The First-Time in Private Equity:
Does Experience Help to Raise Capital?

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Abstract

Compared to mature investment firms, first-time funds in private equity lack an investment and performance track record, and require alternative signals to establish initial trust with investors. The paper finds that investors allocate more capital to first-time funds if they have a higher share of managers with relevant experience, such as from another private equity group or a bank. In particular, experience from high-reputation employers raises the fundraising outcome, while the relevance of experience with the same previous firm, heterogeneity in the exposure, and operational experience is limited at best.

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1 Introduction

When investors commit capital to a private equity partnership they engage in a typical principal-agent relationship (Jensen and Meckling (1976)). Investors desire the scarce skills some of the agents possess but which they cannot identify upfront. As this allows the agents to maximize rents, the principals have to carry out costly due diligence before investing (Da Rin and Phalippou (2017)). In the case of a seasoned private equity firm, past performance is considered the best predictor for fundraising success and future returns (e.g., Kaplan and Schoar (2005), Phalippou and Gottschalg (2009), Barber and Yasuda (2017)). This alleviates uncertainty for the principal and guides (re-)investment decisions. In the case of a first-time fund, however, the absence of an investment and performance track record aggravates the information asymmetry.

In this paper, I consider the question whether experience helps managers of first-time funds in their fundraising. With a lack of organizational capital, physical assets, and intellectual property, the main resource of the team is their experience from previous roles. Prior evidence shows that manager skill in the private equity industry exists (e.g., Harris et al. (2014a), Braun et al. (2016), Korteweg and Sorensen (2017)), and that managers are able to transfer skills and expertise from previous roles (e.g., Acharya et al. (2013), Siming (2014)). Teams are relatively small with limited (managerial) resources, and the setup is typically fixed before the managers start to approach potential investors, who try to assess their skills during the due diligence process (e.g., by interviewing the management team). The capital allocation decision of investors can then be interpreted as a signal on the level of trust that investors have in the abilities of a particular team.[1] As an extension to the main question, I investigate which features of the experience investors appreciate the most and thus enhance the signaling value (e.g., experience from a high-reputation firm or a common previous employer).

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[1]The analysis uses the amount of capital that the managers are able to raise as a proxy for investor trust, since it is not possible to obtain data on all the failed attempts (documented and undocumented) where managers did not receive money at all.

Private equity represents a sizable and strongly growing asset class that attracts a continuous inflow of new funds every year.[2] Identifying future stars among the emerging managers represents therefore an on-going challenge for investors. On the other hand, first-time funds offer various benefits. First, they adsorb the surplus demand mature funds leave as a result of top-performers restricting capital inflows (e.g., Li (2014), Hochberg et al. (2014), Marquez et al. (2015)). Second and similar to other asset classes, they can exploit niche strategies and target less efficient market segments due to their smaller size and agility (e.g., Aggarwal and Jorion (2010)). Third, managers are highly incentivized by common compensation structures and co-investments requirements, but compared to seasoned managers cannot rest on the financial gains from previous fund sequences. Lastly, investors who engage early on receive additional rents from the ability to participate in future fund sequences. In the past, a considerable number of teams have successfully established entire fund series in the market (e.g., Braun et al. (2016)).

A first-time fund is a financial intermediary and an entrepreneurial venture alike.[3] In contrast to the start-up and venture capital setting, however, the managers are not subject to the regular assessment and monitoring pertaining to sequential funding rounds by varying sets of investors. In addition, the business model of private equity funds is capital-intensive, and unlike financial intermediaries that focus on public markets, such as mutual and hedge funds, requires long-term commitments from investors (typically 10–12 years with limited intermediate exit options through secondary markets). The managers acquire majority stakes in other companies and subsequently implement value creation programs, such as capital structure optimization and operational improvements, before divesting again. Thus, it takes several years until investors learn about returns, and whether the team was successful in carrying out these tasks.

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[2]Recent industry research shows that first-time managers have represented around 25% of new funds and between 6-20% of fundraising in private equity and venture capital over the last years. This paper focuses specifically on buyout funds, which represent more than half of the $2.5 trillion in aggregated capital in the asset class. *Source*: Preqin Global Private Equity and Venture Capital Report, 2017.

[3]The paper focuses on first-time funds that are independent from a (previous) parent organization (e.g., they are not affiliated with a bank), and where the management company has only been recently established. In the robustness section, the role of experience is examined when this restriction is released.

Managers of first-time funds have strong incentives to increase capital commitments from investors. First, the fundraising outcome influences their expected compensation through the fee income (e.g., Metrick and Yasuda (2010), Chung et al. (2012)). Second, fund size is often regarded as a proxy for reputation in the industry (e.g., Gompers and Lerner (1998), Balboa and Martí (2007), Cornelli et al. (2017)). Third, the amount of capital under management gives them flexibility and determines the market segments that the team can address (both in terms of deal size and number if investments).

On the other hand, investors may not necessarily be reluctant to provide more capital to the funds that they trust the most since the buyout model is often praised for its scalability (e.g., Metrick and Yasuda (2010), Chung et al. (2012)). If that indeed holds true, skilled partners will not lose their competitive advantage by accepting more capital. However, providing capital to managers without a proven track record remains risky for investors. There is a large idiosyncratic risk indicated in the high dispersion of individual fund returns (e.g., Cumming and Zambelli (2017), Korteweg and Sorensen (2017)). This demonstrates a crucial need for manager selection and investors put significantly more effort into the due diligence of first-time funds than they require for investment decisions in seasoned private equity firms (e.g., Da Rin and Phalippou (2017)).

The paper presents novel data on 322 first-time buyout funds and their 767 founding partners. On average, 73% of the team have obtained relevant work experience, which is defined as private equity, financial, or operational experience, before setting up the fund. Empirical results show that managers with such specialized skills, compared to managers without relevant experience, raise larger funds. The economic effect is estimated at 18% more capital for a partner with relevant experience, which remains after accounting for the increase in team size. For an average first-time buyout fund with $282 million under management this represents $50 million in capital, and around $1 million in annual fee income.[4] In particular, experience that is obtained with high-reputation firms, such as from

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[4]Under the standard terms of a 2% management fee. In addition, the managers typically benefit from a 20% share in profits (the "carried interest").

large buyout groups and investment banks, leads to a higher fundraising outcome (plus 32%). Furthermore, the reputation effect strengthens when combined with experience that partners have obtained from the same previous employer (plus 47%), and for exposure that is obtained with a major private equity group (plus 62%). On the other hand, empirical evidence that heterogeneity in the exposure and operational experience matters for the fundraising outcome is limited at best.

The analysis remains robust accounting for various potential confounding factors (e.g., team size, geographic location). In addition, it allows for some supplementary observations about the fundraising success of first-time funds in private equity. First, the educational background of the managers shows little effect with the exception of the presence of a trained lawyer. Second, managers that use a placement agent raise significantly more capital from investors, while preceding market conditions have surprisingly little relevance. Third, more experienced managers do not outperform less experienced ones (more than 80% of managers, however, are able to raise a follow-on fund). Finally, in an effort to eases concerns about a non-random sample selection, the main finding is replicated using an additional sample of funds that also lack past performance but are raised under existing reputation (e.g., JVs of established firms).

The paper contributes to the literature on the signaling value of experience by testing its role in a high-skill industry. Successfully raising a fund represents a hiring decision, where certification, similar to the job market (e.g., Spence (1973)), can reduce uncertainty for the principal. I find experience to matter and its value to vary with both its perception of quality (e.g., experience from a high reputation employer helps managers more) and its task-relevance (e.g., financial experience is more beneficial than operational experience). On the other hand, experience that was obtained at the same past employer can strengthen the quality effect, while a higher heterogeneity in the exposure shows only limited relevance. Thus, signaling represents another use case of experience in the investment literature, and complements its traditional role for performance attribution (e.g., Dimov and Shepherd (2005), Gottesman and Morey (2006), Li et al. (2011)).

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In addition, I contribute to the fundraising literature in private equity for which, to the best of my knowledge and despite the significant due diligence cost (e.g., Da Rin and Phalippou (2017)), an assessment of first-time funds is still missing. In a seminal study, Kaplan and Schoar (2005) find a fund's past performance to predict inflows and performance of follow-on funds. More recently, Barber and Yasuda (2017) and Brown et al. (2017) show that managers target the fundraising market conditional on returns in the current fund. This paper introduces experience as a relevant criterion for the fundraising outcome of first-time funds and shows that investors in private equity trust managers more if they already have relevant experience. It thus closes an important gap in the literature by addressing the question how the very first fund in a sequence is raised, where investors still lack an investment and performance track record, and complements other studies on first-time funds that have primarily focused on the performance aspect (e.g., Zarutskie (2010) for venture capital and Aggarwal and Jorion (2010) for hedge funds).

