

Strategic Capital
Deployment in
Private Equity



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Why this matters

- Private equity funds invest over many years, but fundraising occurs before investments are complete.
- Interim performance can determine whether and when GPs raise their next fund.
- This creates incentives for GPs to adjust risk and portfolio choices mid-fund.

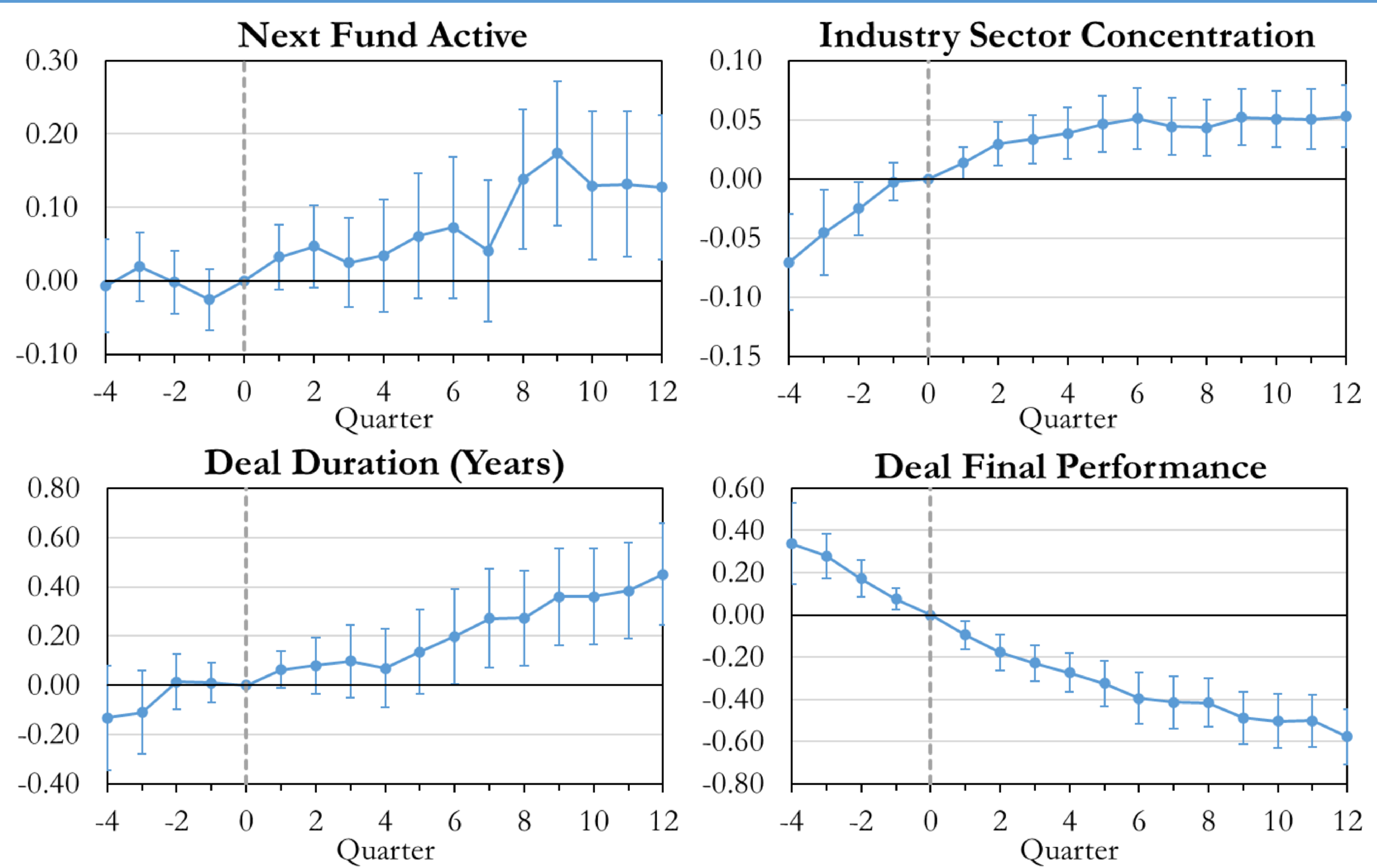
Methods

- Deal-level data from the MSCI Private Capital Universe, linked to fund returns and fundraising outcomes.
- Exogenous early performance shocks isolate changes in GP behavior unrelated to skill or deal selection.
- The design tracks how the same GP adjusts investment behavior within a fund's life cycle.

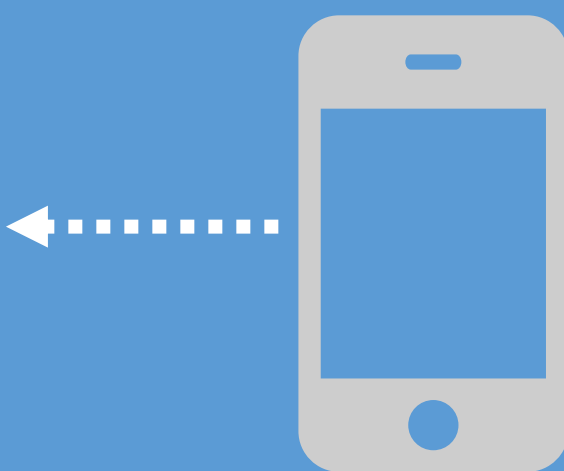
Key findings

- Early winners de-risk while fundraising and underperform in later deals.
 - They scale up deal size and extend deal duration.
- Early losers lean into risk in subsequent investments.
- Despite shifting into lower-risk, lower-return deals, early winners still outperform over the life of the fund and raise their next fund faster.

