

The Case for Small Buyouts

Part III: Small Buyouts Have Historically Outperformed

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Notes on Data

- » RCP collected information from its internal database, GPScout, which includes information provided to RCP from public data sources, third party data providers (e.g., Preqin, etc.), various fund managers and information from RCP's own investments. Because RCP's strategy is focused primarily on North American lower-middle market buyouts, a majority of investment managers analyzed by RCP operate in this segment of the market.
- » RCP's database, GPScout, provides private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners and publicly available information, as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers. As of 7/30/2025, GPScout contains information on 5,600+ fund managers and more than 10,500 funds. These documents are provided to RCP by the fund managers themselves. Please note: RCP's database has been rebranded as GPScout. RCP's subscription-based manager research platform, formerly named GPScout, has been rebranded as GPScout Navigator.
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- » Preqin provides performance on 10,500+ separate vehicles managed by over 2,200 private equity firms from all over the world. Preqin maintains this data using a number of different methods, including collecting performance information directly from fund managers themselves, and also from requesting information from public institutional investors. All this private equity data is at a fund level, and is net to the investor.
- » The private market funds referenced in this report, including Venture Capital ("VC"), Real Estate, Real Assets, and Private Debt, are based in the U.S. and Canada unless otherwise noted. Data has been sourced from Preqin and PitchBook.
- » Small buyout and lower middle market: a transaction related to a company with less than \$100M in enterprise value.
- » Morningstar, Inc. is an American financial services firm headquartered in Chicago, Illinois, founded by Joe Mansueto in 1984. It offers a range of investment research and investment management services.
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RCP Advisors is proud to share the last installment of a three-part research presentation series:

The Case for Small Buyouts

In this series, we have leveraged more than two decades of proprietary data and research focused on lower middle market transactions to explain why we believe **small market buyouts have historically produced the highest and most consistent returns in private equity.**

Part I of this series outlined the structural advantages observed in small market buyout transactions that help lead to these higher levels of return.

Part II of this series illustrated how these observed structural advantages have driven excess returns.

Part III outlines how, historically, small buyout transactions and the funds focused on this part of the market have consistently outperformed other investment areas over long periods of time. We use a variety of measures to demonstrate this observation.

PART I

Observed Structural
Advantages in the
Lower Middle Market

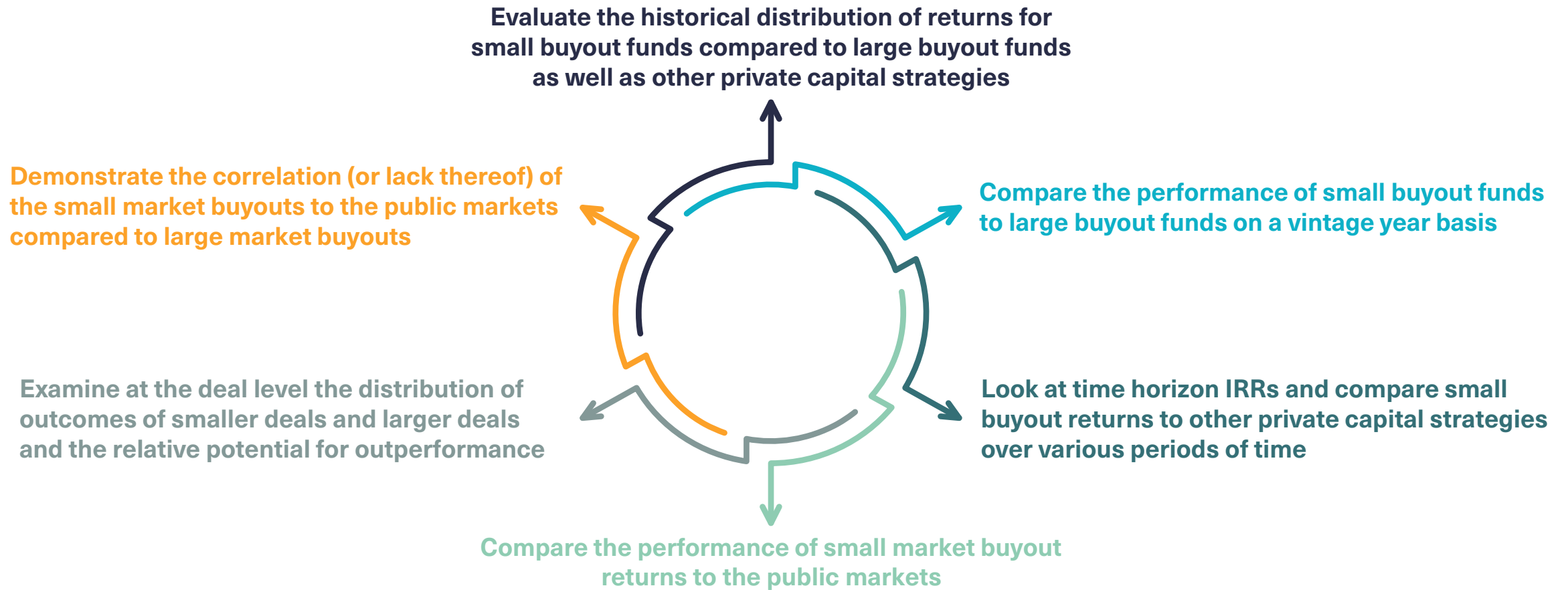
PART II

Observed Drivers of Returns in
the Lower Middle Market

PART III

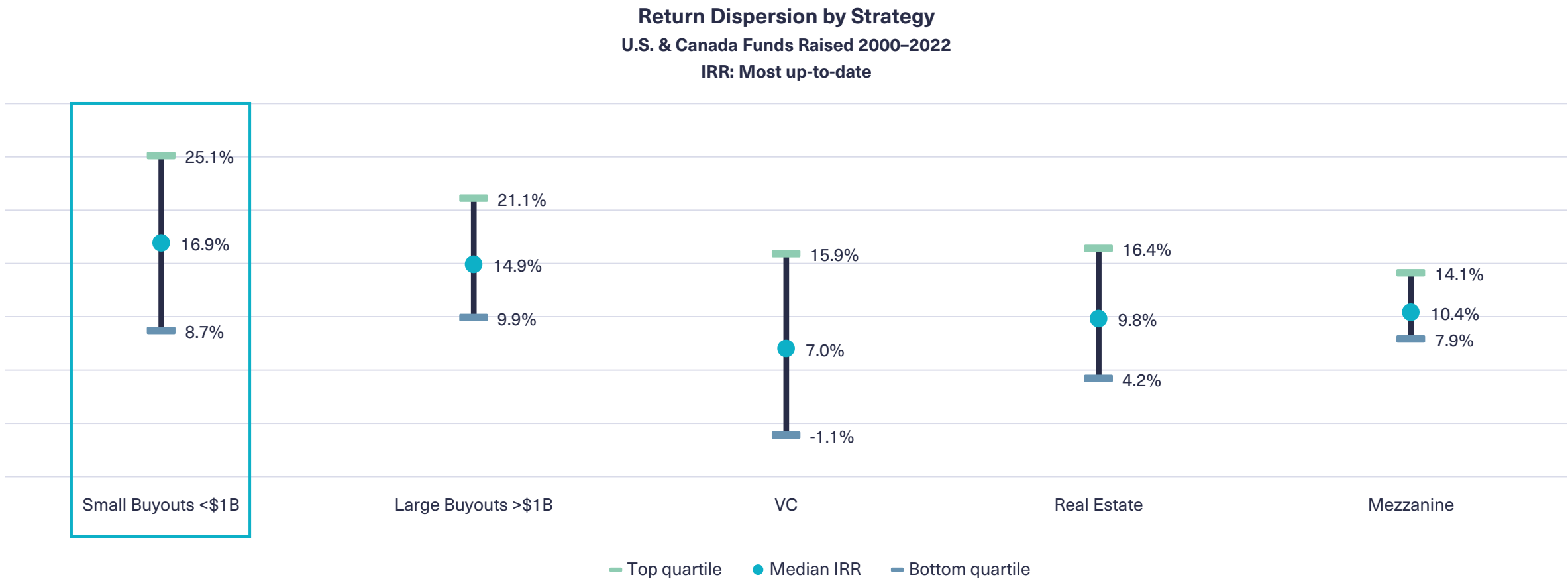
**Small Buyouts Have
Historically Outperformed**

