

Discussion: "Is Destiny Worth the Distance"

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Summary

Performance of private equity funds depends on

- ▶ geographical and
- ▶ cultural proximity.

Analysis

- ▶ Divide sample into sub-samples of GPs: DM to DM, EM to EM and both DM to DM & DM to EM
- ▶ Geographical distance (based on commonality of borders), Cultural Distance (Schwartz's cultural model), GP investment concentration, Language, Local Affiliation
- ▶ Deal-, fund- and company - controls: size, time to exit, time to invest, direct investment, co-investment, company age, invested capital etc.

Results

- ▶ Geographical distance: "nearby" and "distant" are positive and significant only for mixed funds for DM to DM. Stronger for "nearby".
- ▶ Cultural distance: "hierarchy" is the (only) significant measure: negative for mixed funds for DM to DM, positive for EM to EM.
- ▶ Language has no significant effect on DM to DM, otherwise language significantly and positively impacts performance.
- ▶ Geo Concentration has a significant positive effect for EM for nearby markets, and a negative effect for distant markets.
- ▶ Accounting for previous deal performance does not change the baseline results on geographic / cultural distance.

Focus

Is the paper about ...

- ▶ ... emerging markets?
- ▶ ... cultural and geographic distance?
- ▶ ... or intersection of the two?

Emerging Markets

EM are not only far and have "exotic" cultures but also have

- ▶ usually less developed equity markets,
- ▶ lower standard judicial systems,
- ▶ more opaque economies,
- ▶ lower level of education and
- ▶ a different macroeconomic pattern.

Geographic Distance

- ▶ Local advantage? Significant performance difference between DM to EM and EM to EM.
- ▶ Is performance decreasing with distance? Significant difference between "local", "nearby" and "distant"?

Cultural Distance

"Hierarchy"

- ▶ seems the most relevant variable.
- ▶ What does a "clear social order" imply for a PE fund investment strategy? Clarify.

Language:

- ▶ A French fund manager investing in Poland (with language knowledge) performs better than a German fund manager (without language). Language might be correlated with skill /IQ?
- ▶ Polish investment manager investing in Poland vs. German investment manager investing in Poland: Polish manager better investment skills than German (Self selection)?!

Conclusion

Any chance to identify a causal relationship between geographic / cultural distance and funds' performance?

- ▶ Omitted variable bias: skill, macroeconomic factors, business environment, judicial system
- ▶ Reverse causality: geo concentration (Table 10)

Minor comments:

- ▶ Heat-map for investment flows to show flow concentration and countries studied.
- ▶ Geographical distance measure as distance between capital cities (http://www.cepii.fr/CEPII/fr/bdd_modele/presentation.asp?id=6).

THANK YOU!

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