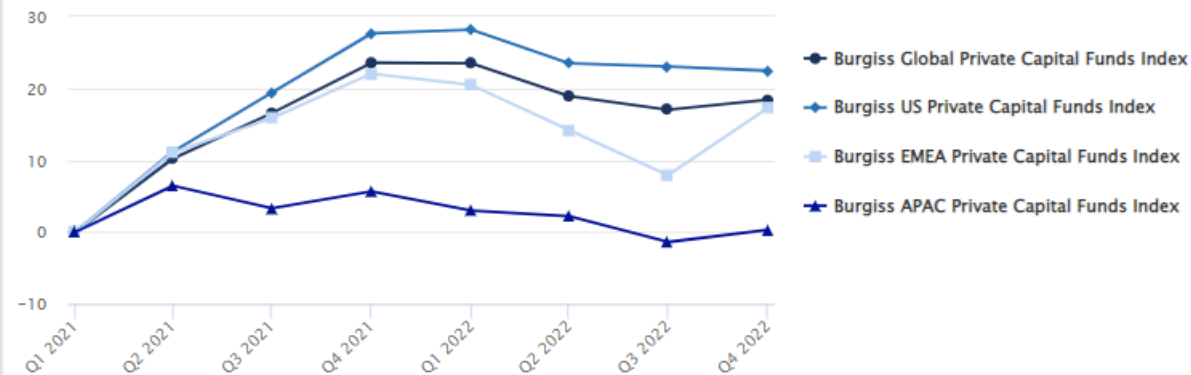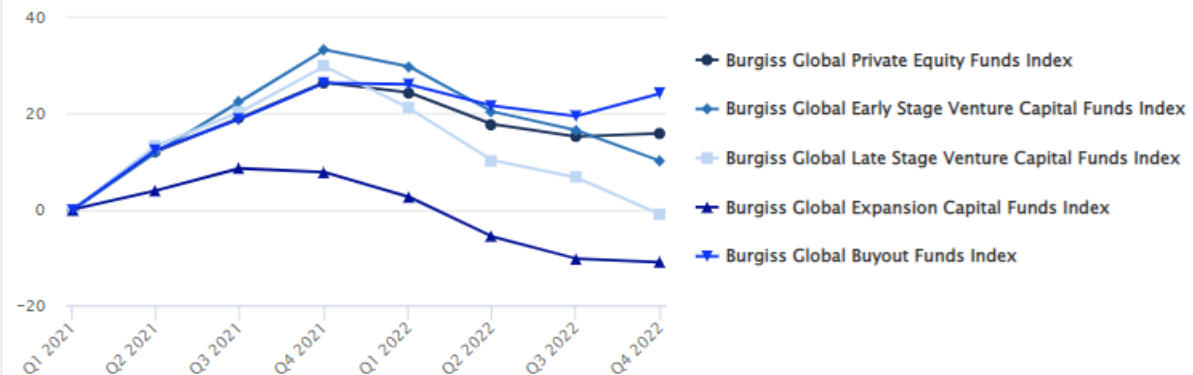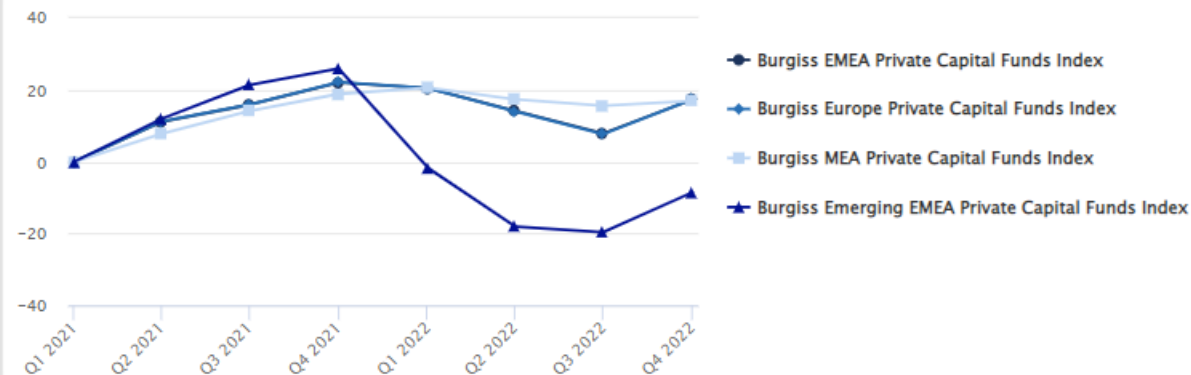
- Captures the balance sheet of each fund
  - For each holding also capture investments and proceeds
  - Captures cash, sub lines, and liabilities
  - For each entity (portfolio company) captures company fundamentals
    - Profile: GICS, geographic information
    - Fundamentals: net debt, cash, EBITDA, revenue
    - ESG: scope 1/2/3 emissions and other data points
- Much larger dataset than fund-level data
- Allows for GP attribution:
  - Fine-grained attribution; e.g., by industry, or by property type in real estate
  - Value Bridge analysis