The remainder of the paper is organized as follows. Section 2 details data and methodology. Section 3 presents empirical results on the role of experience for the fundraising outcome, while Section 4 discusses robustness. Section 5 concludes.

2 Data and methodology

2.1 First-time funds

The sample is obtained from PitchBook, a proprietary private capital markets database, which provides information on funds, deals, and personnel of general partners related to venture capital, private equity, and mergers and acquisitions.

In a first step, I filter the database for buyout funds with vintage years up to 2010 (to allow sufficient time for subsequent performance measurement) that have non-missing values for committed capital and sequence number, and the biography of at least one partner and at least three investments recorded (leaving 1,732 funds in the initial sample).

In a second step, I identify first-time funds in a top-down approach based on the following selection criteria: (i) Sequence number is equal to one (leaving 442 funds).[5] The classification is based on the fund name to which investors typically add a (roman) numeral and the sequential fund number allocated in the database, and cross-checked with Preqin, another proprietary database. (ii) Joint ventures between established firms, spin-offs of key investment personnel from other firms, which often transfer with existing assets and investor base, and sponsored entities are excluded to ensure full independence from a (previous) parent organization (leaving 395 funds). (iii) The management company under which the fund operates has to be recently founded, i.e., not more than three years prior to the vintage year. This leaves a final sample of 322 first-time funds (Appendix B.1 includes a summary of the sample definition).

Table 1 shows a break-down of the first-time fund sample by vintage year. The average fund manages \$282 million in capital (median: \$160 million) and has 2.4 partners in its management team (median: 2.0 partners).[6] The funds are significantly smaller than the average mature funds that are typically investigated in the persistence literature (e.g., Korteweg and Sorensen (2017) report a mean of \$694 million and a median of \$300 million). The bulk of the sample funds were raised in the 2000-2010 vintage years, and while the fundraising is cyclical in number and volume of funds raised, even in years of crisis, a number of managers successfully entered the market with their first-time funds (for example, in 2001 and 2009).[7]

[Table 1 about here]

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[5]I follow a conservative approach and exclude 41 funds that are listed as the first fund of the investment firm in the database but their name and firm founding date clearly indicate a higher sequence number (e.g., Jupiter Partners II, Piper Private Equity IV). In addition, I drop two funds that carry the name of a multi-national corporation (Microsoft and John Hancock Insurance).

[6]Zarutskie (2010) obtains a sample of 222 first-time funds for her investigation of performance in the venture capital industry. The funds have, on average, 2.2 founding partners in the management team and committed capital of about \$62 million.

[7]Unbalanced fund samples are typically for studies in private equity (e.g., Kaplan and Schoar (2005), Harris et al. (2014a), Korteweg and Sorensen (2017)). To mitigate the effect from such variation, and, in particular, the low number of funds in the first few years of the observation period, the empirical part controls for time fixed effects.

I also collect data on three performance measures for the first-time funds to determine in a robustness test whether experience influences subsequent returns.[8] The first is a binary indicator whether the team is able to raise a follow-on fund, which the majority of managers satisfies (259 funds or 80% of the sample). New funds in private equity are typically raised every five years, and by that time investors are able to learn new information about the quality and abilities of the management team from their first investments. In order to determine whether a follow-on fund is raised, the PitchBook and Preqin databases are searched for the existence of another fund of the general partner (up to vintage year 2016).

In addition, two absolute performance measures are available for a subsample of funds in terms of a money multiple (TVPI) and internal rate of return (IRR).[9] Information is available as a latest reported figure (i.e., the data is cross-sectional), and a minimum time lag of five years between reported performance and vintage year is imposed (Barber and Yasuda (2017) note that by then the investment period has typically ended and the risk of non-survival is greatly reduced). A TVPI multiple is available for 163 funds with an average return of 1.87 times the paid-in capital (median: 1.68), and an internal rate of return (IRR) is available for 148 first-time funds with an average of 16.5% (median: 15.4%). The absolute return measures have a high dispersion (standard deviation of 1.03 for TVPI multiples and 16.9% for IRRs) and allow for a more granular assessment of performance differences. They oversample, however, larger funds, which can introduce a bias (the average fund size increases to $357 million for the subsample with TVPI multiples and to $370 million for the subsample with an IRR).

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[8]To increase data availability, performance information is complemented with data from Preqin whenever an entry is missing or a more recent entry is available. The data, however, lacks the fund's cash-flow profile that prevents the calculation of a Public Market Equivalent (PME), which would allow for a relative comparison of performance to public equity markets, and measures of return dispersion, which would allow for a more precise risk-adjustment.

[9]The literature has not yet reached a consensus on the relative performance of first-time funds in private equity. While Kaplan and Schoar (2005) and Phalippou and Gottschalg (2009) report lower returns compared to tenured funds, Chung (2012) and Harris et al. (2014b) observe the opposite pattern.

2.2 Manager experience

Private equity funds are structured as limited liability partnerships, and the 322 first-time funds are managed by 767 partners. While investors take the role of limited partners (LPs), the fund is managed by a general partner (GP). The GP typically refers to the management company itself and the term "partner" is used to describe the members of the management team. The team setup is typically fixed before fund inception when the future partners start to approach investors, and remains stable throughout the fund's lifetime (partners often contractually bind themselves through key man clauses and management turnover is relatively low, e.g., Cornelli et al. (2017)).

In general, a private equity fund's success depends on its ability to source (proprietary) investment opportunities, implement financial, governance, and operational improvements, and time the market during entry and exit. The partners are responsible for fundraising, investment decisions, and development of the portfolio companies. All of these require skills and experience that emerging managers need to bring along from previous roles. As these tasks proceed largely chronologically and the teams are relatively small (the average management team in the sample consists of 2.4 partners), the partners in first-time funds are typically involved across the board. This differentiates them from larger GP organizations (e.g., KKR or Blackstone), who run multiple fund series in parallel and often designate individuals to a particular fund and role (e.g., operating partners).

The paper focuses on three types of experience that are most relevant to the buyout task: previous private equity experience, financial experience, and operational experience. Earlier research from the private equity and venture capital literature suggests that these types of manager experience are closely linked to a fund's value creation potential and have significant influence on outcomes (e.g., Dimov et al. (2007), Acharya et al. (2013)). Table 2 provides descriptive statistics for the following discussion.[10]

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[10]A detailed description of how each individual variable is compiled is included in Appendix A. The textual biographies restrict the scope of factors that can be extracted for a sufficient number of partners. For example, they do not allow to determine the exact sequence and tenure for each position. Thus, I focus on the nature of the experience rather than its quantification. Evidence from venture capital

[Table 2 about here]

First, a number of partners have worked for other private equity groups before setting up their own fund (on average, 22% of the fund team). The variable is defined as having held a position with one of main private equity groups or one of their predecessor firms (based on the Private Equity International 300 Ranking).[11] Ivashina and Lerner (2017) show that partners from (reputable) general partners often depart their current firm as a result of low ownership, and that their departure reduces the firm's ability to raise capital. Furthermore, Ewens and Rhodes-Kropf (2015) show that partners who move between different venture capital firms often transfer a significant amount of the previous organization's investment skill with them. Thus, investors have reasons to appreciate, and trust in, experience that is obtained from another private equity firm.[12]

Second, the literature suggests financial and operational experience as the most closely related exposure for value creation potential in private equity. For example, Acharya et al. (2013) document that partners with previous financial experience perform well in inorganic transactions, while the ones with an operational background excel in organic deals. Furthermore, a professional history with an (investment) bank provides managers not only with extensive knowledge of credit markets and financial modeling expertise but also with benefits regarding deal sourcing and pricing (e.g., Siming (2014)). Similarly, operating experience, which is likely associated to professional roles as a (management) consultant and senior executive, supports the partners in the operational improvement of the acquired businesses (e.g., Bernstein and Sheen (2016)). Lastly and besides the skill aspect, these roles provide access to social and professional networks.

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suggests that the type rather than the amount of management team expertise plays a critical role (e.g., Dimov et al. (2007)).

