

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Vojtěch Mravec
Advisor:	Jiří Novák
Title of the thesis:	Further Determinants of Private Equity

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Vojtěch analyzes a rather uncharted territory of the performance of private equity industry (PE). The importance of PE has been growing recently, which merits systematic investigation. However, performing the analysis is challenging due to limited amount of systemic data on PE. Vojtěch used Capital IQ and Preqin databases to examine the profitability of PE measured in terms of valuation multiples and IRR.

I appreciate Vojtěch's decision to analyze a fairly new phenomenon that has only recently received broader research attention. This choice, however, implies that the study faces challenges of limited data availability, problematic definition and classification of the terms, etc. Perhaps as a consequence of these challenges the research question it addresses is fairly simple. The thesis would benefit from a clearer specification and motivation of the broader economic question it aims to address. The title itself „Further Determinants of Private Equity“ is not very telling because the reader gets limited understanding of what „further determinants“ the author considers and why. Similarly, in the introduction the motivation is fairly brief and limited to the technical aspect of the problem, i.e. how specifically the profitability of private equity will be measured. How will the results of the study help us understand the economic forces underlying the PE dynamics?

The author provides an extensive institutional setting background, which demonstrates his good insight into the area. Nevertheless, the overview is rather long (ends at p. 35 out of 60) and often it is not quite clear why the author actually mentions the individual statistics and the rankings of the individual funds in a given category. Hence, the first part of the thesis is fairly descriptive or textbook-like.

Vojtěch provides a fairly good literature review, including an overview table at the end. Nevertheless, I miss the synthesis of the individual pieces of knowledge into some (partly) coherent „existing body of knowledge“ and the link showing how the thesis contributes to the existing knowledge, i.e. how it „fits into the picture“.

The hypotheses are clearly stated and well motivated. In fact, H1 (and perhaps also H2c) is fairly interesting and it implicitly targets a broader economic question that I have mentioned earlier. It is a pity the author did not structure the introduction and the motivation around these specific hypotheses (or some of them) that seem to be more interesting than pure measurement of PE profitability in general as the research question is presented in the intro.

The choice of the databases is well motivated. In fact, access to these data sources is not common and their use increases the contribution of the thesis. It would be good if the author discussed the potential limitations, e.g. the survivorship bias. Are the dead PE included? If not how can this fact affect the inferences the author draws? ... Now I see that such a discussion is included in the last but one paragraph of the conclusion, which is good but rather late.

Since the author suggests that there may be systematic differences in profitability of different classes of PE, should not the classification dummies be included in the regression on page 45 to control for this effect ... and in fact, to test H2a at the same time? The outlier treatment is fairly conservative, but it does not eliminate too many observations, hence it seems to be legitimate. Nevertheless, I would still like to see the results based on the full sample as a robustness check. I see that this is partly done with Dataset 2

The tables should be accompanied with more specific description so that the reader understands the meaning. What are the numbers below the coefficients? If it is t-stats then the significance is not assigned correctly ... Or is it that the p-values are above the coefficients ... if so then this representation is very unusual and hence confusing.

The results for H2 are presented in the form of contingency tables. The author argues that this is because very low R² of the corresponding regression. I would not say that a low R² (~ 3%) is a reason for not including the regression results. Many cross sectional studies have very low R², but this per se does not invalidate the inferences made based on the significance of reg coefs.

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Overall, I find the thesis rather ambitious and original. In fact, I believe there is more in the thesis than what Vojtěch advertises for in the introduction. It is a pity that he does not center the whole thesis around the most interesting findings and "sell" the work better. Nevertheless, the thesis constitutes a solid piece of work that deserves a strong grade "1 - **v ý b o r n ě**". I recommend to the examination committee to consider awarding the distinctions ("pochvala") in case Vojtěch is able to well motivate the contribution of his thesis relative to the existing research at the oral defence.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	19
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	29
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	94
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Jiří Novák

DATE OF EVALUATION: August 28, 2012

Referee Signature