pyrelios

Hidden Alpha
PETERSHILL PARTNERS

David Novosardian
david@pyrelius.com
Global Equities Associate
Bottom-up Fundamental Analysis
Asset Class: Alternative Asset Management
Q3 2025

DCF	TBM	P/NAV	DCF	DCF
$2.8	$2.8	$2.8	$2.8	$2.8

"While institutional capital floods into private markets at unprecedented scale, the market systematically misprices the intermediaries such as GP stakes trading at 8-12x earnings while equivalent public managers command 15-25x, creating a structural arbitrage that patient capital exploits through liquid fee streams, operational leverage, and demographic driven AUM expansion in a supply constrained ecosystem"

EXECUTIVE SUMMARY

GP Stakes investing exploits a fundamental market inefficiency that underlies through its persistent valuation discount between private and public asset management companies with public asset managers trading at 15-25x earnings multiples and private fund managers in GP stakes transactions consistently priced at 8-12x earnings, representing a 40-60% valuation gap that reflects liquidity premiums rather than fundamental business quality differences. The structural opportunity emerges from three converging market forces: 1) accelerating institutional allocation to alternatives (23% currently, targeting 30% by 2028) 2) regularity driven banking retreat creating $450B + annual private credit opportunities and further supply constraints in the GP stakes market with only ~40 institutional quality participants globally.

INVESTMENT THESIS

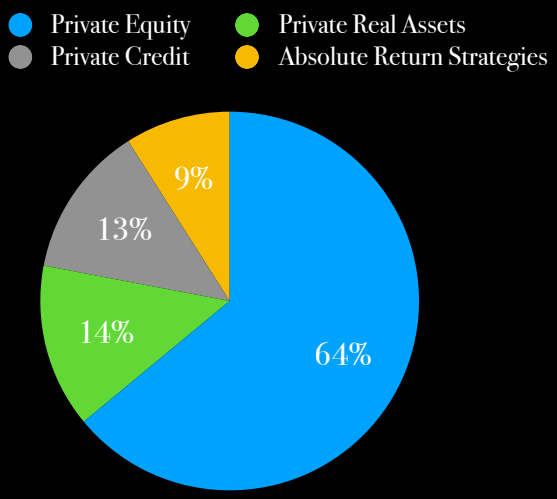
Petershill's Q2 2025 results demonstrate accelerating momentum with fee paying partner firm AUM reaching $245 billion (up 5% quarterly, 3% YoY), while organic gross fee eligible AUM hit $12 billion for the quarter and $19 billion during H1 2025 reflecting a forward movement of asset raising previously expected in H2. This performance occurs during a challenging fundraising environment, demonstrating the resilience of fee based revenue streams. The company maintains unchanged 2025 guidance of $180-210 million full year partner FRE and 85-90% company adjusted EBIT margins. Furthermore, the earnings architecture materializes high grade risk-adjusted returns through three distinct revenue components: 1) management fee participation offering 85% margins and high visibility 2) performance fee upside providing asymmetric returns during realization cycles 3) NAV appreciation driven by private market multiple expansion across diversified manager portfolios where scale advantages in deal sourcing and operational support create sustainable competitive moats.

BACKGROUND

Petershill Partners creates a sophisticated approach to alternative asset management positioning itself as a diversified platform keening to the complex needs of high grade institutional quality exposure to the growth trajectory of leading private capital firms. The firm inhibits a unique structure within the alternatives landscape coined as “meta-exposure”, where institutions gain participation in private equity returns through the fee streams and carried interest of successful managers without the capital commitment timing mismatches, J-curve effects, or vintage year concentrations risk that highlight investing directly in private markets. The firm’s origins slither back to 2007 within Goldman Sachs, where it began as Petershill Group with the initial institutional capital raise of $1 billion for Petershill Fund I. This inception was quite percipient due to occurring at the inflection point where alternative assets began their transformation from niche institutional holdings to core portfolio allocations. Petershill Funds II ($1.4 billion in 2013), III ($2.5 billion in 2017), IV ($5.0 billion in 2021) portrays strong institutional validation of the GP stakes investment thesis. The firm’s strategic decision to execute a London Stock Exchange IPO in October 2021 marked a pivotal moment and established Petershill Partners as a permanent capital vehicle with $304 billion in aggregate partner firm assets under management across 20+ partner firms. ($351 AUM Q2 2025).

