

When Is MOCC a Better Indicator of Performance Than IRR?

The internal rate of return (IRR) is often the conventional measure of performance in private markets. However, as many CFAs will attest, there are instances when other measures may be more appropriate. In this short paper, we will explore one such alternative, the multiple on committed capital (MOCC), which has become our private debt team's preferred performance measure.

MOCC

MOCC compares a portfolio's earnings (in dollar terms) with the investor's commitment amount. Two key factors drive it:

- » **Investment level income**—Since income is only earned on dollars invested, increasing the amount of money at work and maintaining that level can help maximize income.
- » **Deployment speed**—The faster the better. Rapid deployment allows investors to maximize their capital at work (and income) in a shorter period of time.

We have found MOCC is most useful in the following circumstances:

- » When evaluating asset classes that have lower return targets;
- » When commitments need to be backed by liquid assets (lest investors incur a capital charge); or
- » When an LP is either ramping up or making changes to their strategic asset allocations.

IRR

IRR estimates the profitability of investments. It is driven by the timing and size of cash flows and can be helpful when comparing GPs. IRR is best used to evaluate direct investments, mature client portfolios, and asset classes with higher target returns, like private equity. IRR is not as thorough as MOCC in assessing the actual monetary gains of an investment because it does not account for uncalled capital, thereby hiding the opportunity cost of suboptimal deployment levels. Further, subscription lines and leverage can distort IRR.

COMPARING THE TWO

The amount of money generated during a holding period determines how an investment performs. While MOCC is more concrete than public market equivalents, it is not a widely adopted measure. MOCC is useful because it is not influenced by the holding period: earnings are simply summed up. Therefore, two investments generating \$10 million will show the same MOCC irrespective of their investment period. In addition, because investors must reserve their commitment amount to serve any capital calls they might receive, uncalled capital represents a large opportunity cost for investors. IRR does not consider this opportunity cost, which can result in less confident decision making.

Figure 1 illustrates these potential two advantages.

MOCC IN ACTION

Debates over performance measures may seem like an academic exercise. In our experience, picking the right measure and structuring your investment portfolio in a way that optimizes it can yield tangible benefits to investors.

To demonstrate, we compared the MOCC of our platform, which seeks to optimize that measure, with that of comparable primary funds that have tended to be more reliant upon IRR and other metrics.

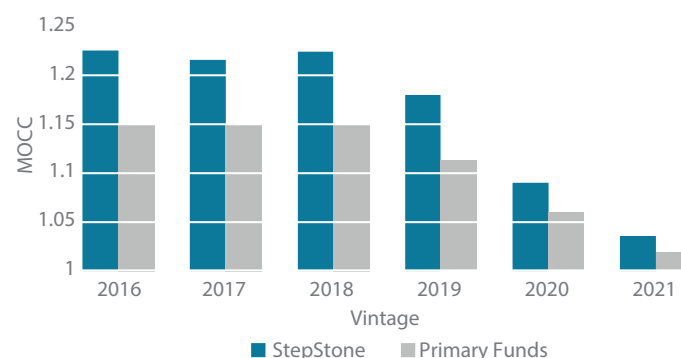
For this analysis, a group of leading GPs provided information on 64 funds.¹ Using these data, we calculated the deployment speed of each of the underlying funds as a percentage of total commitments. Additionally, we calculated the MOCC using cashflow and NAV data from the funds. The fund data is based

FIGURE 1 | MOCC AND IRR COMPARISON MODEL

	BASE	EXAMPLE #1	EXAMPLE #2
LP Commitment (M)	\$100	\$100	\$100
Invested amount (M)	\$10	\$10	\$100
Interest (%)	6%	10%	3%
\$-earned (M)	\$0.6	\$0.5	\$3.0
Holding Period (Years)	1.0	0.5	1.0
IRR (%)	6%	10%	3%
MOCC	1.006	1.005	1.03

For Illustrative Purposes Only.

