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The Preqin Quarterly

Private Equity - Insight on the quarter from the leading provider of alternative assets data

Q1 2011 APRIL 2011

Content Includes....

Private Equity Widens Its Latin Horizons

Private equity opportunities are spreading beyond Brazil and Mexico, making Latin America an investment hub.

Latest Fundraising Figures and Future Predictions

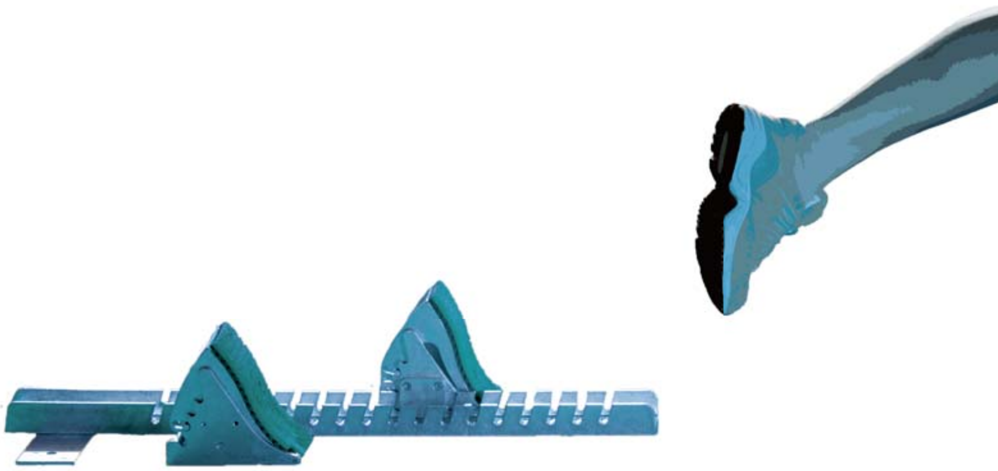
Fundraising reaches a new low in Q1 2011; when will market conditions improve?

Buyout Deals

Deals volume is up from the same point last year, but there has been a marked decrease in large deals.

Attracting LP Capital in 2011

Competition for LP commitments is growing, so how can fund managers attract investors?



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Editor's Note

Although the number and value of funds achieving a final close remained at historically low levels in Q1 2011, there are signs that the fundraising market is starting to improve, driven by record levels of distributions from older funds seen in the past six months. This improving momentum can be seen in the 110 vehicles which held an interim close in Q1, raising a total of $26.3bn towards their targets. Investors are markedly more positive, and general sentiment towards the industry seems to be improving on both the GP and LP side.

Driven by this improving sentiment, a total of 156 new fundraising efforts were launched in Q1 2011, 70% more than those that left the market due to holding a final close. As a result, the number of funds on the road is currently at a record 1,644, with these vehicles seeking to gather $661bn in commitments.

We are anticipating that the number of firms holding a final close will increase in future quarters, but for the funds that have been struggling to raise capital for some time this does represent alarming news. Those relying on extra investor capital coming into the market may be disappointed as this cash is instantly absorbed by the increased competition. If anything, although overall fundraising is set to improve, conditions for individual managers on the road could get even harder as competitive noise reaches deafening levels. For many firms, there will be some difficult decisions ahead in 2011 as some will be forced to cut back their fundraising ambitions or shelve their efforts altogether.

In addition to all the quarterly stats and figures, this edition of the Preqin Quarterly also features an in-depth look at a couple of areas where we are seeing growth and interesting trends. Private equity in Latin America is seeing substantial growth, with interest in the region growing both domestically and internationally. Our article takes a look beyond the dominant Brazilian market into other key destinations in the region. We also examine the latest developments in the cleantech market and include an overview of sovereign wealth fund activity towards the asset class.

Behind each of the data-points you see in the Preqin Quarterly exists a wealth of information on our industry-leading online products and publications, with extensive profiles for firms, funds, investors, advisors, law firms, placement agents and more. Our approach to being the most accurate source of intelligence is simple: we maintain offices around the world filled with dedicated analysts directly contacting industry professionals on a regular basis, over 5,000 of whom are Preqin subscribers.

We hope that you find this report to be interesting and informative and as ever we welcome any feedback that you may have. If you would like more information on any of our products and services, please feel free to contact us at our New York, London or Singapore offices.