[11]The PEI 300 firms are ranked based on the amount of private equity direct-investment capital each firm has raised over a five-year period beginning 1 January 2005 and ending 15 April 2010. The companies have raised a total of USD 1.3 trillion over this time horizon (list retrieved from May 2010 magazine publication, more information available at https://www.privateequityinternational.com/print-editions/2010-05/the-pei-300-2010/, last accessed on October 12, 2017).

[12]While it seems intuitive that previous experience in private equity is the closest exposure a partner can get, investors find it often challenging to attribute skill to an individual partner.

To compile the variables, financial experience is defined as having held a previous role with a bank or accounting firm, while operational experience includes previous roles in a consulting firm or as a senior executive.[13] Both exposures are frequently observed in the sample of first-time funds: 46% of partners bring along financial experience (mostly from banks), while 31% of partners that have obtained operational experience (mostly in executive roles). These descriptive findings resemble observations from other studies on team characteristics in the buyout industry. For example, Siming (2014) finds 59% of managers to have previously worked with a financial advisory and 29% with operational experience or a consulting background. Similarly, Cornelli et al. (2017) report 48% of managers in their sample have financial skills and around 20% have operational skills, while Degeorge et al. (2016) document that 55% of private equity firms are finance-oriented and 45% are operations-oriented.

Taken together, 73% of the management team, on average, have either private equity, financial, or operational experience (when each partner is counted only once). In addition, a number of partners has obtained experience from multiple sources (thus making the sum of the individual exposures higher than the average team experience). For example, half of the partners that have worked for another private equity group, have also previously held a role with a bank. On the other hand, the residual of 27% represents partners whose biography does not match any of the discussed categories of the most relevant experience. While this does not mean that they have not obtained experience in general (direct hiring from schools is rare), their exposure is more distant from the private equity task. Typically exposures in this category include roles in the industry, as an entrepreneur, or as a lawyer (the latter is tested as part of the educational background).

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[13]Banks cover the first one hundred entries in the "Top 1000 Global Banks" from "The Banker" (July 2011), their predecessor firms, and investment banks, such as Bear Stearns, Duff & Phelps, Greenhill, Houlihan Lokey, Oppenheimer, Jefferies, Lazard, Lehman Brothers, Piper Jaffray, Rothschild (list not exhaustive and including defunct firms). Accounting firms include the "big five" accounting companies and predecessor firms, i.e. PricewaterhouseCoopers (PwC), Deloitte, KPMG, Ernst & Young (EY), and Arthur Anderson. Consulting firms include the companies listed in the "2011 Vault Consulting 50" ranking or their predecessor firms (Source: http://www.vault.com/company-rankings/consulting/vault-consulting-50/?sRankID=248&rYear=2011, last accessed on October 12, 2017). Executive roles include positions as Chief Executive Officer (CEO), Chief Finance Officer (CFO), or Chief Operating Officer (COO).

Finally and in order to capture different features of the exposure, I subdivide the experience along three additional dimensions (besides the type of experience). First, I measure the breadth of the experience by calculating a Herfindahl-Hirschman index (HHI) based on the different types of experience in each team. If an individual matches multiple categories, each experience is weighted equally so that the partner's total contribution to the team remains the same to everyone else. If a partner has worked for multiple firms in the same category this is disregarded since it intends to measure the breadth of experiences. The HHI measure is standardized to a range of zero to one, and the average concentration of experiences is 0.66 (median: 0.56). While a coherent background among the team members likely reduces their communication cost during alignment and decision making, it comes at the cost of a less heterogeneous knowledge and skill pool, and an overlap in the partners' networks (e.g., Hambrick and Mason (1984)).

Second, a subgroup of high-reputation firms is defined for each category to measure differences in the (perceived) quality of the experience.[14] On average, 38% of the team experiences was obtained with a high-reputation firm (the largest contribution comes from top-tier investment banks), leaving a residual experience of 35%. Teams that have obtained their experiences form such firms can likely capitalize on the reputation of their previous employer, and thus increase the signaling value of the exposure. In a study of venture capital firms, Dimov et al. (2007), for example, show that high reputation firms are less dependent on their functional expertise. In a similar way the reputation element in the experience could serve as a quality indicator.

Third, experience that is obtained from a common previous employer could signal team coherence to investors. On average, 16% of the partners in a team have obtained their experience from the same firm, while the residual 57% come from different firms. While the data does not reveal whether the partners have actually worked together, personal relationships and a common value set are likely in this case.

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[14]Private equity experience uses the ten largest groups listed in the PEI 300 Ranking, financial experience is based on the eight top-tier financial advisers listed in Golubov et al. (2012), and operational experience uses the top-three consulting firms that are featured in the Vault Recruitment Ranking.

2.3 Regression model

In order to assess whether experience helps manager of first-time funds to achieve a higher fundraising outcome, a cross-sectional regression model is employed that writes

$$\begin{aligned} Fund\ Size_i \quad = \quad & \alpha + \beta * Experience_i + \qquad\qquad (1) \\ & \gamma * Controls_i + \lambda * Vintage_i + \varepsilon_i \ , \end{aligned}$$

where each observation represents one first-time fund. The dependent variable, $Fund\ Size_i$, is the natural logarithm of the committed capital that the partners raise for the fund (in millions of dollars).[15] The variable of interest is $Experience_i$, which encompasses the fraction of partners that have either private equity, financial, or operational experience. The analysis uses the amount of capital that the managers are able to raise as a proxy for the trust that investor have in the abilities of a particular management team (expressed through their experience). While partners may deliberately wait until they have obtained sufficient experience before making the decision to raise a fund, at the point of time they approach investors their team setup, and thus their experience, is fixed for the duration of fundraising. Thus, there should be little concern about endogeneity from reverse causality due to a clear timeline of events.

On the other hand, the $Controls_i$ vector mitigates concerns about endogeneity from omitted variables by accounting for several other factors that could influence the fundraising outcome and also vary with different levels of manager experience (Panel C of Table 2 provides accompanying descriptive statistics for the control variables).

First, the number of partners is added since larger teams need more capital in order to finance their operations and generate sufficient financial incentives through the fee base. Furthermore, a larger team size increases managerial capacity (e.g., more individuals can simply work more hours), and likely broadens the range and scope of experience.

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[15]Fund size is winsorized at the 1% level before the logarithmic transformation is applied. Furthermore, robust standard errors for the coefficient estimates are presented throughout the study.

Second, an indicator variable on fund location, which is set to one for U.S.-based funds and to zero otherwise, is added to allow for differences in access to capital.[16] The U.S. market represent the majority of capital in the private equity industry, and around two-thirds of the first-time funds are U.S.-based, while the remaining funds are primarily based in Western Europe.[17]

Third, the educational background of the team can also serve as a signal to investors on the general human capital of the team, which is likely correlated with experience (e.g., Dimov and Shepherd (2005)).[18] Following earlier literature on manager characteristics and investment teams (e.g., Bottazzi et al. (2008), Zarutskie (2010)), I control for the field and type of education. In particular, I measure the share of partners that have obtained a degree in a business-related field (20%), a science-related field (16%), as well as the partners with an MBA degree (53%), and whether a partner in the team has attained a legal education (17%). Furthermore and to capture differences in the reputation of the institutions, the share of Ivy League-educated partners is added (35%).

Fourth, I control for the use of a placement agent, which 37% of first-time funds in the sample employ. Placement agents often act as a gatekeeper to investors, and provide pre-screening, or certification, services to them. The likelihood to use such services may vary with the level of experience in the team (e.g., based on past interactions). In a contemporaneous study, Cain et al. (2017) report that placement agents are more likely

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[16]In addition, access to a different investor base may influence the fundraising outcome. Such data, however, is hard to obtain and mostly not comprehensive (e.g., Lerner et al. (2007)). For first-time funds, Sensoy et al. (2014) note that insurers and banks invest most often while endowments are least likely to participate. Thus, having access to such institutions could facilitate the fundraising process. For example, Siming (2014) shows that former investment bankers become clients of their previous employer. In a similar fashion, the former employer may become an investor into the funds of their departing employees.