Overview of the different ways we measure how small market buyouts outperform



SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Small buyout funds have historically provided strong returns, but manager selection is critical

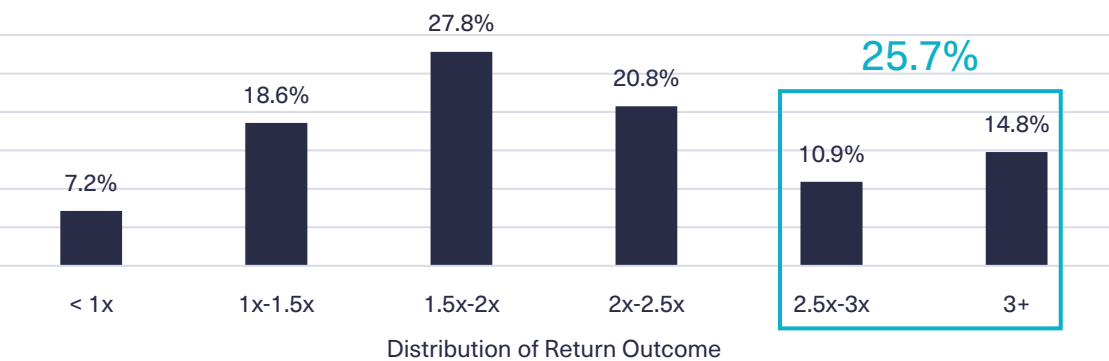


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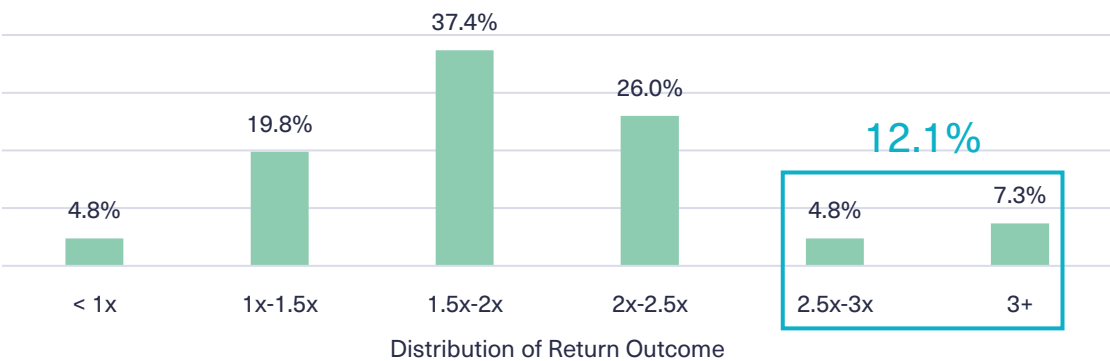
SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Small buyout funds have historically had a greater frequency of outsized return outcomes

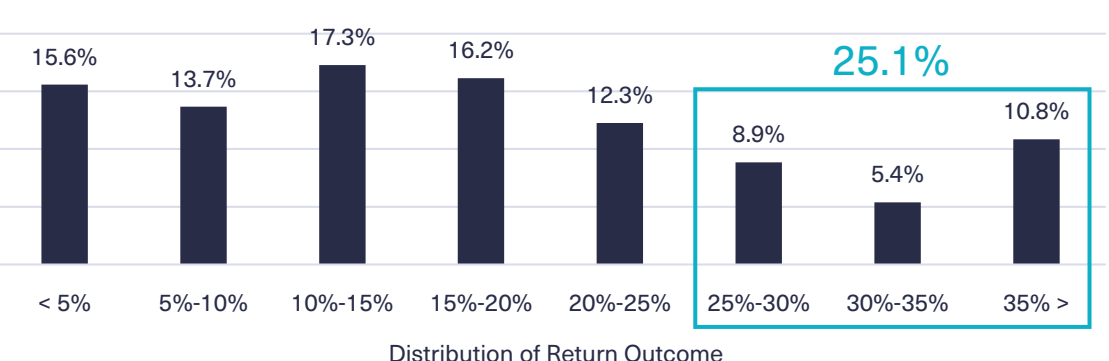
TVPI: Small Buyout Funds <\$1B (U.S. and Canada)



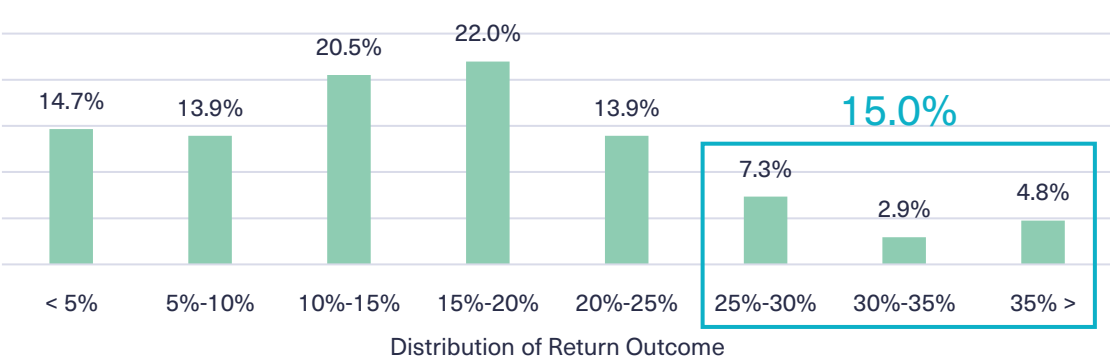
TVPI: Large Buyout Funds >\$1B (U.S. and Canada)



IRR: Small Buyout Funds <\$1B (U.S. and Canada)



IRR: Large Buyout Funds >\$1B (U.S. and Canada)