Tim Friedman, Editor

From Ola to Hola...Private Equity Widens its Latin Horizons

After reaching a record $8.1bn last year, Latin America-focused fundraising looks set to far exceed this in 2011. There are currently more than 50 funds on the road targeting the region, seeking an aggregate $19.5bn. Average deal size more than doubled between 2009 and 2010, from $19mn to $41mn, while the number of deals worth over $100mn also increased two-fold.

Fig. 1 shows the number of funds closed between 2008 and April 2011 that invest in various emerging market regions, including some funds that invest in multiple regions. Asia has attracted the highest level of private equity investment of all these regions, and continues to do so; 70% of emerging market-focused funds closed between 2008 and April 2011 invest in the region. However, there has been a significant level of private equity activity in Latin America, and growth in the number of funds targeting both individual Latin American countries and the region as a whole.

Brazil and Mexico are the Latin American investment hotspots, magnetizing 60% and 14% of capital commitments made in 2010 respectively, and they remain the focus of the highest number of private equity funds targeting investments in the region. Fig. 2 shows the number and aggregate target of funds focused on specific Latin American countries that are currently seeking capital from investors.

It is no surprise that Brazil is the most popular country for investment. Its economy fared a lot better than those of other countries during the downturn; it does not rely heavily on leverage so the scarcity of debt finance had far less impact on activity there than it did elsewhere. Since 2004, annual economic growth has averaged 4.8%, and is predicted to average 5.8% for the next five years. Add to this the fact that only 500 of the 12 million businesses based in Brazil are publicly traded, and it is clear why the country is so attractive to investors from across the globe.

Fig. 1: Proportion of Emerging Markets-Focused Funds Closed in 2008 – April 2011 That Invest in Various Regions

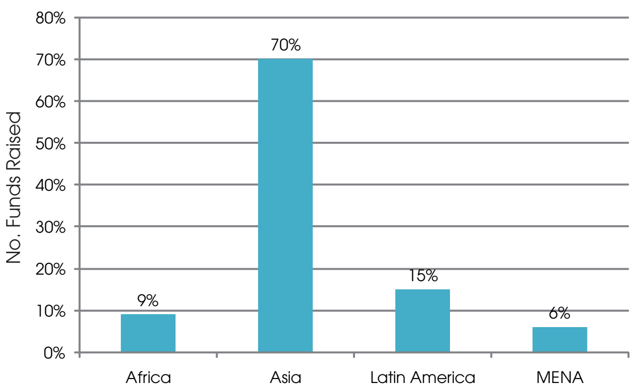
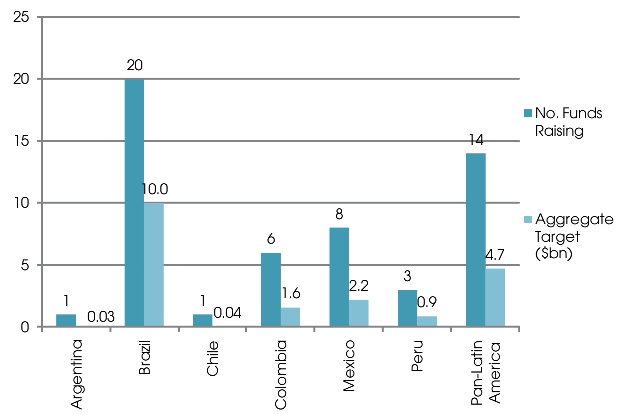


Fig. 2: Latin America-Focused Funds on the Road by Country



The private equity industry in Mexico was given a significant boost in 2009, when the financial services regulators issued Certificados de Capital de Desarrollo (Development Capital Certificates or "CKDs"), enabling public pension systems in the country (Afores) to invest in local private equity, infrastructure and real estate funds. Afores quickly became active investors in private equity, investing MXN 13.26bn in various funds in the nine months following the ruling. The country boasts good tax treatment, corporate governance requirements and a good record in protecting minority shareholder rights, although the absence of effective laws relating to fund formation, bankruptcy procedures and entrepreneurship are preventing are more rapid expansion of the industry.

Beyond Brazil and Mexico, there are signs that the private equity sector is becoming more established in Chile, Colombia and Peru; a summary of private equity activity in these countries is shown in Fig. 3.