[17]Recent industry estimates show that 51% of funds and 57% of aggregated capital in the market have a focus on North America, though the share has historically been higher (*Source*: Preqin Global Private Equity and Venture Capital Report, 2017). The location of the fund does not only indicate the physical presence of the team but has important implications on how the partnership is structured. For example, the distribution waterfall, i.e., the calculation basis for fees and profits, varies between the U.S. and Europe. While the former follow a deal-by-deal distribution, which tends to be more favorable towards the general partner, the latter tend to focus on a fund-level view.

[18]Data on the academic degrees of the partners are available in the PitchBook database. I do, however, not control for differences related to the demography of the managers due to data availability and high homogeneity. For example, only 17 partners are female (2% of the sample), and the textual biographies and incomplete information on graduation years prevent an (approximation) of age and tenure.

used by buyout funds (compared to venture and real estate funds) and often hired by less established and first-time GPs. However, the authors find no evidence that their presence leads to superior returns (again as compared to venture and real estate funds where they exhibit a negative impact on performance).

Fifth, the market environment and sentiment, and thus, the availability of capital in the market, fluctuates over time, and more experienced managers could try to time the market. Results from Kaplan and Schoar (2005) suggest that first-time funds raise larger amounts of capital when the private equity industry in general performs well. In addition, one could argue that through periods of limited capital supply certain characteristics, e.g., the ones related to networks, are more valuable than in times of plentiful funding. I control for such differences in two ways. First, vintage year fixed effects account for such time differences as well as other unobserved time effects and changes in funding availability that affect all funds in the market alike. Korteweg and Sorensen (2017) highlight that vintage fixed effects allow risk exposures and factor premiums to vary over time, and thus account for trends in leverage and credit market conditions. Second, I control for market sentiment using the equity return in the year prior to the fund's vintage year as a proxy variable (based on total return data for the MSCI World).

Lastly, there could be other differences among funds, which would require access to confidential data from the contractual agreements between the partners and investors. For example, the team could try to influence the likelihood of potential investors to commit by varying levels of fees (e.g., discounts) and co-investment (e.g., when the partners invest a higher share of their own wealth into the fund). However, earlier research shows that fee arrangements are widely standardized in the private equity industry and variations in either metric is not related to net-of-fee performance (Robinson and Sensoy (2013)). Thus, investors have little reason to believe in such incentives. In addition, even if such attributes have supplemental signaling value, they are unlikely to be considered without evaluating the actual skill set of the team (e.g., through the manager's experience).

3 Empirical results

3.1 Does experience help to raise capital?

I first consider the question whether experience helps managers of first-time funds in their fundraising. Table 3 presents empirical results from estimating the regression model using ordinary least squares (OLS). It shows that experience helps manager to raise more capital: the coefficient for experience is estimated at 0.530 and highly significant ((Column (1)). With the inclusion of other determinants that could affect the fundraising outcome (Columns (2) to (4)), the main effect decreases but remains statistically and economically significant (at least at the 95% confidence).

In the most conservative setting (Column (4)), capital increases by 18% for a manager with relevant experience (at a coefficient estimate of 0.386 while holding other variables at constant values).[19] This effect measures the difference between a partner with and without the exposure (i.e., after accounting for the increase in team size). For an average first-time fund with $282 million under management, this represents $50 million in capital, and close to $1 million in annual fee income under the industry-standard terms of a 2% management fee (in addition, the partners normally receive a 20% share in profits, the "carried interest"). Finally, when the vintage year fixed effect is removed, and past-year equity returns are added as a proxy for the market environment in which the fund is raised (Column(5)), the impact of experience largely persists. Thus, the results are not simply driven the timing of the fundraising decision.[20]

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[19]Economic effects throughout the study are shown relative to a change of one partner in the average first-time fund team (i.e., $1/2.38 = 42\%$). Most variations of the experience variable have a standard deviation close to this value. The estimate is the exponentiation of the regression coefficient from Specification (4) of Table 3: *exp(0.386*(1/2.38)) = 1.17*61. Unreported quantile regressions show that the coefficient estimate for experience, while exhibiting a downward sloping trend, remains within the confidence interval, i.e., the estimate does not significantly change along the distribution. Furthermore, I find in additional regressions that the difference between fund size and target size is not significantly related to experience (at least in the subsample where this information is available).

[20]Robinson and Sensoy (2016) argue that removing vintage year fixed effects allows the coefficients *"to be influenced by the possibility that the endogenous choice to launch a [...] fund will be stronger in good years"* (p.542). In unreported robustness tests, I confirm that the result is not affected by the choice of the proxy variable and also holds for various other measures. (e.g., fraction of new private equity funds in the market, M&A volume).

The control variables allow for a number of supplementary observations about the factors that influence the fundraising outcome of first-time funds in private equity. First, adding one more partner to the management team translates into 24% of incremental capital, while U.S. based funds raise on average 31% less in committed capital holding all other variables at constant values.[21] The result on a larger teams seems intuitive given that work load can be burdened by more team resources.[22] On the other hand, the observation on geographic location is likely a result of the sampling period since a majority of sample funds are raised post-1995, a period where global buyout activity shifted away from the U.S. towards Europe (e.g., Kaplan and Strömberg (2009)).

Second, the educational background of the management team shows little effect with the exception of a trained lawyer, while a business or science focused education, as well as Ivy League and MBA degrees seem not to affect the fundraising outcome. With the exception of MBA degrees, all variables, however, carry positive coefficient signs. The relatively weak signals for academic education are not surprising given that teams are well educated in general. For example, more than half of partners have an MBA degree and more than a third graduated from an Ivy League school (Gompers et al. (2016) make similar observations for the buyout industry as a whole). Investors probably see educational qualification as a prerequisite rather than as a predictor of exceptional skill and a distinctive feature between the partners of individual funds.

Lastly, funds that use a placement agent raise significantly more capital from investors (plus 76%), while preceding market conditions have surprisingly little relevance. While this supports the certification hypothesis of placement agents outlined in Cain et al. (2017), an interaction effect with experience is not significant (unreported).

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[21]The mean team size for the first-time funds is 2.38 and the regression coefficient on the number of partners is 0.618. Thus, the expected increase in fund size calculates as $(1 + (1/2.38))^{0.618} = 1.2421$. Similarly, the effect for the indicator variable on U.S. based funds calculates as $exp(-.369) = 0.6914$.

[22]In an upcoming robustness check on new fund series of established firms, the relevance of team size decreases. These likely find it easier to support the new team with capacity from the existing organization.

3.2 Which features make experience more helpful?

After previous results indicate that fund size correlates with previous work experience, this section further examines four features of the partners' exposure that could influence the value of experience as a signal of trust for investors. Table 4 presents empirical results from re-estimating the model that are referenced in the following discussion.

First, the HHI measure has a positive estimate but its coefficient is statistically insignificant (Column (1)). This suggests that there is little effect from concentration of experience (a *higher* coefficient being equivalent to *more* concentration). Since the buyout business model rests on multiple pillars of value creation that require different skill sets (e.g., Acharya et al. (2013)), one could have expected that investors appreciate if teams capture different types of exposure. On the other hand, a coherent background reduces communication cost during decision making (e.g., Lopez-de-Silanes et al. (2015)). However, it also comes at the cost of a less heterogeneous knowledge and skill pool, and an overlap in the partners' networks (e.g., Hambrick and Mason (1984)).

Second, a decomposition of experience into the three types shows that a significant influence comes only from prior private equity and financial exposure (at the 90% confidence level), but, surprisingly, not from operational experience (Column (2)).[23] It seems that experience that is more closely related to the buyout task, is also more appreciated by investors. The coefficient estimates, however, are slightly smaller than the original estimate (0.386 from Column (4) in Table 3), which indicates that experience can complement each other (i.e., the sum of the parts is more valuable than its constituents).

Third, when differentiating experience by the reputation of the employer from which it was obtained, as a proxy on the quality of the exposure, increases the coefficient estimate to 0.652 for high-reputation firms, which represents a 32% higher fundraising outcome,

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[23]Some of the partners match multiple exposures, and can therefore be included in more than one type of experience. As an alternative aggregation mechanism to condense individual drivers into common factors, I run a principal component analysis (PCA). For example, Custódio et al. (2013), use PCA to develop a general ability index from various traits of corporate manager's profiles. However, I do not find a (set of) principal components that capture a significant part of the variance and allow for a meaningful interpretation (unreported).

while it falls to 0.062 for the remaining and loses significance (Column (3)).[24] Thus, it seems that experience that is obtained with high-reputation firms, such as from large buyout groups and investment banks, carries a positive quality perception.

