



# Private Equity Performance Report

Fund Performance Data as of Q1 2011

October 2011

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Using data from Performance Analyst, Preqin has analyzed the returns generated by private equity partnerships as at 31st March 2011 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 5,700 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](http://www.preqin.com/pa).

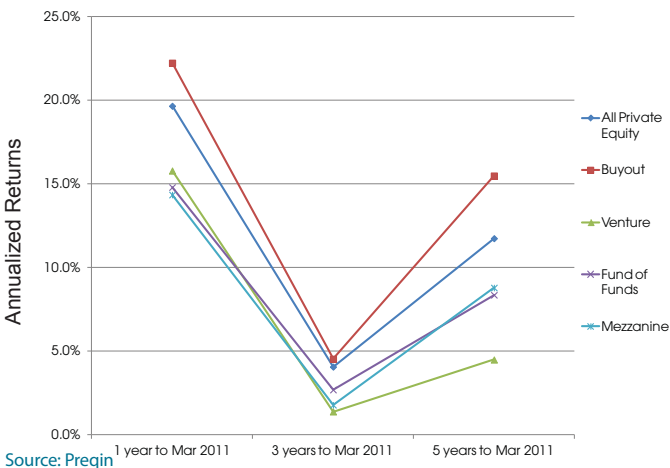
## 1. Private Equity Horizon IRR

### 1.1. Horizon IRR by Fund Type

Fig. 1.1 shows the private equity horizon returns through 31 March 2011 for the one-, three- and five-year periods for the main private equity fund types. All private equity fund types examined are showing positive horizon returns over these periods. Over the one-year period, buyout funds are currently showing the highest horizon return of 22.2%, with venture funds, funds of funds and mezzanine funds showing one-year returns of 15.8%, 14.8% and 14.4% respectively.

For the three-year period, returns range between approximately 1% and 5%, with buyout funds showing the highest three-year horizon returns of 4.5%. Over the five-year period, buyout funds are again showing the highest returns, with 15.5%, whereas five-year returns for mezzanine funds, funds of funds and venture funds are at 8.8%, 8.4% and 4.5% respectively.

Fig. 1.1: Private Equity Horizon IRRs as of 31 Mar 2011



## 1.2. Private Equity Performance vs. Public Indices

Fig. 1.2 shows the horizon returns of all private equity over the one-, three- and five-year periods in comparison to the returns achieved by three public indices across the same timeframe through 31st March 2011. It should be noted that any comparisons made between private equity and listed equities should be viewed in context, as private equity is an illiquid asset class where investors are committed over a longer period of time, whereas public equities are more liquid.

Private equity generated annualized returns of 19.7% over the one-year period, 4.1% over three years and 11.7% over the five-year period. It can be seen from Fig. 1.2 that all private equity outperforms the three public indices shown during the one- and five-year periods. Over the three-year period, private equity and MSCI Emerging Markets show similar returns, with both outperforming the S&P 500 and MSCI Europe for the period.

## 1.3. Rolling One-Year Horizon IRRs

The one-year quarterly horizon IRRs since March 2008 for the whole private equity industry, as well as those for buyout and venture funds, are shown in Fig. 1.3. The highest one-year returns during the period shown are for the year to March 2010 and since this time one-year returns across all private equity have remained relatively steady. The one-year returns of buyout funds and the private equity industry as a whole show a strong correlation, as the majority of the industry's capital is held in these funds.

