managers to sell their stakes back to the controlling shareholders at a predetermined event/price.

- The two main exit routes are via a secondary sale to another private equity fund, or via a buyback from the business owner. Larger portfolio companies may choose to IPO.

Sources of value add

GE managers seek to add value by providing expansion capital and strategic advice to further develop established business models.

- **Accelerate revenue growth:** GE managers formulate strategies to grow revenues by improving sales force effectiveness, optimizing pricing strategies, and identifying expansion into new geographic markets and product lines. Managers can utilize their network to introduce the company to new customers not otherwise attainable without GE manager involvement.

- **Scaling organizations:** GE managers help analyze unit economics such as customer acquisition costs. GE managers also advise on deploying fixed assets (i.e. new plants), and upgrading financial and governance systems to better track operations as the company matures.
- **Management team development:** With portfolio companies often lacking a deep bench of experienced executives in C-suite positions, GE funds can leverage their network to supplement current leadership and establish independent boards.
- **Capital markets and exit planning:** GE funds advise on sourcing and integrating acquisitions, raising additional capital, and preparing companies for eventual exits through strategic sale or IPO.
- **Deal sourcing:** With attractive portfolio companies often not explicitly requiring external capital, GE funds with proprietary industry networks and expertise in formulating and pitching strategic growth plans have an advantage over peer funds in sourcing investments.

Performance analysis

Introduction to vintage year returns

- Private market returns are assessed using vintage year performance, which reflects the sum of all cash flows (contributions, distributions) from funds incepted in the referenced year.
- For example, if hypothetical fund ABC reported vintage year 2005 IRR of 15%, ABC was incepted in 2005 and the IRR reflects all investment activity performed over the course of its lifecycle: contributions and distributions made in 2005, 2006, 2007, etc., until the end of the fund, which typically lasts 10 years (2015 in this example).
- If hypothetical fund XYZ reported vintage year 2008 TVPI of 1.3x, the fund returned USD 1.30 for every USD 1 invested through the duration of the fund's life (2008–2018).

Table 1: Median pooled performance for vintage years 1993–2018

	Global Buyout	Global Growth	US Venture Capital
Median Pooled IRR (%)	16.28	14.73	24.35
Std Deviation IRR (%)	6.48	10.69	28.75
Median Pooled TVPI	1.92x	1.97x	2.54x
Std Deviation TVPI	0.24x	0.56x	1.43x

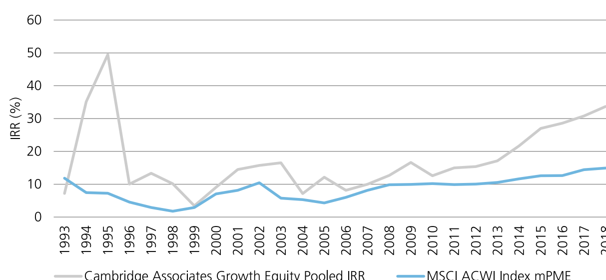
Source: Cambridge Associates, UBS. Data as of August 2022.

Historical performance and comparisons versus public market returns

- Using Cambridge Associates data, growth equity delivered a median 14.7% pooled vintage year IRR and 1.97x TVPI fpr funds launched between 1993–2018 period.
- The standard deviation of vintage year IRR was 10.7% and 0.56x on a TVPI basis over the 1993–2018 period.
- GE strategies outperformed public markets when observing PME returns. With the median MSCI ACWI PME of 8.2%, GE outperformed listed equities by about 658bps over the 1993–2018 period.
- GE returns have consistently outperformed the MSCI ACWI PME in 21 of the 26 vintage years observed, indicating a durable return premium historically.
- We observe significant differences in lower quartile versus upper quartile returns, indicating elevated dispersion between fund managers and highlighting the importance of manager due diligence.