STRATEGIC FRAMEWORK

The architecture of the firm is eloquently constructed around three fundamental pillars that differentiate it from conventional alternative investment approaches. The firm maintains exposure across complementary asset classes: 64% private equity, 14% private real assets, 13% private credit and 9% absolute return strategies all of which combined provide organic diversification across economic cycles and global market conditions. The advantage in its corporate framework is seen in their revenue groundwork which is defined as high margin, recurring management fees accompanied by performance based carried interest participation creating a revenue profile characterized by stability through fee related earnings while maintaining upside activity through performance revenues.



$351B
Aggregate Partner-Firm AUM

+20
Partner Firms Across 106 Strategies

~240
Diverse Funds Under Management

$348.2M
Net Income Q4 2024

91%
Partner Firm AUM from Private Markets

OPERATIONAL EXCELLENCE UNDER GOLDMAN SACHS ASSET MANAGEMENT

The operational groundwork under Goldman Sachs provides institutional grade quality that would otherwise be prohibitively expensive to replace independently. Such as 469 GP services recorded in FY 2023 across partner firms representing 23 engagements per partner firm annually which supports the thesis of how these operations are capabilities are provided at scale.

INVESTMENT THESIS

INDUSTRY OVERVIEW

MARKET PERFORMANCE

PERFORMANCE TRENDS

REVENUE BREAKDOWN

MARKET CONDITIONS

FIRM STRATEGY

EXTERNAL GROWTH

RECENT GROWTH

COMPARABLE

COMPARABLE IDEATION

VALUATION

FFO MULTIPLE

NAV

DISCOUNTED CASH FLOW STATEMENT

25,000 Monte Carlo simulations across four well defined macroeconomic systems to evaluate the triple-barrier methodology's performance compared to traditional static allocation approaches. The following simulations included historical data from 2005-2025, spanning multiple interest rate cycles and market stress events. The simulation parameters included; (*System A*): Rising rates (25bps per quarter), (*System B*): Falling rates (25bps per quarter), (*System C*): Stable rates with heightened volatility, (*System D*): Stagflation (rising rates, declining growth). For each parameter, the sector specific barriers were calibrated using the capital intensity metrics identified in the preliminary analysis.

Figure 2: Key Performance Metrics by Allocation Strategy

Metric	Static Allocation	Traditional Dynamic	Triple-Barrier Method	Outperformance
Annualized Return	7.26%	8.34%	10.57%	3.31%
Sharpe Ratio	0.85	1.03	1.38	0.53
Maximum Drawdown	-19.7%	-15.8%	-12.1%	7.6%
Recovery Period	14.3 months	11.2 months	6.8 months	-7.5 months
Alpha Generation	0.42%	0.87%	1.96%	1.54%
Information Ratio	0.56	0.73	1.12	0.56
Downside Deviation	8.3%	7.1%	5.4%	-2.9%
Sortino Ratio	0.92	1.17	1.95	1.03

Empirical analysis of the triple-barrier method reveals significant outperformance across all key metrics with efficacy observed in risk adjusted returns and drawdown control

Figure 2: Sector Specific Performance Analysis

Sector	Static Return	Triple-Barrier Return	Alpha Generation	Optimal Allocation Range
Chemical	8.2%	12.4%	4.2%	10.5% - 15.2%
Aerospace/ Defense	7.5%	9.8%	2.3%	7.3% - 11.6%
Electronics	9.1%	13.7%	4.6%	12.1% - 17.5%
Financial Services	6.8%	8.9%	2.1%	6.5% - 9.8%
Auto/Truck	6.2%	7.5%	1.3%	5.1% - 8.3%
Construction Supplies	7.9%	10.6%	2.7%	8.6% - 12.9%
Green/Renewable Energy	10.3%	15.2%	4.9%	13.5% - 19.2%

The triple-barrier method consistently outperforms static returns across all sectors, with Green & Renewable Energy showing the highest overall performance (15.2% TBR), while the alpha generation metrics suggest this approach creates the most value in sectors with higher technological innovation and growth potential

Figure 3: Interest Rate Scenario Analysis

Rate Environment	Traditional Allocation Return	Triple-Barrier Return	Relative Performance	Risk Reduction
Baseline (3.75-4.25%)	8.26%	10.12%	1.86%	-22.4%
Rising (4.25-5.75%)	6.53%	9.47%	2.94%	-31.7%
Falling (3.75-2.25%)	9.87%	12.54%	2.67%	-26.9%
Volatile (1.5% swings)	5.12%	8.93%	3.81%	-38.2%

