

TalkingPoints

The S&P Listed Private Equity Index



Tianyin Cheng

Director
Strategy & Volatility Indices
S&P Dow Jones Indices



Mahavir Kaswa

Associate Director
Equity Indices
S&P Dow Jones Indices

The S&P Listed Private Equity Index follows the performance of the leading publicly listed private equity companies that meet specific size, liquidity, exposure, and activity requirements.

1. What is private equity, and what is driving interest in private equity?

Private equity investments are made in operating companies that are not publicly listed or traded on a stock exchange. Such firms are known for their extensive use of debt financing to purchase companies, which they restructure and attempt to resell for a higher value.

The primary reason for investor interest in private equity is its return enhancement potential. In the 1980s, 1990s, and 2000s, each U.S. dollar invested in the average private equity fund returned at least 20% more than a U.S. dollar invested in the S&P 500[®], with outperformance of at least 3% per year.¹

Currently an important asset class for institutions globally, private equity investment has grown significantly over the past two decades in response to low central bank rates, low discount rates and higher liabilities, and lower expected returns in public markets.²

2. What are the different approaches used to access private equity?

Commitments to closed-end limited partnership structures have been the most common route to access private equity investments for qualified institutions and high-net-worth individuals. New options are emerging, including direct investment, co-investment, separate accounts, and listed private equity (LPE).

Register to receive our latest research, education, and commentary at go.spdji.com/SignUp.

¹ Harries, Robert S., Tim Jenkinson, and Steven N. Kaplan. "Private Equity Performance: What Do We Know?" *The Journal of Finance*. 69 (5), pp. 1851-1882, 2014.

² Willis Towers Watson, "Thinking Ahead Institute Global Pension Assets Study 2018," February 2018.

Exposure through private markets has its benefits and drawbacks. The most important benefit is that the investors get the direct exposure and the superior return potential of owning that asset class. The downsides are that these assets are illiquid and there is no ongoing price transparency. Investors would typically have to be in the asset class for the long term, since there are no liquid markets where they can trade their investments quickly. There is a J-curve effect in the returns and cash flow patterns, as the investment typically delivers negative returns and cash flows in the early years and then produces gains and positive cash flows later as the portfolio companies mature and are gradually exited.

3. Why should a market participant look at listed markets as a way to gain exposure?

LPE refers to an investment firm or an investment vehicle (like a fund) that makes investments conforming to one of the various private equity strategies and is listed on a public stock exchange. Gaining exposure to private equity through the listed market has some key advantages.

- 1. Access:** Listed private equity does not have minimum investment requirements and hence offers the opportunity for stock market investors to participate in a diversified portfolio of unlisted companies otherwise available only to large institutions or high-net-worth individuals.
- 2. Liquidity:** The listed markets provide daily price transparency, which is important to some investors. The ability to move in and out of investments in liquid public markets is also an attractive characteristic. The administration of a holding in an LPE vehicle is as simple as any other stock and share of a listed company, as is the tax treatment.
- 3. Cost:** Since existing vehicles have “ready-baked” portfolios, investors do not suffer a deep J-curve effect, which in turn means they are not paying fees on committed but uninvested capital. In addition, the permanent capital structure of listed vehicles allows private equity managers to spend less time fundraising and more time managing investments. As a result, fees may be even more competitive compared with limited partnership funds.
- 4. Cash Flow:** Many listed funds have made efforts to gain the interest of investors by giving a dividend, even though the unlisted companies the funds invest in typically do not offer one.

4. How does the S&P Listed Private Equity Index measure the private equity market?

S&P Dow Jones Indices launched the S&P Listed Private Equity Index in 2007 and backfilled the index level to November 2003. The index is designed to measure the performance of leading listed companies active in the private equity space. It includes all companies whose primary business is private equity investing, as long as they are listed on developed market exchanges, liquidly traded, and have a total market capitalization exceeding USD 150 million.

