

**Termgrid**

# The Capital Markets Premium

Do private equity funds with capital  
markets outperform their peers?

An introductory analysis by Termgrid  
The end-to-end platform for private capital markets



# Introduction

In a first-of-its-kind returns analysis, Termgrid sought to assess the impact that capital markets professionals within private equity firms have on their fund return profile. In this short paper:

- We review our initial findings into the Capital Markets Premium for private equity buyout funds, and
- Provide a primer on capital markets in private equity firms

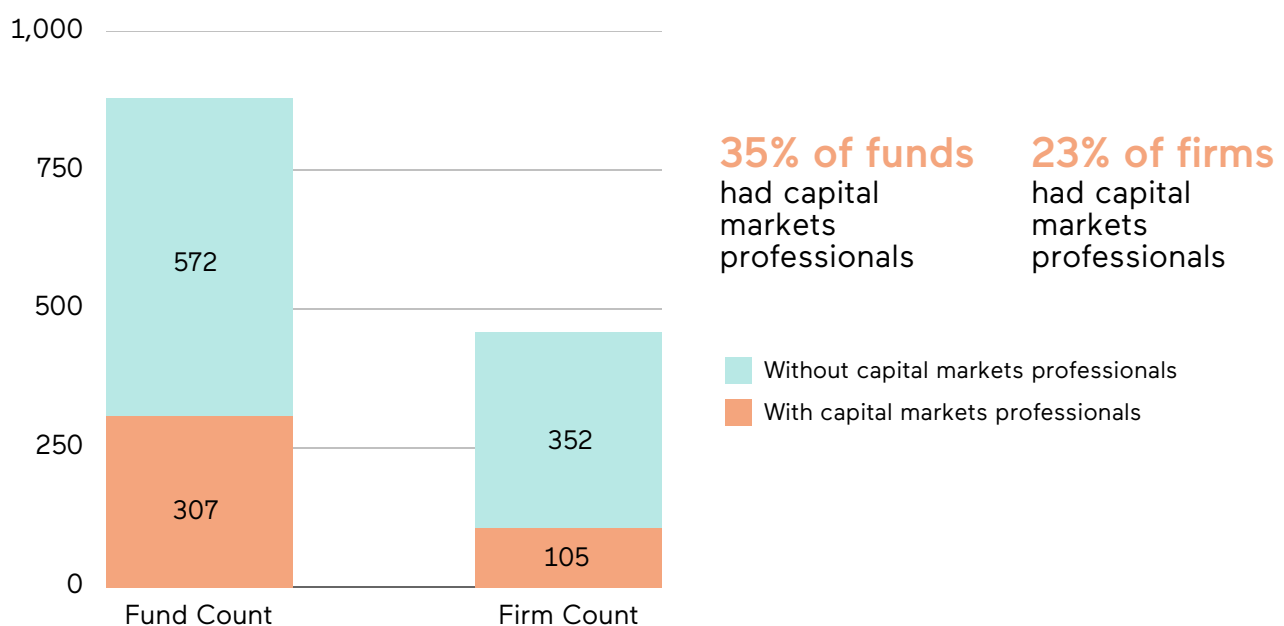
We set out to quantify the impact on fund returns of different capital markets capabilities of private equity firms. Investors have choices in how to raise and manage their debt capital financing. These options include hiring dedicated capital markets professionals, hiring external bankers or specialist debt advisors, or managing internally with the same team pursuing both the primary equity investment and the debt financing.

## Methodology

In this analysis, we compare the Net IRR return profiles of investment funds with and without capital markets professionals. We combined Termgrid Research of capital market participants in seat as of Q1 2023 with Preqin fund level return data as of year-end 2022. Specifically, we analyzed 10 years of Net IRR of private equity Buyout funds with Vintage years 2010 through 2019.

The analysis includes 879 private equity Buyout funds representing 457 unique firms with reported Net IRR and Fund Size. Within the dataset, we identified 307 funds (35%) and 105 firms (23%) with capital markets professionals.

