Preqin Research Report

Private Equity Performance Report

Fund Performance Data as of Q1 2010

September 2010

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Private Equity • Real Estate • Hedge Funds • Infrastructure

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Using data from Performance Analyst, Preqin has analyzed the returns generated by private equity partnerships as at 31 March 2010 in order to provide an independent and unbiased assessment of the industry's performance. Preqin currently holds transparent net-to-LP performance data for over 5,100 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 70% of all capital ever raised by the industry.

For more information on Performance Analyst, the private equity industry's leading source of fund performance data, please visit: www.preqin.com/pa

I. Private Equity Horizon IRR

1.1. Horizon IRR by Fund Type

All private equity strategies posted positive one-year returns for the period ending 31 March 2010. With a horizon IRR of 25.5%, buyout posted the highest returns over the one-year period. In the previous year, buyout was amongst the worst performing private equity strategies, with one-year returns of -33.8% as of Q1 2009. As of the first quarter of 2010, venture capital shows a one-year return of 10.7%, fund of funds 10.5% and mezzanine 1.5%.

Three-year horizon IRRs are just above 0% for venture capital and just below 6% for mezzanine. Buyout and fund of funds have negative returns over the three-year period, with -0.9% and -1.7% respectively. Over the five-year period, all private equity is posting an annualized 16.8% and, with a horizon IRR of 21.8%, buyout funds are posting the strongest returns over this time frame.

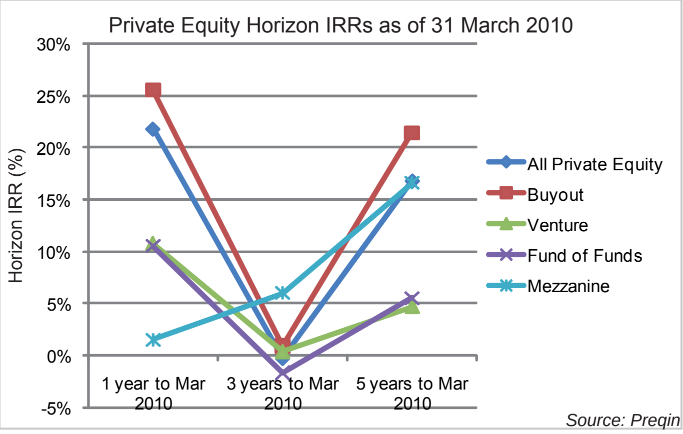
1.2. Private Equity Performance vs. Public Indices

The overall private equity horizon IRR for the one-year period to 31 March 2010 stands at 21.8%, an improvement on the 13.8% posted as of 31 December 2009 and significantly better than the -9.2% as of Q3 2009 and the -27.6% as of Q4 2008.

The one-year returns to Q1 2010 for the Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were 49.8%, 56.1% and 81.1% respectively. As with private equity, the public indices were all posting negative returns as of the first quarter of 2009 but have been improving since.

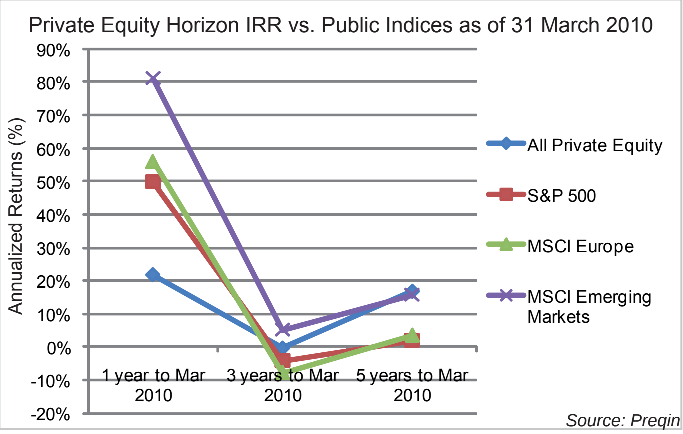
Over the three-year period, the private equity horizon IRR to 31 March 2010 is -0.3%, while the figure for the five-year period stands at 16.8%.The three- and five-year returns for the Standard & Poor's 500 were -4.2% and 1.9% respectively.