Constituent weights are based on float-adjusted market capitalization, with the single stock weight capped at 7.5% and a 4/36 rule³ to achieve diversification. In addition, the final weights are subject to criteria on portfolio liquidity⁴ to achieve capacity. The index is rebalanced semiannually in March and September.

5. How many companies are in the S&P Listed Private Equity Index?

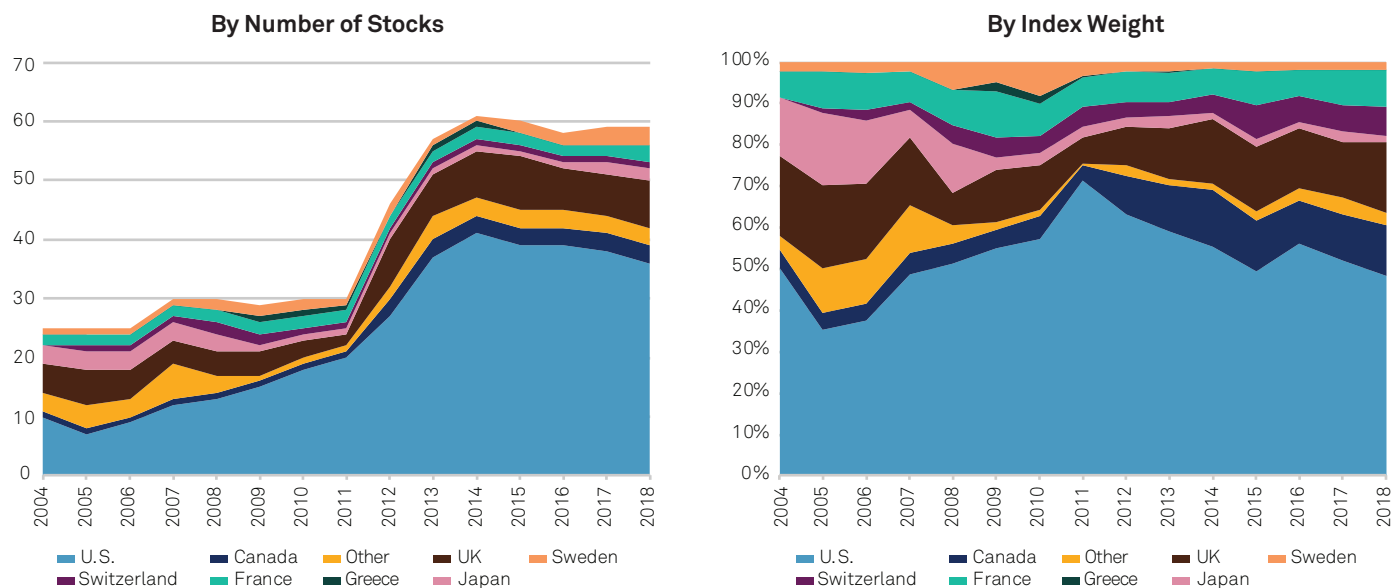
The index had 59 constituents, with a total market capitalization of more than USD 165 billion, as of Dec. 31, 2018. On March 12, 2007, the index had 25 constituents with a total market capitalization of approximately of USD 1 billion.

The index has been dominated by U.S. companies, with 36 in the index as of Dec. 31, 2018, followed by the UK with 8. Exhibit 1 shows the index composition by country of domicile and by number of stocks and index weight.

³ The sum of the weights of all stocks with weights greater than 4.0% must be less than or equal to 36%.

⁴ The portfolio liquidity is measured by portfolio size that can be turned over in a single trading day.

Exhibit 1: Index Composition by Country of Domicile



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Geography is identified based on the company's domicile, index composition as of the end of December each year. Others include: Italy, Spain, Singapore, Australia, Belgium, Netherlands, and Germany. Charts are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Among the top names, Brookfield Asset Management and Blackstone Group are the two most-valued listed private equities that have always hit the stock weight cap as of each rebalancing since 2013. In addition, Partners Group Holding, KKR, and 3I Group are among the top five most-valued LPEs in terms of total market capitalization, as of March 15, 2019. Exhibit 2 shows the top 10 names by weight as of the latest rebalancing.

