



# Private Equity Performance Report

Fund Performance Data as of Q2 2010

February 2011

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Using data from Performance Analyst, Preqin has analyzed the returns generated by private equity partnerships as at 30 June 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 5,300 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

One-year returns for all private equity strategies through June 2010 are positive, with buyout funds posting a return of 20.7%, venture returning 8.4%, fund of funds 11.6% and mezzanine 6.0%. Looking at the three-year horizon period, mezzanine is posting a return of 7.8%, fund of funds 1.1%, venture -0.9% and buyout -2.2%.

Across the five-year horizon period, buyout funds are showing an annualized return of 19.3%, mezzanine funds 15.3%, funds of funds 6.9% and venture funds 5.8%.

### 1.2 Private Equity Performance vs. Public Indices

Fig. 1.2 shows annualized private equity returns for the one-, three- and five-year periods, as well as returns for selected listed indices, as of June 2010. The one-year private equity return stands at 17.6%, the three-year return at -1.9% and the five-year return at 15.7%.

Standard & Poor's 500 returned 14.4%, MSCI Europe 5.7% and MSCI Emerging Markets 23.2% over the one-year period. All the indices over the three-year period are in the red. Over the five-year period, the returns of MSCI Emerging Markets are significantly higher, at 12.7%, than for MSCI Europe and Standard & Poor's 500.

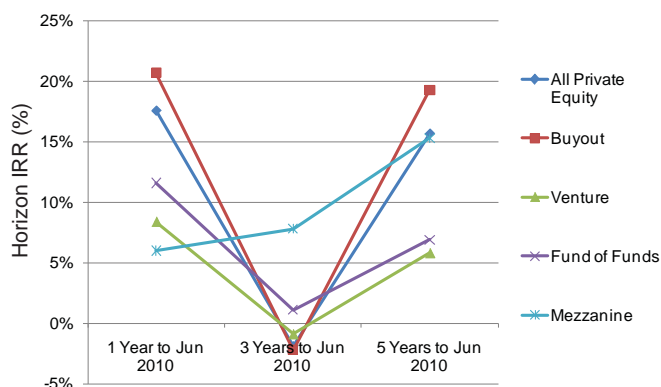
The comparison of private equity with listed equities needs to be viewed with caution as the private equity asset class is illiquid. Private equity investors are committed over a long period of time and therefore these returns are not as relevant as they are for the more liquid listed markets.

### 1.3. Rolling One-Year Horizon IRRs

Analyzing the rolling one-year returns from December 2007 to June 2010 shows the changes to the private equity industry over the last few years. In December 2007 private equity returns stood at 26%, and went on to reach their lowest point in March 2009. One-year IRRs then moved back into the black from December 2009. It should be noted that the June 2010 returns are based on a starting point of June 2009, when the returns began to show a recovery, and therefore are not as high as those in March 2010, which are based on a starting point of March 2009 when returns were at their lowest point.

As buyout funds constitute the largest proportion of the industry's capital, it is no surprise to see that these returns closely match the overall private equity returns. Venture fund returns were not affected as much by the downturn as buyout fund returns, but their rolling one-year horizon IRR follows a similar pattern, bottoming out in March 2009 and returning to the black in December 2009.