Fig. 1.1:



Source: Preqin

Fig. 1.2:



Source: Preqin

It should be noted that any comparisons of private equity returns with those of public markets need to be viewed with caution. As private equity is an illiquid asset class, investors are committed for a long period of time and horizon returns are therefore not as relevant as they are for listed equities.

1.3. Rolling One-Year Horizon IRRs

Private equity returns have changed significantly over the last couple of years. The one-year horizon IRR for all private equity, which stood at 26% in December 2007, rapidly decreased during the following quarters. It became negative during Q3 2008, reaching -11% in September 2008, and reached its lowest point, -30%, in March 2009. The one-year returns remained negative as of June and September 2009 but entered positive territory as of December 2009, recording a one-year horizon return of 13.8%. As of March 2010, the one-year horizon IRR for all private equity was 21.8%.

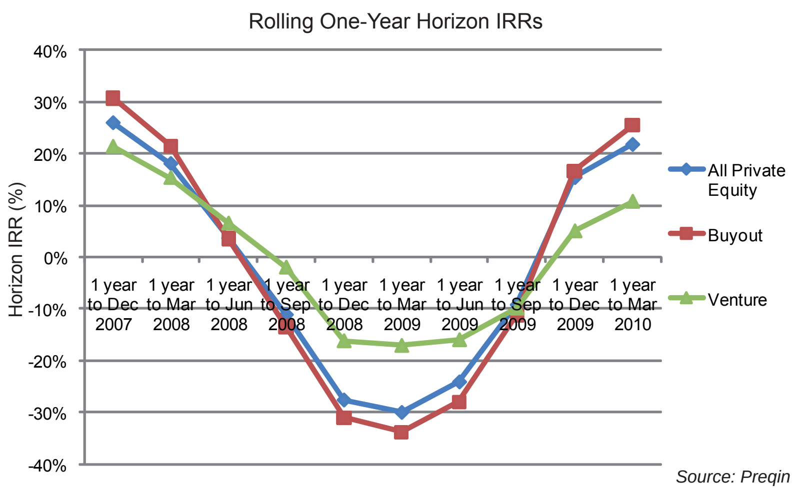
Rolling one-year horizon IRRs for buyout funds are very similar to those of the private equity industry as a whole because buyout funds account for a large proportion of overall private equity capital. Performance for venture capital funds followed a similar trend but was not as affected by the downturn as the buyout sector. Venture capital recorded its lowest point at -17% in March 2009 and has been posting positive one-year returns since Q4 2009.

1.4. Buyout Fund Horizon IRRs by Size

One-year returns to March 2010 are positive for all groups of buyout funds, with mega buyout funds posting the highest returns at 29.1%. With horizon IRRs at 21.9% and 24.0% respectively, small and mid-market buyout funds are showing slightly lower performance than the mega funds. Large buyout funds are reporting a one-year IRR at 17.2%.

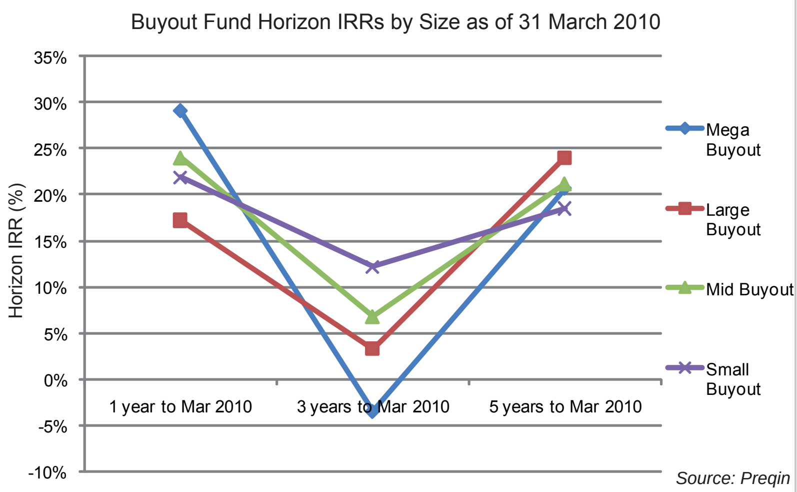
Returns are more spread amongst the different size groups over the three-year period. With a three-year return of -3.5%, mega buyout is the only size group posting

Fig. 1.3:



Source: Preqin

Fig. 1.4:



Source: Preqin

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negative returns over the period. Small buyout has the highest three-year horizon IRR at 12.2%. Except for small buyout, all size groups are posting five-year returns to 31 March 2010 above 20%. Large buyout has the highest return at 24.0% while small buyout reported 18.5%.