**Investment Funds Capital Market Professionals**  
879 PE buyout funds from 457 firms



Source: Termgrid Research and Preqin, December 2022

# The Capital Markets Premium

Our analysis uncovered Net IRR outperformance of 270 basis points, or 12% higher, of funds with capital markets as compared to funds without capital markets. Funds with dedicated capital markets professionals had an average Net IRR of 24.4% compared to 21.8% of funds without capital markets professionals.

This initial analysis reveals that there is a meaningful level of outperformance of funds that have an elevated focus on capital markets, identified in this analysis as having dedicated capital markets professionals. While this analysis does not prove causation, we hope this introduction encourages conversation about the benefits of enhanced capital markets capabilities, given the magnitude of outperformance identified.

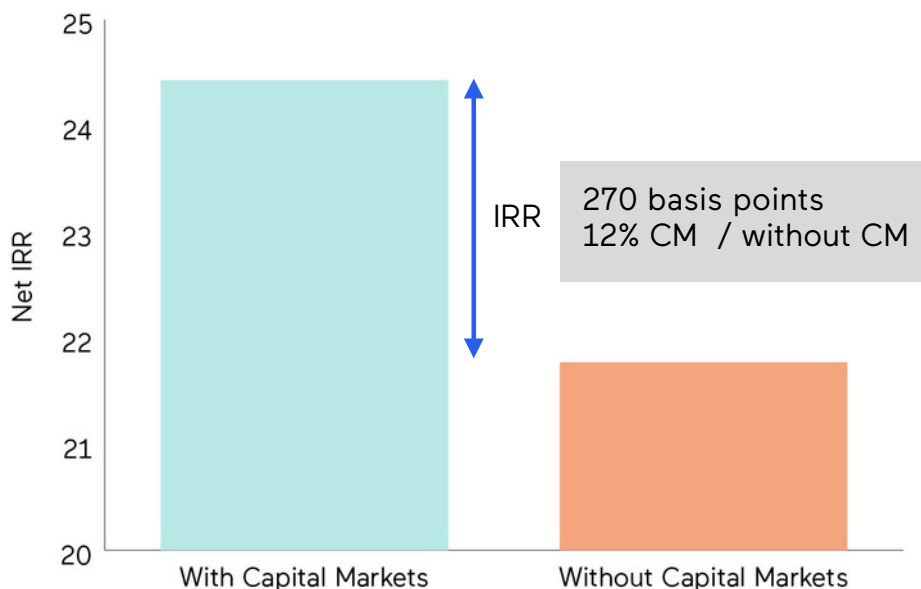
When only a few hundred basis points separate Average returns from Top Quartile returns, every edge matters and the Capital Markets Premium offers a potentially significant strategic edge to those that pursue it.

> 12%  
**Outperformance**  
 (Net IRR)

**Of funds with capital market professionals**  
 compared to funds without capital markets professionals

**The Capital Markets Premium is clear:**  
 Private equity funds with dedicated capital markets professionals **outperformed** private equity funds without capital markets **by more than 10% over the last 10 years.**

**Buyout Funds Net IRR and the Capital Markets Premium**  
 Funds with capital markets outperform peers in vintages 2010-2019



Source: Termgrid Research and Preqin, December 2022

# A New Strategy for Funds of All Sizes

**Our analysis further reviewed whether the Capital Markets Premium exists in all or certain fund sizes. We found that the Capital Markets Premium exists across all fund sizes and shows that both small and large funds present higher return performance with dedicated capital markets capabilities than without.**

Our analysis of 879 funds included funds with sizes from \$20mm to nearly \$25bn, of which 70% of the funds were less than \$1.5bn. In funds with less than \$1.5bn, outperformance of 420 basis points, or 19% relative outperformance compared to funds without capital markets. In funds over \$1.5bn, we see outperformance of 340 basis points, or 17% on a relative basis.