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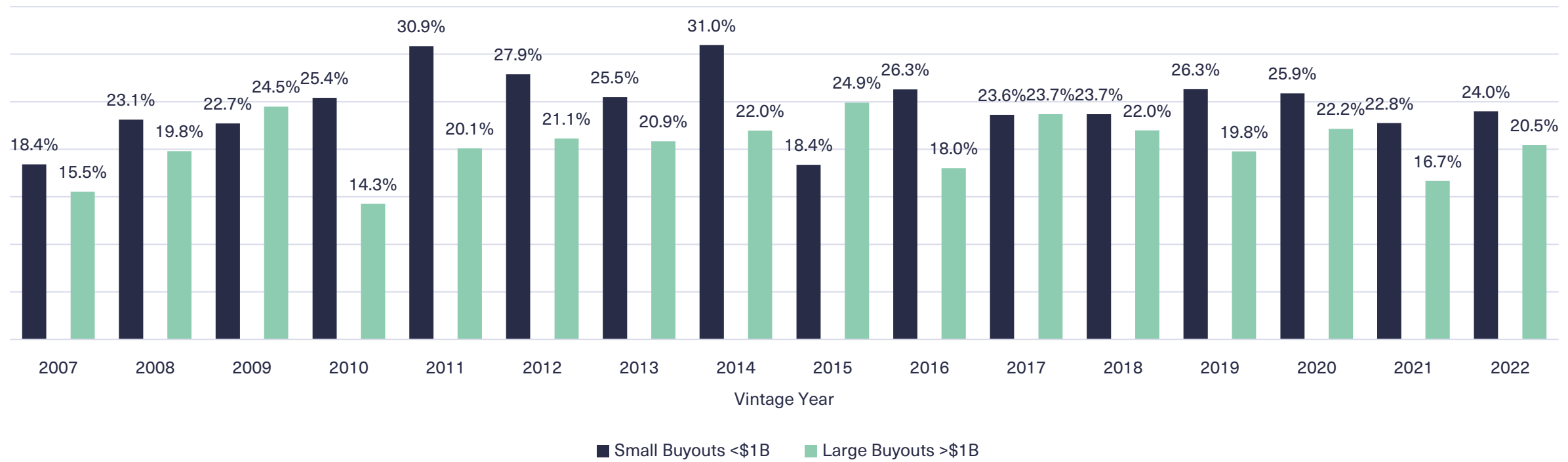
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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Small buyouts advantage across market cycles

» Small buyouts' top quartile returns have beaten large buyouts' top quartile returns in 13 of 16 vintage years from 2007 – 2022

Top Quartile Returns by Fund Vintage Year
U.S. & Canada Buyout Funds - IRR: Most up-to-date

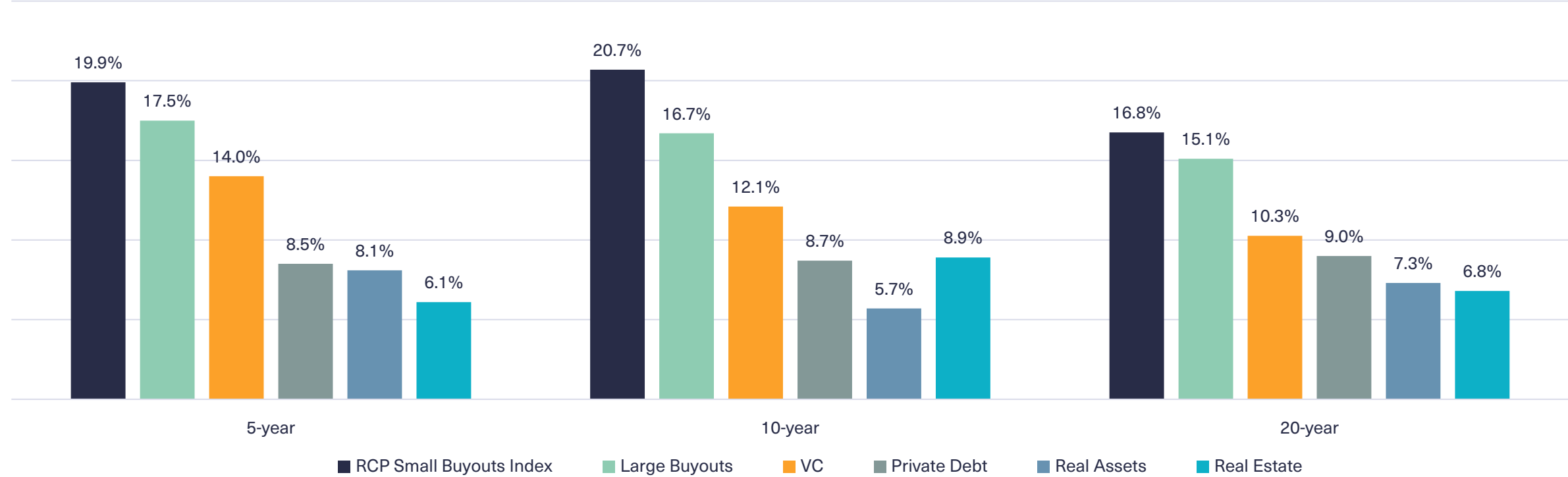


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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Small buyouts historically outperform other alternative assets in short, medium, and long-time horizons

Private Market Returns (U.S. & Canada) by Strategy
Horizon Net IRR as of 12/31/24

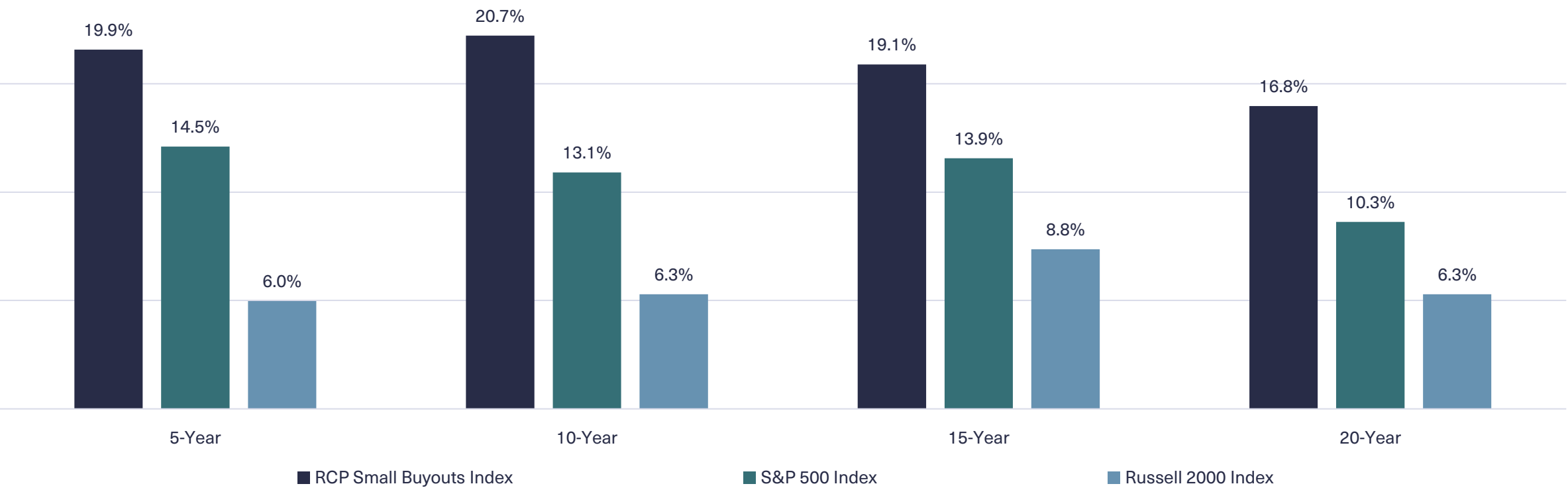


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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Small buyouts significantly outperforming public markets at 5-, 10-, 15-, and 20-year time periods

