Private Equity Distributions Hit an All-Time High in 2013

During a 2013 in which low interest rates pushed many investors into equities, the public equity markets saw stellar returns, beating out the performance of investments in US private equity and venture capital for the year. But these alternative assets also fared well, with US private equity and venture capital funds having their best annual returns since 2006 and 1999, respectively. Investors in private equity funds received the largest total annual capital distribution in the history of the Cambridge Associates benchmark, while investors in VC funds received their second largest payout since 2000.

The Cambridge Associates LLC U.S. Private Equity Index® rose 20.6% during 2013, while the Cambridge Associates LLC U.S. Venture Capital Index® rose 27.2%, its best annual performance in 15 years. For the fourth quarter, the private equity and venture capital indices returned 6.7% and 11.9%, respectively, with the latter outperforming the public equity markets. See the table below for comparisons of the Cambridge benchmarks against several key public market indices. Returns for periods of one year and longer are annualized.

Both benchmarks continued to outperform public companies over longer time horizons — and in the case of the VC index, significantly.

US Private Equity and Venture Capital Index Returns for the Periods ending December 31, 2013

	2012 4th Q	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS	25 YEARS
US Private Equity	6.7%	20.6%	14.9%	15.8%	14.0%	12.1%	13.6%	13.6%
US Venture Capital	11.9%	27.2%	15.4%	12.5%	9.7%	22.6%	30.8%	20.7%
DJIA	10.2%	29.7%	15.7%	16.7%	7.4%	6.5%	10.2%	11.2%
NASDAQ Composite	10.7%	38.3%	16.3%	21.5%	7.6%	4.4%	8.8%	10.0%
Russell 2000 Composite	8.7%	38.8%	15.7%	20.1%	9.1%	8.4%	9.3%	10.2%
S&P 500	10.5%	32.4%	16.2%	17.9%	7.4%	4.7%	9.2%	10.3%

Sources: Cambridge Associates, Dow Jones & Company, Frank Russell Company, Standard and Poor's, and Thomson Datastream.

Private Equity: All of the Key Sectors in the PE Benchmark had Positive Returns for both the Quarter and the Year
Strong returns from investments in financial services companies, one of the PE index's largest sectors, were a major driver in the private equity benchmark's performance in 2013. The sector represented roughly 10% of the index's value by weight but returned 14.4% for the quarter and 33.5% for the year. All eight of the meaningfully sized sectors in the index (those comprising at least 5% o its value) also had positive returns for both the quarter and the year. The three largest — consumer, energy and healthcare — represented more than half of the index's total value and returned between 6.7% and 8.8%.

Information technology (IT) just edged out financial services for the best major sector performance of the year, earning 33.6%. Energy had the lowest performance among the eight key sectors for both the quarter and the year, returning 6.7% and 18.3%, respectively.

PE Index's Largest Vintage was also Q4′s Best Performer
Vintage year performances in the fourth quarter were strong across most of the index, with every vintage from 1998 through 2013 benefiting from healthy increases in their portfolio company valuations. The five largest vintages, 2004 to 2008, saw a combined $36 billion improvement in asset values for the period. On December 31, these five vintage years represented almost 80% of the PE index's value.

The largest vintage year in the PE index was 2007, and it was also Q4′s best performer, earning 7.6% for the period. At year's end it represented 27.6% of the index, which, because the index is capital weighted, made the 2007 vintage the single largest driver of the index's quarterly performance. For the year, funds launched in 2007 returned 23.1%, which was second among the five largest vintages, falling just short of the 2005 vintage year's 23.3% increase. Funds launched in 2004 had the lowest return among the key vintages for the quarter: 3.0%; for the year, the 2006 vintage’s 18.2% return was the lowest.

PE Index Hit a New Record for Annual Distributions in 2013

Fund managers in the PE benchmark called and distributed more capital to their limited partners (LPs) in Q4 than they did in the previous quarter. Calls were up 7.3% to $16.4 billion, while distributions made a huge jump of 31% to $41.6 billion, which in dollar terms was the second highest quarterly increase in the 28 years that Cambridge Associates has tracked the index. Q4 was the eighth consecutive quarter in which distributions outstripped contributions.

For the year, fund managers drew down $56.3 billion from their LPs, which was roughly $15 billion and $20 billion less than in 2012 and 2011, respectively. Annual distributions, however, hit an all-time high for the index in 2013. Fund managers returned $134.6 billion to their LPs for the year — the largest amount since the index’s inception.

“The outsized distribution from the PE index’s fund managers in 2013 was made possible by both friendly credit markets and bullish public equities. Both of these factors made exits and recapitalizations easier, ultimately to the benefit of PE fund investors,” said Keirsten Lawton, Managing Director and Co-Head of US Private Equity Research at Cambridge Associates.

Venture Capital

IT Sector was the Top Performer in VC Benchmark for Q4 and all of 2013

The performance of IT companies was the principal driver of the VC benchmark’s quarterly and annual returns, the latter of which was the best in 15 years. The index’s largest sector at year’s end, accounting for 34.4% of the index’s value, IT rose 21.8% for the fourth quarter and 40.8% for the year. The index remained highly concentrated by sector, with only four sectors, including IT, representing at least 5.0% of the index. In addition to IT, the other key sectors were health care, media and communications, and software.

While health care was the second largest sector by weight in the index, it had the lowest return for the quarter and year among the key sectors: 7.9% and 32.3%, respectively.

Annual Returns for All 7 Key Vintage Years in the VC Index were in Double Digits

By far the top performing vintage year among the seven significantly sized vintages in the VC index — for both the quarter and the year — was the 2010 vintage. Though representing only 8.2% of the index’s value, funds launched in 2010 rose 32.1% for the quarter and 56.1% for the calendar year, giving the vintage a larger than usual impact on the index’s performance relative to the vintage’s size. The 2007 vintage, the largest in the index, turned in the second strongest performance of the key vintages for both the quarter and the year, rising 19.5% and 39.1% for the periods, respectively.

Funds launched in 2005 had the lowest return among the top seven vintages for the quarter — just 1.9%; the 2000 vintage year funds had 2013′s lowest total, 11.9%.

Capital Calls and Distributions in the VC Index were Up in Q4 but Down for the Year

In the fourth quarter, fund managers called just under $3.5 billion from their LPs and distributed $6.5 billion, making Q4 the eighth consecutive quarter in which distributions outnumbered contributions. Quarterly contributions were up 12.2% from Q3, while distributions were up a much smaller 1.7%. Investors in the 2000 and 2006 vintage years together received 31% of the total distributions for the quarter — more than $800 million each.

For the year, calls and distributions in the index were both down. Contributions dropped 10.0% from 2012 to $12.8 billion; distributions fell 3.6% to $21.5 billion.

“Even with the drop in capital distributions from 2012, annual distributions in 2013 were still the fourth highest annual total in the history of the index, behind only 2012 and the bubble years of 1999 and 2000,” said Peter Mooradian, Managing Director, Private Growth Research at Cambridge Associates.

For more details on the Q4 and 2013 performance of the Cambridge Associates US private equity and venture capital benchmarks, click HERE.

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