Exhibit 2: Top 10 Stocks by Index Weight

Company	Index Weight (%)	Country of Domicile
The Blackstone Group LP	6.00	U.S.
Brookfield Asset Management Inc	6.00	Canada
Partners Group Holding	6.00	Switzerland
3I Group	6.00	UK
KKR & Co Inc	6.00	U.S.
Ares Capital Corp	5.99	U.S.
Eurazeo	4.00	France
FS KKR Capital Corp	4.00	U.S.
Intermediate Capital Group	4.00	UK
Onex Corp Sub vtg	4.00	Canada
Total	51.99	NA

Source: S&P Dow Jones Indices LLC. Pro-forma weights as of last rebalance effective open on March 18, 2019. Table is provided for illustrative purposes.

6. How has the S&P Listed Private Equity Index performed?

The S&P Listed Private Equity Index has outperformed the broad equity market, as measured by the S&P Developed BMI, by 5.4% per annum over the past 10 years. The performance gap shrinks considerably when shorter and more recent time periods are examined—for example, 0.4% for the past five years and 2.1% the past three years. Over a 15-year period, it has underperformed the broad market by 1.4%, as there was a sharp drawdown during the global financial crisis of 2008-2009.

The S&P Listed Private Equity Index has exhibited high correlation with equity (0.93 over the 10-year period). With the high correlation between these markets, shifting from public to private equity is more likely to enhance returns than improve diversification.

Exhibit 3: S&P Listed Private Equity Index Performance versus the S&P Developed BMI⁵