FIGURE 2 | MOCC COMPARISON BY VINTAGE



Source: StepStone Group as of April 2022 and Preqin 2022.

on the latest available information that the GPs provided. Though the comparable funds may include leverage, an allocation to more junior positions, or both, our portfolio has so far been favorable in terms of deployment speed, investment income level, and MOCC.

As seen in Figure 2, which compares the MOCC of our portfolio, with that of these 64 comparable funds, choosing the right performance measure can have real results. Here, MOCC is calculated after 14 quarters (3.5 years) to allow for a seasoned portfolio.

In our estimation, two factors drive this outperformance.

¹ StepStone Group as of March 2022 and GP data as of the latest available. The GPs we contacted are already on our private debt platform. The opinions expressed herein reflect the current opinions of Stepstone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

» **Deployment**—Our private debt platform generally offers investors faster deployment than comparable primary funds due to its diversification across GPs, sectors and strategies as well as its ability to rotate commitments between managers. On average, StepStone can deploy 35% more capital in the first three years versus a comparable primary fund.

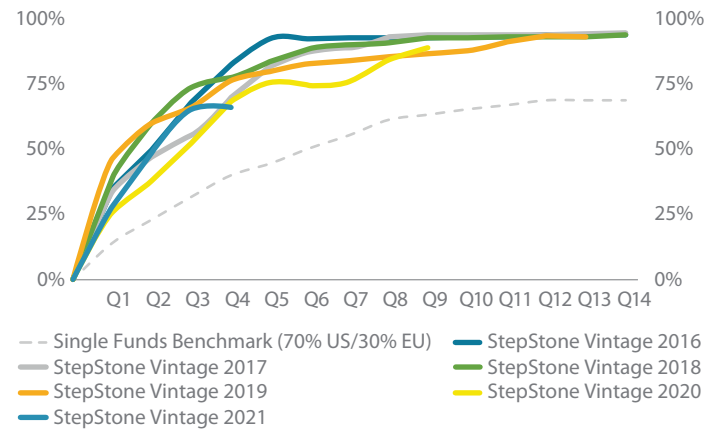
» **Investment-level Income**—Compared with primary funds, StepStone’s private debt platform can allow investors to sustain their investment level by reinvesting repayments into new transactions (i.e., an Evergreen structure). As a result, investors generally avoid the typical ramp up / ramp down process of primary funds, which negatively affects the average investment level over multiple vintages.

Our portfolios consistently outperformed comparable primary funds on an MOCC basis.² Figures 3, 4 and 5 underscore the importance of faster deployment and sustained investment levels. Specifically, Figure 3 shows that StepStone has exhibited faster deployment consistently across vintages. The importance of deployment pace becomes clear when looking at Figures 4 and 5, which show the deployment pace and subsequent impact on returns versus comparable primary funds.

Conclusion

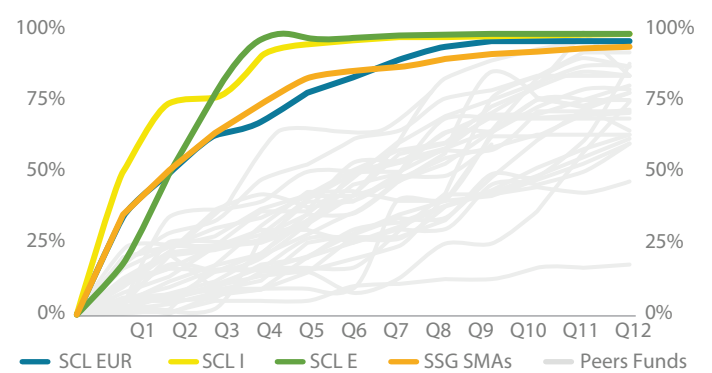
It is now evident why our private debt team favors MOCC over IRR to measure investment performance. MOCC displays how much capital was really returned on the commitment provided to the GP because it is not influenced by holding period nor does it overlook uncalled capital. We believe our outperformance versus comparable primary funds is a result of faster deployment and sustained investment levels—both of which we seek to maximize in pursuit of higher MOCC.

