

Get ready for underperformance, private equity consultant says

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The average private equity returns will underperform the public market over the next five years, in part because of the high prices private equity firms are paying for businesses, said David Fann, president and CEO of private equity consulting firm [TorreyCove Capital Partners](#).

“Private equity will not be competitive” with the stock market over the next five years, Mr. Fann said Tuesday during a panel at Pension Bridge's Private Equity Exclusive conference in Chicago.

Private equity is an efficient market, he said. “It'll be hard to reach a 20% rate of return ... it ain't going to happen in the next five years.”

The private equity managers on the panel — Steven B. Klinsky, founder and CEO of New Mountain Capital, and Glenn M. Creamer, senior managing director, Providence Equity Partners — disagreed with Mr. Fann's assessment.

“I don't think it's an efficient market,” because an efficient market is one where investors make bets like bets on a roulette wheel, Mr. Klinsky said.

“Private equity is not a market. Private equity is a business,” he said.

For investors it is a time to be cautious and to take commitment-pacing plans adopted at the beginning of the year as targets, said Alex Done, head of private equity, \$163.4 billion [New York City Retirement Systems](#), at the same panel. This year, the pension plan is committing to private equity at slightly below its target commitment pace. Investors have to be disciplined, he said.

Meanwhile, Alex Navab, member and head of Americas private equity at alternative investment firm KKR & Co., said the pace of the firm's private equity investments is slower today than in 2011 when prices weren't as high.

It's harder to provide the kind of returns KKR would like to deliver to its investors, Mr. Navab said.

Indeed, echoing the feeling of many at the conference, Mr. Navab said KKR expects a market downturn — not a worldwide recession — within the next five years.

“We think it could be in the next two to three years,” he said.