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Risk and performance of bonds sponsored by private equity firms

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## **Risk and performance of bonds sponsored by private equity firms**

### **Abstract**

The bond market is an important source of financing for Private Equity (PE) sponsored transactions. Using the methodology suggested by Bessembinder et al. (2009), we find that PE-sponsored bonds underperform comparable benchmarks. This is especially true for bonds with credit ratings below investment grade and those issued in hot bond markets. Furthermore, bonds sponsored by more experienced PE groups (PEGs) underperform bonds associated with less experienced PE groups, while bonds backed by investment bank-affiliated PEGs underperform bonds sponsored by other PEGs. These findings highlight the risk and return relationship in the high-yield bond market related to leveraged buyouts (LBOs) and PEGs.

**Keyword:** Bonds, Performance, Private Equity, Leveraged buyouts, Credit Rating

**JEL:** G12, G24

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