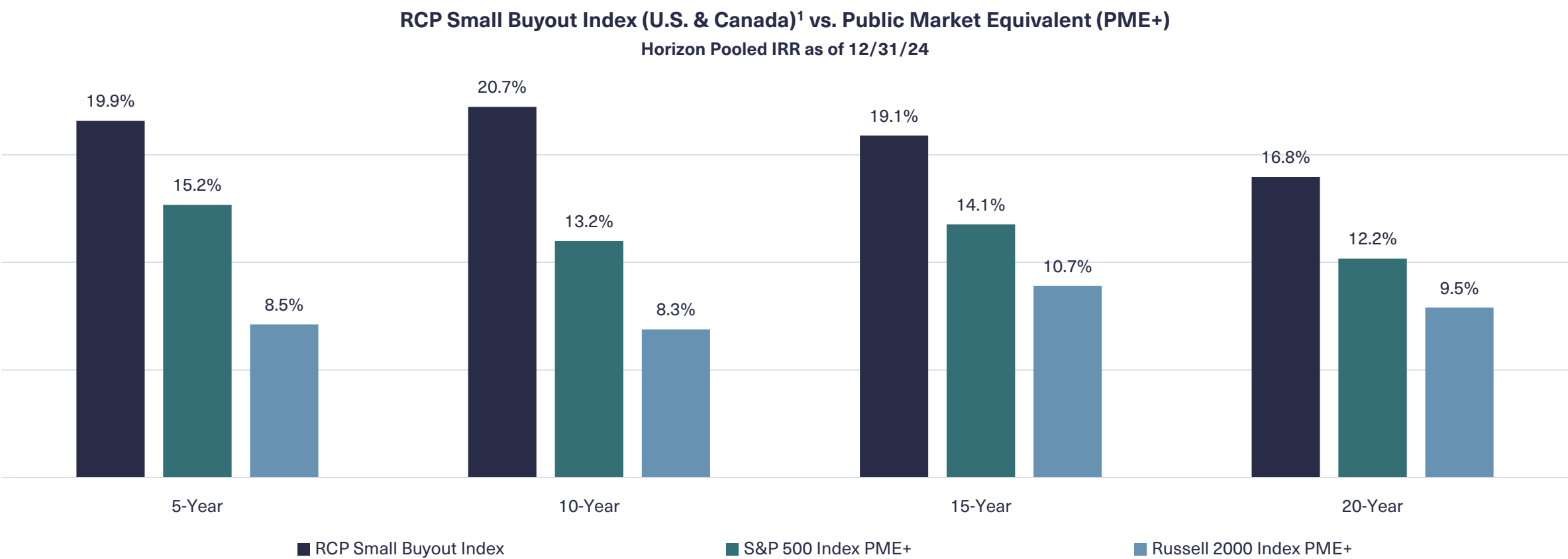
RCP Small Buyouts Index (U.S. & Canada)¹ vs. Public Market
Annualized Returns as of 12/31/24



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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

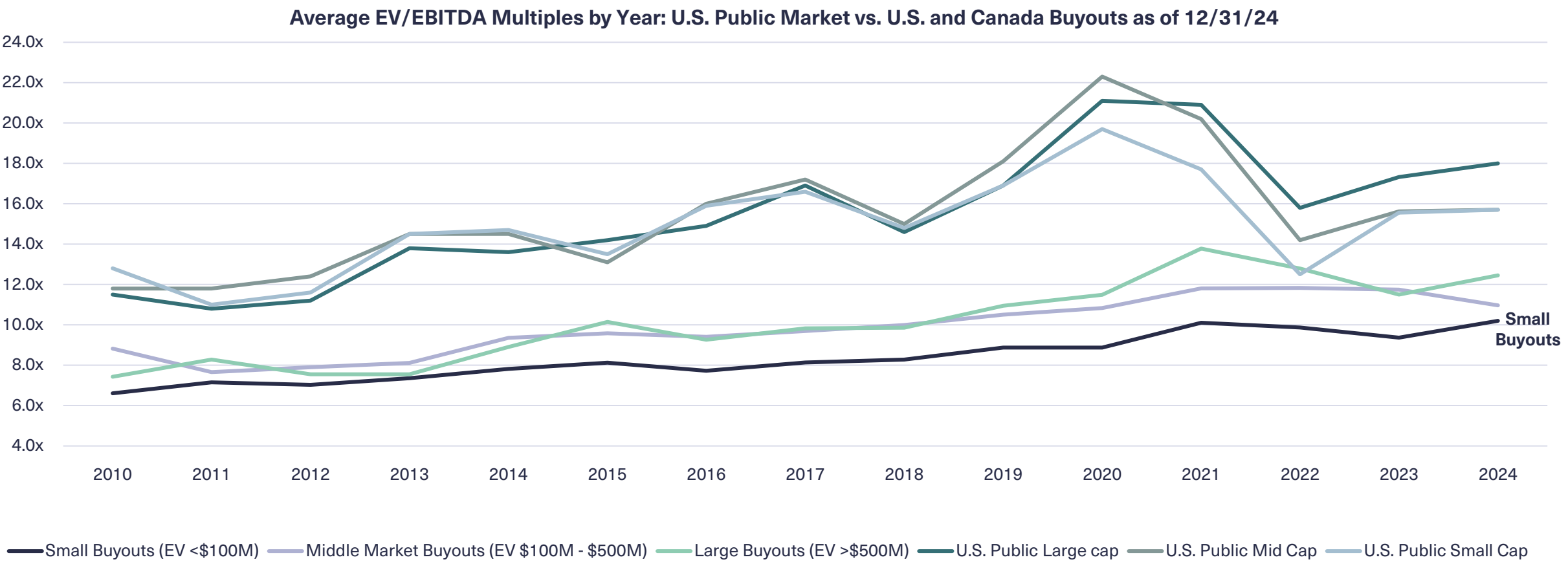
Small buyouts have historically outperformed the public markets when using a PME+ comparison



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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Valuations in small buyouts have historically shown lower correlation to public markets and large buyouts

