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Media release

Capital Dynamics study quantifies the diversification effects of private equity

Capital Dynamics, a global private assets manager, today publishes a study on the correlation between private and public equity. The study quantifies the diversification effects of private equity as a component of the overall equity portfolio.

Mauro Pfister, Senior Director and Head of Solutions, comments:

“There is a “received wisdom” in the market that private equity helps to diversify an investment portfolio. However, until now, little research has been conducted to examine the figures behind this claim, and to investigate how and why private equity can do this. Our analysis, based on proprietary data of Capital Dynamics and Colmore, as well as other data sources, underscores the diversification benefits that an allocation to private equity can provide to an investor’s portfolio.”

Key report findings

- Private equity portfolios can diversify investors’ equity allocation when constructed properly
- Over the past 15 years, the average correlation between the European and US buyout markets and public equity has been 80%. Over the same period, the correlation of the European buyout market has been considerably lower than that of the US buyout market
- Concentrated private equity portfolios exhibit lower correlation. With a deliberate fund selection process, over-diversification can be avoided
- The authors believe that the fundamental differences in the private and public equity investment models will remain, implying that the diversification benefits of investing in private equity will persist in the future

The report also highlights that private equity outperformed public equity due to the following fundamental differences in these two asset classes:

- The active ownership model in private equity plays a major role in outperformance. Private equity ownership can drive growth and operational improvements as well as ensure close alignment of interest between the GP and management of the company
- Private equity firms can obtain unique access to internal information of their investment targets during the due diligence process and exploit inefficiencies in private markets
- The much larger universe of private companies compared with quoted companies can provide more investment opportunities
- Enhanced investment selection, exit timing and negotiation skills provided by private equity managers can help create outperformance over public equity

The paper can be downloaded here

capdyn.com/research/2017-05-diversify-your-portfolio-with-private-equity

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About Capital Dynamics

Capital Dynamics (the “Firm”) is an independent, global asset manager, investing in private equity as well as clean energy and infrastructure. We are client-focused, tailoring solutions to meet investor requirements. The Firm manages investments through a broad range of products and opportunities including separate account solutions, investment funds and structured private equity products. Capital Dynamics currently has over USD 27 billion in assets under management/advisement¹.

Our investment history dates back to 1988. Our senior investment professionals average over 20 years of investing experience across the private equity spectrum.² We believe our experience and culture of innovation give us superior insight and help us deliver returns for our clients. We invest locally while operating globally from our London, New York, Zug, Tokyo, Hong Kong, San Francisco, Munich, Birmingham, Seoul and Scottsdale offices.

¹Capital Dynamics comprises Capital Dynamics Holding AG and its affiliates; assets under management/advisement, as of September 30, 2016 include assets under discretionary management, advisement (non-discretionary), and administration across all Capital Dynamics affiliates. ²Average years of experience held by Capital Dynamics’ Managing Directors and Directors in Investment Management.

About Colmore

Colmore provides investors real time insight into their private asset portfolios. Using cutting edge technology, we monitor over USD 2 trillion in portfolio company assets, servicing over 1,400 limited partners. We are proud to be one of the largest independent service providers for limited partner reporting, quantitative fee tracking, fee validation services and portfolio monitoring. 95% of Colmore staff have worked previously at a GP or LP.

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