Private Performance Attribution

- Goal:
  - Decisions + Universe of data ➡

- Challenges raised by private assets
  - Valuations delayed and subjective: inherent
  - Lack of definitive benchmark: straddles
 - Commitment vs NAV: Relevant to attribution
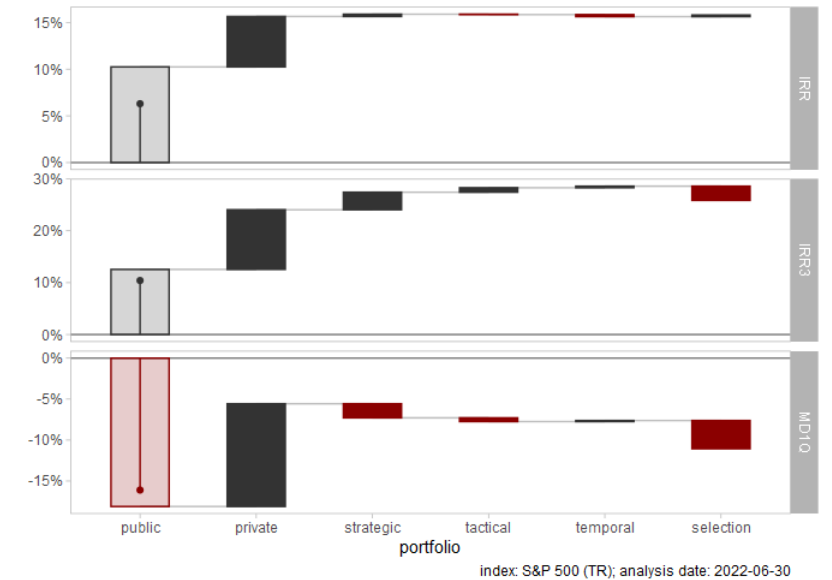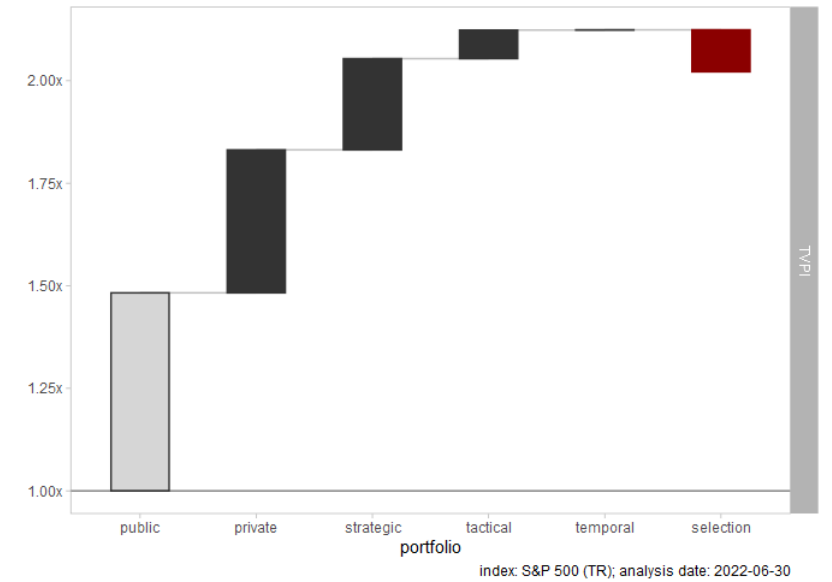
Proof-of-concept in PEARL

