Press release:

New research Study on risk in private equity shows low long-term risk

October 15, 2015: montana capital partners (mcp) is proud that the British Venture Capital and Private Equity Association (BVCA) published mcp's new study on risk in private equity in their BVCA research series. The main purpose of the study is to show how large the risk of an investor is to invest in a portfolio of private equity funds. The up-to-date empirical results are important for investors, general risk managers, asset allocators, and regulators to show that the long-term risk of an investor with a diversified portfolio is much lower than the one perceived.

The results are of high importance in a time when investors evaluate increased allocations to high-return assets like private equity due to the low interest rate environment. Simultaneously, insurance companies (Solvency II), banks (Basel III) and pension funds (IOPRD) are faced with higher regulatory requirements, which very often categorise private equity as a high-risk asset. This study gives an overview of the risks in private equity and compares them with the ones that are well known from public markets. Here, it becomes obvious that many of the standard risk measures like the market risk cannot be used for private equity due to its specific long-term characteristics. When buying a company, developing it further and selling it after many years, it is not necessary to observe or calculate daily market prices, but focus on the long-term risk of losing the invested capital (capital risk) or the current value (realisation risk). "Our study uses most up to date data which cover also the most severe financial crisis of the last decades in 2009 and has no selection biases. Despite this crisis, the empirical results show that the risk of investing in a diversified portfolio of private equity funds is very low. Hence, our study supports the experience of many sophisticated investors like UK & US public pension funds which were able to achieve significant positive returns with the asset class. We hope that the study helps pension funds, insurance companies and banks strengthening their arguments to continue investing significantly in private equity", says Christian Diller, partner and co-founder of mcp.

The empirical analysis of three different private equity datasets finds that the risk for an investor of losing any capital over the entire holding period with a portfolio of 20 funds is only 1.4%, reducing to 0.3% for an investor with a portfolio of 50 funds. Hence, it shows that risk can be reduced substantially by diversification. Furthermore, this research paper contains the first analysis of the risk of losing any (book) value from the point of observation until the end of a fund's lifetime, which is defined as “Realisation Risk”. Doing so reflects the typical situation of an investor who reports a value at the end of the year and needs to measure their risk of not getting back the current value of their portfolio in cash. As this is the typical situation for an investor and for regulators, this analysis provides crucial insight into the real risk of managing a private equity portfolio. With a portfolio of 20 funds the realisation risk of an investor is 1.8%. In the case of a fund portfolio of 50 funds, an investor would receive less than the valuation in quarter 20 (plus subsequent capital calls) in only 0.8% of runs. "With our statistical analyses, we were able to show robust results throughout the three data sets, including the high quality BVCA data, and that private equity is less risky than it is often perceived. With scientific research methods, we show that historically the risk for a long-term investor of losing parts of its invested capital has been close to zero for a diversified portfolio", Christoph Jäckel from mcp summarises.

Especially the newly created realisation risk measure is a powerful tool to show the current risk an investor holds in private equity and can provide valuable insights when evaluating the value and future expected outcome of the portfolio. "The results of the realisation risk analysis is also very interesting for our secondary activities when assessing the risk of portfolios which we acquire on the secondary market. It can be seen that secondary investments face low risks, especially when building a diversified portfolio acquired at a discount and without the use of leverage", says Marco Wulff, co-founder and partner of

mcp. "Also, sellers that sell non-core assets with a potentially higher realisation risk, may improve the overall risk profile of their private equity portfolio. Hence, we believe our results here can have a strong impact for sellers when assessing their portfolios", Marco Wulff adds.

For the full study, please either contact us at info@mcp.eu or go directly to this link. For further information, please do not hesitate to contact us.

About montana capital partners

montana capital partners is an asset manager focused on attractive niches of the private equity secondary market. The team provides liquidity solutions for investors through their own fund products with a distinguished and established investment strategy as well as high quality investment & risk management advisory services.

For questions and further information, please contact montana capital partners: info@mcp.eu or +41 41 511 79 50, www.mcp.eu.