

# Private-equity returns can be replicated with public shares

A few pioneers have developed indices using public shares to track the asset class

## Private numbers

Indices tracking the US private-equity sector  
Total returns, January 1st 2007=100



Sources: Bloomberg; *The Economist*

Economist.com

IT IS hard for individual investors to match the returns achieved by private-equity funds. But what if their success in outperforming the public markets could be tracked and replicated? A few pioneering firms claim to have done just that. DSC Quantitative Group, a Chicago-based fund, and State Street, an asset manager, both offer “investable” indices, launched in 2014 and 2015 respectively, that allow investors to mimic the performance of American private equity.

Both firms needed a measure of the industry’s returns. DSC teamed up with Thomson Reuters, a data firm, to compile an index; State Street had been making one since 2004, using data it gleans as a custodian of private-equity assets.

They then match the private-equity risk-and-return profile with a basket of public assets. DSC’s index first matches the sector weights of the private portfolio with equivalent public companies, and adds a modest amount of debt (around 25%) unevenly across the sectors—all using predictive modelling, as the reference index of private transactions is published only after a delay. State Street’s investable index does not include any debt and only matches sector weights, although some clients opt to borrow so that their investment more closely resembles a typical private-equity fund’s leverage of 35%.

The performance, particularly of the DSC Thomson Reuters index, seems alluring, even over the long term (both indices have been back-calculated for a number of years—see chart). Of course, an individual private-equity fund may well do much better. But such funds have their downsides: they often require investors to lock up their money for a decade or more; and they charge sky-high fees. Jeff Knupp of DSC claims that his one achieves private-equity returns for its clients for only 20% of the usual cost.

Private equity may be just the start. The index-makers are looking at other asset classes. DSC already offers a similar product for venture capital, and State Street wants to broaden its indices to other opaque sectors such as property or infrastructure. Index-makers do not just follow markets; they also expand them.

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For additional information, please contact [info@dscqg.com](mailto:info@dscqg.com)

