



# Private Equity Performance Report

Fund Performance Data as of Q4 2010

September 2011

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Using data from Performance Analyst, Preqin has analyzed the returns generated by private equity partnerships as at 31st December 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 5,600 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

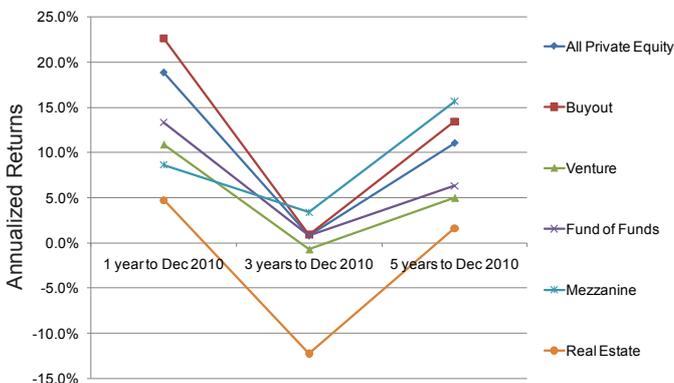
### 1.1. Horizon IRR by Fund Type

The horizon returns through 31st December 2010 across the one-, three- and five-year time horizons are shown in Fig. 1.1. All the private equity strategies are showing a positive return over the one-year horizon period with buyout funds generating a return of 22.6%, fund of funds 13.3%, venture 10.9%, mezzanine 8.6% and private equity real estate 4.7%.

Returns across the three-year time period lie between 0% and 5% with the exception of real estate funds, which are in the red with a return of -12.2%, and venture funds with returns just below 0%.

Over the five-year period, mezzanine funds are generating a return of 15.7%, buyout 13.4%, funds of funds 6.3%, venture 5.0% and real estate 1.6%.

Fig. 1.1: Private Equity Horizon IRRs as of 31 Dec 2010



Source: Preqin

### 1.2. Private Equity Performance vs. Public Indices

A comparison between private equity returns and the listed markets is shown in Fig. 1.2. It should be noted that investors in private equity remain committed to the asset class for a longer period, due to the longer horizons of the investments, whereas the public markets are more liquid. Consequently any comparison made should be viewed with this in mind.

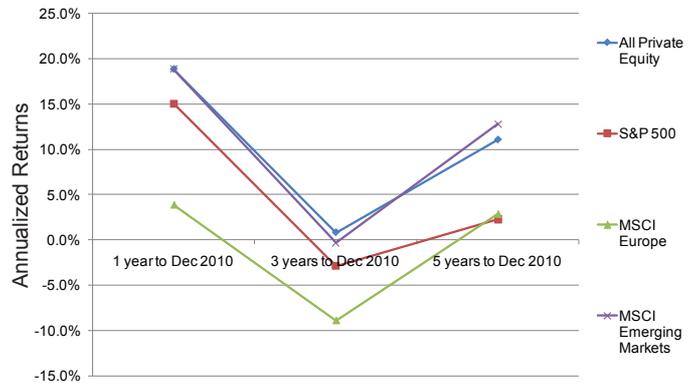
Private equity generated annualized returns of 18.8% over the one-year period to 31st December 2010, 0.8% over the three-year period, and 11.0% over the five-year period.

From the graph it can be seen that the returns of all the public indices across the one-year period are in the black, with MSCI Emerging Markets returning 18.9% as of December 2010, S&P 15.1% and MSCI Europe 3.9%. Returns are negative over the three-year time horizon across all the public indices. The MSCI Emerging Markets index is higher than the other indices for the five-year horizon, returning 12.8%, with the MSCI Europe returning 2.9% and the S&P 500 2.3% for the same period.

### 1.3. Rolling One-Year Horizon IRRs

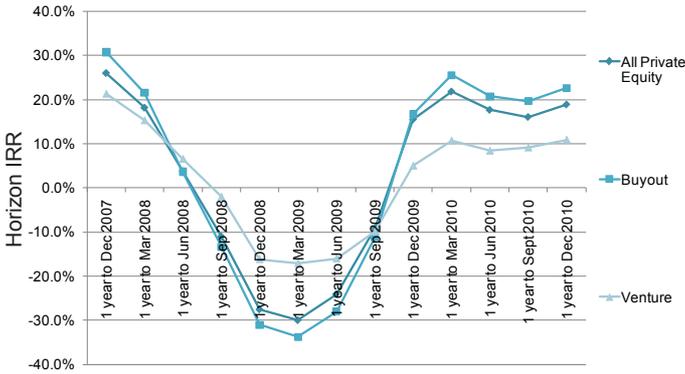
Fig. 1.3 illustrates the one-year horizon IRRs across the private equity industry, as well as those for buyout and venture funds, on a quarterly basis since December 2007. For the period displayed, returns for the industry were highest in December 2007 and reached their nadir in March 2009; however since December 2009 returns have once again been in the black. There is a strong correlation between the buyout returns and those across the private equity industry, as the majority of