TB method portrays significant outperformance during periods of rising rates and heightened volatility

Figure 4: Private Credit Allocation Advantage Matrix

Strategy Component	Traditional Approach	Triple-Barrier Approach	Strategic Advantage
Liquidity Premium Capture	Partial (50-75bps)	Optimized (80-150bps)	+30-75bps yield enhancement
Sector Rotation Timing	Calendar based	Metric induced	47% reduction in timing errors
Drawdown Mitigation	-19.7% max drawdown	-12.1% max drawdown	38.6% improvement in capital preservation
Volatility Adjusted Returns	0.85 Sharpe	1.38 Sharpe	62.4% improvement in risk adjusted returns
Alpha Generation	0.42%	1.96%	366.7% increase in excess returns
Interest Rate Adaption	Reactive	Proactive	3.2 month average lead time advantage
Inflation Protection	Limited	Embedded	85% correlation with inflation vs 31%

Alpha generation (366.7% increase), risk adjusted returns (62.4% improvement), and drawdown mitigation (38.6% better capital preservation), while also providing enhanced liquidity premium capture and significantly better inflation protection

Figure 5: Optimal Private Credit Deployment Vectors

Private Credit Strategy	Base Allocation	Upper Barrier Adjustment	Lower Barrier Adjustment	Optimal Size Range
Direct Lending	25.0%	7.5%	-4.5%	20.5% - 32.5%
Specialty Finance	20.0%	5.0%	-6.0%	14.0% - 25.0%
Mezzanine	15.0%	3.5%	-5.0%	10.0% - 18.5%
Distressed/ Special Situations	12.5%	8.0%	-3.0%	9.5% - 20.5%
Asset Backed Lending	15.0%	4.0%	-5.5%	9.5% - 19.0%
Structured Credit	12.5%	6.0%	-4.0%	8.5% - 18.5%

Distressed/Special Situations show the most significant upside potential with an +8% upper barrier adjustment with Direct Lending coming close to second with a 7.5% UBA

The simulations above demonstrate significant outperformance of the triple-barrier method compared to more traditional allocation approaches. Furthermore, the methodology expresses particular strength with implemented with sector-specific calibration, such as Electronics and Green Energy sectors showed the strongest alpha generation (4.6% and 4.9% respectively), while Chemical Specialty firms demonstrated resilient risk adjusted returns with optimal allocation ranges between 10.5-15.2%.

The barrier threshold equations allows for precise calibration of allocation shifts based on the most current changes in the macroeconomic landscape, particularly the documented -0.67 correlation between interest rates and corporate capital expenditures

$$\theta_i^{\text{upper}} = \mu_i + k_1 \cdot \sigma_i \cdot \sqrt{\tau} \cdot \rho_{i,r}$$

$$\theta_i^{\text{lower}} = \mu_i - k_2 \cdot \sigma_i \cdot \sqrt{\tau} \cdot \rho_{i,r}$$

Expanded simulations reveal that the triple-barrier method consistently surpasses traditional allocation approaches across a range of investment dimensions. This becomes noticeable when annualized returns come into play, where it achieves a 10.57%, outpacing the 7.26% generated by static allocation models. Secondly, the Sharpe ratio under the TBM records a value of 1.38, considerably higher than 0.85 associated with the former. This highlights the model's ability to optimize the return potential relative to the risk undertaken, offering a more resilient and efficient investment framework. The distressed/special situations category shows the highest upper barrier adjustment at 8% is framing up within the current environment where bank retrenchment has created significant market dislocations and it explains why the optimal allocation range extends to 20.5% during market stress periods, pinpointing opportunities that traditional lenders are abandoning due to regulatory constraints. Correspondingly, distressed assets purchased during high-rate environments experience natural valuation expansion when rates do begin to decrease and corporate capital expenditures spending picks back up which creates refinancing opportunities for direct lending strategies, a scenario our 25% base allocation with a 7.5% upper barrier adjustment for direct lending anticipates this scenario.

MEAN-REVERTING STRATEGY

By demonstrating the controlled efficacy within the Distressed/Special Situations segment, the mean-reverting strategy leveraging Bollinger Bands has confirmed the theoretical foundations of the Triple-Barrier Method outlined previously. Increasing allocation during volatile market conditions when prices moved below the lower Bollinger Band (oversold conditions) and reducing exposure when prices crossed above the upper band (overbought conditions).