Fig. 1.2: Private Equity Horizon IRRs vs. Public Indices as of 31 Mar 2011

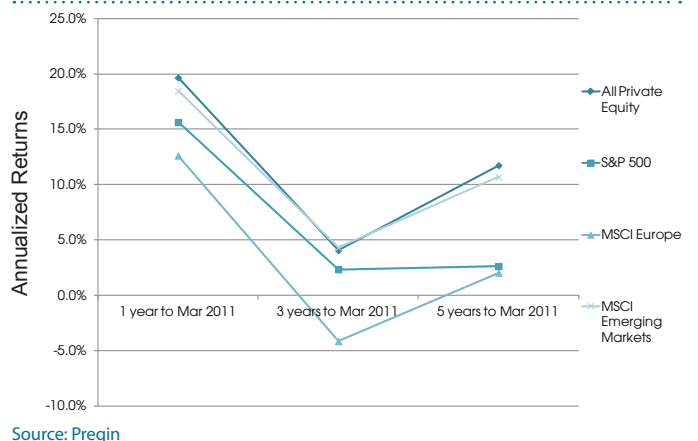
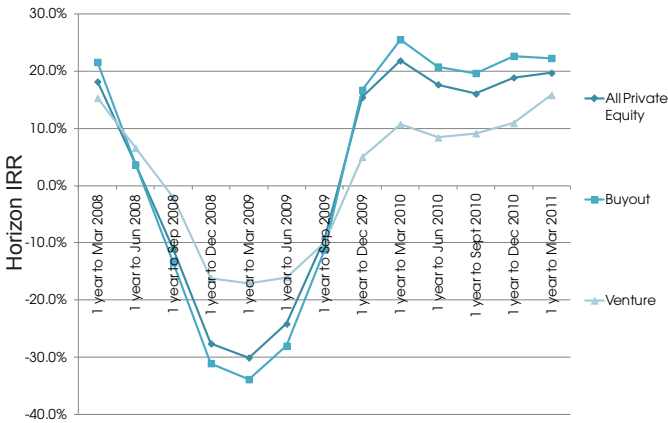


Fig. 1.3: Rolling One-Year Horizon IRRs



Source: Preqin

### 1.4. Buyout Fund Horizon IRRs by Size

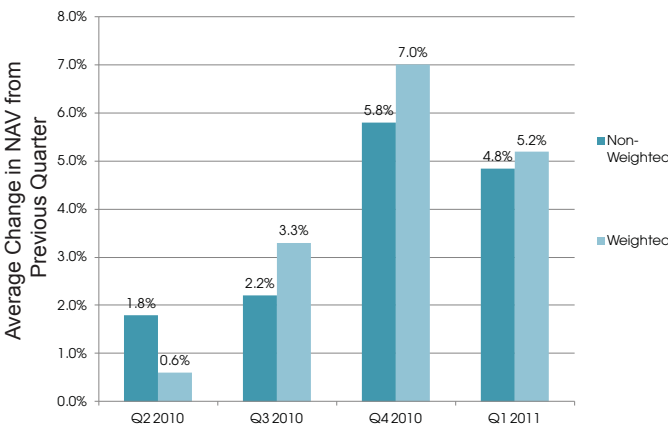
Fig. 1.4 shows horizon returns data for buyout funds by fund size. The one-year returns are similar for small, mid and large funds, with mega buyout funds generating the highest returns of 24.1%. Over three years, mid-sized and small buyout funds show annualized returns of 8.0% and 7.9% respectively, whereas mega and large funds return 4.6% and 2.8% respectively. Over the five-year timeframe, mega buyout funds are returning 16.2%, with the returns of the other fund sizes ranging from around 11% to 15%

## 2. Private Equity NAV

### 2.1. Quarterly Change in NAV

Fig. 2.1 shows the quarterly average change in net asset value (NAV) from Q2 2010 to Q1 2011. Since June 2010 fund valuations have increased steadily, with the largest increase in NAVs witnessed in the final quarter of 2010. During Q1 2011 the non-weighted NAV increased by 4.8% and the weighted NAV by 5.2%. As the weighted metric takes