Fig. 1.2: Private Equity Horizon IRR vs. Public Indices as of 31 Dec 2010



Source: Preqin

Fig. 1.3: Rolling One-Year Horizon IRRs



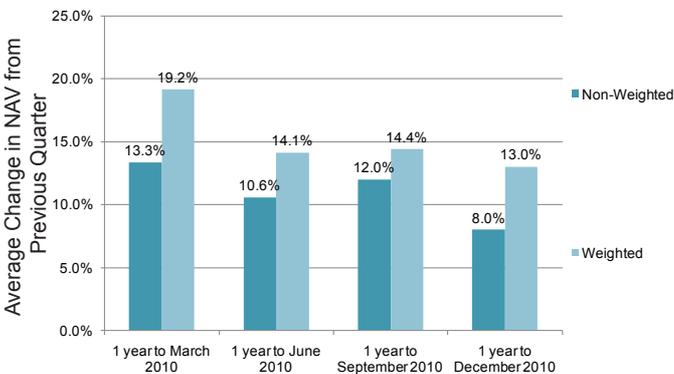
Source: Preqin

the industry's capital is held in these funds. Returns for venture funds follow a similar trend but do not vary as much as buyout funds.

1.4. Buyout Fund Horizon IRRs by Size

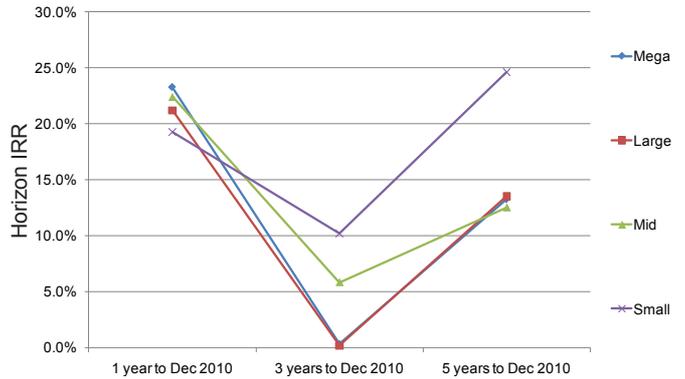
Fig. 1.4 shows buyout returns data by respective fund sizes. The one-year returns are clustered around the 20.0% mark for all buyout fund sizes, with those classified as mega buyout funds generating a return of 23.3% and small buyout funds returning 19.3%. Examining the three-year timeframe shows that small buyout funds yielded an annualized return of 10.2%, mid 5.8%, mega 0.3% and large 0.2%. Looking over the longer time horizon of five years shows that small buyout funds are returning 24.6%, with the other fund sizes generating returns of around 13.0%.

Fig. 2.1: Average Change in NAV for All Private Equity



Source: Preqin

Fig. 1.4: Buyout Fund Horizon IRRs by Size as of 31 Dec 2010\*



Source: Preqin

2. Private Equity NAV

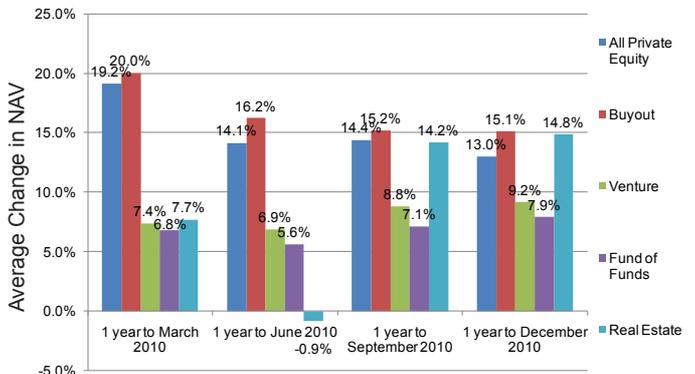
2.1. Average Change in NAV for All Private Equity

Fig. 2.1 shows the average annual change in net asset value (NAV) as at each quarter-end from March 2010 to December 2010. The latest results show the average non-weighted return over the year to December 2010 is 8.0%, with the weighted return standing at 13.0%. The weighted return takes into account different fund sizes, suggesting that the larger funds saw a more significant change in NAVs than smaller funds in each period shown. It is important to note, however, that larger private equity funds were more negatively affected by the impact of the financial crisis than smaller funds.

2.2. Annual Weighted Change in NAVs by Fund Type

The one-year weighted change in NAV for the different private equity strategies is illustrated by Fig. 2.2. All private equity fund types saw an increase in valuation for each successive quarter in 2010, except for real estate in Q2 2010, which experienced a decrease in value of 0.9%.