Lastly, there is limited evidence on the value of experience from a common previous employer versus experience that is obtained with different firms (Column (2)). Coefficient estimates are 0.453 and 0.367, respectively, and significant in both cases.

[Table 4 about here]

In order to further characterize the quality effect, experience from high-reputation employers is intersected with the type and source of experience. Of the 16% of partners with the same previous employer, 9% come from high-reputation firms and 6% from other firms. Similarly, the 22% of partners with private equity experience split into 5% for high-reputation firms and a residual of 17%, the 46% of financial experience into 28% and 18%, and the 31% of operational experience into 9% and 22%.

Table 5 presents empirical results. Column (1) shows that the reputation effect strengthens when combined with experience from the same previous employer (plus 47%). In addition, Column (2) finds a strong reputation effect for exposure that stems from previous private equity and finance roles (plus 62% and plus 25%, respectively), but not for operational experience. Thus, the positive quality effect primarily originates from partners that have obtained their experience from well-regarded private equity firms, and it seems that the mixed evidence on experience from the same previous employer was overshadowed by the reputation effect (since the coefficient estimate for high-reputation firms is higher than for other firms in case of a shared previous employer).

[Table 5 about here]

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[24]Economic effect estimated by exponentiation the regression coefficient multiplied by the equivalent of a one partner change in the team: *exp(0.652*(1/2.38)) = 1.3151.*

4 Robustness

4.1 Sample definition

The main selection issue is the non-availability of information on teams that have never received capital at all. In order to mitigate concerns about a non-random sample selection two robustness checks are performed.

First, an unreported analysis of the target size, which is based on 172 funds for which this information is available from either the PitchBook or Preqin database, shows that while partners are increasing fund size when possible, they also frequently open the fund even despite low investor demand. The funds miss their target on average by 22% (median: 0%), with 71 funds remain below, 84 above, and 17 exactly hitting the target. The funds that remain below the target size, however, tend to miss it significantly at a mean of –75% (median: –43%), while the funds that exceed their target raise on average 18% more capital (median: 16%). While this cannot eliminate concerns about survivorship, it indicates a balanced representation in terms of fundraising outcome in the sample.

Second, the key result on manager experience can be replicated for a sample of funds that also represent the inception of a new investment series but are related to an established organization. These funds are raised by management teams that can more easily leverage the reputation of their (previous) parent organization, and thus their fundraising outcome suffers from a lower information asymmetry.

The sample is created bottom-up consisting of funds that also constitute the inception of a new investment series but that are associated with an existing organization.[25] I identify four such scenarios: (i) The first fund of a joint venture (JV) between investment firms (13 funds). (ii) The first fund of a spin-off, defined as the departure of key investment personnel from another organization, which often transfer existing assets and investor

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[25] A detailed description of the sample definition and a number of examples for each case is included in Appendix B. The robustness check does not include funds that are raised as a follow-up of a previous sequence since the literature shows that in this case fundraising success primarily depends on the return of the preceding fund (e.g., Kaplan and Schoar (2005) , Barber and Yasuda (2017), Brown et al. (2017)).

base (14 funds). (iii) The first fund sponsored by a financial institution that is setting up a private equity business under a separate entity (35 funds). (iv) A new investment series from an established general partner that runs at least one other series in parallel (86 funds). These usually go hand in hand with a new strategy as opposed to the continuation of a successful series where persistence comes into play.[26] The database allocates investment professionals at the fund level, rather than the firm level, which allows the identification of the partners responsible for the new series. In total, this leaves 148 funds in the sample.

Table 6 presents results from re-estimating the original model (specifications follow Table 3). The experience variable exhibits a similar positive effect as in the first-time fund sample and is significant at the 90% confidence level across all specifications. This suggests that experience influences the fundraising outcome even in the case of existing reputation from earlier fund series (though they have no direct link to the new fund). This interpretation is consistent with evidence from the venture capital industry that shows that the collective human capital of the partnership can significantly outweigh the firm's organizational capital (e.g., Ewens and Rhodes-Kropf (2015)).

[Table 6 about here]

4.2 Fund performance

In a last step, I examine whether experience can also predict subsequent fund performance. If investors choose the right signals during the fundraising stage and allocate more capital to the most promising managers, they should subsequently be rewarded. In order to test for performance differences between the first-time funds empirically, the model specification replaces fund size with fund-level performance as dependent variable. Consequently, it

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[26]Braun et al. (2016) argue that such *"focused divisions within one large GP organization can have different experience, networks, skills etc."* and treat them as distinct sequences subsequently (p.276).

writes in its cross-sectional form

$$Fund\ Performance_i\ =\ \alpha + \beta * Team\ Characteristics_i + \qquad (2)$$

$$\gamma * Controls_i + \lambda * Vintage_i + \varepsilon_i\ ,$$

where each observation represents once more a first-time fund. Variable of interest remains the managers' $Experience_i$ and the same control variables as in earlier specifications are included in the $Controls_i$ vector alongside vintage year fixed effects.

Table 7 presents empirical results for three performance measures, and separately for a specification with and without fund size as an additional control variable. In addition, Panel A shows the experience aggregated, while Panel B splits among the three types of exposure (i.e., private equity, financial, and operational experience). Compared to the findings on fundraising, experience does not exert a strong and direct influence on fund performance, and more experienced managers do not outperform less experienced ones. The coefficient estimates from the follow-on fund indicator variable are positive but not significant, while the coefficient estimates on absolute performance are negative (and even significant in the case of the TVPI multiple). When decomposing experience into three types of exposure, however, none of the estimates shows any significant effect. In addition, fund size exhibits a strong negative effect in the absolute performance subsamples.

[Table 7 about here]

However, two important remarks about performance measurement have to be made. First, the large majority of first-time funds is able to raise a follow-on fund (259 funds or 80% of the sample), which is similar to first-time funds in the venture capital industry, where Zarutskie (2010) observes that around 70 percent of managers are able to raise a follow-on fund. However, it is lower than for mature buyout firms, where Braun et al. (2016) report that only 8% of managers cannot raise a follow-on fund. This suggests that experience is more likely an entry hurdle into the industry, rather than a predictor of

performance. Furthermore, investors are typically looking for long-term relationships with limited partners seeking to commit capital on a regular basis (e.g., insurance companies need to invest premiums annauly). Thus, rents from the ability to participate again in future sequences have value for investors in addition to the returns from the current fund (successful partnerships typically restrict access for new investors, e.g., Li (2014), Hochberg et al. (2014), Marquez et al. (2015)).

Second, the availability of absolute performance oversamples larger funds. As the main result of the paper shows that managers with more experience raise larger funds, there is less variation in this subsample (re-estimating the model on the subsamples with available performance data shows lower coefficient estimates and the variable becomes statistically insignificant in the specifications with control variables). In addition, results are based on net-of-fee performance, which represents the metric that ultimately matters to investors, but it can not be ruled out that experience has explanatory power on gross returns but partners extract the surplus through the fee arrangement.

The performance finding stand in contrast to studies from other asset classes that documented a relationship between team characteristics and fund returns (e.g., Dimov and Shepherd (2005) for venture capital funds, Gottesman and Morey (2006) for mutual funds, and Li et al. (2011) for hedge funds). In addition, they also deviate from the findings presented in Zarutskie (2010) on first-time funds in the venture capital industry. There are few studies with a focus on buyout funds that report a significant influence of manager attributes on performance (Acharya et al. (2013) find support on the individual investment level and conditional on deal type). Thus, buyout funds could deviate from other areas of the financial literature in terms of less relevance of team characteristics for (fund-level) performance. If investors indeed allocate money conditional on the profile of the management team as suggested by the results in this paper, they are at least not directly benefiting from their choices. They, however, can still receive additional rents from the ability to participate in follow-on funds, which is one of the main motivations to commit to newly emerging managers.

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5 Concluding remarks

Besides being a financial intermediary, a first-time fund is also an entrepreneurial venture. The main asset is its management team comprising seasoned professionals who initially need to raise capital from investors. The study adds to our understanding how these young organizations originate and enter the market by investigating how their experience affects fundraising. I find that investors trust private equity funds more if they have managers with relevant experience. In addition, the study highlights that the perceived quality of the experience, through the reputation of the previous employer, has the strongest signaling value to investors.