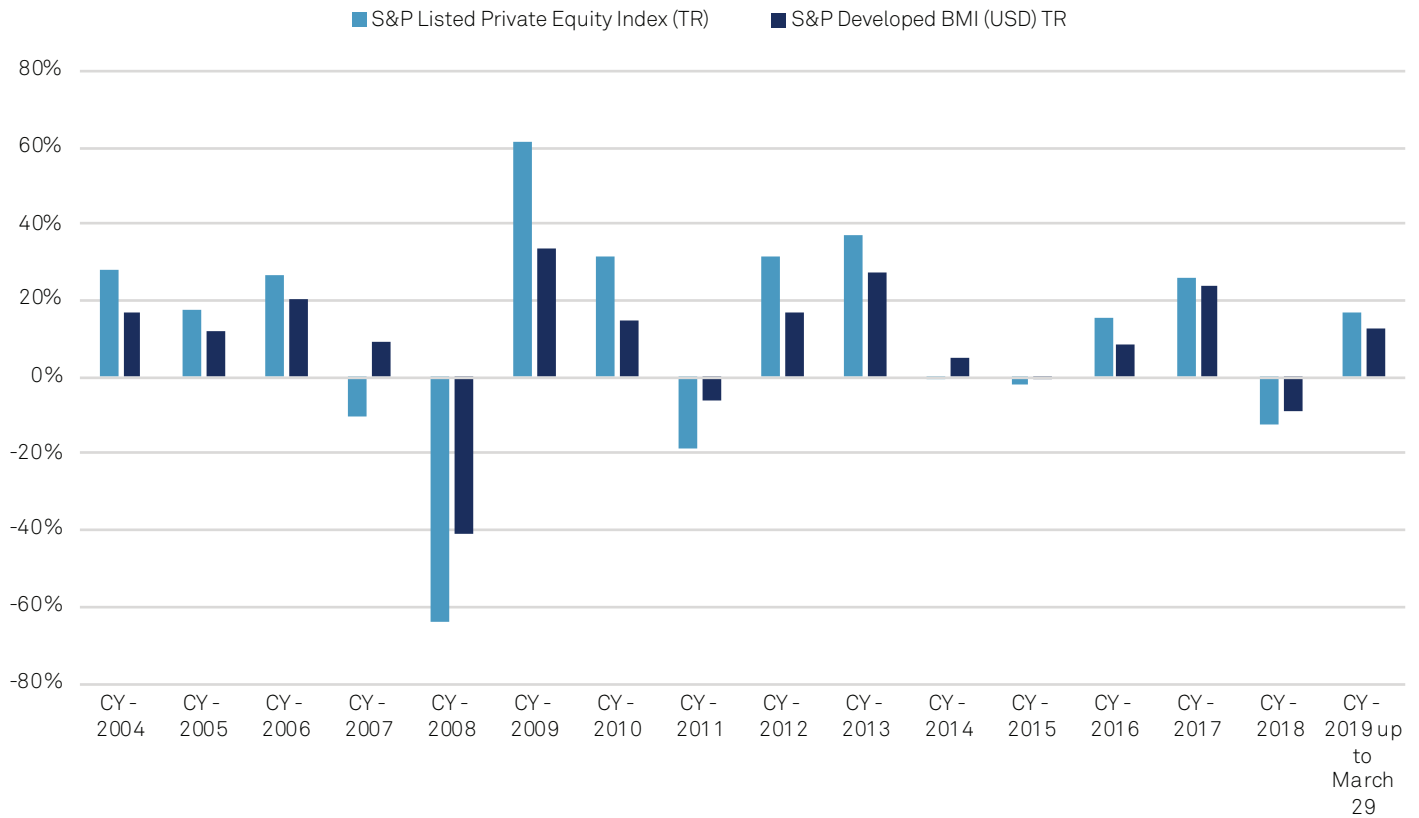
Statistics	S&P Listed Private Equity Index	S&P Developed BMI
Annual Returns (%)		
1-Year	5.0	3.2
3-Year	13.2	11.1
5-Year	7.5	7.1
10-Year	18.7	13.2
15-Year	6.2	7.6
Annualized Volatility (%)		
3-Year	13.2	10.2
5-Year	13.9	11.0
10-Year	20.8	13.8
15-Year	23.9	14.9
Risk-Adjusted Returns		
3-Year	1.00	1.09
5-Year	0.54	0.65
10-Year	0.90	0.96
15-Year	0.26	0.51
Correlation		
10-Year	1.0000	0.9280
15-Year	1.0000	0.9054

Source: S&P Dow Jones Indices LLC. Data from March 31, 2004, to March 29, 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The S&P Listed Private Equity Index tends to be more cyclical than the S&P Developed BMI—it has tended to outperform during bullish markets and underperform during bearish markets. The worst performance was exhibited in 2008, down by 64%, whereas 2009 had the best performance, up by 62%.

⁵ Please see the Appendix for the performance comparison with key Japanese indices.

Exhibit 4: Calendar Year Performance of the S&P Listed Private Equity Index and S&P Developed BMI



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2003, to March 29, 2019. Index performance based on total return in USD. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