○ Decisions implemented in PEARL:
1. Starting point: Invest in US Public Equity (S&P 500)
2. Invest in US Private Equity, rather than US Public Equity
3. Strategic decisions: Determine long-term commitment plan for PE
   1. Vintage Allocation: Invest +10% every vintage, starting Q1 2000
   2. Asset Class allocation: Invest 50/50 across buy-out/venture
4. Tactical decisions: Deviate from long-term strategic commitments
   1. Asset Class allocation: Invest 40/60 buy-out/venture
   2. Vintage allocation: Invest 30% more in even vintage years
5. Actual implemented PE portfolio: Hypothetical 40/60 investment in 5 largest funds in buy-out/venture

Proof-of-concept in PEARL

- Set up in PEARL:
  - Separate fund per notional portfolio with quarterly periodicity
  - Generated hypothetical NAV, commitments and distributions
  - All performance calculations are standard

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Proof-of-concept in PEARL

DEMO
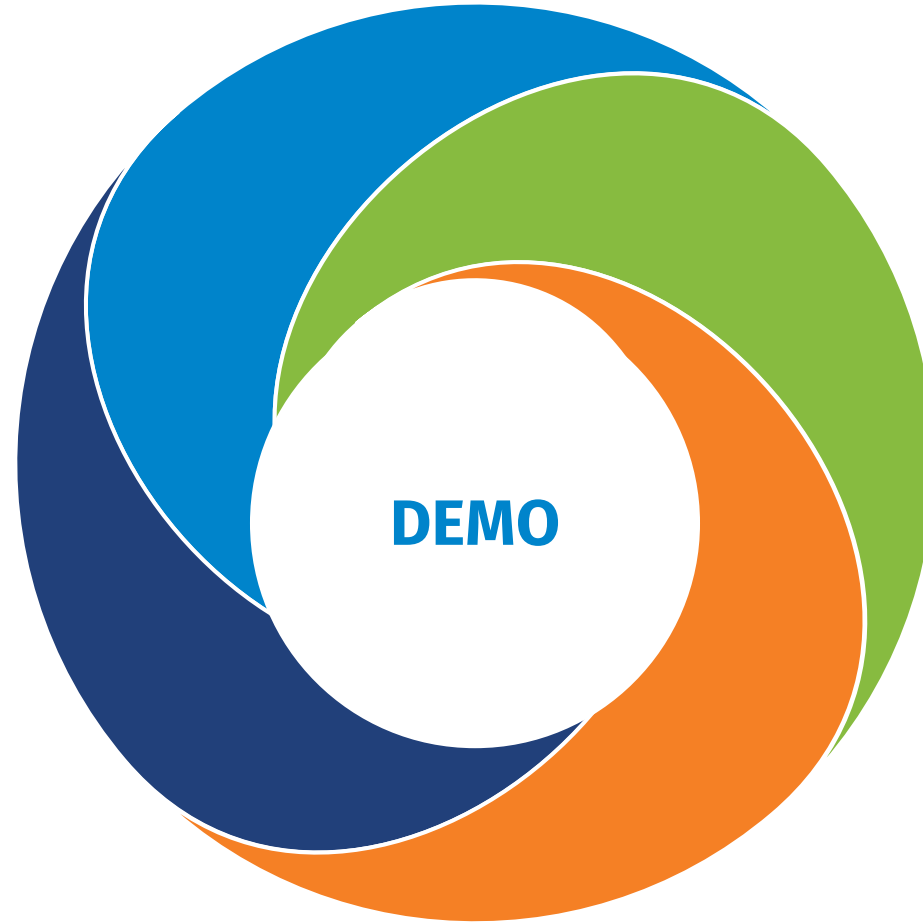
Discussion of model

Advantages

○ Easy to explain

○ Captures basic decision-making process for private assets

○ Flexible performance measures

Discussion of model

Limitations

○ Does not capture all decisions – commitment vs. NAV target

○ Starting point may not be suitable

○ No natural translation to outperformance in monetary terms

○ Based on money-weighted returns – hard to combine with liquid assets in pension funds

Discussion of model

Extensions

- Calculate 'contributions' of individual segments, e.g. individual vintages.

- Incorporate NAV to understand impact of 'drift'

- Size of investor drives choice of universe
  - Small investors don't have access to large PE funds and vice versa
  - Remove impact of investor size as an unmanagable separate effect

- Multi-currency measures, e.g. local or hedged IRR

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Final thoughts

○ Attribution model is an interesting starting point

○ ...But not perfect

○ Feedback very welcome!

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