Fig. 3: Growth equity pooled IRR vs. MSCI ACWI PME

GE has outperformed public markets across vintage years 1993–2018



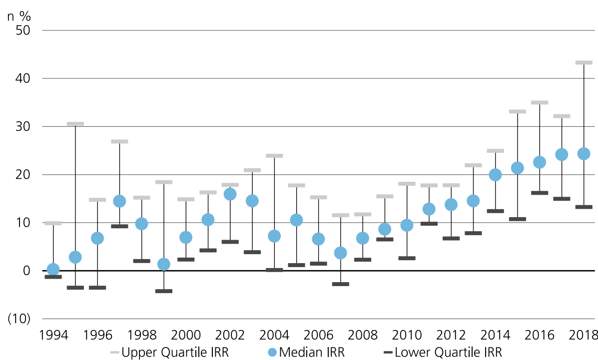
Source: Cambridge Associates, UBS. Data as of August 2022.

How do GE returns compare with other private equity strategies?

- GE strategies generated the lowest median IRR compared with other strategies over the 1993–2018 vintage year period. However, when observing performance from 2000 to 2018, they have displayed attractive relative returns versus buyout and venture capital strategies.
- Funds target companies developing from startup stage but before maturity stage. As a consequence, returns exhibit variability in between that of buyout and venture capital when observing the standard deviation in IRR and TVPI multiples.
- Per vintage year, GE returns show fewer outlier years when compared to VC but more dispersed when compared to buyout.

Fig. 4: GE return dispersion per vintage year for 1993–2018

High level of dispersion within each vintage year shows importance of manager selection



Source: Cambridge Associates, UBS. Data as of August 2022.

Growth equity and the business cycle

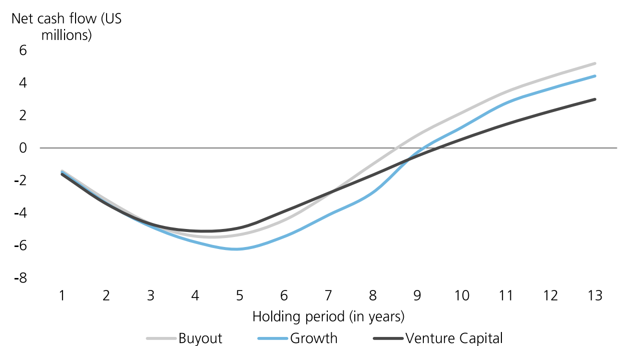
- GE strategies are modestly linked to economic cycles. Funds target companies that are growing faster than the market, which may reduce cyclicality but introduce more idiosyncratic risk in returns.
- GE strategies are less cyclical than buyout strategies as they do not typically utilize leverage, and target companies less mature. But they may be more cyclical than venture capital given the highly idiosyncratic nature of early stage venture capital targets.
- Valuations, earnings growth, and dry powder can influence GE returns. The IPO and M&A environment can drive exit opportunities.
- Historically, GE returns were highest during the 1995 vintage year and lowest before the dot-com bubble (1999 vintage) and global financial crisis (2006 vintage).
- Managers have fared better than public markets before and during prior market peaks.
- When observing performance before the financial crisis, GE returns in 2006–2007 vintage years outperformed the MSCI ACWI PME by around 201bps. Additionally, before the dot-com bubble in 1999–2000, these vintage years outperformed the MSCI ACWI PME by around 100bps.
- When observing performance during the financial crisis, GE returns in the 2008 vintage year outperformed the MSCI ACWI PME by about 282bps. Additionally, during the dot-com bubble in 2001–2002, these vintage years outperformed the MSCI ACWI PME by about 580bps.

Growth equity in your portfolio

- GE can add differentiated, active exposure to companies that exhibit a balance of proven business models and accelerating growth potential.
- While companies with this profile may trade on public markets, investing in their common equity does not provide the same provisions for influencing control across business and governance dynamics as GE investments do.
- GE funds can take 9–10 years to break even when measuring historical cash flows. This duration is about a year longer than that of buyout strategies as GE invests in earlier-stage companies that could take longer to develop and realize value.
- GE fund managers can continue to earn a premium above public markets through an active approach to sourcing and partnering with portfolio companies to drive strategic growth.

Fig. 5: Cumulative net cash flows of various private equity strategies ("J" curve)

GE strategies typically second to break even among other PE strategies



Figures normalized to USD 10m commitment. Source: Preqin, UBS. Data as of August 2022.

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