Chile

Chile attracted the third-largest proportion of Latin America-focused private equity capital in 2010: 7%. Although a small proportion, it is important to bear in mind that the country has a lower population than many of its neighbours.

Some barriers to entry and growth do remain; average deal sizes are smaller and there are fewer exit opportunities in Chile. Domestic public pension funds, traditionally significant private equity investors elsewhere, are only able to invest in public funds, while high taxes are levied on non-domestic investors. However, Chile is deemed to have the most competitive business environment in Latin America; it has high levels of judicial transparency, a good record in the protection of intellectual property rights, its taxation system is favourable for private domestic investors and corruption is perceived to be very low. For these reasons, investors are keen to make commitments to Chile-based assets and many see the country as a gateway to neighbouring Colombia and Peru.

There is currently one private equity fund in market with a sole focus on Chile. The Burrill Chile Fund is a venture fund managed by US firm Burrill and Company. The fund is targeting $40mn, which will be invested in life sciences entrepreneurs in Chile, with the intention of promoting venture capital in the region and creating new jobs.

There are three more funds that include Chile as one of a number of focus countries. Funds targeting Latin America as a whole, which could well also invest in assets in Chile, are not included in this count; 14 such funds in market are targeting an aggregate $4.7bn in commitments.

Colombia

Although the industry is much smaller, Colombia is the only country in the world in which the private equity sector has grown year-on-year since 2006. While there is a higher perception of corruption than in some of its neighbouring countries, and there are fewer exit opportunities due to the restricted size and liquidity of capital markets, there are also fewer barriers to entry; Colombia operates a very liberal foreign investment policy.

A number of constitutional changes have helped to stimulate the private equity industry in Colombia over the past few years. In 2007, Decree 2175 was passed, enabling public pension funds to allocate 5% of AUM to local private equity managers, while Decree 2555, passed in July 2010, consolidated financial services, capital markets and insurance sector laws into a single framework. This has made conducting business in the country a lot easier, especially when considered alongside the country's specific private equity fund formation and operation laws, which are absent in some other countries.

Fig. 3: Private Equity Activity in Chile, Colombia and Peru

	Chile	Colombia	Peru
No. of Country-Specific Funds Closed 2008 - Q1 2011	1	5	4
No. of Country-Specific Funds on the Road	1	6	3
Aggregate Capital Sought by Country-Specific Funds on the Road ($bn)	0.04	1.6	0.9
Number of Domestic Private Equity Firms	5	6	4

Six funds on the road have a sole focus on Colombia, and a further six include it as a specific investment preference in a wider geographic focus. The Colombian Enterprise Fund, managed by domestic firm TS Capital, is seeking $100mn for investment in Colombian consolidated companies. It makes investments of between $10mn and $25mn per company. The fund is its manager's first, and it held a second close in March 2009 having raised half of its target capital.

Colombia is home to another five private equity firms, two of which focus solely on investments in the country.

Peru

With its fast-growing economy, booming stock exchange and use of international accounting standards, Peru is becoming an increasingly attractive country for private equity investment. Although tax laws and rules relating to minority stakeholders remain problematic, the country does have strict transparency requirements that enhance its appeal to investors. Public pension funds in the country can currently invest up to 3% of AUM in private equity, though it is anticipated that this will increase over time.

There are four private equity firms based in Peru. Three Peru-focused private equity funds, and an additional three that include the country as one of a number of specific targets, are in market. The Enfoca Discovery 1 is a growth fund targeting assets solely in Peru that invests between $10mn and $12.5mn in companies valued between $100mn and $300mn. Managed by Peruvian Enfoca SAFI, the fund is targeting $175mn.

This March, Carlyle Group and Credicorp Ltd., Peru's largest financial group, announced a joint venture that will invest primarily in Peruvian companies. The fund is targeting $700mn and will invest in medium-sized businesses seeking to take advantage of growing domestic demand.

Outlook

There has been notable growth in the private equity sector in Chile, Colombia and Peru over the past three years, and this looks set to continue as a number of new funds are currently in market targeting the countries.

Industry growth is still limited by both legal and economic factors, and both will need addressing if the sector is to continue its expansion. However, all three countries have experienced significant regulatory changes in the last few years suggesting that governments are keen to support the development of the industry in their respective countries.