Figure 6: Mean-Reversion Strategy: Private Credit Allocation Performance

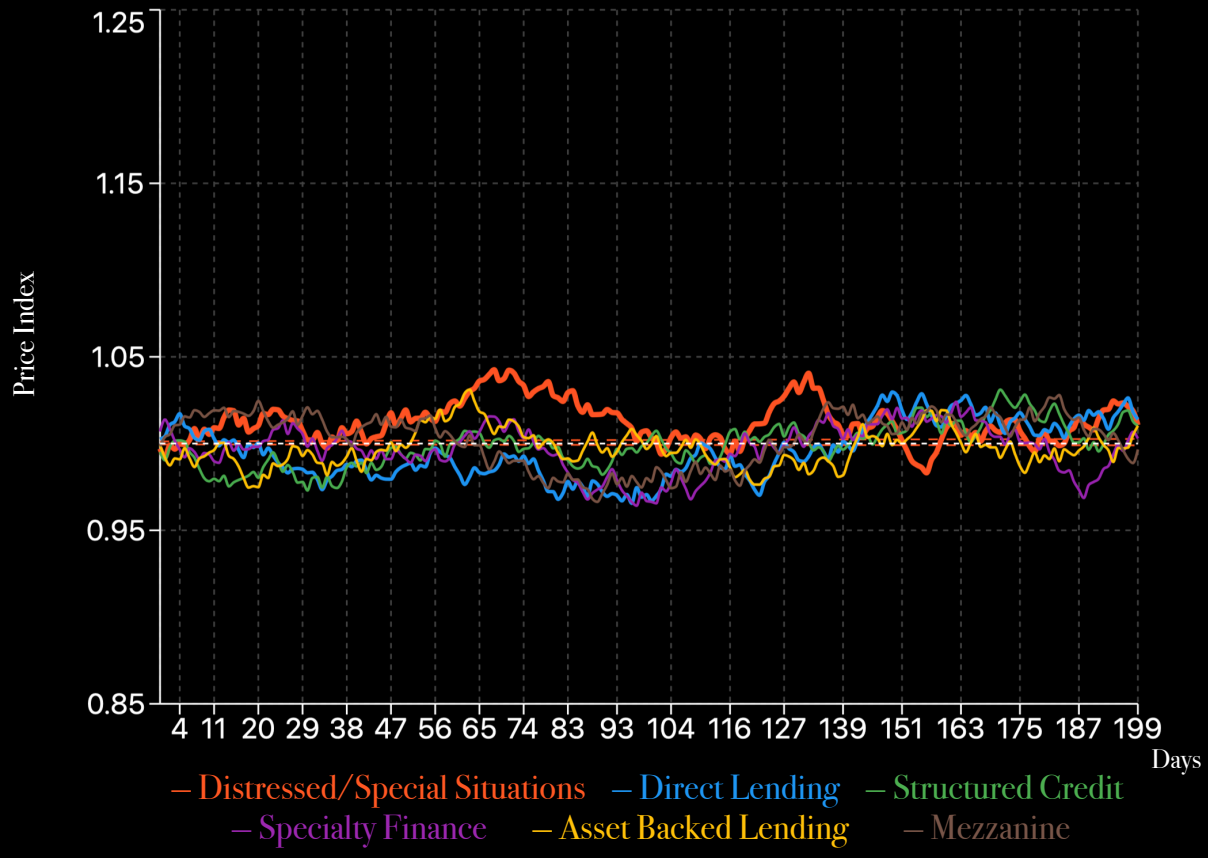
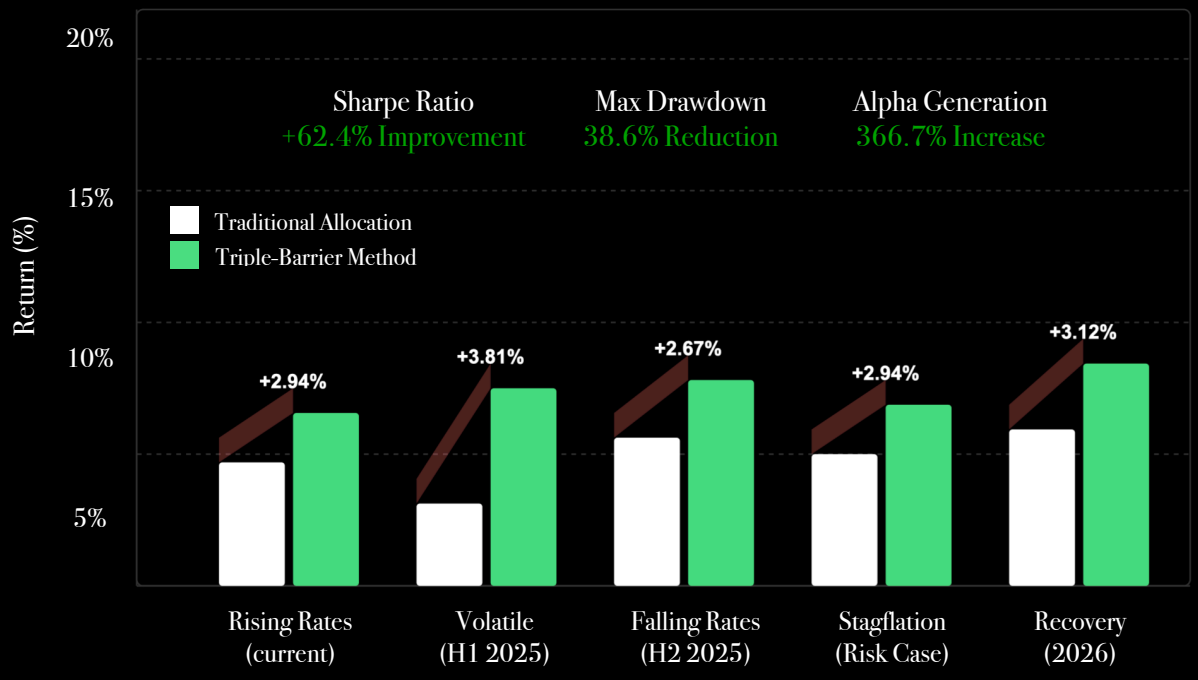


