Testing Criticisms of Private Equity:

Evidence from Bow River Capital

Private equity (PE) has become an increasingly prominent force in capital markets over the past several decades, playing a central role in financing growth, improving operational performance, and facilitating ownership transitions across industries. However, the sector has faced criticism from media commentators and investment analysts, focusing on recurring themes: private equity is underperforming public markets; private valuations are opaque and inflated; and that PE achieves profitability only by plundering its holdings.

Bow River's PE funds can be useful in illustrating how disciplined investment practices, transparent valuation methodologies, and active operational participation have the potential to generate superior returns while simultaneously benefiting employees and management teams of portfolio companies. Allow us to explain.

1. "Stock Markets Outperform PE."

Lately, stock markets have indeed been pushed by large-cap tech firms. But with a longer view the illiquidity premium of PE surfaces. Over the past five years through 2025, returns from diversified private equity benchmarks such as the Cambridge Associates US Private Equity Index were roughly comparable to those of the S&P 500, reflecting cyclical factors like slower PE exit markets and valuation resets. However, over a 20-year horizon, private equity has generated meaningfully higher cumulative returns (1090%) than the S&P 500 (586%), driven by active ownership and access to less efficient segments of the market. Importantly, private equity has also exhibited a better Sharpe ratio (risk-adjusted return, even unsmoothing PE return volatility) and a higher Sortino ratio (downside-adjusted performance).[1]

Moreover, the best PE funds far outdistance stock returns. As of Q1 2026 we marked Bow River's Fund II at an internal rate of return of 32% net to our investors.[2] This is 2x the S&P annualized total return and 3x the Dow's results over the 2017–2025 period. Bow River's Fund II performance is in the top decile of its peer-funds (PitchBook Q1 2026, funds with 2017 vintage year and fund size $250m–$750m).

2. "Private Equity Valuations Are Opaque and Inflated."

Critics argue that because private assets do not trade daily in public markets, their valuations rely heavily on internal estimates that are disconnected from real market conditions, based on "stale" data, or worse are optimistically manipulated. Overstated PE valuation marks undermine credibility with investors. Bow River's PE transaction history provides concrete evidence of the inverse: across all portco exits in our two active vintage PE Fund portfolios, deal values have registered within an average 3% difference to our marks.

This results from a valuation framework rooted in market-based methodologies, including comparable company analysis, precedent transaction data, and third-party input where appropriate … not accounting exercises or aspirational projections.

3. "Private Equity Buys, Destroys, then Profits from the Collapse."

An emotionally charged complaint about private equity persists: we make money by extracting value from companies rather than creating it, slashing expenses and cutting jobs, leaving businesses weaker or in bankruptcy. Some high-profile restructurings (Toys "R" Us; Red Lobster; Envision Healthcare) have reinforced this reputation.

A common factor in many of these flashpoint cases is the excessive debt burden imposed on companies following PE acquisition, followed by rising interest rates and/or slower than expected company growth that tips the financial statements into distress. Average debt levels in PE transactions in the past two years are above 4x EBITDA and were often 7x or more during the 2020-2023 credit cycle (NBER).[3] Compare Bow River's average debt-EBITDA across its two active vintage buyout funds at around 2.5x.

While expense control and workforce reductions may be a part of certain turnaround situations, they are not representative of what PE at its core tries to do. Across PE Funds II and III headcounts at our portfolio companies have increased at an average rate of approximately 7% per year (netting out personnel additions due to add-ons) during our hold periods, significantly outpacing overall job growth in the broader economy. Counting all of Bow River's "control equity" platforms–Private Equity, Software Growth, and Defense–over 6,500 people are employed today, and this number is growing monthly.

Job growth is not merely a social benefit–it is also a financial indicator of business vitality. Companies that consistently add employees are typically expanding operations, entering new markets, investing in innovation, driving profitability, and enhancing enterprise value. Take Bow River's PE Fund III: our portfolio companies have averaged approximately 5% compound annual revenue growth rate (CAGR) and EBITDA growth of 9% CAGR over our holding periods on an "organic" (net of business add-ons) basis. This comes from sustained improvements in market share, product development, and operational execution.

A defining characteristic of effective private equity ownership is the alignment of incentives between investors and management teams. Whenever we invest, Bow River at the outset establishes equity participation programs to reward key staff on an equal footing as company performance improves. Management teams across our PE portfolios have experienced substantial increases in the value of their equity holdings, typically rising between five and eight times over the course of our investment. In our PE Fund I, management teams took home $135 million in net gains; exits from Fund II have so far delivered over $500 million to our portco teams.

Criticism and scrutiny are healthy components of any mature financial sector, and private equity is no exception. But broad generalizations about the industry must be fact-checked and fail to account for the diversity of outcomes among individual funds. Private equity can deliver strong financial returns while simultaneously strengthening businesses, expanding employment, and rewarding management teams.

This is how private equity investment is done in the Rodeo Region™.

IMPORTANT INFORMATION

Rodeo Region is defined as 14 states located across the U.S. Mountain West, Midwest, and the Southwest.

Performance Information

Performance information for Private Equity Fund II is as of 3/31/26. Net Fund IRR is calculated for the limited partner class taken as a whole on a combined basis (excluding assets attributable to the Executive Fund and the Cayman Fund) and is net of the General Partner's carried interest allocation assuming the portfolio was liquidated as of the end of the reporting period. An individual limited partner's return may vary (higher or lower) from these returns based on the timing of capital movements or other factors, including differences in negotiated management fee rates or carried interest percentages. The Fund typically utilizes a subscription line of credit to acquire investments. Investments completed with a Fund's subscription line of credit, which line of credit will be repaid at a later date via investor capital call, will result in a higher IRR calculation than using direct capital contributions to fund an investment. Past performance is not a guarantee of future results.

Notes

1. Cumulative return comparison covers the 20-year period ended December 31, 2025. Private equity is represented by the Cambridge Associates US Private Equity Index; public equity is represented by the S&P 500 Index on a total-return basis. Sharpe and Sortino ratios are calculated over the same period using quarterly index returns, with private equity returns unsmoothed to adjust for reporting lags. Index performance is shown for illustrative purposes only; indices are unmanaged, do not reflect the deduction of fees or expenses, and cannot be invested in directly. Sources: Cambridge Associates LLC; Bloomberg.
2. Bow River Private Equity Fund II performance is as of 3/31/26 and is further described under "Performance Information" above. Peer ranking is per PitchBook as of Q1 2026 and reflects funds with a 2017 vintage year and fund size between $250 million and $750 million. Index comparisons reference the S&P 500 Index and the Dow Jones Industrial Average over the 2017–2025 period; indices are unmanaged and cannot be invested in directly.
3. Average debt levels for U.S. private equity buyout transactions are as reported by the National Bureau of Economic Research. Bow River's average debt-to-EBITDA reflects a weighted average across the portfolio companies held in Bow River Private Equity Funds II and III as of 3/31/26.

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