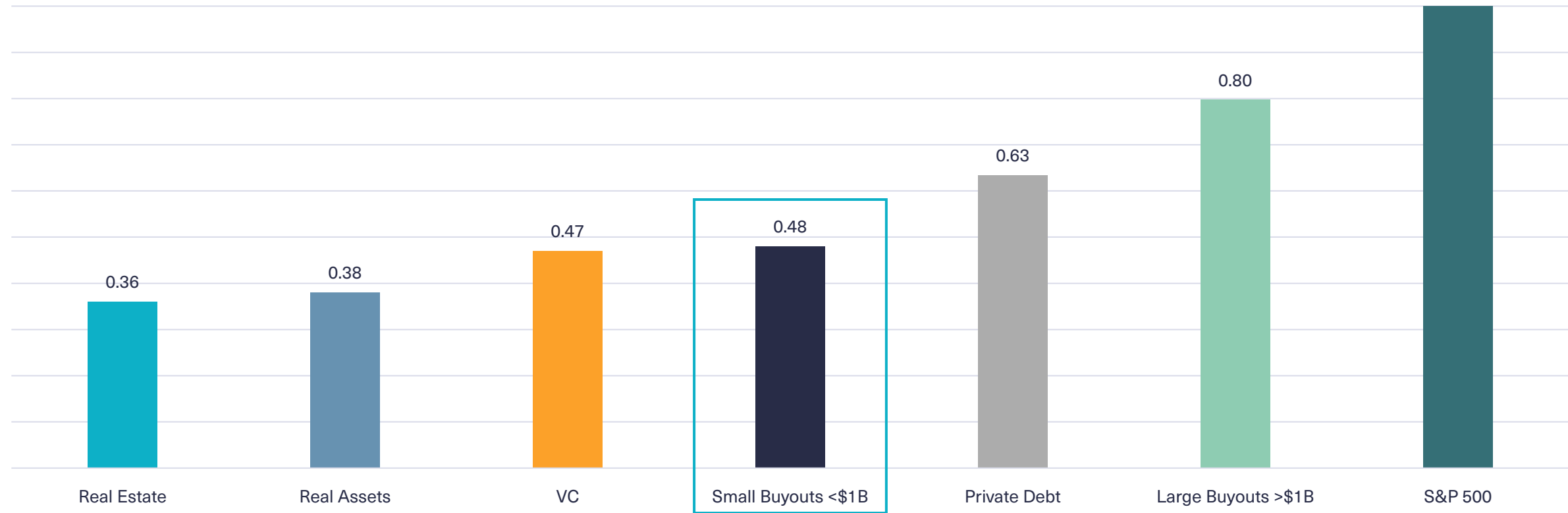


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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Small buyouts are generally less correlated to public markets than larger buyouts

Private Markets (U.S. and Canada) Correlation vs. S&P 500
Quarterly Returns from 1/1/2000 - 12/31/2024

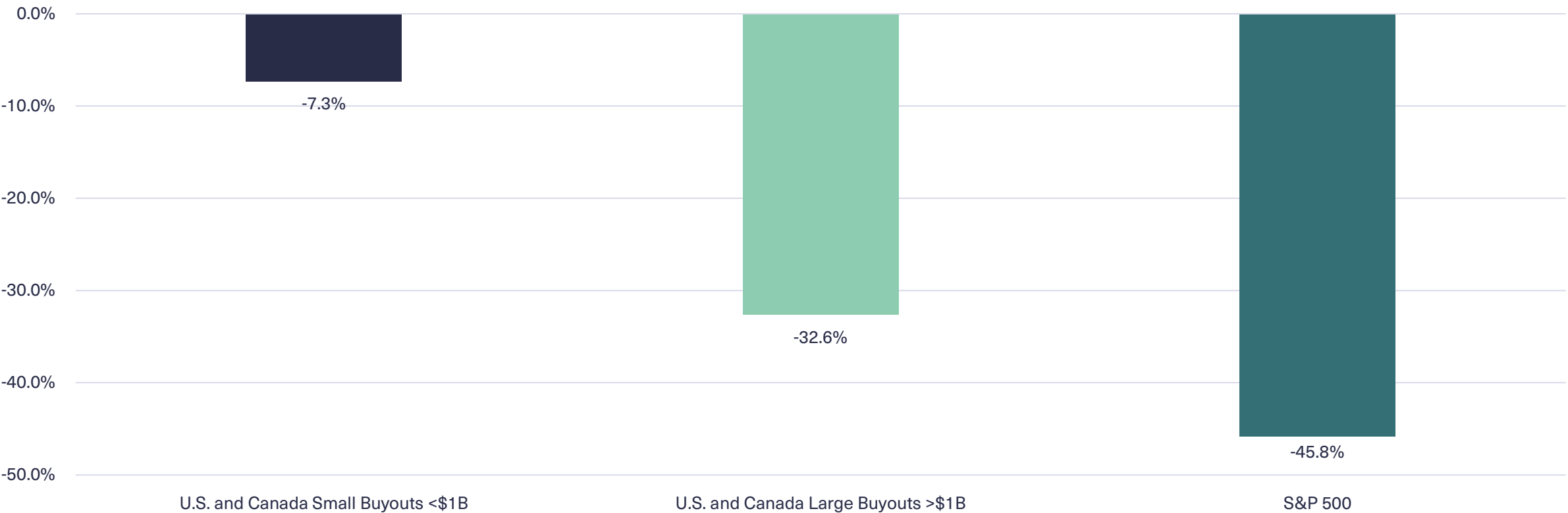


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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

The GFC demonstrated that small buyouts were less volatile and less correlated with the public markets

Returns Through the Global Financial Crisis
9/30/2007-3/31/2009

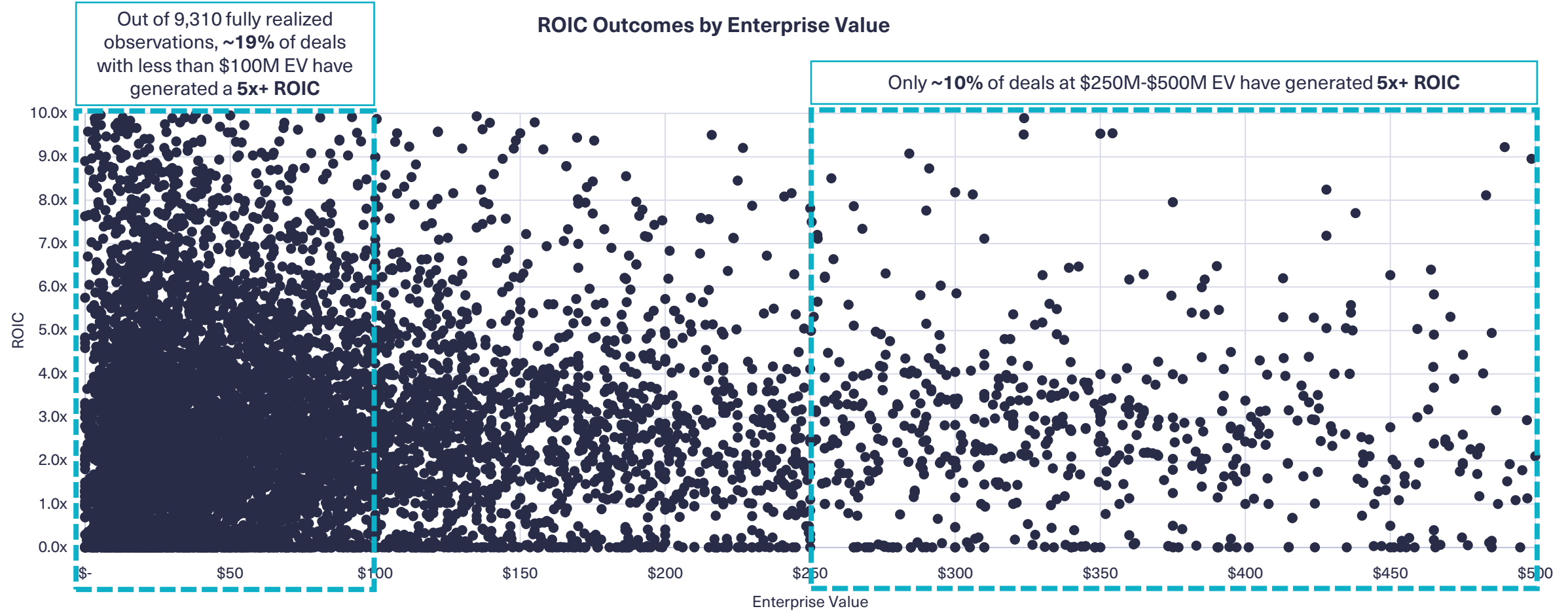


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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Outsized returns occur more often in smaller deals

Opportunity for 5x+ ROIC outcomes nearly twice as likely in smaller deals (<\$100M EV) vs. larger deals (\$250M-\$500M EV)