Fig 1.1: Private Equity Horizon IRRs, As of 30 June 2010



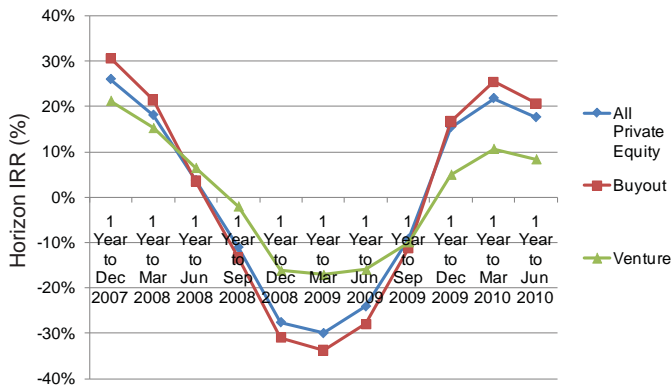
Source: Preqin

Fig 1.2: Private Equity Horizon IRR Vs. Public Indices, As of 30 June 2010



Source: Preqin

Fig 1.3: Rolling One-Year Horizon IRRs



Source: Preqin

Fig 1.4: Buyout Fund Horizon IRRs by Size, As of 30 June 2010



Source: Preqin

1.4. Buyout Fund Horizon IRRs by Size

Fig. 1.4 examines the returns for buyout funds by their respective fund sizes over the one-, three- and five-year horizons through June 2010. The graph illustrates that the returns over the one-year period are all positive. Funds classified as mega-sized buyout funds are posting the highest one-year return: 23.6%. Small and mid-market buyout funds yield slightly lower returns of 19.1% and 17.9% respectively. Looking at the three-year period, mega buyout funds are generating the lowest returns (-4.0%), with mid-market and small buyout funds generating returns of 4.7% and 4.9% respectively. Over the five-year period the returns for the various buyout sizes lie around the 20.0% mark.

increased, but that the rate of increase has slowed. June 2010 data shows an increase of 1.8% in the non-weighted metric and 0.6% increase in the weighted metric over the course of Q2 2010.

The weighted return in Q2 2010 is lower than the non-weighted return. This implies that larger funds did not perform as well as smaller funds in the quarter. This is in contrast to the previous quarters shown in the graph, when the weighted increases were larger than the non-weighted increases.

2. Private Equity NAV

2.1. All Private Equity Change in NAV by Quarter

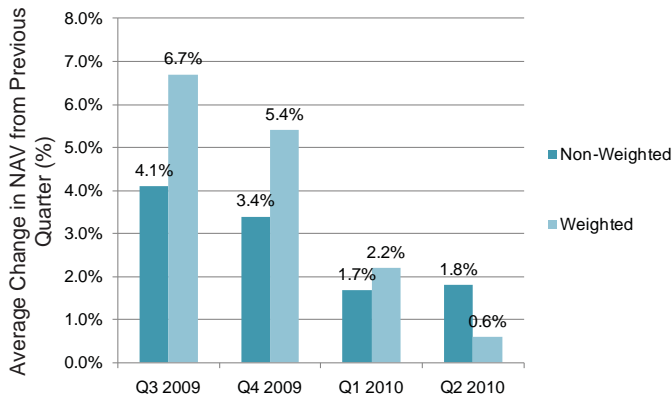
Fig. 2.1 shows the changes in net asset value (NAV) from the previous quarter from Q3 2009 to Q2 2010. The weighted change in NAV takes into account the fund sizes. Through each quarter it can be seen that the private equity fund valuations have consistently

2.2. Quarterly Change in NAV by Fund Type

The non-weighted change in valuations by fund type is illustrated in Fig. 2.2. Since September 2009, all fund types have shown an increase in valuations every quarter, except for real estate, which posted a significant fall in average NAV in Q4 2009 before stabilizing somewhat in the following quarters.

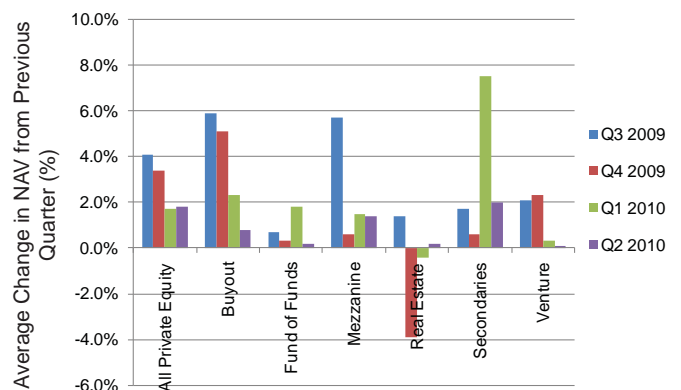
Secondaries and funds of funds posted quarterly increases of 2.0% and 0.2% respectively in Q2 2010, but it is important to note that the reported returns for these funds generally lag by a quarter because

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



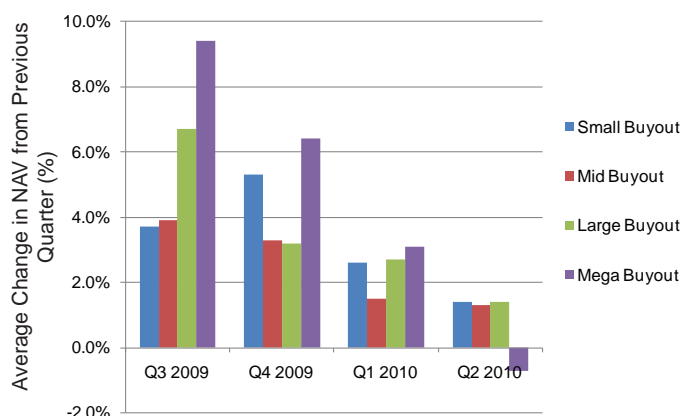
Source: Preqin

Fig. 2.2: Quarterly Change in NAV by Fund Type



Source: Preqin

Fig. 2.3: Quarterly Change in NAV by Buyout Fund Size



Source: Preqin

of the reporting schedules of the underlying fund investments. Buyout funds have reported an increase in NAV of 0.8%, venture funds 0.1% and mezzanine funds 1.4% in Q2 2010.