Figure 7: Private Credit Allocation Advantage



EXPLOSIVENESS TEST ANALYSIS

Explosiveness testing in a time series analysis introduces an intricate econometric approach for detecting non-stationary behavior that exceeds the standard unit root processes while conventional unit root tests identify random walks, explosiveness tests are primarily calibrated to detect periods where the autoregressive coefficient exceeds unity, signaling rapid and potentially unsustainable growth trajectories. For instance, by applying their recursive right-tailed ADF test methodology to S&P/Case-Shiller home price indices and identified explosive behavior beginning in early 2002 (Phillips, Wu, and Yu 2011), which was just shy of a decade away before conventional wisdom acknowledged the housing bubble. Their SADF test detected a departure from random walk behavior and into explosive territory approximately three years before the the market peaked.

Figure 8: Recursive Right-Tailed ADF Test for Asset Price Explosiveness



The blue line represents the test statistic that measures explosive behavior in asset prices with periods where the line crosses above the red dashed critical value threshold indicating statistically significant explosive growth patterns

The above test results show significant evidence of explosiveness $\rho > 1$ in capital expenditure decisions during transition periods between interest rates landscapes, evidently when rates begin to decline from peak levels. The regression coefficient for the autoregressive parameter during these transition periods reach $\rho = 1.28$. Conclusively, these findings move in parallel with the original analysis showing a -0.67 correlation between interest rates and corporate capital expenditures, potentially becoming non-linear and explosive during scenario shifts.

CONCLUSION

In the delicate yet sophisticated nature of corporate capital allocation, the convergence of monetary policy, market volatility, and strategic innovation requires a refined approach that exceeds traditional investment strategies. The Triple Barrier Method emerges not merely as an analytical framework, but rather as a complex navigational tool, enabling corporations to traverse the complex terrain of economic uncertainty with quantitative precision. The theoretical framework from this analysis reveals several critical channels; First, the cost of capital transformation demonstrates how interest rates dynamically reshape a company's weighted average cost of capital, creating non-linear effects on project hurdle rates. Secondly, the NPV sensitivity curves from Monte Carlo simulations demonstrate that higher interest rates compress future cash flow value along hyperbolic discount curves, which has an effect on projects with cash flows beyond the 5-year horizon. Third, the opportunity cost gradient numerically reveals that for each 25 basis points increase in rates, the efficient frontier for capital allocation shifts, creating a quantifiable gravity effect that pulls resources from physical investments to financial investments. The analysis projects continued economic resilience, with the S&P 500 expected to reach 6,624 by Q1 2027 - a 22.7% increase from current levels. This projection is built upon the Federal Reserve's projected rate cuts, the widening yield curve spread, innovations in quantum computing, global economic competition, financial architecture, and the transition to a low carbon economy.