Private Equity Beat

Trends and insight from Dow Jones LBO Wire and Private Equity Analyst

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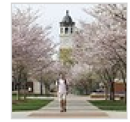

LIMITED PARTNERS
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6:45 am ET
Mar 31, 2015 FUNDRAISING

Average Private Equity Fund Life Span Exceeds 13 Years

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By JENNIFER BOLLEN

The average life span of a private equity fund has reached “an unprecedented” 13 years amid concerns about the high fees charged on tail-end funds.

Palico SAS, which operates an online marketplace, said in a report this week that the median life span of a private equity fund—across all regions and sectors—had hit 13.2 years. The figure, which is based on 200 funds dissolved last year, has increased from an average life span of 11.5 years in 2008.

Private equity funds typically aim to return capital to investors within 10 years. About 12% of funds liquidated last year had wound up by their tenth year. A further 29% had liquidated within 12 years, 33% by the 14th year, 14% by year 16, 7% by year 18 and 5% by year 19.

Palico said it meant investors faced lower-than-expected annual returns and potentially serious liquidity problems.

It attributed the longer life spans to drops in asset valuations in the wake of the dot-com bubble of 2000 and the financial crisis in 2008.

“Typical fund life would be even longer without the good exit environment of the past couple of years,” Palico said. “High asset prices, driven by exceptionally low interest rates and widely available credit, have allowed private equity funds to realize a large volume of investments, but they’ve also made it more expensive to acquire companies.”

Jos van Gisbergen, a senior portfolio manager at investment manager Syntrus Achmea, said private equity firms which continued to charge high fees on tail-end funds had caused concern but that longer life spans in general did not necessarily pose significant problems.

“Since funds have common 10-year life spans and up to a three-year extension it is nothing to worry about,” he said. “From experience, I do know the average for [venture capital funds] runs from 15 to 20 years. Also funds of funds as standard run above 15 years.”

Mark Nicolson, a partner at fund-of-funds firm SL Capital Partners, said while strong performing funds that make decent investments early on in the life of the fund will have good internal rates of return regardless of how long the tail continues, the number of funds with one, two or three zombie investments at the end of the life does appear to be increasing.

“It is our job as investors to encourage the managers to realize these,” said Mr. Nicolson. “Certainly we push for them to be realized and for the managers to charge no fees [beyond the agreed extension period] so there is no increased drag in fees.”

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About Private Equity Beat

Produced by the editors of **Dow Jones LBO Wire**, **Private Equity Analyst** and **Private Equity News**, Private Equity Beat provides an inside view into the latest buyout deals and emerging trends in the world of private equity. Staff writers give insight and perspective on the flow of private capital on Wall Street and around the world. Write us at wweditor@dowjones.com. For more information on Dow Jones products covering private equity and other financial markets, go to **http://pevc.dowjones.com**.

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