The investigation is of practical relevance to investors and managers trying to raise new funds. Investors are interested to find opportunities in a competitive investment environment by identifying managers that not only have the potential to successfully run a single fund but from which they can benefit in the long run. In times of declining performance persistence, a good understanding of their skill set becomes increasingly critical. On the other hand, the evidence provides guidance to managers into the factors that investors seem to trust the most. While certain experiences are more beneficial than others to raise additional capital, the results cannot be generalized into a broad prediction of fundraising success. For such an extension, one also needs to observe managers who never enter the market.

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Tables

Table 1: First-time fund sample by vintage year

The table shows descriptive statistics for first-time funds by vintage year. The sample includes buyout funds from the PitchBook database up to vintage year 2010, which represent the initial series of newly established general partners, and includes only closed, fully invested and liquidated funds for which committed capital, sequence number, the biography of at least one member of the fund management team, and at least three investments are available. *Count* reports the total number of funds as well as the subset for which a TVPI multiple and an IRR is available, respectively. *Fund size* is the committed capital (in millions of dollars). *IRR and TVPI* depict the average and median fund performance for each vintage year. Fund size and performance are winsorized at the 1% level and complemented with information from the Preqin database. Variable definitions are presented in the Appendix.

	Count (no of funds)			Size ($ millions)		TVPI (multiple)		IRR (percent)	
Vintage	All	TVPI	IRR	Mean	Median	Mean	Median	Mean	Median
1984	1	1	1	59	59	2.94	2.94	34.4	34.4
1987	1	1	1	125	125	1.43	1.43	7.4	7.4
1989	1	1	1	216	216	5.33	5.33	34.8	34.8
1990	1	-	-	182	182	-	-	-	-
1991	3	3	3	216	221	2.96	2.67	26.0	33.3
1992	1	1	1	26	26	3.30	3.30	30.5	30.5
1994	3	1	1	111	109	2.36	2.36	23.6	23.6
1995	2	1	-	239	239	4.20	4.20	-	-
1996	6	2	2	161	76	1.14	1.14	3.0	3.0
1997	13	7	7	252	160	1.89	1.80	19.4	14.3
1998	10	7	7	195	162	2.01	1.77	13.8	13.6
1999	22	10	11	277	148	1.89	2.01	16.0	16.9
2000	29	18	16	310	148	1.83	1.65	16.1	12.0
2001	18	6	7	232	130	1.45	1.40	9.6	10.8
2002	20	6	6	358	141	2.01	1.92	27.0	16.2
2003	19	12	11	224	230	1.81	1.56	18.8	16.0
2004	18	10	10	297	165	2.81	2.13	25.9	23.1
2005	24	16	12	302	178	1.83	1.58	15.7	15.8
2006	29	16	14	372	134	1.54	1.54	10.4	8.8
2007	37	21	18	252	225	1.82	1.46	16.0	16.5
2008	35	14	10	227	150	1.39	1.40	13.7	15.0
2009	18	6	6	517	215	1.34	1.36	9.8	10.0
2010	11	3	3	176	180	1.76	1.86	15.5	18.0
Total	322	163	148	282	160	1.87	1.68	16.5	15.4

Table 2: Descriptive statistics

The table shows descriptive statistics for the variables used in the empirical part of the study. *Panel A* measures the share of partners that have obtained experience in the respective category (multiple exposures per partner are counted only once per category). The fractions sum up to more than one since some of the partners have obtained experience in multiple categories. *Panel B* measures the share of partners that have obtained experience in at least one of the categories and subsequently decomposes the exposure based on whether it was obtained from a high-reputation employer and whether it was obtained at the same past employer. In addition, the Herfindahl index (HHI) measures the concentration of the experience based on the three categories (plus an "other" category for non-matching profiles) for the respective team. *Panel C* details several control variables. Variable definitions are presented in the Appendix.

	N	Mean	St. Dev.
Panel A: Type of experience			
Private Equity	322	0.22	0.34
Financial	322	0.46	0.40
Operational	322	0.31	0.37
Other	322	0.27	0.36
Panel B: Team experience			
Experience (at least 1 type)	322	0.73	0.36
Experience with high-rep firm	322	0.38	0.40
Experience with low-rep firm	322	0.35	0.37
Experience with same firm	322	0.16	0.32
Experience in different firms	322	0.57	0.40
Experience HHI	322	0.66	0.26
Panel C: Control variables			
No of partners	322	2.38	1.44
U.S. based fund	322	0.66	-
Business Degrees	322	0.20	0.31
Science Degrees	322	0.16	0.28
Ivy League Degrees	322	0.35	0.39
MBA Degrees	322	0.53	0.40
Law/JD Degree	322	0.17	0.38
Placement agent	322	0.37	-
Past year equity	322	0.08	0.20

Table 3: The role of experience for the fundraising outcome

The table shows the results for cross-sectional regressions of fund size on relevant manager experience. The dependent variable is the *fund size*, which is represented in logarithmic form and winsorized at the 1% level. *Experience* is the share of partners with previous private equity, financial, and operational experience. Control variables include: *No of partners* refer to the (logarithmic) size of the management team, while *U.S. based fund* is an indicator variable set to one if the firm is based in the U.S. and zero otherwise. *Business*, *MBA*, *Science*, and *Ivy League* indicate the share of partners with a degree in the respective field and from the respective universities. *Law/JD* is an indicator variable set to one if at least one partner obtained a law degree and zero otherwise. *Placement agent* is an indicator variable set to one if the fund used a placement agent and zero otherwise. *Past year equity* represents the total return of the MSCI World index for the year prior to the fund's vintage year. Models are estimated with Ordinary Least Squares (OLS) and depicted are coefficients and robust standard errors (in brackets). Variable definitions are presented in the Appendix.

			Dependent variable: Fund Size (log)		
	(1)	(2)	(3)	(4)	(5)
Experience	0.530***	0.449**	0.445**	0.386**	0.320*
	(0.186)	(0.186)	(0.187)	(0.180)	(0.164)
No of partners		0.690***	0.676***	0.618***	0.568***
		(0.118)	(0.120)	(0.120)	(0.112)
U.S. based fund		−0.297**	−0.389**	−0.369**	−0.320**
		(0.138)	(0.169)	(0.165)	(0.151)
Business Degrees			0.045	0.033	0.016
			(0.226)	(0.220)	(0.214)
MBA Degrees			−0.096	−0.020	−0.015
			(0.174)	(0.169)	(0.162)
Science Degrees			0.075	0.092	0.068
			(0.217)	(0.213)	(0.202)
Law/JD Degree			0.301*	0.271*	0.266*
			(0.165)	(0.156)	(0.154)
Ivy League Degrees			0.311	0.216	0.316*
			(0.192)	(0.187)	(0.174)
Placement Agent				0.563***	0.507***
				(0.132)	(0.120)
Past Year Equity					−0.149
					(0.309)
F.E. Vintage	Yes	Yes	Yes	Yes	No
Observations	322	322	322	322	322
R²	0.065	0.174	0.194	0.239	0.204

Note: *p<0.1; **p<0.05; ***p<0.01

Table 4: Features of experience and the fundraising outcome

The table shows the results for cross-sectional regressions of fund size on different features of manager experience. The dependent variable is the *fund size*, which is represented in logarithmic form and winsorized at the 1% level. *HHI* is the Herfindahl index and measures the concentration of the experience based on the three categories of experience (plus an "other" category for non-matching profiles) for the respective team. *Private equity experience* is the share of partners that have previously worked for another private equity group, *financial experience* is the share of partners that have previously worked for an accounting firm or bank, and *operational experience* is the share of partners that have previously worked for a consulting firm or served in an executive role. *High-rep(utation) firm* measures the share of partners that have obtained experience from a high-reputation employer. *Same firm* measures the share of partners that have obtained experience at the same past employer. *Control variables* include the number of partners, an indicator variable for U.S.-based funds, the educational background of the partners, and an indicator variable for the use of a placement agent. Models are estimated with Ordinary Least Squares (OLS) and depicted are coefficients and robust standard errors (in brackets). Variable definitions are presented in the Appendix.