II. Change in Value

2.1. All Private Equity Change in NAV by Quarter

Analyzing the change in net asset value (NAV) between successive quarters from June 2009 to March 2010 shows that the industry's fund valuations have consistently increased quarter on quarter throughout the period, as shown in Fig. 2.1. The largest change occurred in September 2009. March 2010 data shows an increase of 2.2% in the weighted metric and 1.7% in the non-weighted. The weighted change in NAV takes into account fund sizes, thus suggesting that the larger funds have shown larger increases in their NAVs. However, it is important to note that the larger funds had previously been more badly affected by the financial crisis.

2.2. Quarterly Change in NAV by Fund Type

Fig. 2.2 shows the non-weighted change in valuations by fund type. All fund types have posted a quarter-on-quarter increase in valuation from Q3 2009 onwards except real estate funds, which posted a fall in both Q4 2009 and Q1 2010. Real estate funds have been the most severely affected fund type by the economic downturn and the latest write downs show conditions in the real estate market are yet to improve significantly. Secondaries posted a quarterly increase of 7.5% to March 2010 but it is important to note that the returns for these funds along with fund of funds generally lag by a quarter due to the reporting schedules of their underlying fund investments. Buyout showed an average increase of 2.3% in March 2010, mezzanine 1.5% and venture 0.3%.

Fig. 2.1:

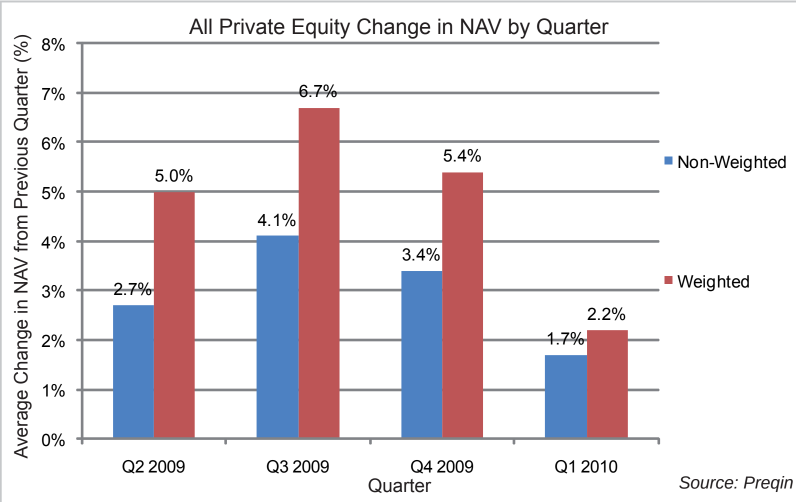
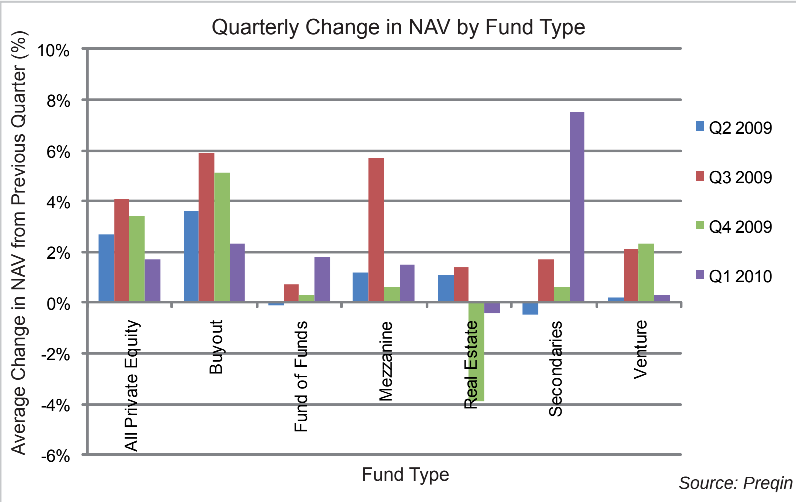


