

NICHE PRIVATE EQUITY INDEX

Mantra Investment Partners' latest Niche Private Equity Index continues to underscore the outperformance of Niche PE funds versus mainstream PE.

Using the latest available data¹, Mantra's proprietary Niche Private Equity Index shows 2011 - 2021 vintage Niche PE funds returned an average net IRR of 37% and 2.4x net MOIC, slightly increasing versus last edition.

Crystallizing returns for investors is arguably private equity's most pressing challenge today. Thus, backing PE managers who consistently generate alpha is crucial to optimize realized returns as exit conditions improve.

Consistency of Realized Returns

- A July 2024 Jefferies report² focusing on the Distributions to Paid-in Capital (DPI) ratio of recent vintages of mainstream funds (2018-23) shows that realized returns are lagging historical averages.
- The report indicates that the DPI ratio for 2018-23 mainstream PE vintages is about two-thirds of its historical norm, reflecting slower capital returns due to prolonged high-interest rates which have strained exit opportunities.
- Few GPs are fully insulated from the current market environment. However, Mantra's proprietary Niche Private Equity Index highlights that Niche PE funds continue to achieve a returns delta that is significantly above the average delivered by generalist PE.
- While DPI and MOIC are not like-for-like metrics, as the latter tracks unrealized returns, the distinction emphasizes a key point for investors: in challenging market conditions, the ability to create value may diverge from the pace of realizing that value.
- Mantra's Niche Private Equity Index shows that, despite challenges, Niche PE managers maintain their long-term value creation edge but also generate higher realized returns than generalists, notably due to a lower use of leverage and a more specialized set of buyers.
- Niche PE strategies are therefore well-positioned to continue delivering superior realized returns, even once market conditions ease.

¹ Data as of Q4 2023

² See endnotes

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Components of the Niche PE Index

To construct the Niche PE Index, Mantra has analyzed internal-rate-of-return (IRR) and multiple-on-invested-capital (MOIC) historical data across over 6,000 Niche PE investments. These form the broad universe from which Mantra selects its own investments, following rigorous, exhaustive due diligence. Investments made by any Niche PE managers that have passed Mantra’s initial screening in the time periods under consideration have been included in the Niche PE Index. The Index’s sample population is outlined top-right.

The largest segment of the Niche PE Index is Multi-Vertical. It covers funds investing in multiple specialized niches, each one typically led by sector-specialist partners (an example is a buyout fund focused on Aerospace & Defense, Cybersecurity and Government Services). Technology, the second largest segment, covers funds and investments focused on companies with proprietary technologies in areas such as Software & IT Services, Cybersecurity and Digital Infrastructure.

Additional segments cover highly specialized funds and investments in sectors like Industrials; Healthcare & Education; Litigation Finance; Royalties; Food & Agriculture; and Financials. Hard-to-pigeon-hole funds and investments focused on everything from the sustainability of products to specialty media and entertainment are grouped in the ‘Other’ category.

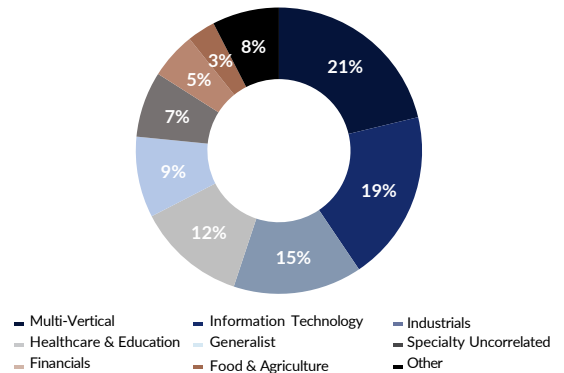
The Index includes deals from specialized GPs active across venture capital, growth capital, lower mid-market buyout, and hard-to-define market areas (grouped under ‘Specialty Uncorrelated’). The common thread running through all Niche PE portfolio companies is that they are off the radar of most non-sector specialists.