	Dependent variable: Fund Size (log)			
	(1)	(2)	(3)	(4)
Experience	0.396**			
	(0.184)			
... HHI	0.077			
	(0.289)			
... in private equity		0.315*		
		(0.186)		
... in finance		0.306*		
		(0.164)		
... in operations		0.271		
		(0.172)		
... at high-rep firm			0.652***	
			(0.195)	
... at low-rep firm			0.062	
			(0.202)	
... at same firm				0.453*
				(0.242)
... at different firms				0.367**
				(0.186)
Control variables	Yes	Yes	Yes	Yes
F.E. Vintage	Yes	Yes	Yes	Yes
Observations	322	322	322	322
R^2	0.239	0.250	0.267	0.239
Note:				*p<0.1; **p<0.05; ***p<0.01

Table 5: Intersection of quality with source and type of experience

The table shows the results for cross-sectional regressions of fund size on manager experience. The dependent variable is the *fund size*, which is represented in logarithmic form and winsorized at the 1% level. *High-rep(utation) firm* is the share of partners that have obtained experience from a high-reputation employer and is expressed conditional on the source or type of the experience. *Same firm* measures the share of partners that have obtained experience at the same past employer. *Private equity experience* is the share of partners that have previously worked for another private equity group, *financial experience* is the share of partners that have previously worked for an accounting firm or bank, and *operational experience* is the share of partners that have previously worked for a consulting firm or served in an executive role. *Control variables* include the number of partners, an indicator variable for U.S.-based funds, the educational background of the partners, and an indicator variable for the use of a placement agent. Models are estimated with Ordinary Least Squares (OLS) and depicted are coefficients and robust standard errors (in brackets). Variable definitions are presented in the Appendix.

	Dependent variable: Fund size (log)	
	(1)	(2)
High-Rep | Same Firm	0.918***	
	(0.276)	
Low-Rep | Diff. Firms	−0.128	
	(0.247)	
High-Rep | Diff. Firms	0.593***	
	(0.210)	
Low-Rep | Same Firm	0.121	
	(0.212)	
High-Rep | Private Eq.		1.143***
		(0.289)
Low-Rep | Private Eq.		−0.039
		(0.194)
High-Rep | Financial		0.521***
		(0.188)
Low-Rep | Financial		0.047
		(0.214)
High-Rep | Operational		0.269
		(0.228)
Low-Rep | Operational		0.105
		(0.203)
Control variables	Yes	Yes
F.E. Vintage	Yes	Yes
Observations	322	322
R^2	0.276	0.290
Note:		*p<0.1; **p<0.05; ***p<0.01

Table 6: Robustness on fundraising under existing reputation

The table shows repeats the cross-sectional regressions of fund size on past experience from Table 3 for a sample of funds that also represent the inception of a new investment series but are associated with an existing organization. The dependent variable is the *fund size*, which is represented in logarithmic form and winsorized at the 1% level. *Experience* is the share of partners with previous private equity, financial, and operational experience. Control variables include: *No of partners* refer to the (logarithmic) size of the management team, while *U.S. based fund* is an indicator variable set to one if the firm is based in the U.S. and zero otherwise. *Business*, *MBA*, *Science*, and *Ivy League* indicate the share of partners with a degree in the respective field and from the respective universities. *Law/JD* is an indicator variable set to one if at least one partner obtained a law degree and zero otherwise. *Placement agent* is an indicator variable set to one if the fund used a placement agent and zero otherwise. *Past year equity* represents the total return of the MSCI World index for the year prior to the fund's vintage year. Models are estimated with Ordinary Least Squares (OLS) and depicted are coefficients and robust standard errors (in brackets). Variable definitions are presented in the Appendix.

	Dependent variable: Fund Size (log)				
	(1)	(2)	(3)	(4)	(5)
Experience	0.602*	0.559*	0.604*	0.570*	0.589*
	(0.329)	(0.334)	(0.322)	(0.318)	(0.323)
No of partners		0.398*	0.347*	0.303	0.279
		(0.209)	(0.206)	(0.210)	(0.186)
U.S based fund		0.194	0.075	0.026	0.104
		(0.237)	(0.250)	(0.253)	(0.245)
Business Degrees			−0.461	−0.379	−0.521
			(0.427)	(0.419)	(0.381)
MBA Degrees			−0.210	−0.172	−0.205
			(0.304)	(0.303)	(0.284)
Science Degrees			0.381	0.458	0.234
			(0.374)	(0.369)	(0.385)
Law/JD Degree			0.115	0.179	−0.068
			(0.303)	(0.301)	(0.267)
Ivy League Degrees			0.697**	0.725**	0.601**
			(0.298)	(0.301)	(0.289)
Placement Agent				0.418*	0.389*
				(0.227)	(0.234)
Past Year Equity					0.202
					(0.581)
F.E. Vintage	Yes	Yes	Yes	Yes	No
Observations	148	148	148	148	148
R^2	0.217	0.251	0.301	0.319	0.125

Note: *p<0.1; **p<0.05; ***p<0.01

Table 7: Robustness on manager experience and fund performance

The table shows the results for cross-sectional regressions of fund performance on relevant manager experience. The dependent variables are defined as follows: *Follow-on* is an indicator variable set to one if the managers have raised a follow-on fund and zero otherwise, while *TVPI* multiple and *IRR* measure the fund's absolute performance (for the subset of funds where this information is available). In Panel A, *Experience* is the share of partners with previous private equity, financial, and operational experience. In Panel B, *private equity experience* is the share of partners that have previously worked for another private equity group, *financial experience* is the share of partners that have previously worked for an accounting firm or bank, and *financial experience* is the share of partners that have previously worked for a consulting firm or served in an executive role. *Fund size* is the fund's committed capital (logarithmic). *Control variables* include the number of partners, an indicator variable for U.S.-based funds, the educational background of the partners, and an indicator variable for the use of a placement agent. Models are estimated with Ordinary Least Squares (OLS) and depicted are coefficients and robust standard errors (in brackets). Variable definitions are presented in the Appendix.

| | Dependent variable: | | | | | |
| | Follow-on (indicator) | | TVPI (multiple) | | IRR (%) | |
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Team experience						
Experience	0.054	0.046	−0.560**	−0.481*	−0.055	−0.040
	(0.071)	(0.070)	(0.272)	(0.256)	(0.046)	(0.046)
Fund size		0.019		−0.289***		−0.048**
		(0.024)		(0.091)		(0.019)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
F.E. Vintage	Yes	Yes	Yes	Yes	Yes	Yes
Observations	322	322	163	163	148	148
R^2	0.102	0.104	0.298	0.357	0.185	0.245
Panel B: Types of experience						
Private equity experience	0.070	0.063	−0.326	−0.215	−0.058	−0.042
	(0.079)	(0.079)	(0.236)	(0.232)	(0.046)	(0.048)
Financial experience	−0.066	−0.073	−0.177	−0.151	−0.025	−0.017
	(0.065)	(0.066)	(0.217)	(0.215)	(0.037)	(0.038)
Operational experience	0.055	0.049	−0.224	−0.251	0.013	0.010
	(0.071)	(0.071)	(0.266)	(0.248)	(0.048)	(0.047)
Fund size		0.021		−0.298***		−0.048**
		(0.024)		(0.092)		(0.019)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
F.E. Vintage	Yes	Yes	Yes	Yes	Yes	Yes
Observations	322	322	163	163	148	148
R^2	0.109	0.111	0.286	0.347	0.185	0.245

