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It is easy to forget that the world economy is already 10 years out of the "Great Recession" and financial markets are still in disarray. Since financial markets intermediate the circulation of money throughout the economy, this is of concern for improved growth. The impact of the tighter lending regulations on the financial markets has neutralized the beneficial impact of low interest rates and the stimulative efforts of central banks to boost economic activity. The U.S. economy has been somewhat of an exception in achieving improving real economic growth and falling unemployment rates, because of the early implementation of more expansionary fiscal policies. However, the rest of the developed and emerging market economies have been less robust in returning to their pre-Great Recession real growth rates and employment rates. Thus, international trade has not fully recovered—and even more significantly, global capital flows remain substantially below their pre-2008 levels.

Global capital flows have fallen from a peak of almost 21% of global GDP in 2007 to under 3% of global GDP in 2015, according to the McKinsey Global Institute.[1] The most important factor responsible for a majority of this decline was global bank lending, which fell from 5.7% of global GDP in 2007 to −0.7% in 2015. This largely reflects the Dodd–Frank restrictions placed on lending by major U.S. banks, which were similarly imposed by the Bank for International Settlements (BIS) on all major global banks via raised capital requirements. Interestingly, global portfolio equity investment, or the purchases of shares in foreign stock markets, has risen slightly since 2007. Not captured in the global capital flow statistics is the lending and investing activities of nonbank financial intermediaries such as asset managers, insurance companies, pension funds, corporations, and wealthy individuals outside of formal financial markets. The level of these activities has reportedly increased, but not likely by enough to offset the overall decline in total global capital flows. Furthermore, the significance of global capital flows from these nonbank financial intermediaries may be tempered now by rising medium-term financial risks.

The International Monetary Fund, in its twice-yearly "Global Financial Stability Report" released in October 2016, indicated that while short-term financial risks may be falling, medium-term risks are rising. Credit risks are increasing as banks and insurance companies struggle to remain profitable in a low-growth, low interest rate environment. Slow real growth in other developed countries and in major emerging-market economies has weakened corporate earnings and financial health as the level of debt has hurt balance sheets. Economic policy uncertainty has spiked in the United States and globally with the growing discontent about anemic growth and rising income inequality, resulting in governments becoming increasingly focused on inward-looking policies including trade restrictions, exchange rate intervention, and other anti-globalization policies. Even though bank balance sheets have been strengthened in recent years, financial institutions see strong cyclical and structural challenges as they face low growth, low interest rates, and a changed market and regulatory environment per the IMF.

Rising long-term uncertainty is reflected in falling global bond yields, which are a function partly of low short-term interest rate expectations and an interest rate term premium. The term premium has been negative because of low inflation expectations and large bond purchases by central banks for several years following the Global Recession, and demand for long-duration assets has shifted to other investors, such as pension funds and insurance companies. Together, these factors have created an unfavorable and uncertain environment for increased risk taking by private equity. The exception is merger and acquisition activity, which is expected to continue strong during 2017 as companies find themselves weakened by debt leverage and rising digital technology marketing, sales, and operational costs. Certain large "frontier" leader companies that dominate the global economy contribute uncertainty to smaller companies that cannot keep up or compete.

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This issue of *The Journal of Private Equity* explores several performance-enhancement methods supported by qualitative and quantitative data analysis. The first article is based on new data examining various characteristics of selecting the right CEO. The application of zero-based budgeting is illustrated to boost performance results. The next three articles analyze private equity funds' performance management and includes a new perspective on private equity returns from Switzerland and Germany. This is followed by an exploration into the use of mezzanine finance funds to deal with the irregular cash flows of private equity operations. The next three articles explore in detail the human capital decision-making criteria, skills, and qualifications most appropriate in high-performing private equity operations in emerging markets. A detailed study of a hierarchical ranking of performance skills in India is analyzed including a multicriteria decision matrix applied to venture capital investment choice. The human skill sets of waiters and professors to expand private equity into emerging markets is explored, and we are reminded that accounting and finance education is not the same in emerging markets as in developed countries, as illustrated in the case study of Jordan.

Matt Brubaker, MaryCay Durrant, and Joshua Kuehler, in "Increasing the Odds of Having the Right CEOs Running Portfolio Companies," identify the characteristics of a good CEO. Over a period of eight years, more than 2,000 executives were interviewed to determine the traits that identify the best leaders. Next Frederico Gama Gondim, in "Generating Great Results through ZBB," explains and illustrates how to employ zero based budgeting (ZBB) to help boost performance and regain lost profitability.

Daniel Steger provides us with a Swiss perspective in "The Returns of Private Equity Funds: *A Swiss Perspective*." Analyzing data from over 500 private equity funds that he collected shows a 9% internal rate of return, 18% for buyout funds and 12% for fund of funds, compared to −4% for venture funds. Next Fabian Söffge and Reiner Braun analyze "Corporate Raiders at the Gates of Germany? *Value Drivers in Buyout Transactions*." The authors examine 123 leveraged buyout transactions in German-speaking countries, and by distinguishing between financial and operational value, they find that two-thirds of the value comes from EBITDA growth, excess cash generation, and multiple expansion; and about one-third comes from leverage. The overall average operational return is 11.6% and, as expected, for buyouts it's higher. Yaacov Kopeliovich, in "Benchmark Construction and Performance Evaluation of Mezzanine Finance Funds," shows how to utilize public indexes and performance data to create benchmark platforms to mimic investment strategies of mezzanine funds. This enables the analyst to circumvent problems caused by illiquidity and irregular distribution of cash flows that occur in private equity.

The next three articles evaluate in detail the human capital cognitive skills and leadership decision-making traits found to be most appropriate and beneficial in successful private equity performance in emerging markets. Sarita Mishra, Dinabandhu Bag, and Siddharth Misra, in "Venture Capital Investment Choice: *Multi-criteria Decision Matrix*," use an analytical hierarchical Process to evaluate human capital decision-making and performance in India. All the evaluation criteria have been arranged in a hierarchical manner, and are again divided by several subcriteria. Priorities of each alternative criterion have been systematically examined by using the derived weight of each criterion. The major criteria considered and analyzed in detail include entrepreneur and management team personality, product or service characteristics, market characteristics, financial characteristics, VC specific criteria, and strategy. The data show a shift toward high-tech industries and especially toward non-imitable technology products.

Carolyn Campbell, in "From Waitress to Professor: *Surprising Lessons for Investing in 920 Emerging Markets*" identifies the varied skills, experience, and common-sense, land-on-your-feet talents that are critical, but often overlooked, staffing candidates because their competencies apply ubiquitously in many required roles and activities. Private equity companies setting up operations in emerging markets should draw broadly from the local base and seek to hire the multiskilled, street-wise, situation adjustable "waiter-professors" type of representatives.

In the final article, "Audit Expectation Gap among Undergraduate Accounting Students at Jordanian Universities," Najeb Masoud reminds us that accounting and other areas of education in developed and emerging markets are not always what is expected. These differences can cause confusion and inaccurate analysis, and a waste of time and money in analyzing and decision making regarding private equity investments.

ENDNOTE

[1]Sebastian Mallaby, "Globalization Resets," *Finance & Development*, International Monetary Fund, December 2016.

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Editor