Fig. 2.1: All Private Equity Change in NAV by Quarter



Source: Preqin

Fig. 1.4: Buyout Fund Horizon IRRs by Size as of 31 Mar 2011\*



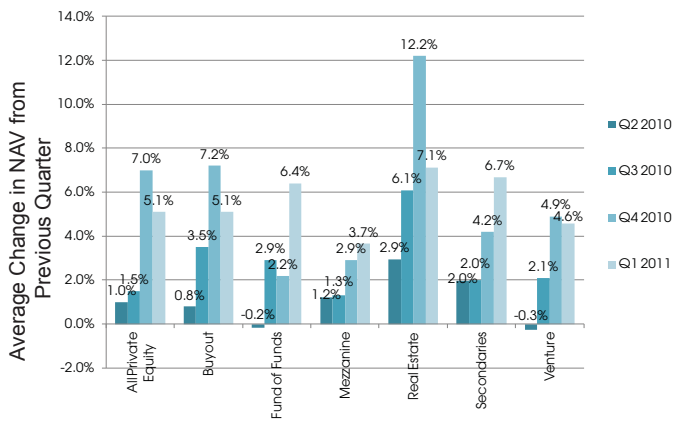
Source: Preqin

into account differences in fund size, this suggests that the larger funds outperformed their smaller counterparts in Q1 2011.

### 2.2. Annual Weighted Change in NAVs by Fund Type

The quarterly weighted change in NAV from Q2 2010 through to Q1 2011 for the different private equity fund strategies is displayed in Fig. 2.2. It can be seen that for most of the private equity fund types valuations have increased every quarter over this period, the exception being funds of funds and venture funds in Q2 2010, which reported valuation decreases of -0.2% and -0.3% respectively. In the first quarter of 2011, real estate funds saw valuations increase by 7.1%, all private equity funds and buyout funds both reported an increase of 5.1%, venture funds 4.6% and mezzanine vehicles increased in value by 6.4% and 6.7% respectively. It is important to bear in mind that the performance data for funds of funds and secondaries vehicles generally lag a quarter due to the reporting of the underlying funds.

Fig. 2.2: Quarterly Change in NAV by Fund Type (Weighted)

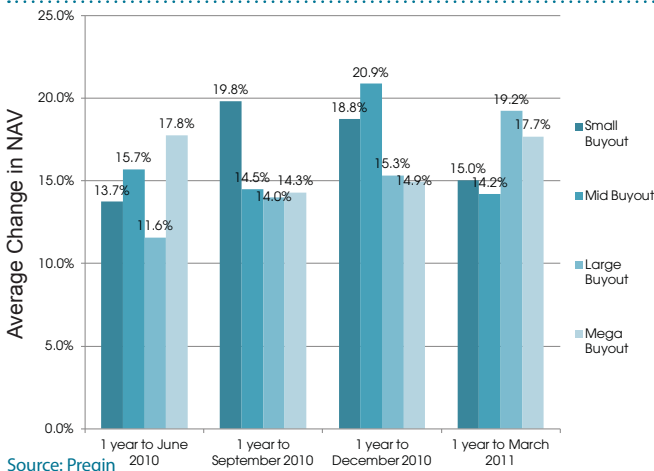


Source: Preqin

\* Size Ranges:

Vintage 2005-onwards: Mega Buyout > \$4500mn, Large Buyout \$1,500mn-\$4500mn, Mid Buyout \$500mn-\$1,500mn, Small Buyout ≤ \$500mn  
 Vintage 1997-2004: Mega Buyout > \$2000mn, Large Buyout \$750mn-\$2000mn, Mid Buyout \$300mn-\$750mn, Small Buyout ≤ \$300mn

Fig. 2.3: Annual Change in NAV by Buyout Fund Size\*



### 2.3. Annual Change in NAV by Buyout Fund Size

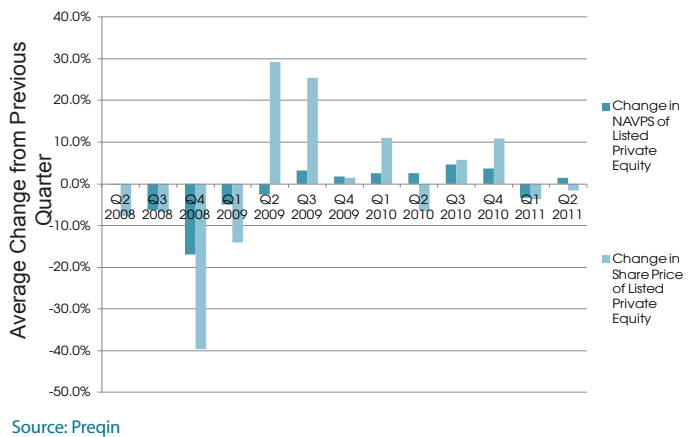
Fig. 2.3 shows the average one-year change in NAV for the different buyout fund sizes at each quarter-end from June 2010 to March 2011. Each of the different buyout fund sizes saw an increase in NAV during each successive quarter in this period. For the one-year period to December 2010, mid-market buyout funds reported the highest increase in valuation of 20.9%; however for the one-year change to March 2011, the larger buyout fund sizes reported higher increases in valuation, with large buyout funds increasing by 19.2% and mega buyout funds 17.7%. Over the same period, small buyout funds increased in value by 15.0% and mid-market buyout funds increased by 14.2%.