The stock markets are under-developed to some extent in each country, as would be expected in emerging economies, and this means that there is a shortage of attractive exit opportunities. However, the three countries aim to link their exchanges by the end of 2011, which should enhance liquidity and boost the number of exit opportunities available to private equity managers.

Bright Future for Cleantech

Cleantech has drawn an increasing amount of interest from institutional investors in the past few years as a result of their growing awareness of the issue of climate change and other environmental concerns. Some have already introduced a component of Corporate Social Responsibility (CSR) into their investment strategies. For many of these investors, private equity funds present an attractive method of gaining exposure to the cleantech sector.

In February 2011, Preqin conducted interviews with 85 LPs that had previously invested in cleantech or shown an interest in the sector. This study revealed that most investors are opportunistic with regards to the individual sub-sectors of cleantech that they target for investment and many seek diversified exposure to the sector. Although some of the LPs interviewed have fixed allocations to the sector, most invest in cleantech funds on an opportunistic basis.

Fig. 4: Fund Type Preferences of Investors in Funds with a Cleantech Element

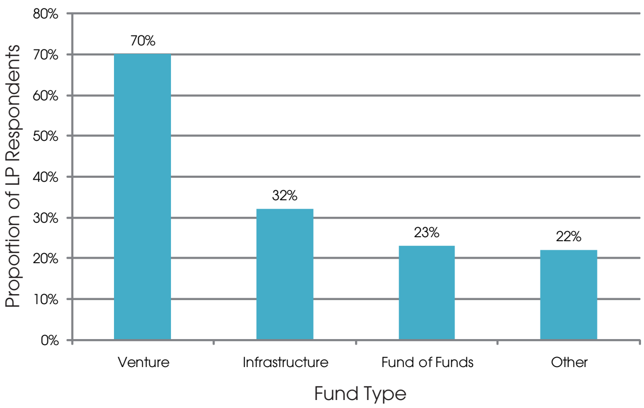
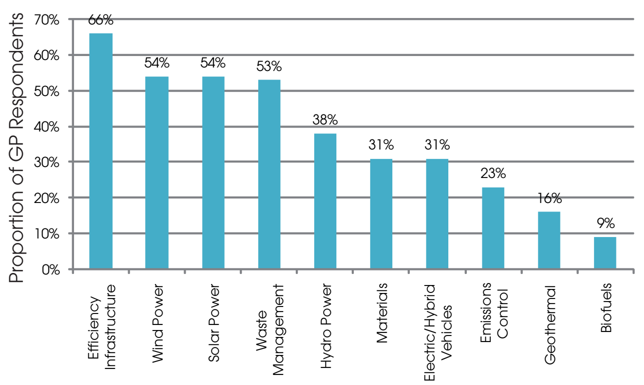


Fig. 5: Cleantech Sub-Sectors Currently Viewed by Fund Managers as Offering Attractive Opportunities



As shown in Fig. 4, 70% of investors expressed an interest in gaining exposure to cleantech through venture funds, 32% through infrastructure funds and 23% through funds of funds. 63% of surveyed LPs revealed that they access cleantech investments via dedicated funds; however a comparative study of LPs completed in 2010 suggested that at that time a lower proportion (33%) invested through dedicated structures rather than funds that include cleantech as part of a wider industry focus.

In terms of geographic preferences, 72% of LPs that are active in the space invest in funds that primarily target opportunities in Europe, while 68% consider funds primarily investing in North America. Funds that mainly target Asian cleantech opportunities interest 48% of investors and 45% consider investing in funds that invest primarily in Rest of World. When specifically considering attitudes to cleantech in emerging markets, the majority of LPs (58%) either invest or would consider investing in cleantech funds focused on these regions.

Fund Managers' Attitudes towards Cleantech

As with the private equity industry as a whole, the financial crisis negatively impacted cleantech private equity fundraising. GPs have sought to overcome the challenges created by shifting government regulation, volatile energy pricing, fast-evolving technology and an unchanged bias toward hydrocarbon energy sources. Despite these obstacles, Preqin's study of 57 global cleantech-focused fund managers revealed that GPs feel future cleantech prospects are positive.