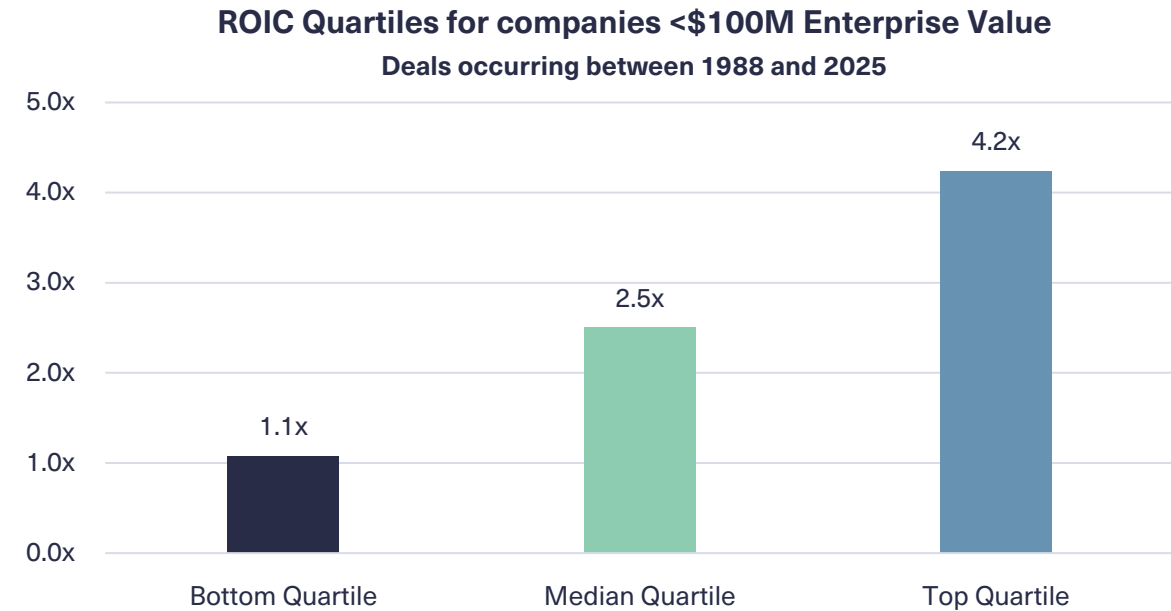
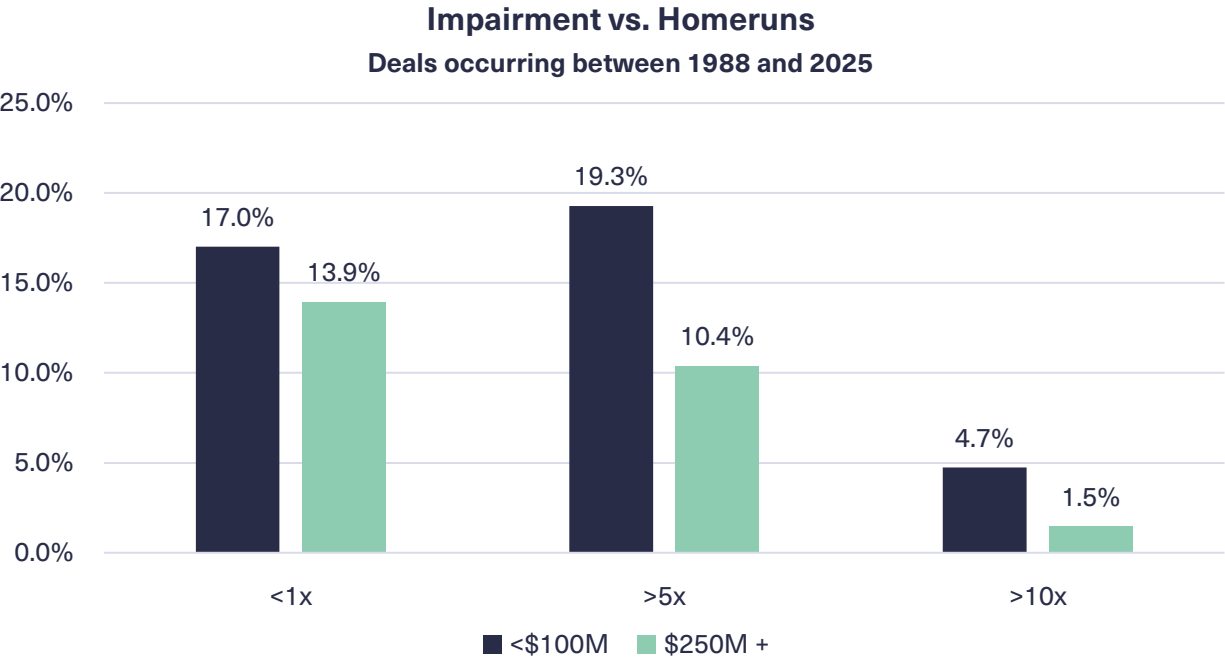


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SMALL BUYOUTS HAVE HISTORICALLY OUTPERFORMED

Very attractive return distribution for deals <\$100M in enterprise value

Deals <\$100M in EV have historically had a much greater chance to outperform with only slightly higher chance of impairment



- » Deals with <\$100M of Enterprise Value have historically had a much greater chance to outperform their larger counterparts, with nearly 20% of these deals achieving a 5x+ ROIC and nearly 5% of these deals achieving a 10x+ ROIC compared to 10.4% and 1.5% for larger deals
- » The percentage of outcomes where a portfolio company did not return capital (<1x ROIC) is 17.0% for <\$100M EV investments, which is only about 3% higher than the \$250M+ EV investments at 13.9%
- » For deals with enterprise values less than \$100M at entry, the median realized outcome is 2.5x with the top quartile of the distribution generating a 4.2x ROIC
- » Bottom quartile of the returns distribution in smaller deals is 1.1x ROIC; even the tougher deals are still typically returning capital

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Key takeaways

- » **Historical Distribution of Returns:** Small buyouts have historically delivered strong returns relative to other private market strategies, but manager selection is critical in this space
 - Over a 22-year period, the distribution of small buyout funds' performance has had a higher median and upper quartile than large buyout funds, as well as other categories of private capital.
 - When comparing the distribution of outcomes between small buyout funds and larger funds in more detail, we see that funds under \$1B achieved a 2.5x TVPI or better as well as 3.0x TVPI or better twice as often as funds over \$1B.
 - Manager selection is critical as the left tail of the return distribution for smaller funds falls below 1.0x TVPI at around 50% greater frequency than larger funds.
- » **Historical Vintage Year Performance:** Small buyouts' top quartile returns have outperformed those of large buyouts' top quartile in 13 of 16 vintage years from 2007 – 2022.
- » **Historical Time Horizon IRR Comparison:** Small buyouts have consistently outperformed larger buyouts, as well as other categories of private capital, over 5-, 10-, and 20-year time horizons.
- » **Performance Compared to the Public Markets:** Small buyouts have consistently outperformed the public markets on an absolute basis and when evaluated using a PME+ calculation, over 5-, 10-, and 20-year time horizons.
- » **Correlation to the Public Markets:** Small buyout valuations have generally remained less correlated with the broader fluctuations of public markets and large market buyouts.
 - We have also observed that during periods of market dislocation, returns from larger private equity investments tend to align more closely with public market performance than those from smaller buyouts.
- » **Deal Level Distribution of Outcome:** Small market buyout transactions also have double the frequency of “home run” outcomes compared to larger buyout transactions, with only just over 22% greater frequency of some loss of capital.