283
GPS

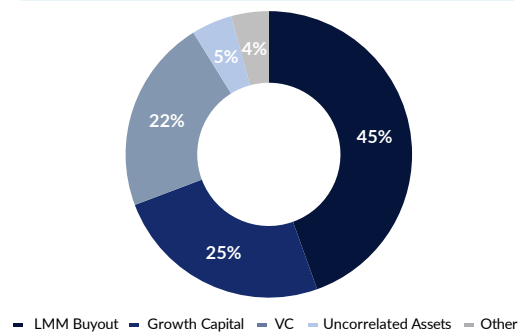
641
FUNDS

6,411
DEALS

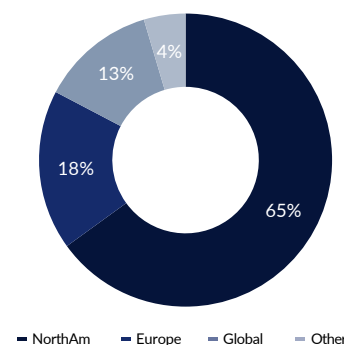
Niche PE Segment



Investment Strategy



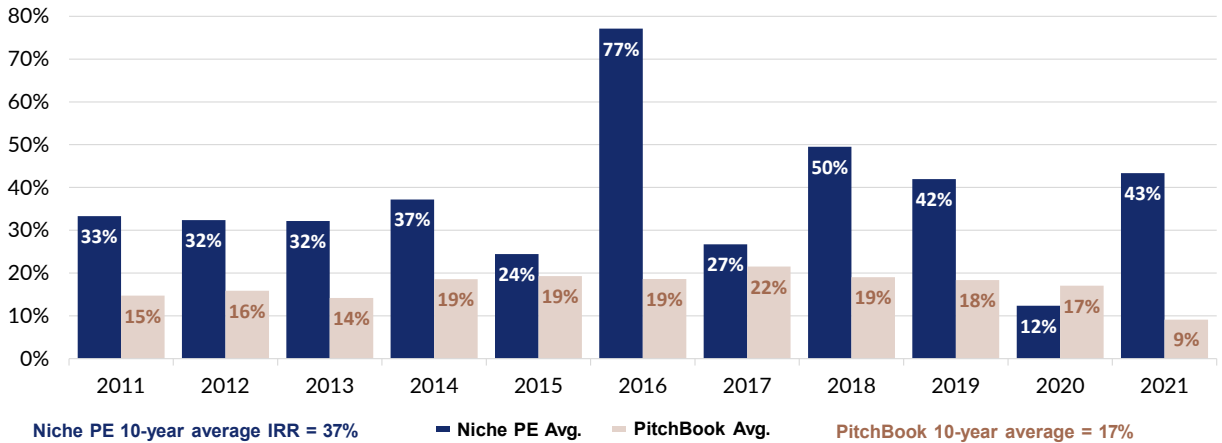
Geography



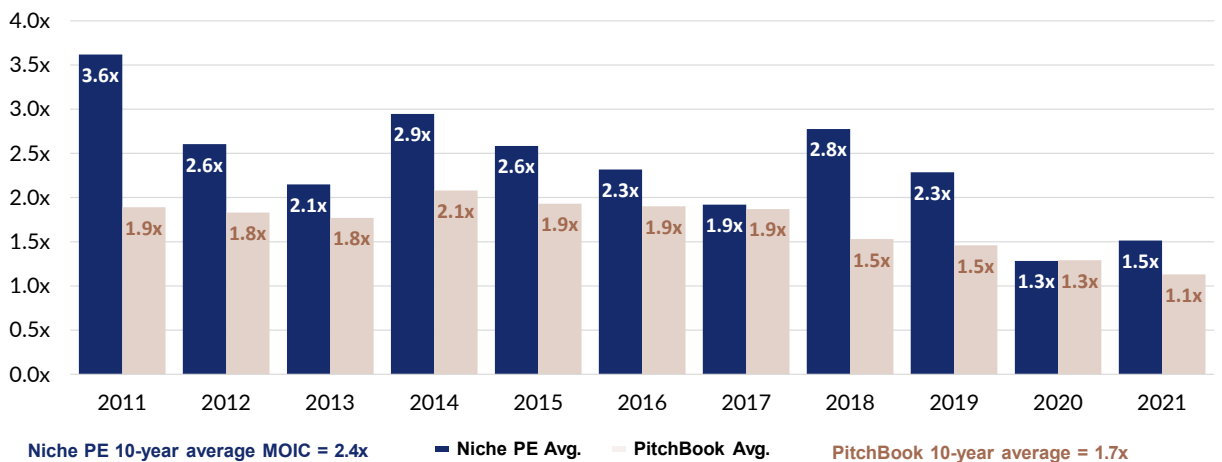
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Returns by vintage year*

IRR: Niche PE Index vs. PitchBook Benchmark



MOIC: Niche PE Index vs. PitchBook Benchmark



2011 – 2021 vintage Niche PE funds returned an average net IRR of 37% and 2.4x net MOIC versus comparable PitchBook Benchmark averages for mainstream PE of 17% and 1.7x, demonstrating the long-term outperformance of Niche PE vs. mainstream PE.

Even mainstream PE's top quartile performers fail to outperform the Niche PE mean, registering a 23% IRR & a 1.9x MOIC over ten years.

For realized investments, Niche PE funds and investments do even better, with 2011 to 2021 vintages returning 54% IRR and 2.8x MOIC net of fees on average.

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Notes & Disclaimer

² *Jefferies, Global | Brokers, Assets, Mgrs & Exchanges, July 2024*

Methodology - Fund vintage is based on the year of the fund's first investment. All Niche PE Index performance data should be considered as net. A standard 25% discount for fees, expenses, and carried interest has been applied to average IRRs and MOICs. Outlier investments with either less than a 1.5-year holding period, less than \$250K invested, or over 4,000% IRR are excluded from calculations, as are unrealized investment NAVs calculated prior to December 2022. Internal Rate of Return: IRR, i.e. the annualized rate of return on an investment. Multiple on Invested Capital: MOIC, i.e. total value of an investment divided by its cost. Realized Investment: an investment is considered realized when over 50% of its total value has been realized. The PitchBook data is drawn from the *2023 Global PitchBook Benchmarks as of Q4 2023* report. PitchBook IRRs combine cashflow data from a group of funds in PitchBook's sample to create a capital weighted IRR value. PitchBook MOICs are a measurement of both the realized and unrealized value of a fund from the sample as a proportion of the total paid-in, or contributed, capital. The survey conducted by Mantra is for comparative and information purposes and should not be considered as complying with the strictest standards of statistical analysis.

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