In absolute terms, for the average \$1bn fund, capital market professionals may contribute over \$40mm of additional return per year.

Assuming a traditional 20% GP Carry structure, the Capital Markets Premium would translate into over \$8mm of GP profit per year. While the investment in capital markets capabilities can vary across firms from solo contributors to broad teams, this level of return suggests there is significant ROI potential by investing in greater capital markets capabilities.

Funds with > \$1.5bn:

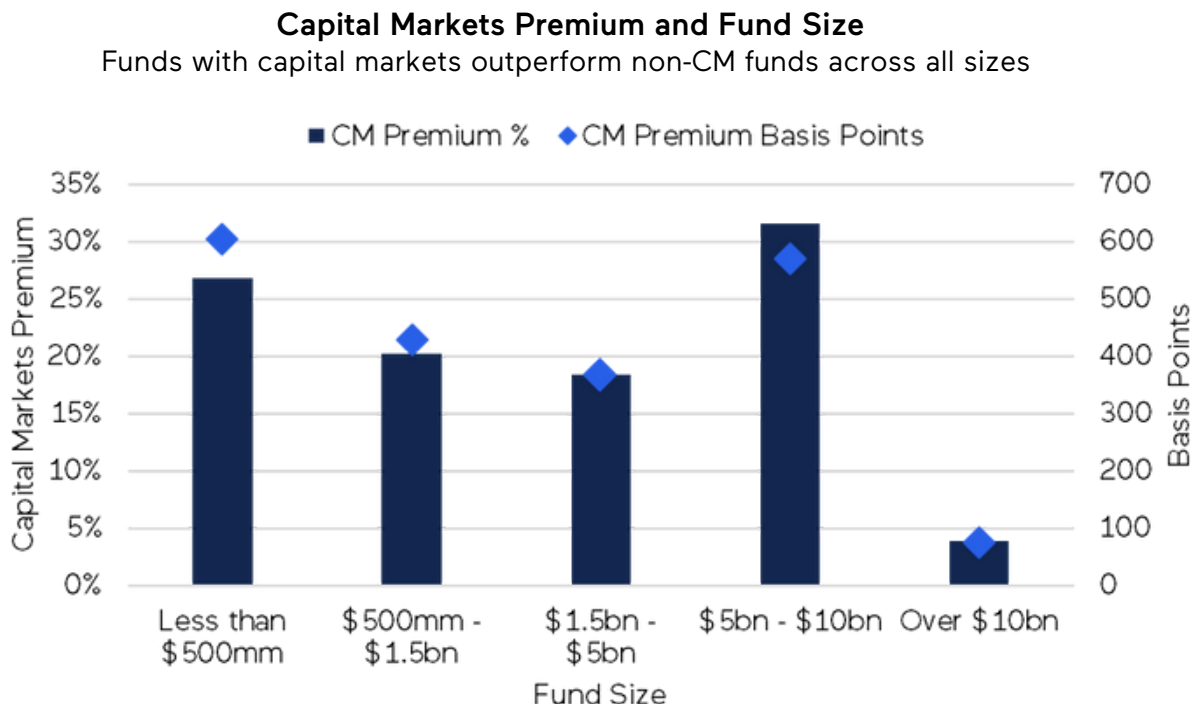
**17%** Net IRR outperformance  
(340 basis points)

compared to funds without capital markets professionals

Funds with < \$1.5bn:

**19%** Net IRR outperformance  
(420 basis points)

compared to funds without capital markets professionals



Source: Termgrid Research and Preqin, December 2022

# Capital Markets Adoption

While the Capital Markets Premium is clear across all fund sizes, the distribution of capital markets professionals is not. The penetration of capital markets professionals across funds in our analysis is lowest in smaller funds and highest in the largest funds. In-house capital markets capabilities exist at 19% and 72% of funds with less than \$1.5bn and over \$1.5bn, respectively.