Fig. 2.2: Annual Weighted Change in NAVs by Fund Type

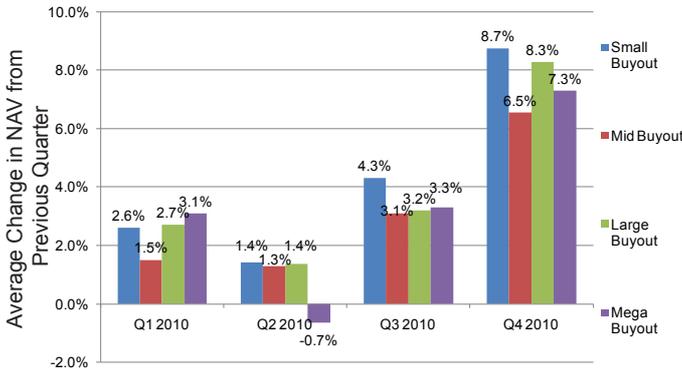


Source: Preqin

\* 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: Quarterly Change in NAV by Buyout Fund Size\*



Source: Preqin

The one-year change in NAV as at Q4 2010 is highest for buyout funds, which have increased in value by 15.1% compared to one year ago, followed by real estate funds reporting an increase of 14.8%, venture funds 9.2% and funds of funds 7.9%. Across the whole private equity industry for the one-year period, NAV increased by 13.0% over the year to December 2010.

2.3. Quarterly Change in NAV by Buyout Fund Size

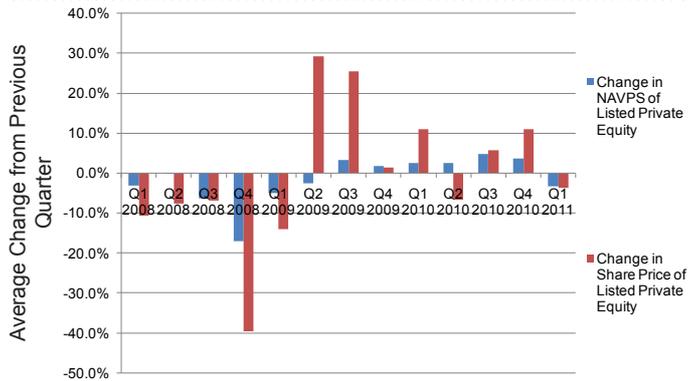
Fig. 2.3 displays the change in value from Q1 2010 to Q4 2010 of the different buyout fund size groups. Q4 2010 shows the largest increases in NAV for all the different groups and the largest change was seen in small buyout funds, which experienced an increase of 8.7%. The latest results also show that mid-market funds increased by 6.5%, while large and mega buyout vehicles gained 8.3% and 7.3% respectively.

It is important to remember that mega and large buyout funds typically use more leverage in their investments than smaller funds. As a consequence, the larger buyout vehicles were more affected by the credit crunch and so the value of these funds decreased more than the smaller funds, meaning that larger funds have had substantially more ground to make up since. Small and mid-market funds, which use less debt in their transactions, have showed smaller variations in their NAV during and since the crisis.

3. Listed Private Equity: Trends and Developments

The listed private equity market offers investors an alternative to the traditional private equity asset class and is open to anyone. With shares traded on a daily basis and reports published earlier than unlisted private equity funds, the performance figures for these funds can be used as an early indicator of traditional private equity fund performance.

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



Source: Preqin

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

Fig. 3.1 shows the quarterly changes in net asset value and market prices for listed private equity. Net asset value per share (NAVPS) decreased throughout 2008 and underwent its largest quarterly decrease of 17% in Q4 2008. This coincides with the impact of the financial crisis, with the period seeing large write-downs in portfolio valuations. Share prices have experienced average quarterly increases from Q2 2009 onwards, with the exception of Q2 2010, and NAVPS has seen average quarterly increases in every quarter from Q3 2009 to Q4 2010, with an average increase of 3.7% experienced during Q4 2010. In the most recent quarter, both NAVPS and share prices have seen quarterly decreases of 3.3% and 3.6% respectively.

