Private Equity: Past Performance and the Challenges of Today

Nisan Langberg

Investors in Private Equity funds (PE) have access to a variety of investments opportunities in private firms with risk and return profiles that are not available in standard public equity markets, such as investment in young private startup firms or leveraged buyout transactions. I will start with a general description of the main characteristics of private equity funds and a review of the recent trends in this market, while distinguishing between Venture Capital funds (VC) and Leveraged Buyout funds (LBO). I will discuss the properties of a typical portfolio firm, the financing arrangement, the added value contributed by fund managers to their portfolio companies, fund size, and the funds' investment and exit strategies. I will then turn to a discussion of the returns to investors from investing in private equity and delve into the measurement of performance in the PE industry (which is quite different than what is common for mutual funds). I offer an overview of the empirical evidence on the profitability of PE funds, the ways performance is measured in the industry, and discuss the difficulties in comparing PE funds based on the widely used performance measures, such as IRR (Internal Rate of Return) or MIC (Multiple on Invested Capital). Finally, I will mention the challenges faced by this industry today, the possibility that the industry is saturated with excessive capital (due to the recent increase in competition among PE funds, increases in the acquisition premiums paid by LBO funds, and the rise in demand from the limited partners wishing to invest in this sector), and examine whether this might compromise future returns.

Investments in Digital Assets: Mapping and Review

Dan Amiram, Gal Landau Yaari, Yaniv Feldman and Daniel Rabetti

The advances in blockchain technology in recent years have triggered the emergence of a new type of assets known as digital assets. A digital asset, also known as virtual currency or cryptographic currency, is a digital representation of a non-digital asset. In this study we map the major subcategories of digital assets, review the development of this market over the years and summarize the main findings from the academic literature on investments in digital assets. We conclude that despite their high volatility and low liquidity, certain digital assets can help investors to efficiently diversify their portfolio.