It is important to note that the mega and large buyout funds typically use more leverage in their investments than the smaller funds. Consequently, the larger buyout vehicles were more negatively affected by the financial crisis and experienced a more significant decrease in valuation than the smaller funds. As a result, the larger funds have had substantially more ground to make up in recent years. Small and mid-market buyout funds typically use less debt in their investments and have shown smaller variations in their NAVs.

### 3. Listed Private Equity: Trends and Developments

The listed private equity market is open to anyone, removing the requirement for large capital reserves, and offers an alternative to the traditional closed-end private equity sector. Shares in listed private equity vehicles are traded on a daily basis and consequently results are typically reported earlier than unlisted private equity funds. This enables the performance of these listed vehicles to act as an indicator to the performance of traditional private equity funds.

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



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

The quarterly changes in NAV and market prices for listed private equity are shown in Fig. 3.1. Throughout 2008, net asset value per share (NAVPS) showed quarterly decreases during all four quarters as the financial crisis resulted in large write-downs of portfolio valuations. During this period, NAVPS saw its largest quarterly decrease during Q4 2008, -17.0%. The share prices of listed private equity funds have experienced average quarterly increases in every quarter between Q2 2009 and Q4 2010 with the exception of Q2 2010. NAVPS has seen average quarterly increases in every quarter during the same period, with the highest quarterly increase of 4.7% taking place in Q3 2010. During Q2 2011, NAVPS have increased by an average 1.4%, while share prices saw an average decrease of -1.6%.

## 4. Performance by Vintage

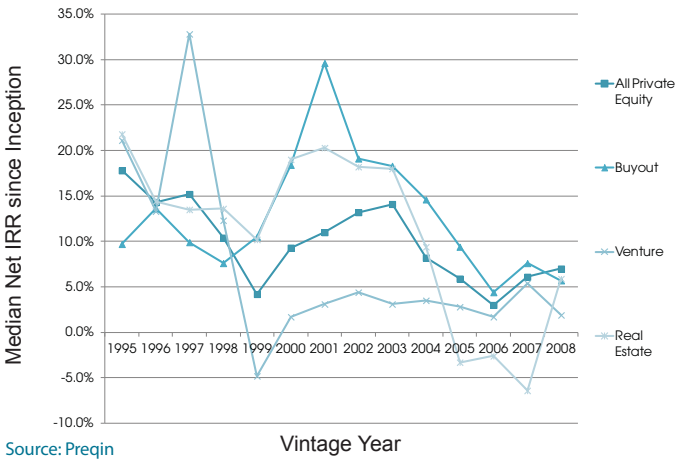
### 4.1. Median Net IRR by Fund Type

Fig. 4.1 shows the median net IRRs as of 31 Mar 2011 by vintage year for the main private equity strategies. The graph shows that venture funds of vintage years 2000-2008 are showing median net IRRs in the range of 2.0% to 5.0%, with vintage 2008 funds currently showing a median net IRR of 1.9%. These returns are much lower than vintage 1995-1998 venture funds following the dot-com crash. The highest median returns for buyout funds are currently for vintage 2001 funds, which are showing a median net IRR of 29.6%, and median returns for the fund type are positive for all vintage years within the sample. As a consequence of the financial crisis, real estate funds are showing negative median returns for vintage years 2005-2007; however 2008 vintage real estate funds are currently in the black with a median net

\* Size Ranges:

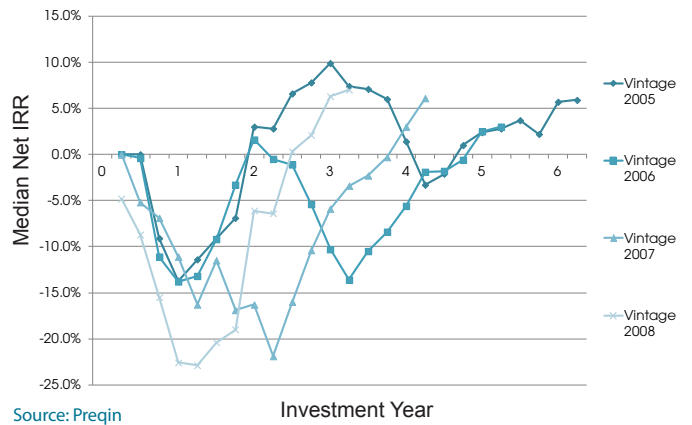
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Fig. 4.1: Median Net IRRs by Fund Type as of 31 Mar 2011



Source: Preqin

Fig. 4.2: All Private Equity - J-Curve: Annual Median Net IRRs over Time by Vintage



Source: Preqin

IRR of 5.9%. It should be noted that funds with more recent vintages are still early in their fund lives, and as a result returns could improve as fund managers add value to their investments.

#### 4.2. J-Curves of Net IRR

Private equity ‘J-curves’, which show the typical trajectory of the returns of a private equity fund, are shown in Fig. 4.2. ‘J-curves’ within this sample are created by plotting the median net IRRs at each quarter-end for funds of 2005-2008 vintages. Typically, during the early stages of a fund’s life returns tend to be in the red; however as the investment cycle advances and fund managers begin to add value to their portfolios and start to distribute capital back to investors, net returns begin to transition into positive territory.

Vintage 2005 and vintage 2006 funds were amongst those most affected by the global financial crisis, and as a consequence suffered sharp falls in returns before subsequently recovering. As such, the net return trajectories for these vintages resemble ‘W-curves’. Vintage 2008 funds are currently showing the highest net IRR of 7.0%; however all vintage years within the sample are currently showing positive net returns.

# 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 5,600 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.

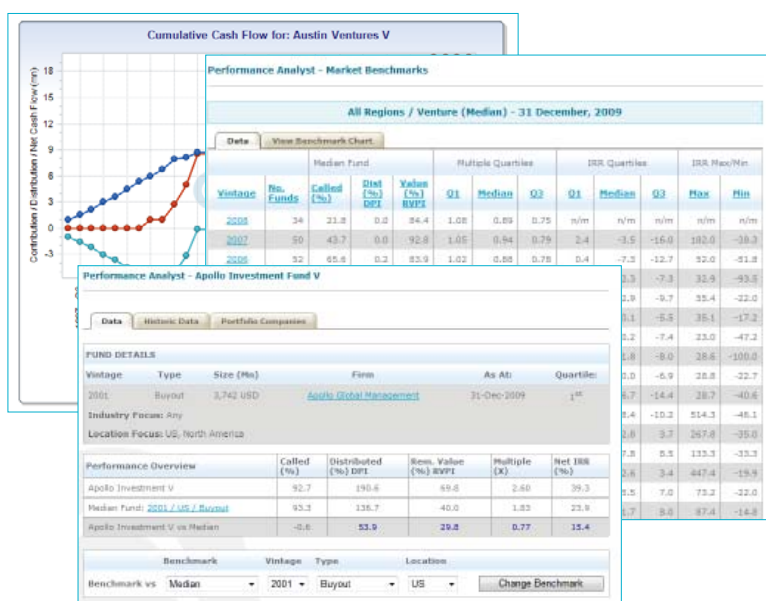
**Median, pooled, weighted and average benchmarks:** view fully transparent market benchmarks by fund type and region focus.

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.



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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
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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 [www.preqin.com/spotlight](http://www.preqin.com/spotlight)

If you have any comments on this report, please contact:  
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