4. Performance by Vintage

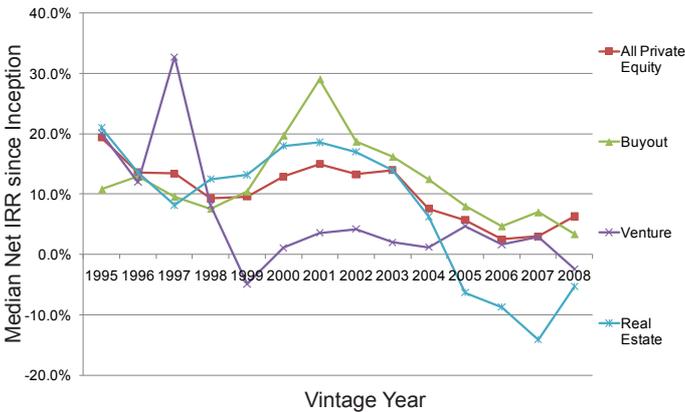
4.1. Median Net IRR by Fund Type

The benchmark median net IRRs as of Q4 2010 for the main private equity strategies by vintage year are shown in Fig. 4.1. Venture funds with a 1997 vintage year have achieved the highest median net IRR, with 32.7%; however median returns for vintage 1999 and 2000 venture funds are much lower as a result of the dot-com crash. Vintage 2008 venture funds currently have a median IRR of -2.4%. Median returns for buyout funds are at their highest for vintage 2001 funds, with 29%, and are in the black for all vintage years in this sample. Real estate funds suffered the most during the financial crisis and have negative median IRRs for vintage years 2005-2008. It is important to note that funds with more recent vintage years are still in the early stages of their investment cycles and as a result their returns could improve as fund managers add value to their investments.

\* Size Ranges:

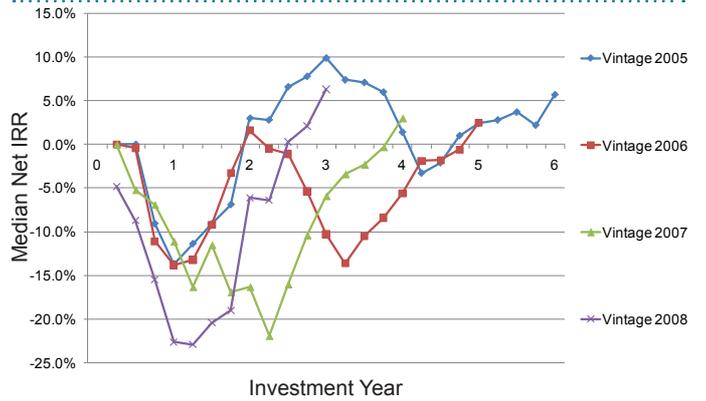
Vintage 2005-onwards: Mega Buyout > \$4500mn, Large Buyout \$1,500mn-\$4500mn, Mid Buyout \$500mn-\$1,500mn, Small Buyout ≤ \$500mn  
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Fig. 4.1: Median Net IRRs by Fund Type as of 31 Dec 2010



Source: Preqin

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



Source: Preqin

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

Fig. 4.2 shows private equity 'J-curves', which demonstrate the typical trajectory of the returns of a private equity fund, created by plotting the median net IRRs at each quarter-end for funds of the vintages 2005 to 2008. During the early years of a typical fund's life, returns are in the red; however as its investments mature and capital is distributed back to investors, net returns transition into the black as the investment cycle advances. For vintage 2005 and 2006 funds, these trajectories are better described as 'W-curves', as these vintage years were the most significantly affected by the financial crisis and suffered a sharp fall in returns only to subsequently recover. Median returns for all vintage years in this sample are now positive, with vintage 2008 funds showing the highest median IRRs of 6.3%. It is important to note that the later vintages are still in the early stages of their investment cycles and these funds still have time to improve their 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.

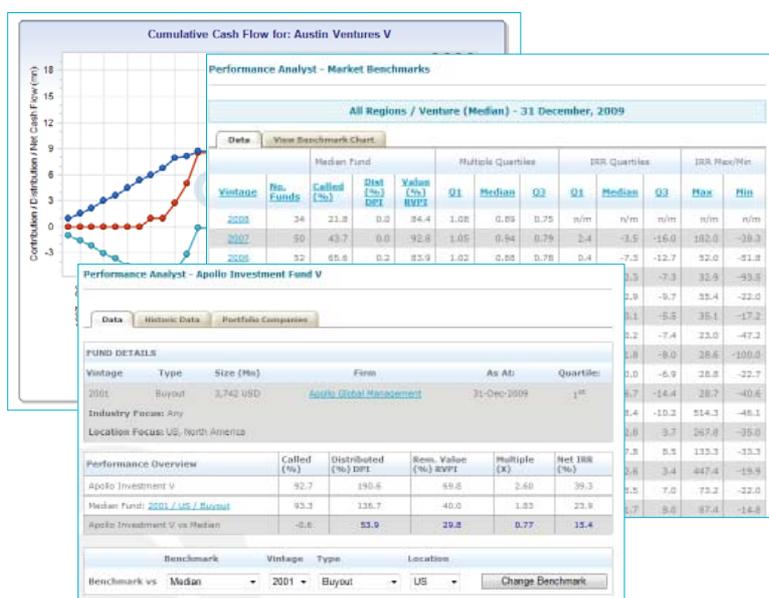
**Median, pooled, weighted and average benchmarks:** view fully transparent market benchmarks by fund type and region focus.

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

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# 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:

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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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