2021 HEC Paris-Dow Jones Small-Cap Buyout Private Equity Performance Ranking

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Executive Summary

This ranking lists the world's top small-cap buyout[1] private equity firms in terms of aggregate performance, based on their buyout funds raised between 2008 and 2017.

This ranking answers the question: "which firms in the small-cap segment generated the best performance for their investors, over the past years?" The ranking draws on a comprehensive set of data on private equity fund performance provided by Preqin and enhanced with data sourced directly from the private equity firms, themselves. It uses a unique methodology to calculate the aggregate performance of a private equity firm, based on a range of performance measures applied to all of the qualifying funds managed by the respective firm. The method is able to aggregate performance across vintage years, and considers both relative and absolute returns. In total, HEC Paris analysed performance data from 517 private equity firms and the 991 funds they raised between 2008 and 2017, with an aggregate equity volume of $1.5tr.



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1. For the purposes of this ranking, a firm is considered "small-cap" when the cumulative amount raised across all buyout funds in the relevant 10-year period is $109mn - 999mn.

The Ranking



Top 20 small-cap buyout firms out of 517 private equity firms

RANK	FIRM	PERFORMANCE SCORE
1	CAI CAPITAL PARTNERS	3.17
2	FALFURRIAS CAPITAL PARTNERS	2.91
3	RENOVUS CAPITAL PARTNERS	2.62
4	GMT COMMUNICATIONS PARTNERS	2.02
5	GAUGE CAPITAL	1.97
6	DETONG CAPITAL	1.35
7	WINDROSE HEALTH INVESTORS	1.25
8	VIA EQUITY	1.24
9	IMPERIAL CAPITAL GROUP	1.22
10	VENDIS CAPITAL	1.04
11	SEAPORT CAPITAL	0.89
12	SYNOVA	0.82
13	TRINITY HUNT PARTNERS	0.80
14	FRONTENAC COMPANY	0.75
15	KEY CAPITAL PARTNERS	0.68
16	UFENAU CAPITAL PARTNERS	0.61
17	NIPPON MIRAI CAPITAL	0.45
18	POLARIS PRIVATE EQUITY	0.43
19	CRESSEY & COMPANY	0.42
20	MAIN CAPITAL PARTNERS	0.41



Introduction

The private equity industry is notorious for being opaque, and access to any data is chronically difficult. In particular, little is known about the performance and competitive behaviour of the key private equity firms. While performance rankings exist for many other areas (the best 'business school', the best 'place to work', the best 'stock market analyst' etc), nothing worth that name had existed in private equity.

Until recently, the only available rankings for private equity were based on size alone, which has very limited meaning. Since 2009, HEC Paris and Dow Jones have joined forces to publish regular rankings of private equity firms, based on their historic performance and expected future competitiveness.

Simply speaking, what does the performance ranking mean?

This ranking answers the question: "which small-cap buyout firms generated the best performance for their investors, over the past years?" It draws on performance information from all buyout funds managed by a given private equity firm and aggregates their performance using a novel, proprietary methodology (see below) into one overall performance score.

What are the data sources behind the rankings?

To obtain the most accurate picture of the universe of private equity firms and their investments, we drew on a variety of available databases and performed a number of cross-checks of the information used in this study. We used the Preqin private equity fund performance database as the primary database for fund performance information, in addition to an increasing amount of information directly provided by private equity firms to HEC Paris, for the purpose of these rankings.

While HEC Paris has access to additional proprietary information on the activity and performance of private equity firms (HEC Paris Buyout Database), this data is anonymous and cannot be used for this study.

How have the evaluated private equity firms been selected?

We gathered data, as of November 2021, on the universe of private equity firms worldwide on which Preqin provides performance data, or which provided data directly to HEC Paris for the purpose of the performance rankings. This results in a sample of 517 private equity firms and the 991 funds they raised between 2008 and 2017, with an aggregate equity volume of $1.5tr. From this starting sample, we selected all those private equity firms that met the following objective criteria:

- **at least two funds which raised over the 2008 to 2017 period for which full performance information is available;**
- **performance data available on all of these the funds;**
- **between $100m and $999m raised during this time;**
- **investments in US, Europe or global; and**
- **at least ten observation years (i.e. the sum of the 'age' of all funds, as of today).**

Why these selection criteria?