As displayed in Fig. 5, the cleantech sub-sector currently viewed by GPs as offering the best investment opportunities is efficiency infrastructure, with 66% of respondents indicating such. Its popularity amongst fund managers is most likely based on a thirst in the market for new infrastructure and the relative independence from factors affecting other areas of cleantech such as shifting regulation and feed-in tariff issues. Despite these issues, wind and solar power were each considered by 54% of fund managers to provide attractive investment opportunities.

Outlook for 2011

Despite the challenges faced by the cleantech industry, capital garnered for private equity funds solely focused on cleantech investment has risen from $0.2bn in 2004 to a peak in 2009 of $8bn. This increase in fundraising displays the continued growth in appetite for returns possible from disruptive, game-changing technologies and the opportunity to contribute to future global energy security through sustainable means. Our studies of both LPs and GPs indicate that 2011 is set to continue the trend of increased interest and investment in cleantech private equity.

Attracting LP Capital in 2011

Fundraising for private equity funds in 2011 looks set to be even more competitive than it has been in previous years. A considerable 1,644 funds are on the road at present, seeking aggregate commitments of more than $661bn.

Many firms postponed their next fundraise with the aim of waiting until both investor confidence in the asset class had increased and LP cash flows had improved. As a result, a lot of managers are set to hit the road with their latest offerings in 2011, and new vehicles are expected to be launched by a number of big-name private equity firms, including the Carlyle Group, Apax Partners, 3i, Bain Capital and TPG, to name but a few.

With conditions so competitive, GPs may have to significantly adjust their fundraising plans; strategies that were successful in securing capital for previous vehicles may no longer be sufficient in the current climate.

Weeding Out GPs

Managers returning to the market after a hiatus of three or more years are set to encounter very different fundraising conditions. LPs have become far more discerning in their investments and are approaching the asset class more cautiously than before. A German asset manager recently told us, "[2011] will be a very interesting year because we'll see a few big names come back to fundraising and it will be interesting to see if they can attract as much capital as they did in the past."

Many LPs are anticipating a lot of consolidation in the industry, with, as a US endowment told us, "poor GPs being phased out due to an inability to raise new funds." A US family office anticipated undertaking a "substantial weeding out" of GPs in its portfolio this year. LPs have therefore not only remained highly selective and cautious when making new commitments to funds, but they are also set to discontinue many of their relationships. Strategy drift, staff turnover and uncompetitive fee structures are all issues that are prompting some LPs to consider ending relationships in 2011, in addition to the more obvious problem of poor performance.

GPs returning to market may also find that their existing LPs intend to make smaller commitments to funds than they have in the past, regardless of how well a GP has performed. Pennsylvania State Employees' Retirement System, for example, recently cut its long-term private equity target allocation from 25% of total assets to 15%. It committed $30mn to ABRY VII in March 2011, less than the $50mn it committed to ABRY VI and the $45mn it committed to ABRY V.

Fig. 6: Proportion of LPs Currently Investing That Are Considering Establishing New Relationships with GPs in the Next 12 Months

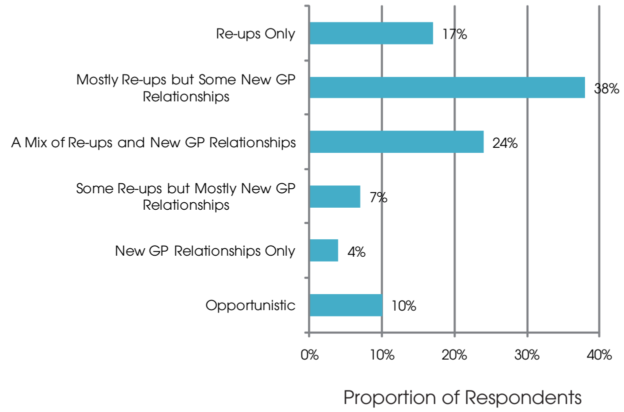
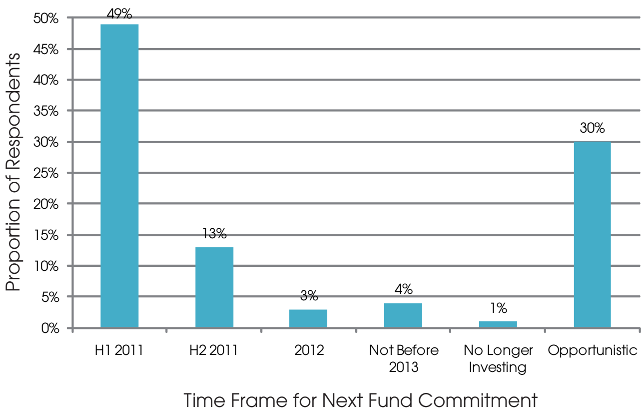