Fig. 2.2:



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2.3. Quarterly Change in NAV by Buyout Fund Size

Fig. 2.3 examines the buyout industry by dividing the funds up into their respective size groupings. The data shows that funds classified as mega buyout funds have posted the largest average increase, 3.1%, in March 2010 from the previous quarter. The largest increase in NAV for all size groups came in Q3 2009. Mega buyout funds were particularly affected by the economic downturn and to date have shown the largest percentage improvement as valuations have recovered. Large buyout funds showed an increase of 2.7% in fund valuation for March 2010, followed by small buyout funds with 2.6% and mid-sized funds with 1.5%.

It is pertinent to take into account the level of debt associated with each fund size. Mega and large funds typically use more leverage for their investments and these fund types experienced more severe write downs as credit markets seized up. In contrast, small and mid-sized funds showed smaller variations in their net asset values as they typically use less debt in their transactions.

III. Listed Private Equity: Trends & Developments

The performance of listed private vehicles is comparable to that of the unlisted sector. Listed private equity funds are traded daily and publish their financial reports earlier than their unlisted counterparts. Therefore, by analyzing their latest performance figures, we can gain insight into the performance that traditional private equity funds are likely to report in the near future. Preqin analyzes performance metrics for approximately 100 listed private equity vehicles.

3.1. Average Change in NAVPS and Share Price of Listed Private Equity by Quarter

The net asset values of listed private equity vehicles follow similar trends to those of unlisted private equity partnerships. As with traditional private equity, listed private equity vehicles saw the value of their portfolio companies decreasing from the second half of 2008. The largest decrease in value happened in the last quarter of 2008, when net asset value per share dropped by 17%. NAVPS continued to decrease in Q1 and Q2 2009 before beginning its recovery in Q3 2009. In 2010, net asset values increased by 2.5% in each of the first two first quarters of the year.

Quarterly changes in share prices fluctuate greatly over the period shown, but reflect the trend shown by NAVs during this time. Share prices dropped dramatically in Q4 2008, posting a decline of 39.6%, but they recovered over Q2 and Q3 2009, posting increases of 29.2% and 25.4% respectively. In the last quarter of 2009, both share prices and NAVPS experienced positive but relatively small quarterly

Fig. 2.3:

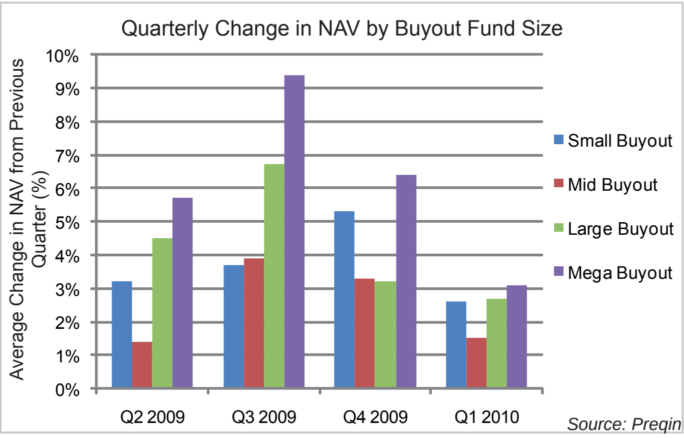
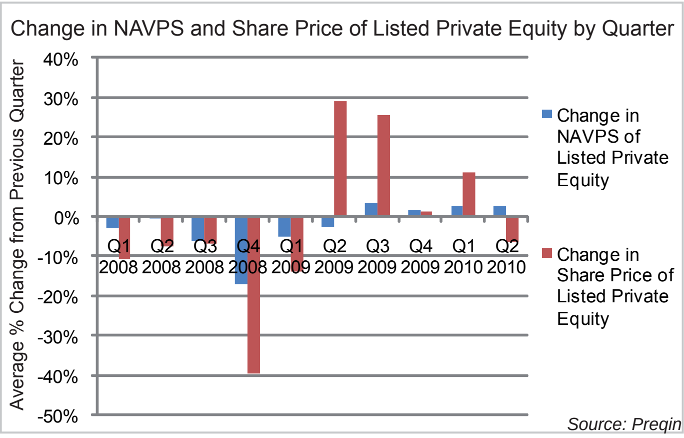