The lack of alignment between capital markets performance and fund adoption of enhanced capital markets capabilities represents a significant strategy to improve returns for all funds without dedicated capital markets, especially smaller funds. Additionally, firms that have already taken the first steps in establishing their own capital markets capabilities should be encouraged to further pursue initiatives to extend and maximize their own Capital Markets Premium.

**For the average \$1bn fund, capital market professionals may contribute over \$40mm of additional return per year. The Capital Markets Premium would translate into over \$8mm of GP profit per year.**

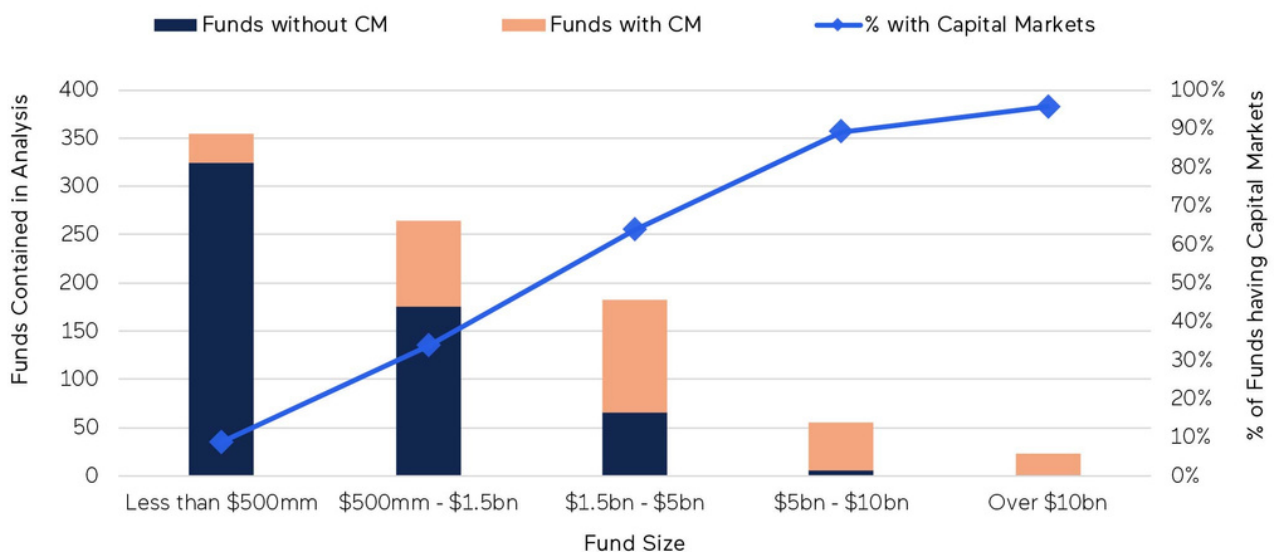
Funds with > \$1.5bn:

**72%** Have inhouse capital markets capabilities

Funds with < \$1.5bn:

**19%** Have inhouse capital markets capabilities

**Capital Markets Adoption by Fund Size**  
% of funds with capital markets increases with fund size



Source: Termgrid Research and Preqin, December 2022

# A Primer: Capital Markets in Private Equity

Capital markets professionals at private equity firms typically work on arranging debt financing for new investments or in support of portfolio companies owned by the funds.

These professionals may also lead equity financing initiatives or equity syndication to LPs and other co-investors. In some cases, these teams are structured as broker-dealers who advise, structure and execute across a broad range of complex financing transactions with the additional flexibility to act as a capital provider in select situations.

Capital markets teams increase returns, improve risk management, and support efficient scaling of the investment firm.

## 1. Increase Returns

Capital markets professionals can provide optimal capital structures and an enhanced ability to execute given their market knowledge, relationships, and focused experience.

## 2. Improve Risk Management

Increasingly complicated capital structures, bespoke covenant agreements, and a greater number of lending relationships require constant monitoring and dedicated focus to reduce downside risk across the entire fund portfolio and capture opportunities on a more consistent basis.

