Private Equity International

By: Adam Le
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EDITOR'S VIEW

NewVest's index fund is a reminder that disruption is coming to private markets

The PE 50 index is further evidence that investors are being given different ways to access the asset class.

When John Bogle founded Vanguard Group in 1974, his aim was simple: create a passive investment product that is an index of the broader stock market that ordinary people can invest in at a low cost.

Almost 50 years later, a firm founded by a finance academic is aiming to replicate Bogle's strategy – to some extent – within private markets. This week, New York-headquartered NewVest said it had held the first close on its debut offering – dubbed the Private Equity 50 Index fund, raising $150 million. Its vision is simple: create the Vanguard of private markets and offer broad exposure to the 50 largest funds in market in a given year.

NewVest's pitch is that, similar to Vanguard, it offers a passive approach to investing in private equity – a tracker of the returns of the top end, by size, of the private equity industry.

On the face of it, the PE 50 looks no different from a small-sized fund of funds product. However, there are a few elements which appear to make it different.

For starters, the fund's economics are arguably more aligned with investors, as the vehicle charges no management fee. After LPs have received 100 percent of their money back, NewVest will then charge carry – between 2 percent and 6 percent – with a European waterfall structure. There isn't a hurdle rate, so investors are in a sense swapping having to pay a management fee for having to share any profit, regardless of how little is made.

Edward Talmor-Gera, chief executive of NewVest, says the PE 50 will cost investors less than 1/10th that of an average fund of funds vehicle on a gross to net-spread basis.

Second, unlike a fund of funds which may have a region or strategy focus, the PE 50 attempts to replicate index investing by reflecting the weighting of the 50 funds that make up its underlying investments. Exposure to Blackstone's $26 billion latest flagship, for example, would be around five times larger than exposure to Welsh, Carson, Anderson & Stowe's latest fund, which is seeking $5 billion.

Third, NewVest was able to get access to the 50 biggest funds in part by telling GPs that it is going to be their best LP ever. "We don't send them hundreds of pages of DDQ, we're not asking them to give us co-investments and we will never take any placement fees or other economics from them. We're not even asking for loads of management time," says Talmor-Gera. Instead, NewVest asks three simple questions: What is your fund? What is the target size? What are the dates of your closings?

NewVest defines the 50 biggest funds as those with the largest target amounts which have had a first close in 2022 or expect one in the first half of 2023 and which will have a subsequent close in the first half of the year. Sticking to these funds brings lower risk, as well as lower return potential compared with small funds, according to Talmor-Gera.

The key question is: what kind of a return can an investor in the PE 50 expect? Talmor-Gera declined to give specifics, but pointed out that the weighted average of the largest funds between 2000 and 2015 had higher returns than the weighted average of the overall market. "If you look at the pooled return versus the median on a two-three-year, four-year-old vintage, the pooled return is substantially above median and above the top quartile overall" in the decade and a half to 2015, he added.

It's worth noting that NewVest isn't the first to attempt to create an investible index of private equity. Chicago-based DSC Quantitative Group, founded in 2012, produced an investible index that essentially tracked the performance of the returns of private equity-backed companies using data from Thomson Reuters at the time. Others have created ETFs and public market indices of listed private markets GPs or listed PE trusts; or public strategies that attempt to replicate PE via levered indices of small-cap stocks.

NewVest believes its offering is the first successful attempt to create a truly passive index of private equity, and it plans to launch products for private debt, infrastructure and real estate this quarter, with impact strategies also in its sights.

The LP-GP model in private equity isn't about to be turned on its head anytime soon. And yet, as broader swathes of investors find different ways to access the asset class, as we explore in our Democratisation of Private Equity Special Report this month, NewVest's PE 50 is a reminder that disruption is coming – no matter how small.