THE INVESTMENT BEHAVIOR OF PRIVATE EQUITY FUND MANAGERS

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ABSTRACT: Using a unique dataset of private equity funds over the last two decades, this paper analyzes the investment behavior of private equity fund managers. Based on recent theoretical advances, we link the timing of funds’ investment and exit decisions, and the subsequent returns they earn on their portfolio companies, to changes in the demand for private equity in a setting where the supply of capital is ‘sticky’ in the short run. We show that existing funds accelerate their investment flows and earn higher returns when investment opportunities improve and the demand for capital increases. Increases in supply lead to tougher competition for deal flow, and private equity fund managers respond by cutting their investment spending. These findings provide complementary evidence to recent papers documenting the determinants of fund-level performance in private equity.

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