Public Pension Management and Asset Investment Review Commission

(Act of Jun. 12, 2017, P.L. 11, No. 5)

September 11, 2018

The following clarifying statement from Dr. Ludovic Phalippou concerns the testimony he presented to the Act 5 Commission during its public hearing on July 30, 2018. Note that the 30 percent figure he cites below was a reference to an investment return as reported by a hypothetical endowment.

In my testimony to the Commission, I used the word “fake” to describe some of the reported returns in PE [private equity]. In doing so, I misspoke. I was attempting, without a script, to convey the complexities of return measurement. To be completely clear, I have no doubt that the 30% figure is an accurate IRR. The point that I wished to convey is that an IRR is a complex measurement that is very difficult to interpret. In particular, the IRR level on a given time period depends mainly on the returns achieved at the beginning of that time period. For example, an investor in a ten-year fund that reports a 30% IRR need not necessarily receive a 30% return on her investment over the full 10 year life of the fund. This observations applies to every private equity instrument, and is not a judgment about the quality of performance by any particular investor.

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