# The importance of vintage diversification

## Private markets

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- Market timing in private markets is difficult to execute, given the long investment cycle and illiquid nature of the asset class.
- Vintage diversification can be a powerful tool to navigate economic cycles, mitigate return and cash-flow volatility, as well as to build and maintain robust self-funding portfolios—as long as investors can tolerate the asset class' associated risks.
- To systematically achieve vintage diversification, investors should design and commit to a road map, allocate capital across successive vintage programs, or invest in secondaries or perpetual funds.

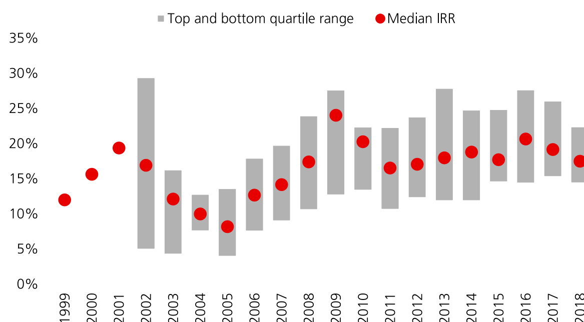
Source: UBS

### The importance of vintage years in private markets

In private markets, a vintage is the year in which a company is acquired or the year in which a traditional closed-ended fund makes its first investment. As companies are held for three to five years on average and funds typically span over ten years or more, they are influenced by varying macroeconomic conditions and their vintage year is often an important driver of performance.

Vintage years are an important performance driver, but predicting which will perform best isn't easy

IRR since inception per vintage year




Note: US Buyouts. Net to Limited Partners. Data as of December 31, 2023. Source: Cambridge Associates, UBS.

But predicting which vintage will perform best and avoiding those that won't is no easy task. In fact, over the twenty years leading to 2018, the median internal rate of return (IRR) since inception across US buyouts fluctuated between 10% and 20% per vintages, with pre-crisis vintages in 2005–07 recording historical lows and post-crisis vintages setting historical highs.

### Don't time the market, time your commitments

Two overlapping dynamics typically impact the performance of private market investments: the cycle of a traditional closed-ended fund (i.e., deploying capital over an investment period of about five years, and realizing assets over a >10-year fund life), and the economic cycle. Investors cannot control the pace at which capital will be deployed or returned, nor can they predict the economic environment under which such capital calls and distributions are executed. They can, however, time their commitment to new funds and thus influence when a new private market investment cycle starts.

### If you time the market, better invest in a downturn

While it is difficult to time the market and it is natural to be more cautious in times of uncertainty, downturns are typically among the best times to invest, as they offer more

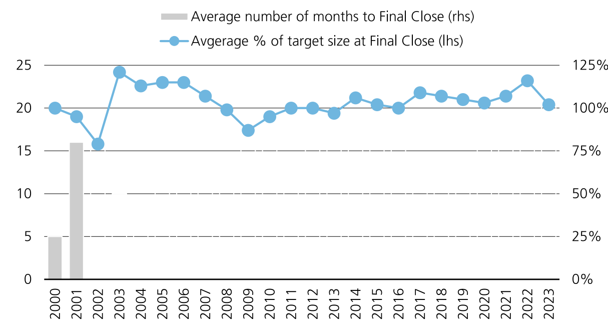
## Conclusion

We recommend investors to diversify their vintage exposure by making annual commitments to private markets. Doing so provides four key benefits, as investors can:

1. Smooth out their exposure across economic cycles and fluctuations in valuations;
2. Enhance their returns by capturing the outperformance of select vintages while mitigating the impact from lower-performing years;
3. Build out robust self-funding portfolios by reducing both cash-flow and exposure volatility;
4. Invest into otherwise hard-to-access funds.

Investors can systematically achieve vintage diversification by designing and sticking to a commitment roadmap. They may also choose to successively invest in a diversified single-vintage or multi-vintage program. Those who would like to build their exposure to past vintages may do so by investing in secondaries. Finally, perpetual funds allow investors to achieve continuous vintage diversification by outsourcing the re-investment decision to the perpetual fund manager.

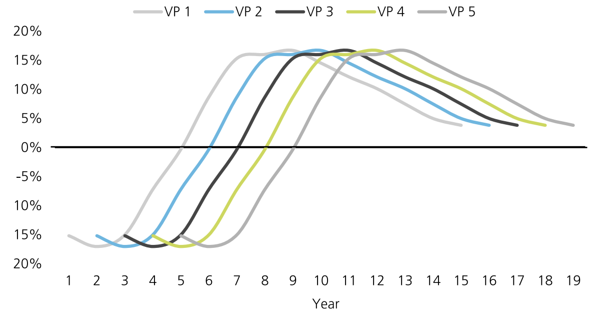
### Leverage weaker fundraising environments to invest into hard-to-access funds as fundraising timelines extend and competition decrease




Note: Select Private Equity strategies (Balanced, Buyout, Growth, Hybrid, Secondaries and Turnaround). Accessed June 27, 2024. Source: Preqin, UBS.

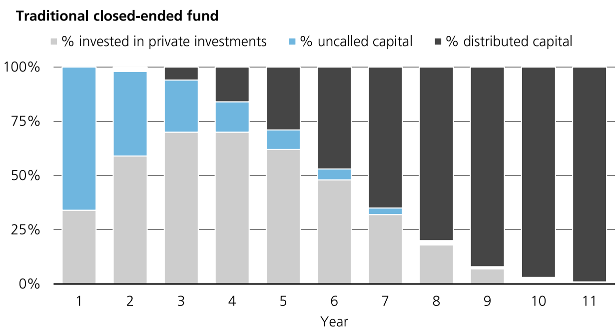
### Automatically build a portfolio diversified across vintages, managers and sectors by allocating to a vintage program annually

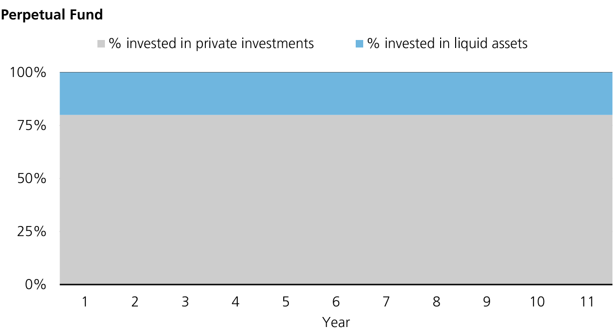
Average net cash flow profile of a private equity fund, in percentage of fund size




Note: VP = Vintage Program. For illustrative purposes only. All data as of June 30, 2021. Source: Pitchbook, UBS.

### Investors can achieve continuous vintage diversification by outsourcing the re-investment decision to perpetual fund managers




Note: As of October 27, 2023. Source: Burgiss, UBS.

publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

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