FIGURE 3 | DEPLOYMENT SPEED BY VINTAGE



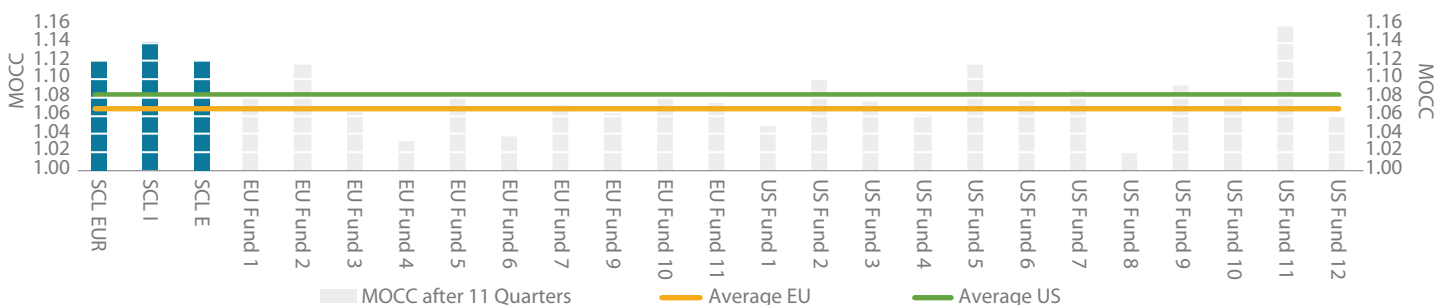
Source: StepStone Group as of April 2022 and Preqin 2022.

FIGURE 4 | DEPLOYMENT OF STEPSTONE PRODUCTS



Source: StepStone Group as of March 2022 and GP data as of the latest available.

FIGURE 5 | MOCC COMPARISON—STEPSTONE PRODUCTS VS PRIMARY FUNDS



² Past performance is not necessarily indicative of future results and there can be no assurance that the investments will achieve comparable results or avoid substantial losses. Source: StepStone Group as of March 2022 and GP data as of the latest available. For illustrative purposes only while returns and portfolio structures of individual investor may vary.

This document is for information purposes only and has been compiled with publicly available information. StepStone makes no guarantees of the accuracy of the information provided. This information is for the use of StepStone's clients and contacts only. This report is only provided for informational purposes. This report may include information that is based, in part or in full, on assumptions, models and/or other analysis (not all of which may be described herein). StepStone makes no representation or warranty as to the reasonableness of such assumptions, models or analysis or the conclusions drawn. Any opinions expressed herein are current opinions as of the date hereof and are subject to change at any time. StepStone is not intending to provide investment, tax or other advice to you or any other party, and no information in this document is to be relied upon for the purpose of making or communicating investments or other decisions. Neither the information nor any opinion expressed in this report constitutes a solicitation, an offer or a recommendation to buy, sell or dispose of any investment, to engage in any other transaction or to provide any investment advice or service.

Past performance is not a guarantee of future results. Actual results may vary.

On September 20, 2021, StepStone Group Inc. acquired Greenspring Associates, Inc. ("Greenspring"). Upon the completion of this acquisition, the management agreement of each Greenspring vehicle was assigned to StepStone Group LP. Each of StepStone Group LP, StepStone Group Real Assets LP, StepStone Group Real Estate LP and StepStone Conversus LLC is an investment adviser registered with the Securities and Exchange Commission ("SEC"). StepStone Group Europe LLP is authorized and regulated by the Financial Conduct Authority, firm reference number 551580. StepStone Group Europe Alternative Investments Limited ("SGEAIL") is an SEC Registered Investment Advisor and an Alternative Investment Fund Manager authorized by the Central Bank of Ireland and Swiss Capital Alternative Investments AG ("SCAI") is an SEC Exempt Reporting Adviser and is licensed in Switzerland as an Asset Manager for Collective Investment Schemes by the Swiss Financial Markets Authority FINMA. Such registrations do not imply a certain level of skill or training and no inference to the contrary should be made.