Success in early deals leads private equity GPs to de-risk later investments while fundraising.



Quarterly DiD estimates show that early-winner funds raise their next fund sooner and shift later investments toward more concentrated industries, longer holding periods, and lower returns during fundraising.

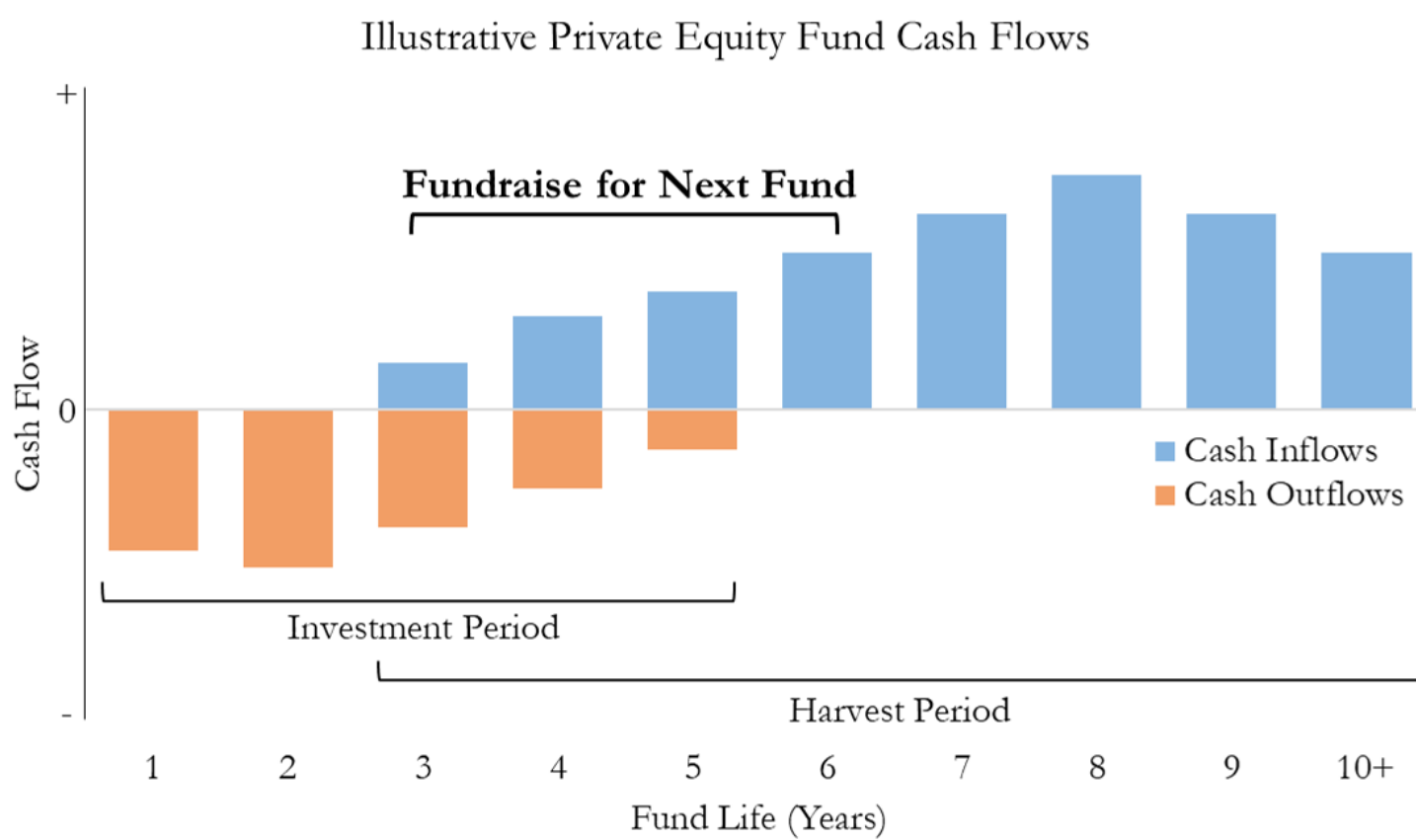


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Setting & Implications

Institutional setting

- PE funds deploy capital sequentially over the fund lifecycle.
- Early deals generate observable interim returns.
- These returns shape GP reputation and fundraising prospects, even though future investments remain.



Implications

- Interim performance is not passive news — it actively shapes how private capital is deployed.
- Fundraising incentives distort risk-taking, portfolio construction, and investment timing.

For LPs:

- Interim performance can be a misleading signal of long-run investment quality.

For contracting:

- Fundraising timing creates dynamic agency distortions in capital allocation.