Note: *p<0.1; **p<0.05; ***p<0.01

Appendix

A. Variable Definitions

Variable	Description
(a) Dependent variables	
Fund size	Committed capital in millions of U.S. dollar from investors (Limited Partners, LPs). The variable is winsorized at the 1% level.
Follow-on	Indicator variable set to one if the general partner has raised another fund and zero otherwise.
TVPI	Total Value to Paid-in Capital, often also denoted "money multiple". Primary source of the variable is the PitchBook database, complemented with information from the Preqin database whenever it is missing in the former or more recent data is available in the latter. Database providers typically source returns from limited partner reports, who predominantly report them net of fee. The variable is winsorized at the 1% level.
IRR	Internal Rate of Return. See TVPI for sourcing procedure and transformations.
(b) Type of experience	
Private equity	Share of fund partners who have worked in the private equity industry. The variable is defined as having held a position with one of the "Private Equity International (PEI) 300" companies or their predecessor firms. The PEI 300 firms are ranked based on the amount of private equity direct-investment capital each firm has raised over a five-year period beginning 1 January 2005 and ending 15 April 2010. The companies have raised a total of USD 1.3 trillion over this time horizon with a cut-off of around USD 850 million for the smallest firm (list retrieved from May 2010 magazine publication, more information available at https://www.privateequityinternational.com/print-editions/2010-05/the-pei-300-2010/, last accessed on October 12, 2017).
Financial	Share of fund partners who have obtained financial experience from having held a position with an accounting firm or bank. Accounting firms include the "big five" accounting companies or their predecessor firms, i.e. PricewaterhouseCoopers (PwC), Deloitte, KPMG, Ernst & Young (EY), and Arthur Anderson. Banks cover the first one hundred entries in the "Top 1000 Global Banks" from "The Banker" (list retrieved from July 2011 magazine publication, more information available at http://www.thebanker.com/Banker-Data/Banker-Rankings/Top-1000-World-Banks-2010, last accessed on October 12, 2017), one of their predecessor firms, and investment banks, such as Bear Stearns, Duff & Phelps, Greenhill, Houlihan Lokey, Oppenheimer, Jefferies, Lazard, Lehman Brothers, Piper Jaffray, Rothschild (list not exhaustive and including defunct firms).
Operational	Share of fund partners who have obtained operational experience from having held a position with a consulting firm or an executive role. Consulting firms include the companies listed in the "2011 Vault Consulting 50" ranking or their predecessor firms (Source: http://www.vault.com/company-rankings/consulting/vault-consulting-50/?sRankID=248&rYear=2011, last accessed on October 12, 2017). Executive roles include positions as Chief Executive Officer (CEO), Chief Finance Officer (CFO), or Chief Operating Officer (COO).
(c) Team experience	
Experience (at least 1 type)	Share of partners with previous private equity, financial, and operational experience. Each partner is counted only once (ignoring multiple exposures per person).

Continued on next page

Experience with high-rep firm	Share of partners that have obtained experience from a high-reputation employer, which are defined per type of experience as follows: (i) Private equity experience includes the ten largest private equity firms from the PEI 300 ranking, which includes Goldman Sachs Principal Investment Area, The Carlyle Group, Kohlberg Kravis Roberts, TPG, Apollo Global Management, CVC Capital Partners, The Blackstone Group, Bain Capital, Warburg Pincus, and Apax Partners. Partners who have worked for Goldman Sachs are classified as financial experience. (ii) Financial experience is based on the ranking of "Top-Tier Financial Advisors" presented in Golubov et al. (2012), i.e., Goldman Sachs, Merrill Lynch (now Bank of America Merrill Lynch), Morgan Stanley, JP Morgan, Citi/Salomon Smith Barney, Credit Suisse First Boston, Lehman Brothers (now Barclays Capital), and Lazard. (iii) Operational experience includes the three best-ranked consulting firms from the "2011 Vault Consulting 50" ranking, i.e., Bain & Company, Boston Consulting Group (BCG), and McKinsey & Company.
Experience with low-rep firm	Residual share of partners that have not obtained experience from a high-reputation employer.
Experience with same firm	Share of partners that have obtained experience at the same past employer.
Experience in different firms	Residual share of partners that have not obtained experience from the same previous firm.
Experience HHI	Herfindahl index to measure the concentration of the experience based on the three categories of experience (plus an "other" category for non-matching profiles) for the respective team. If an individual partner matches multiple types of experience, each type is weighted in an equal way so that the person's total weight does not exceed anyone else in the team.

(b) Control variables

No of partners	Count on the members of the management team of the fund. Information on fund partners is sourced by PitchBook from regulatory fillings, fundraising information, investor websites and surveys and complemented with the person's role and position within the firm.
U.S. based fund	Indicator variable set to one if the fund is based in the U.S. and zero otherwise.
Business Degrees	Share of fund partners who hold an undergraduate degree in a business related field (e.g., management, finance, accounting).
Science Degrees	Share of fund partners who hold an academic degree in a science or engineering related field.
Ivy League Degrees	Share of fund partners who hold an academic degree from an Ivy League school (includes undergraduate and advanced degrees).
MBA Degrees	Share of fund partners who hold a Master of Business Administration (MBA) degree from a business school.
Law/JD Degree	Indicator variable set to one if at least one fund partner holds an academic degree in a law related field or a Juris Doctor (JD).
Placement agent	Indicator variable set to one if the use of a placement agent is named for the fund and zero otherwise.
Past year equity	Total return of the MSCI World index for the year prior to the fund's vintage (data retrieved from Thomson Reuters).

B. Sample Definitions

B.1 Overview of sample definitions

The table shows a summary of the sample definitions. *Panel A* derives the sample of first-time funds top-down, while *Panel B* builds the sample of funds with existing reputation bottom-up. The basis for both approaches are the buyout funds listed in the PitchBook database up to vintage year 2010. Only closed, fully invested and liquidated funds are included for which committed capital, sequence number, the biography of at least one member of the fund management team, and at least three investments are available. The columns list the number of funds that meet the respective criteria as well as their average fund size (in millions of dollar) and team size (number of partners).

	No of funds	Fund size	Team size
Panel A: First-Time Funds			
Before excl. required size/investments/team	3837	-	-
Before excl. sequence number > 1	1732	790.64	3.54
Before excl. spin-offs/sponsors	442	309.17	2.36
Before excl. vintage $-$ GP founding year > 3	395	279.68	2.38
Total funds	322	282.09	2.38
Panel B: Funds with reputation			
First fund of a joint venture	13	241.47	2.08
First fund of a spin-off	14	825.03	2.43
First fund of a sponsor	35	776.82	2.31
New investment series of an established GP	86	420.22	2.99
Total funds	148	527.14	2.70

B.2 Remarks on the fund sample with reputation

The key characteristics of first-time funds are their recent formation and independence from a parent organization. The latter is the main argument to expect experience to matter during fundraising since the team lacks organizational capital and reputation. The additional fund sample tests this assumption by exploring the formation of a new entity that is supported by an existing organization through which it can leverage reputation. I identify four scenarios where this assumption seems reasonable.

I. First fund of a joint venture (JV)

In case the new organization is founded as a partnership between established investment firms, there is not only the reputation signal from either parent but they also bring along existing contacts and an investment history. I identify a total of 13 such cases including the following three examples:

- Newbridge Capital, a JV formed in 1994 between Acon Investments, Blum Capital, and Texas Pacific Group (TPG) to venture into Asia and Latin America.

- Accel-KKR, a JV formed in 2000 between venture capital firm Accel Partners and buyout firm Kohlberg Kravis Roberts (KKR) to invest in technology firms.

- DLJ South American Partners, a JV formed in 2007 between the management team spin-off established as Victoria Capital Partners and the bank Credit Suisse.

II. First fund of a spin-off

A spin-off is defined as the departure of key investment personnel from an established organization, typically an investment bank or another general partner. It can involve the buyout of existing business following divestment decisions of the parent firm. I identify a total of 14 such cases including the following three examples:

- CVC Capital Partners formed in 1993 as a management buyout of Citicorp Venture Capital, a subsidiary of Citigroup, launched their first independent fund in 1996.

- Cypress Group formed in 1994 by the leadership team of the merchant banking group of Lehman Brothers, launched their first independent fund in 1996.

- Metalmark Capital formed in 2004 by former principals of Morgan Stanley Capital Partners, advised existing funds and launched their first independent fund in 2006.

III. First fund of a sponsor

A financial institution, typically an investment bank or an asset manager, sponsors a private equity business that is managed in a separate organization (for a dedicated discussion of bank-affiliated private equity groups refer to the study by Fang et al. (2013)). I identify a total of 35 such cases including the following three examples:

- George K. Baum Capital Partners, formed in 1994 as a subsidiary to the boutique investment banking firm George K. Baum, which was founded in 1928.

- PAI's Partners, which represents the original investment business of Paribas (now BNP Paribas), raised its first third party fund, the PAI LBO Fund, in 1998.

- Standard Chartered Private Equity (SCPE) formed in 2002 as the principal investment platform of Standard Chartered Bank.

IV. New investment series of an established GP

The start of a new investment series, typically with a new strategic focus, through an established general partner (GP) that runs at least one other series in parallel. The classification is based on the sequence number in the database and the fund name (e.g., roman numerals). I identify a total of 86 such cases including the following three examples:

- Advent International, which started their first institutional private equity fund in 1987, launched a digital media & communications focused series in 1996.

- The Carlyle Group, which started their first U.S. buyout fund in 1990, launched Carlyle Europe Partners in 1998 to conduct buyout transactions in Europe.

- AEA Investors, which started their first leveraged buyout series in 1991, formed a new small business fund series in 2005.