In relation to Switzerland only, this document may qualify as "advertising" in terms of Art. 68 of the Swiss Financial Services Act (FinSA). To the extent that financial instruments mentioned herein are offered to investors by SCAI, the prospectus/offering document and key information document (if applicable) of such financial instrument(s) can be obtained free of charge from SCAI or from the GP or investment manager of the relevant collective investment scheme(s). Further information about SCAI is available in the SCAI Information Booklet which is available from SCAI free of charge. Manager references herein are for illustrative purposes only and do not constitute investment recommendations.

StepStone Group (Nasdaq: STEP) is a global private markets investment firm focused on providing customized investment solutions and advisory and data services to our clients. StepStone's clients include some of the world's largest public and private defined benefit and defined contribution pension funds, sovereign wealth funds and insurance companies, as well as prominent endowments, foundations, family offices and private wealth clients, which include high-net-worth and mass affluent individuals. StepStone partners with its clients to develop and build private markets portfolios designed to meet their specific objectives across the private equity, infrastructure, private debt and real estate asset classes.

Global Offices

BALTIMORE

100 Painters Mill Road, Suite 700
Owings Mills, MD 21117

BEIJING

Kerry Centre
South Tower, 16th Floor
1 Guang Hua Road, Chaoyang District
Beijing, China 100020

CHARLOTTE

128 S. Tryon Street, Suite 880
Charlotte, NC 28202

CLEVELAND

127 Public Square, Suite 5050
Cleveland, OH 44114

DUBLIN

Newmount House
22-24 Lower Mount Street
Dublin 2, Ireland

FRANKFURT

Opernplatz 14
60313 Frankfurt am Main
Germany

HONG KONG

Level 15
Nexus Building
41 Connaught Road Central
Central, Hong Kong

LA JOLLA

4225 Executive Square, Suite 1600
La Jolla, CA 92037

LONDON

2 St James's Market
London SW1Y 4AH

LUXEMBOURG

33 Bd Prince Henri
L 1724 Luxembourg

MEXICO CITY

Insurgentes Sur 826, 9th FL
Colonia del Valle
Ciudad de México, 03100, MX

MIAMI

270 S. Ocean Boulevard
Manalapan, FL 33462

NEW YORK

450 Lexington Avenue, 31st Floor
New York, NY 10017

PALO ALTO

228 Hamilton Avenue, 3rd Floor
Palo Alto, CA 94301

PERTH

Level 24, Allendale Square
77 St George's Terrace
Perth WA 6000, Australia

ROME

Via Crescenzo, 14
00193 Rome, Italy

SAN FRANCISCO

Two Embarcadero Center, Suite 480
San Francisco, CA 94111

SANTIAGO

Tenderini 85, Oficina 31
Santiago, Chile

SÃO PAULO

Av. Brigadeiro Faria Lima 3355, 8th Floor
Itaim Bibi, São Paulo, Brazil 04538-133

SEOUL

Three IFC Level 43
10 Gukjegeumyung-ro
Youngdeungpo-gu, Seoul 07326 Korea

SYDNEY

Level 40, Gateway Building
1 Macquarie Place
Sydney NSW 2000, Australia

TOKYO

Level 1 Yusen Building
2-3-2 Marunouchi
Chiyoda-ku, Tokyo 100-0005, Japan

TORONTO

77 King Street West TD North Tower
Suite 2120, P.O. Box 44
Toronto, ON, Canada M5K 1J3

ZURICH

Klausstrasse 4
CH-8008 Zurich, Switzerland

Carbon Neutral
Company



For more information regarding StepStone's research,
please contact us at research@stepstonegroup.com.

www.stepstonegroup.com