## 3. Enable Efficient Scaling

Capital markets professionals bring focus and expert partnership that can deliver greater performance while freeing up other professionals to focus on their respective responsibilities.

Despite the performance premium correlated to dedicated capital markets capabilities across small and large fund sizes, capital markets capabilities today mostly exist in larger firms.

Out of the Top 50 PE firms (ranked by capital raised over the last 10 years), over 80% have dedicated capital markets professionals. Of the next 200 Top PE firms, only 36% have dedicated capital markets professionals.

PE Firm Ranking	Total with Cap Mkts	% with Cap Mkts
Top 20	18	90%
Top 50	41	82%
Top 100	70	70%
Top 250	112	45%
Top 500	123	25%
Top 1000	125	13%

## Top 50 PE Firms

> 80%

## Top 500 Firms

25%

Have dedicated capital markets professionals

## Capital Market Professional Role Increasing

An indicator of the increasing interest of Private Equity firms in capital markets professionals can be seen in the increasing number of personnel movements in the industry. Our analysis of LinkedIn Sales Navigator data reveals that 50% of professionals in capital markets roles at Private Equity firms joined their current firm in the past 2 years.

# Capture your Capital Markets Premium

Capital markets teams exist to increase returns, improve risk management, and support efficient scaling of the investment firm. Our analysis supports this suggesting that firms with dedicated capital markets teams or individuals perform better.

This "Capital Markets Premium" is a potentially significant strategic edge.

## How Termgrid can help

For firms that already have a capital markets function, our technology can scale and advance their current capabilities by:

- **Providing real-time insights** for data-driven strategic lender engagement, negotiation, and portfolio management
- **Streamlining deal execution**, unifying and digitizing workflows to increase team capacity, and reducing transaction costs
- **Improving risk management**, oversight, and optimization with a centralized source of truth

For firms that do not yet have dedicated capital markets resources, Termgrid can help establish them by:

- **Driving consistency across deal teams**, connecting collective experience and data to standardize best practices
- **Institutionalizing capital markets knowledge** and processes so the firm has a solid foundation to scale
- **Increasing the productivity of deal teams** so they can focus on equity instead of debt underwriting

**“Termgrid is a clear solution for Cap Markets professionals and is continuing to expand offerings that help us drive better execution in our financings.**

**Termgrid is a value-added partner to us and helping us grow our business.”**

- Carolyn Wintner

MD & Head of Capital Markets

Charlesbank Capital Partners

**“Termgrid has helped us modernize our capital markets operations and has driven efficiencies in deal execution and portfolio management. The product provides immediate value by automating some of the manual and repetitive processes.”**

- Mark Danzey, Partner

KKR Capital Markets

**With Termgrid, private equity firms have more time and data to achieve greater returns, scale efficiently, and manage risk - the Capital Markets Premium**

**Connect with Termgrid to discuss how we can accelerate your business.**

# About Termgrid

Termgrid is a SaaS platform purpose-built for private debt markets to help private equity investors seamlessly execute and manage their debt financing transactions end-to-end.

## How it works:

- A single, digital environment for firms to run transactions and maintain oversight of all their financing activity in one place
- Private equity sponsors invite lenders, legal counsel, and debt advisors to deals to collaborate and trade terms digitally
- Data is automatically and systematically captured across relationships, transactions, and terms

## Benefits:

- Unifies and digitizes disparate manual workflows for faster, more efficient transactions saving time and money
- Creates a rich database of institutional knowledge - leverage your own data to drive faster and better decision making
- Centralizes portfolio management, strengthening oversight of the capital structure of portfolio companies

## Private Equity is on Termgrid

> **8k** Investment professionals

> **650** Institutions collaborating

KKR

TA ASSOCIATES

IEQT



|| Charlesbank ||

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Apax  
PARTNERS

  
NEW MOUNTAIN CAPITAL

Bridgepoint FRAZIER HEALTHCARE PARTNERS

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