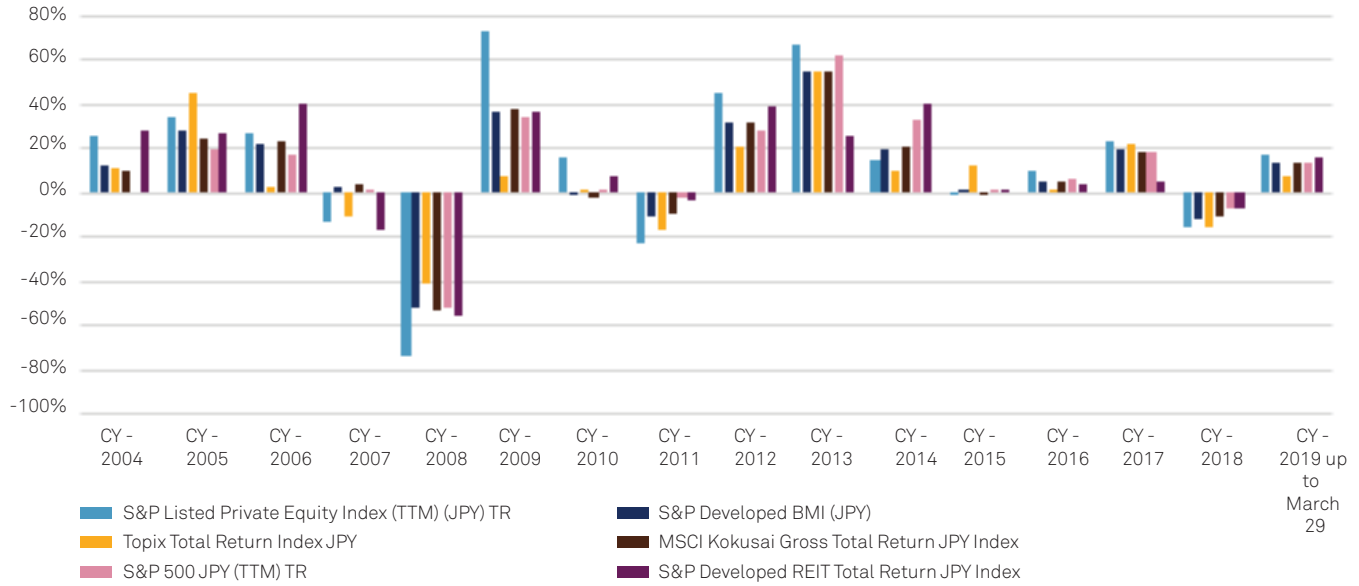
Appendix

Exhibit 5: S&P Listed Private Equity Index Historical Performance Comparison in Japanese Yen

Statistics	S&P Listed Private Equity Index (TTM) (JPY)	S&P Developed BMI (JPY)	Topix Total Return Index JPY	MSCI Kokusai Gross Total Return JPY Index	S&P 500 JPY (TTM)	S&P Developed REIT JPY Index
CAGR (%)						
1-Year	9.2	7.4	-5.0	10.1	13.6	21.0
3-Year	12.5	10.5	8.1	11.0	12.6	5.4
5-Year	9.3	8.7	8.0	9.1	12.6	9.7
10-Year	20.7	14.5	9.7	14.8	17.4	17.7
15-Year	6.6	8.0	3.9	8.3	NA	8.1
Annualized Volatility (%)						
3-Year	7.9	6.6	6.1	6.6	6.8	6.2
5-Year	10.5	8.8	8.7	8.9	9.4	8.4
10-Year	19.8	14.4	13.7	14.5	14.2	14.7
15-Year	26.4	18.5	17.3	18.5	NA	21.0
Risk-Adjusted Returns						
3-Year	1.595	1.599	1.322	1.666	1.860	0.858
5-Year	0.878	0.988	0.917	1.025	1.338	1.148
10-Year	1.044	1.013	0.709	1.023	1.225	1.203
15-Year	0.251	0.436	0.228	0.446	NA	0.386
Correlation (of Monthly Total Returns)						
10-Year	1.0000	0.9017	0.7819	0.8877	0.8795	0.8016
15-Year	1.0000	0.9004	0.7768	0.8897	NA	0.8254

Source: S&P Dow Jones Indices LLC and Bloomberg. Data from March 31, 2004, to March 29, 2019. Index performance based on total return in Japanese yen. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 6: Calendar Year Performance of the S&P Listed Private Equity Index in Japanese Yen



Source: S&P Dow Jones Indices LLC and Bloomberg. Data from Dec. 31, 2003, to March 29, 2019. Index performance based on total return in Japanese yen. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Performance Disclosure

The S&P Listed Private Equity Index was launched on March 12, 2007. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

The Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices LLC maintains the Index and calculates the Index levels and performance shown or discussed, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

General Disclaimer

Copyright © 2019 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR'S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

TOPIX is a trademark of Tokyo Stock Exchange and has been licensed for use by S&P Dow Jones Indices.