It is our intention to focus the analysis on private equity firms that represent the small-cap segment of the private equity universe, defined based on their cumulative fundraising volume, over the relevant vintage decade. Also, we want to make sure that we exclude GPs who only disclose returns of their best performing funds, and that we do not report any 'one-hit-wonders', hence the requirement to have at least two funds with full performance information and ten 'observation years'. We do not consider funds raised 2018 or later, as their performance is still too unreliable to be judged at this point.

How large and representative is your sample of private equity firms?

The 80 firms that passed the criteria raised a total equity of over $42bn through 174 funds between 2008 and 2017.

How has the aggregate past performance been assessed?

Private equity is an asset class that makes it particularly challenging to assess the aggregate performance of a given firm. Performance is typically recorded at the fund level (and not for the entire firm). Furthermore, three factors make the aggregation of performance to the firm level challenging:

1. Alternative, complementary performance measures are used to assess performance (e.g., IRR vs. return multiple), so that it is not trivial to know which measure to look at;
2. People disagree whether firms should be assessed according to their absolute performance or based on the performance relative to a performance benchmark; and
3. Private equity firms typically manage a number of limited-life funds, raised at different vintage years simultaneously, and the so-called 'J-curve' phenomenon makes it difficult to say whether a four-year-old fund with a 15% IRR is better or worse than a seven-year-old fund with a 20% IRR.

In a project sponsored by MJ Hudson, Prof. Oliver Gottschalg from HEC Paris School of Management, has developed a proprietary methodology that makes it possible to comprehensively assess the aggregate performance of all funds managed by a private equity firm. The basis for this assessment is the performance of each fund, measured in terms of three complementary performance measures: IRR, DPI (cash-only return multiple) and TVPI (a return multiple that considers accounting values of ongoing investments). We assess performance in each measure both as absolute values and measured against the corresponding performance benchmark, leading to 2*3=6 performance indicators.

These six indicators are then combined for multiple funds based on a proprietary statistical method that considers the empirically derived historical reliability of performance measured at a given 'fund age' as weights. The intuition for this method is as follows: we determined empirically the reliability of performance of funds that are two, three, four etc. years old. Our sample included detailed data on the evolution of the performance of 492 actual buyout funds over time. Imagine the performance of a three-year-old fund predicts its final performance with 35% accuracy, while the performance of a five-year-old fund predicts its final performance with 70% accuracy. We would then give twice as much weight to performance data of five-year-old funds than to the performance data of three-year-old funds in the aggregation. Finally, we combine all six performance measures to a single performance score[2] using a standard statistical method called 'principal component analysis'. This makes it possible to compare the overall value creation ability of private equity firms across all their funds.

2. The extracted factor has an Eigenvalue of 5.1 and captures 86% of the total variance of all 6 performance measures.

How should 'aggregate performance score' be interpreted?

The aggregate performance score is neither an IRR-type annual return measure nor a money multiple. It can only be interpreted relative to the average aggregate performance score of all firms we analysed: An aggregate performance score of one means that a given private equity firm has an aggregate performance that is one standard deviation above the average performance, which would position it typically at the 85% percentile, i.e., 85% of all firms would have a lower aggregate performance. Also, an aggregate performance score of two means that performance is twice as high as for an aggregate performance score of one. A private equity firm with the average performance has (by design) an aggregate performance score of zero.

As the average and the standard deviation for each of the samples underlying our different private equity rankings are different, it is not possible to compare private equity firms across the different rankings based on their score. In other words, a mid-market firm with a score of 1.2 is not necessarily better performing overall than a small-cap firm with a score of 1.1.

How sensitive are the results to the valuation of unrealised investments?

The valuation of unrealised investments has only a small impact on the rankings. Firstly, we only consider funds that are at least four years old. Secondly, according to our methodology, young (with relatively more unrealised investments) funds carry less weight in the performance aggregation than older funds, as we consider that the performance of younger funds is inherently less precise. Finally, two of our six individual performance measures (DPI) consider cash-on-cash performance only and ignore valuations of unrealised investments.

What does the ranking not capture?

The performance ranking is backward-looking by definition. It cannot capture recent changes in the strategy, the core team or the fund/deal size of a firm. As such, it may not capture all elements of the current competitiveness of a given private equity firm.

Limitations

The confidential nature of the industry makes it impossible to compose a 100% accurate database on private equity, and we cannot exclude the possibility of biases in our results due to missing or inaccurate information. However, we rely on the same data sources typically used to compose industry-standard statistics of private equity activity and we consider our data by far the best available for this kind of analysis.



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