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Appendix

Endnotes

Indices/Benchmarks. Index performance is not representative of any RCP Fund's performance. Each respective index/benchmark used for benchmarking purposes has limitations (some of which are applicable to a specific index while others are typical to multiple widely used indices) and cannot be used to predict performance of any RCP Fund. These limitations include survivorship bias (the returns of the index may not be representative of all private equity funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all private equity are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many funds do not report to indices, and an index may omit funds, the inclusion of which might significantly affect the performance shown).

Comparison to Public Market Equivalent Indices. Performance of broad public market indices, such as the S&P 500, are for informational purposes only and do not provide a basis of comparison for private equity fund investments as the market volatility, liquidity and other characteristics of private equity fund investments are materially different from those of broad public market indices.

Comparison to Alternative Investment Indices/Benchmarks. Comparisons to alternative investment indices/benchmarks are subject to material inherent limitations. Data included in alternative investment indices or benchmarks generally do not represent the returns of all funds but rather only those to which the index/benchmark provider has access. The number of funds included in the index/benchmark data for a specific vintage year will likely vary. Moreover, performance information for all funds within a specific category may differ from those reported by the index/benchmark provider. Additionally, the universe from which the components of an alternative investment index/benchmark are selected include a significant element of "survivor bias" into the reported levels of an index/benchmark, as generally only successful funds will continue to report for the required period. Accordingly, indexation of alternative investment strategies tends to overstate the beneficial aspects of these strategies while obscuring certain risks, including the "risk of ruin."

Public Market Equivalent (PME) and PME+: IRR and cash multiples have been the standard of benchmarking, but one of their main drawbacks is that they cannot be directly compared to indices that are used in mainstream asset classes. Public-market equivalent benchmarks (PMEs) effectively address this problem, making it possible to directly compare alternative asset fund performance to the performance of indexed asset classes by using fund-level cash flows. As there are multiple ways to calculate a PME, RCP Advisors has employed the PME+ method which to avoid negative NPVs, scales the distributions by a factor λ such that the public NAV at the end is equivalent to the private NAV. The private equity fund and the fictive fund have the same capital calls and the same final NAV, but different distributions. PME accumulates the outperformance or underperformance in the final NAV, whereas PME+ spreads it over time across all distributions. Additionally, PME+ ensures that the number of public shares remains positive and, therefore, avoids the shortness issue. PME and PME+ are relatively simple as well as intuitive and are both widely used in the private equity industry.

Geographic and Public Benchmark Alignment: The private equity dataset analyzed in this report includes funds and transactions based in both the United States and Canada. However, the PME benchmark used for comparison reflects only U.S. public equities. As a result, differences in geographic exposure, sector composition, and currency may affect the comparability between the private and public market datasets.

Continued from slides 9-11: The Small Buyout Index returns reflected in this graph is compared to the historical performance of the Standard & Poor's 500 Total Return Index (dividends reinvested) and Russell 2000 Index only because they are indices believed by RCP to be widely used to measure performance of the broader domestic economy through changes in the aggregate market value of S&P 500 stocks and the top 2,000 U.S. publicly traded companies as ranked by market capitalization representing major indices. Index performance is not representative of any RCP Fund's performance. An investment in any RCP Fund should not be construed as an investment in a program that seeks to replicate, or correlate with, this index. Unlike the RCP Funds, indices are unmanaged, are not available for investment, and do not incur expenses. Volatility of the index is materially different from that of the actual RCP Fund performance results with which the index is compared. Market conditions vary (sometimes materially) between the RCP Funds and the index, and the index does not include the reinvestment of capital, as does each RCP Fund. Further, the RCP Funds invest in strategies and positions that are not included in this index, and the index may not accurately reflect the performance of a described investment strategy.

Continued from slide 13: The correlation analysis is based on return data from January 1, 2020, to December 31, 2024, sourced from PitchBook and includes U.S. & Canadian Small Buyouts and Large Buyouts, as well as U.S. Real Estate, Real Assets, Venture Capital, and Private Debt strategies. PitchBook indicated that the total number of unique funds used in the correlation matrix cannot be precisely determined, as the returns data is aggregated at the quarterly level—meaning a single fund may contribute returns across multiple quarters. As a result, while the estimated number of fund observations used in the analysis is 141,763, this figure may include duplicates and should be viewed as directional rather than definitive. The correlation matrix itself was generated using Excel's CORREL function, comparing quarterly S&P return metrics against those of the private strategies

Adjusting for return smoothing: Interpreting interim returns for private markets can be challenging due to the inherent smoothing that takes place as a result of infrequent and disparate valuation adjustments to a fund's assets. This smoothing produces a potential bias in estimating volatility and correlations, which are necessary inputs for many allocators' risk modeling in portfolio construction and monitoring. If left unadjusted, PitchBook's indexes are subject to this bias. To address the issue, PitchBook uses a common approach to desmooth private market returns. The adjusted return series uses a first-order autoregression model. In simple terms, PitchBook has found evidence that private market returns are correlated from one quarter to the next by about 50%, although this varies across asset classes and time. By using a single-lag autocorrelation function (ACF), the adjusted return series yields higher volatility estimates than would be calculated using the traditional reported figures. The adjusted series should be taken into consideration when evaluating the risk/return characteristics of each asset class. Importantly, these are still just estimates of what the "true" returns of the asset class are, but they nonetheless provide a useful barometer for comparison. PitchBook also displays the reported and adjusted volatility estimates for each private fund asset class and correlations between the desmoothed quarterly returns and the quarterly returns of select public market indexes. If the ACF adjustments are not made, the private market asset classes will appear more attractive on a risk-adjusted basis because of the understated volatility measures. The correlations between the private capital indexes and public markets may also be lower, potentially overstating the diversification benefits. We provide historical context on how the relationship with public equities has changed, as well as the overall correlation coefficients since 2000. [For further reading on fund return smoothing, please review PitchBook's Analyst Note: Return Smoothing in Private Markets.](#)

Notes

Terms

EBITDA: An indicator of a company's financial performance which is calculated in the following manner: $EBITDA = \text{Revenue} - \text{Expenses (excluding tax, interest, depreciation and amortization)}$. EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

Fund count: Represents how many funds are included in a given sample. Note that some funds in PitchBook's dataset have a reported IRR but lack sufficient cash flow information to be included in pooled calculations.

IRR: Represents the internal rate of return of the Fund. IRR is a time-weighted average expressed as a percentage. The IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment, including the current value of unrealized investments.

Pooled calculations: Pooled calculations combine cash flow data from a group of funds to create a capital-weighted IRR value. All cash flows and NAVs for each fund in the sample group (such as all private capital funds or 2004 vintage VC funds) are aggregated in the calculation. For vintage-specific calculations, we begin the calculation in Q1 of the vintage year, regardless of which quarter a fund first called capital. In cases where the sample has unrealized value, the ending NAV is treated as a cash outflow in the last reporting period.

PME+ Defined IRR: Represents the internal rate of return of the Fund. IRR is a time-weighted average expressed as a percentage. The IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment, including the current value of unrealized investments.

Full Realizations: count of every exited company (based on exit date) in each RCP Fund. Additionally, it includes any company that has been sold on the secondary market through RCP's secondary sale of an underlying fund (based on the secondary sale date).