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

Fig. 2.3 shows the non-weighted change in valuations of the different buyout fund size groups from Q3 2009 to Q2 2010. Over Q2 2010, large and small buyout funds had the largest average valuation increases, of around 1.4% each, and mid-market buyout funds posted an increase of 1.3%.

The level of debt associated with each fund size is important to take into consideration. Mega and large buyout funds typically use more leverage for their investments than small and mid-market buyout funds. The credit crunch resulted in a steeper drop in the value of investments made using large amounts of leverage, and hence large and mega buyout fund performance fell more than small and mid-market fund performance. Small and mid market buyout funds generally use less debt in their transactions and have shown smaller variations in their NAVs.

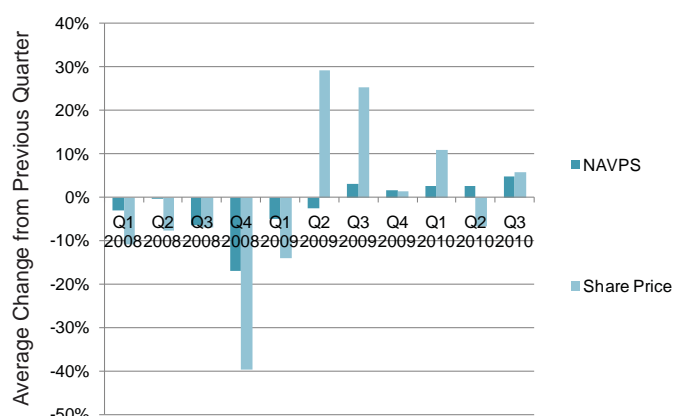
## 3. Listed Private Equity: Trends and Developments

Listed private equity funds are traded daily and regularly publish their annual reports earlier than unlisted private equity funds. The performance of listed and unlisted private equity funds are comparable and by analyzing the performance figures published by listed private equity funds, we can obtain an indication of the likely performance to be reported by unlisted private equity funds during the same period.

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

Fig. 3.1 shows the average quarterly changes in the net asset value

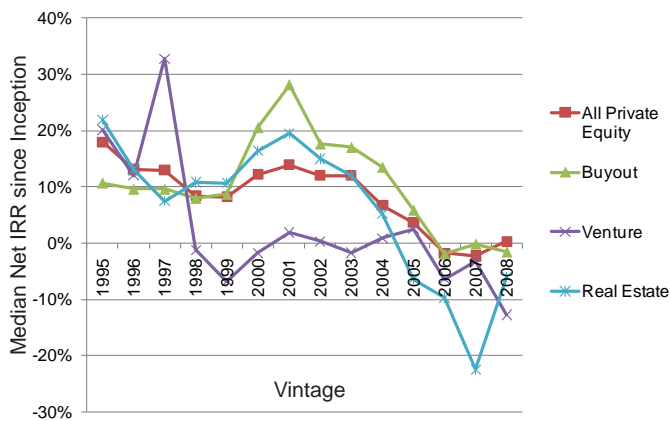
Fig. 3.1: Change in NAVPS and Share Price of Listed Private Equity by Quarter



