

Teams must evolve to survive: New research by Capital Dynamics and the London Business School finds team turnover a key to future performance

ZUG, Switzerland and London, August 13, 2013 – Capital Dynamics, a global private asset manager, and the London Business School's Coller Institute of Private Equity are pleased to announce their joint findings on the connection between team stability and track records. Contrary to widely held beliefs, they have concluded that higher turnover equals improved private equity performance.

Until now, there was limited evidence to support the theory that team stability is necessary for continued performance; thus Capital Dynamics and the London Business School embarked on a project to gather and examine the data behind the track records. Using data mined from Capital Dynamics' due diligence database, the researchers analyzed the backgrounds and investments of management teams together with corresponding deal and fund performance attributed over a 20-year period.

Initial findings on 56 managers, released in 2011, indicated turnover has a positive effect on performance. The full findings, on 145 senior fund management teams from around the world and dating back to 1990, reveal an even stronger link between turnover and positive performance.

Key conclusions:

- Teams that experienced turnover from one fundraising to the next performed better on the next fund; a 1% increase in turnover led to a 10% increase in subsequent net IRR.
- The average net IRR of fund managers with the highest turnover was 25% compared with 11.5% for those with the lowest turnover.
- The impact on performance differed according to professionals' backgrounds. Between funds, higher turnover of professionals with operational backgrounds led to a significant improvement in performance, while the turnover of professionals with financial backgrounds did not impact performance.
- Fund managers with higher turnover during recessions performed better than those with lower turnover; a 1% increase in turnover led to a 3.1% increase in net IRR.

"Our findings suggest a new team attribute – **team evolution**. **Team evolution** should be considered during due diligence, as the ability of a team to adapt to changing economic environments – as our study shows – can be more important than the team's stability," said Ivan Herger, Head of Research at Capital Dynamics.

"This study shows how a systematic and thorough examination of a large data set can provide novel evidence that can be used in practice," said Francesca Cornelli, Academic Director at the London Business School's Coller Institute. "In particular, evidence that when conducting due diligence it is important to focus not only on the skills and expertise of the single individuals but also on the dynamics of the entire team."

The full findings are available here for download: <http://capdyn.com/media-research/research.cfm>.

Capital Dynamics

Capital Dynamics is an independent, global asset manager, investing in private equity and clean energy infrastructure. We are client-focused, tailoring solutions to meet investor requirements. We manage investments through a broad range of products and opportunities including separate account solutions,

investment funds and structured private equity products. Capital Dynamics currently has USD 18 billion in assets under management¹.

Our investment history dates back to 1988. Our senior investment professionals average over 20 years of investing experience across the private equity spectrum. We believe our experience and culture of innovation give us superior insight and help us deliver returns for our clients. We invest locally while operating globally from our London, New York, Zug, Beijing*, Tokyo, Hong Kong, Silicon Valley, Sao Paulo, Munich, Birmingham, Seoul, Brisbane, Shanghai* and Scottsdale offices.

¹Capital Dynamics comprises Capital Dynamics Holding AG and its affiliates; assets under management, as of March 31, 2013, include assets under discretionary management, advisement (non-discretionary), and administration across all Capital Dynamics affiliates. Investments are primarily on behalf of funds managed by Capital Dynamics. *Diligence Capital is a legally separate company operating under a strategic cooperation with Capital Dynamics.

The Coller Institute of Private Equity, London Business School

The Coller Institute of Private Equity is a research centre within London Business School. As such its focus on research is fundamental to its vision and mission. Our interests are broad, covering venture capital to private equity; examining this field from a variety of stakeholder perspectives. Our research comprises academic papers, case studies and applied analysis.

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