RCP Small Buyout Index – The index is a horizon calculation based on data compiled from 253 U.S. and Canadian buyout funds <\$1B from RCP's primary and small and emerging manager portfolios, including fully liquidated partnerships, formed between 1999 and 2024. RCP does not guarantee access to these types of funds. The index used is pooled horizon internal rate of return (IRR). Calculated net of underlying fees and expenses, gross of RCP fees and expenses. Because Gross IRR does not reflect the deduction of RCP's fees and expenses, actual returns are less than what is shown. RCP's fees and expenses are described in Part 2 of RCP's Form ADV.

ROIC: Represents the return on invested capital. ROIC is calculated by dividing the sum of distributions plus total partners' capital by capital contributed. Total partners' capital balance is the book assets (fair value of unrealized investments plus cash on hand and miscellaneous assets) less the liabilities at the measurement date.

Russell 2000 Index: A small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. It was started by the Frank Russell Company in 1984. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

S&P 500: Standard & Poor's 500 Total Return Index (dividends reinvested): An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

S&P MidCap 400 Index: A stock market index that tracks the performance of 400 mid-sized publicly traded companies in the United States.

S&P SmallCap 600 Index: A stock market index established by S&P Global Ratings. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index. To be included in the index, a stock must have a total market capitalization that ranges from \$1 billion to \$7.4 billion.

Strategy Horizon Net IRR: The net internal rate of return, after fees and expenses, generated by all funds within a specific private market strategy (e.g., Buyout, Venture Capital etc.) over a defined historical time period, such as 3, 5 or 10 years. Quarterly return: Calculated as the aggregate percentage change in aggregate NAV for each group of funds in a sample, considering contributions and distributions during the quarter. This makes the calculation tantamount to a quarterly compounded growth rate. Interpolated and extended data are not used in this calculation. Preliminary data is available only for the Global Benchmarks report and will be published when NAV captured nears 50% of the expected NAV for all private capital funds with cash flow history.

TVPI: The investment multiple is also known as the total value to paid-in. It is calculated by dividing the fund's cumulative distributions and residual value by the paid-in capital. It provides insight into the fund's performance by showing the fund's aggregate returns as a multiple of its cost basis.

Quarterly return: Calculated as the percentage change in aggregate NAV for a group of funds, considering contributions and distributions during the quarter. This makes the calculation tantamount to a quarterly compounded growth rate.
Vintage year: Vintage year is the year in which a fund makes its first investment by delivering capital to a project or company. When we cannot confirm the year of first investment, the year of the fund's final close is used as the vintage year.

Quartiles: Quartiles divide a dataset into four equal parts. **Top Quartile (Third Quartile or Q3):** This is the value that separates the highest 25% of the data from the rest. **Other Quartiles:** The other quartiles are: **Lower Quartile (First Quartile or Q1):** The value that separates the lowest 25% of the data. **Median (Second Quartile or Q2):** The middle value of the dataset, also known as the 50th percentile.

Notes

Sources

Cobalt: Cobalt Software enables private equity and venture capital firms can collect, analyze, and report on fund and portfolio company metrics the way they want. Cobalt works with management, finance, valuations, investor relations, and deal teams at private equity and venture capital firms to build a suite of data and reporting solutions that suit their firm size and investment style. It was founded in 2011 and headquartered in Boston, Massachusetts.

GPScout: Provides private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners and publicly available information, as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers. As of 7/30/2025, GPScout contains information on 5,600+ fund managers and more than 10,500 funds. These documents are provided to RCP by the fund managers themselves. Please note: RCP's database has been rebranded as GPScout. RCP's subscription-based manager research platform, formerly named GPScout, has been rebranded as GPScout Navigator.

Morningstar, Inc. is an American financial services firm headquartered in Chicago, Illinois, founded by Joe Mansueto in 1984. It provides an array of investment research and investment management services.

PitchBook Data, Inc.: PitchBook is an independent and impartial research firm dedicated to providing premium data, news and analysis to the venture capital and private equity industries. As a specialty-focused information resource, PitchBook has the ability to meticulously collect, organize and analyze hard-to-find private equity deal data. Pitchbook has over 220,000 web crawlers to capture relevant information from numerous sources—including filings, press releases, websites and more.

Preqin: Preqin provides performance on 10,500+ separate vehicles managed by over 2,200 private equity firms from all over the world. Preqin maintains this data using a number of different methods, including collecting performance information directly from fund managers themselves, and also from requesting information from public institutional investors. All this private equity data is at a fund level, and is net to the investor.

S&P Capital IQ is a multinational financial information provider headquartered in New York City, United States, and a division of S&P Global. S&P Capital IQ was formed in 2010 from offerings previously provided by Capital IQ, elements of S&P including Global Credit Portal and MarketScope Advisor, enterprise solutions such as S&P Securities Evaluations and Compustat, research offerings including Leveraged Commentary & Data, Global Markets Intelligence, and company and fund research.

This Thought Piece and the research contained therein is based on RCP's analysis of financial information obtained from public sources and/or provided to RCP by certain third parties (including, without limitation, private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers). RCP has not independently verified any such information provided or available to RCP. Performance information provided herein was not prepared, reviewed or approved by the underlying funds or their general partners. Information obtained from third parties is believed to be reliable, but no representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of such information. Projected market and financial information, analyses and conclusions contained herein are based on the information described above and on RCP's judgment and should not be construed as definitive forecasts or guarantees of future performance or results. The information, data, analyses, and opinions presented herein do not constitute investment advice, are provided solely for informational purposes and should not be construed as a solicitation or offer to buy or sell securities, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or advice of any nature whatsoever. The performance data shown represents past performance. **Past performance does not guarantee future results.**

Notes on Data

- » RCP collected information from PE firms, third-party data providers (e.g., Preqin, etc.), and public data sources for inclusion in the dataset. Because RCP's strategy is focused primarily on North American lower-middle market buyouts, a majority of investment managers analyzed by RCP operate in this segment of the market.
- » Manager strategies include Buyout, Growth, Buyout & Growth and Distressed. Debt, venture capital, secondary sales/purchases, BDC, evergreen, and other unrelated strategies are completely excluded. Fund strategy classifications are determined based on internal RCP assessment.
- » Because analysis is often disaggregated by manager maturity, manager diversification, manager strategy, company sector, etc., certain analyses may be performed on smaller sample sizes and may be biased by one or several data points.
- » Past performance is not an indication of future performance, provides no guarantee for the future, and is not constant over time.

Biases within this Thought Piece for consideration include:

- » Selection Bias: In certain instances, recent deal attribute data may be more likely to describe investments made by RCP's underlying managers and are therefore subject to selection bias, as RCP tends to have more complete data from underlying managers.
- » Survivorship Bias: Information flow will be biased towards managers successful enough to raise subsequent funds; given updated return information is primarily gathered during fundraising diligence, data often reflects deals transacted by relatively more successful managers.
- » Availability Bias: This analysis compares Small Buyout Funds (defined as funds under \$1 billion in size) with Large Buyout Funds (defined as funds over \$1 billion in size). Given RCP's focus on the lower middle market, there is significantly more data available on Small Buyout Funds and related transactions. This data imbalance may influence the observed differences in performance and consistency. While the findings reflect patterns in the available data, readers should remain mindful of potential sample size effects and limitations in data coverage.

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