Fig. 3.1:



Vintage 2005-onwards: Mega > $4500mn, $1500mn < Large ≤ $4500mn, $500mn < Mid ≤ $1500mn, Small ≤ $500mn
Vintage 1997-2004: Mega > $2000mn, $750mn < Large ≤ $2000mn, $300mn < Mid ≤ $750mn, Small ≤ $300mn

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Fig. 4.1:

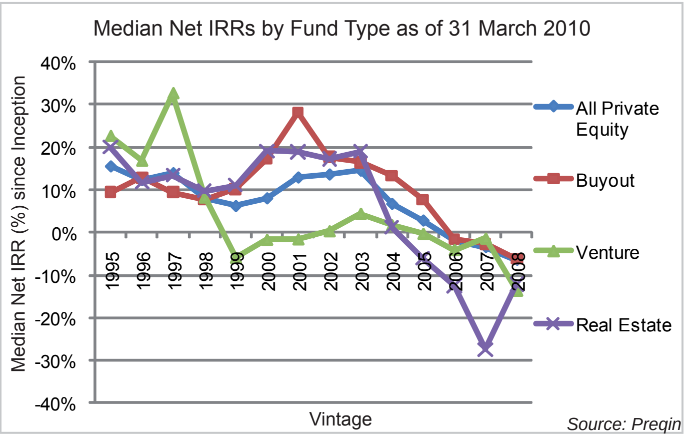
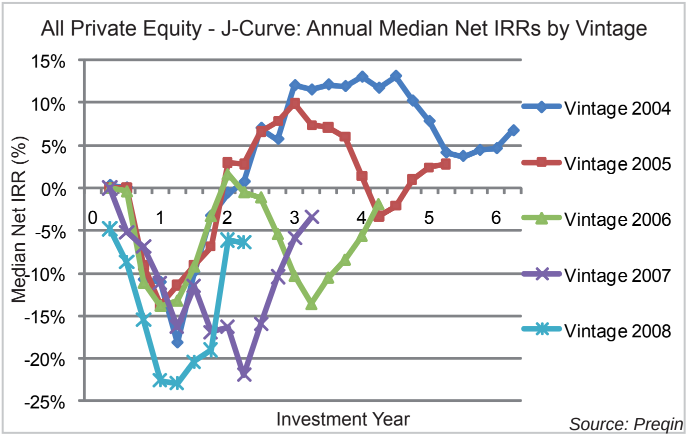


Fig. 4.2:



increases. Increasing by 11%, share prices performed strongly in the first quarter of 2010 but then declined by 6.6% during the second quarter of 2010.

IV. Median Net IRR

4.1. Median Net IRR by Fund Type

Fig. 4.1 shows the benchmark median net IRRs as of Q1 2010 for the main private equity strategies by vintage year, showing how each strategy has performed historically. Venture funds generated median returns of up to 33% for the vintages 1995 to 1997, but returns are negative for most vintages from 1999 onwards, following the end of the tech bubble. The highest median IRR for buyout funds was achieved by funds with a 2001 vintage, which have posted median returns of 28%. Recent vintages seem to still be showing the effects of the credit crisis, with median IRRs in the red for the vintages 2006 and onwards. These funds are still in the early stages of their fund lives and it must be emphasized that their performance could improve over time as underlying investments mature and are realized.