Source: Preqin

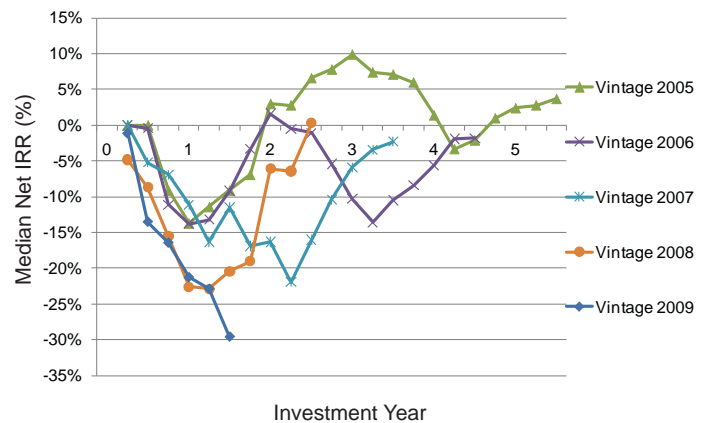
per share (NAVPS) and the share price of listed private equity funds. Each quarter of 2008 saw falls in the share price and NAVPS, with Q4 showing the greatest drop in both share price (39.6%) and in NAVPS (17.0%). Share prices saw average quarterly increases from Q2 2009 to Q1 2010, with net asset value per share also increasing each quarter during this period. 2010 has seen this increase in net asset value per share continue each quarter while quarterly changes in share prices have fluctuated. Share prices increased by 11.0% in Q1 2010 but fell by 6.6% in Q2 2010.

Fig. 4.1: Median Net IRRs by Fund Type as of 30 June 2010



Source: Preqin

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



Source: Preqin

#### 4. Performance by Vintage

##### 4.1. Median Net IRR by Fund Type

Fig. 4.1 shows the benchmark median net IRRs as of Q2 2010 for the main private equity strategies by vintage year. Examining the median net IRRs in this way shows how each strategy has performed by vintage year as of Q2 2010. The highest median IRR is achieved by venture funds of vintage year 1997, which are generating a median return of 32.8%. However, venture funds with later vintage years have returns in the red following the dot-com crash. The highest median net IRR achieved by buyout funds of any vintage shown is the 28.1% for vintage 2001 funds. Returns for venture, buyout and real estate funds are in the red for vintage years 2006 onwards, showing the effects of the financial crisis. It should be noted, however, that these funds are still in the early stages of their investment life cycles and their returns could improve as fund managers add value to their investments.

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

Fig. 4.2 shows the private equity J-curves for the vintages 2005 to 2009 by plotting the median net IRRs as at each quarter-end. During the first few years of a private equity fund's life cycle, returns are typically in the red. As value is added to investments, IRRs will begin to increase resulting in a 'J-curve' trajectory. Since the financial crisis, returns have experienced a dip resulting in trajectories which could be described better as a 'W-curve' than a J-curve. Vintage 2005 and 2006 funds show the biggest W-curve effect, with vintage 2006 funds still in the red. However, returns have been improving since Q3 2009. Vintage 2008 funds are now showing returns of 0.3%, while vintage 2009 funds have the lowest median IRR of all vintages shown (-29%). These funds are still in the early stages of their investment cycle and with fund managers looking to add value to their investments, returns could increase.

# 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 5,300 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.

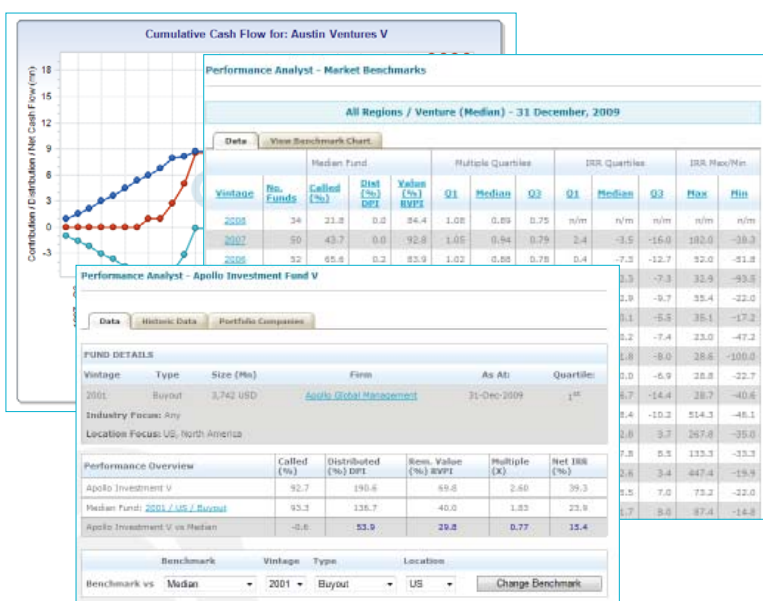
**Assess each firm's long-term track record:** quartile performance over several fund generations.

**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](http://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
- Tailored data downloads

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

If you have any comments on this report, please contact:  
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*If you want any further information, or would like to apply for a demo of our products please contact us:*

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