4.2. J-Curves of Net IRR

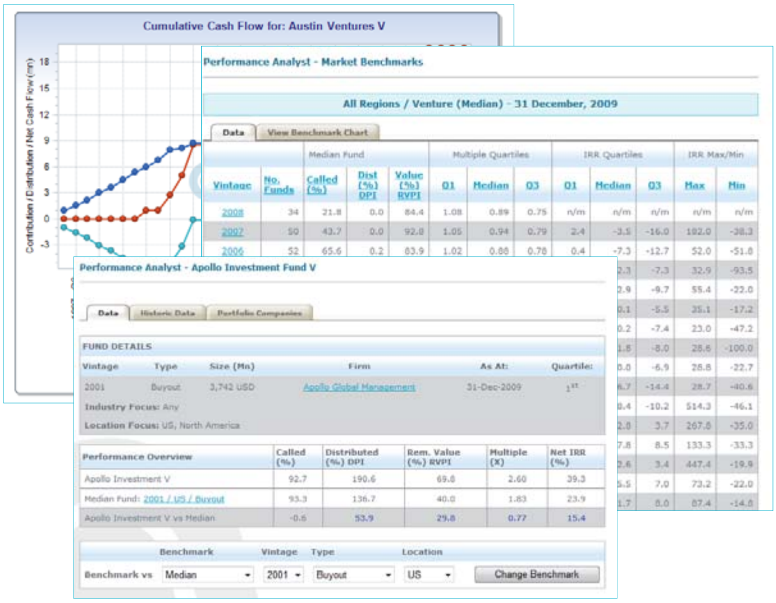
Typically, private equity IRRs are negative in the first few years of a fund's life, increasing over time as value is added to investments before they are exited, and then stabilizing in the final years of the fund's life. IRRs following this trend form a "J-curve" trajectory. The financial crisis has altered these J-curves, which could now be better described as W-curves. Plotting the median net IRRs for each quarter end, Fig. 4.2 shows private equity J-curves for the vintages 2004 to 2008. The graph illustrates that private equity IRRs decreased steeply from September 2008, reaching their lowest point in Q1 2009. Since Q2 2009 net IRRs have been improving, but funds of vintages 2004 to 2006 have not yet reached the level at which they stood before the financial crisis. It is likely that IRRs will continue to improve over the following quarters but the J-curve pattern is now irreversibly modified.

Data Source:
Performance Analyst

Performance Analyst is the most comprehensive, detailed source of private equity performance data available today. Preqin's team of analysts collect and monitor data from a number of different sources, including from GPs themselves, in order to provide the most comprehensive private equity performance data available today.

All of our performance data conforms to the same standardized metrics, with all data representing net-to-LP returns. We currently hold transparent net-to-LP performance data for over 5,100 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 70% of all capital ever raised.

This high level of coverage enables us to produce the most meaningful benchmarking and comparative tools available in the industry.



Key features of this powerful database include:

- View performance data online: for private equity funds worldwide. Compare individual funds against each other and the appropriate benchmarks.
- Compare funds of all types: venture, buyout, mezzanine, distressed, special situations, real estate, natural resources, fund of funds, secondary.
- Assess key performance data for each fund: size, vintage, type, called-up, distributed, unrealized value, multiple, IRR.
- View historic performance: for over 15,000 data points to assess how performance data has changed over time (Premium access required).
- Keep current with developments: with monthly updates you always have access to the latest data.
- View cash flow graphs for over 1,700 funds: assess how quickly funds have called and distributed capital and what their net cash flow position is.
- Select, compare and analyze: funds according to your criteria: by type, size, vintage year etc.
- Assess each firm's long-term track record: quartile performance over several fund generations.
- Median, pooled, weighted and average benchmarks: view fully transparent market benchmarks by fund type and region focus. Benchmark data for called-up, distributed, unrealized value, and top, median and bottom quartile IRRs and multiples.
- Top performing GPs: view a list of firms that have consistently had funds ranked in the 1st and 2nd quartiles.
- Download: data to spreadsheet for further analysis (Premium access required).
- Create a tailored peer group: of funds for comparative purposes.

Performance Analyst (Standard) $1,950 / €1,375 / £1,150

Performance Analyst (Premium) $3,950 / €2,825 / £2,350

For more information, please visit www.preqin.com/pa

About Preqin

Preqin private equity provides information products and services to private equity and venture capital firms, fund of funds, investors, placement agents, law firms, investment banks and advisors across the following main areas:

- Fund Performance
- Buyout Deals
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles
- Compensation

Our customers can access this market intelligence in four different ways:

- Hard copy publications
- Online database services
- Consulting and research support
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Our services and products are used daily by thousands of professionals from around the world. If you are in need of information on the private equity industry then we can help.

Our information is drawn from as many sources as possible, with our large teams of dedicated analysts working to ensure that our research is far reaching, detailed and up to date.

Preqin regularly releases research and information on fundraising and all other aspects of the private equity industry as both research reports, and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit
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If you have any comments on this report, please contact:
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