Fig. 7: Investors' Time Frame for Next Intended Commitment to a Private Equity Fund - December 2010 Survey



Securing LP Commitments

GPs need to be prepared to increasingly look beyond previous sources of funding to be in with a chance of raising new vehicles. Fortunately, a considerable proportion of investors are open to forging new relationships with fund managers in the year ahead. Fig. 6 shows a breakdown of the responses of more than 350 LPs spoken to over the past few months that were asked about their plans for re-ups and establishing new GP relationships for their next investments. Nearly three-quarters of LPs (73%) informed us that they were open to forging new relationships with GPs within the following 12 months. An additional 10% were uncertain as it would depend upon the quality of opportunities they were presented with.

A considerable proportion of existing investors in the asset class are set to actively commit to private equity funds in 2011. Fig. 7 shows the expected timeframe of the next intended commitment to a private equity fund of respondents to our December 2010 LP survey. At that time, 62% of the LPs we interviewed were planning to commit to at least one fund during 2011 and a further 30% had not finalized their plans at that time so may end up committing to funds this year.

Newcomers to the Market

Preqin keeps track of investors planning to make their maiden investments in the asset class, and there is clearly still a significant fresh supply of capital coming into the market. A US endowment told us, “There will be some LP turnover, with some LPs re-assessing risk and leaving the market, while new entrants and existing LPs commit more as they feel returns will be greater.”

Garanti Securities is an example of an investor currently considering investing in private equity. It expects to complete its study into the asset class at some point in 2011. RiverRock Group, a US family office, is also considering gaining its maiden exposure to the asset class and may make commitments to private equity funds if it is presented with attractive opportunities to invest.

What LPs Are Looking For

Fund terms and conditions have remained an important area of interest for LPs in the past year, with investors being keen to ensure they are offered competitive fee structures and that they are better informed on where the capital paid in fees is used. Nearly half (46%) of LPs interviewed for our December 2010 LP survey felt that there had been a shift in prevailing terms in their favour over the past six months, as shown in Fig. 8. LPs are keen to take advantage of this shift in the balance of power to secure more LP-friendly terms and conditions, a fact that GPs re-entering the market in 2011 need to be aware of.

LPs are also looking for GPs to meet certain other criteria. A UK private sector pension fund told us that “funding private equity investments with high levels of debt is no longer a viable option. Private equity firms need to roll up their sleeves and get stuck in, making improvements and adding value to companies.” Greater transparency is also mentioned frequently by LPs as important.

Although the financial crisis affected investors’ confidence when making new investments, private equity portfolios have generally lived up to their expectations. As Fig. 9 shows, 88% of respondents to our December 2010 survey felt that their private equity investments had either met or exceeded their expectations.

While investors may be relatively satisfied with their private equity investments as a whole, they are keen to point out the wide variations between those investments that performed well during the financial crisis and those that did not. A Finnish LP told us its investments have “generally performed well, but there have been some great disappointments alongside better performers.” Another LP, a German asset manager, told us, “GPs need to show that they have managed the crisis well.” LPs are keen to see evidence from GPs raising new funds that their last vehicles have performed well despite the challenging market conditions, and are keen to see evidence of recent exit activity.

Fig. 8: LPs’ Experience of Changes in Prevailing Fund Terms in the Past Six Months - December 2010 Survey

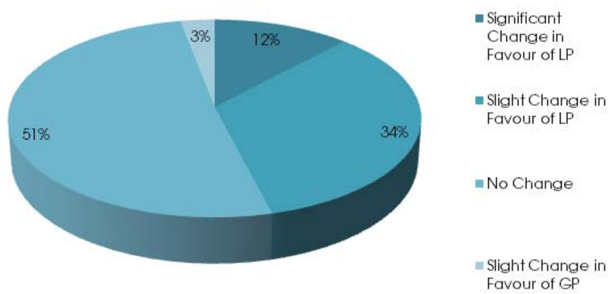
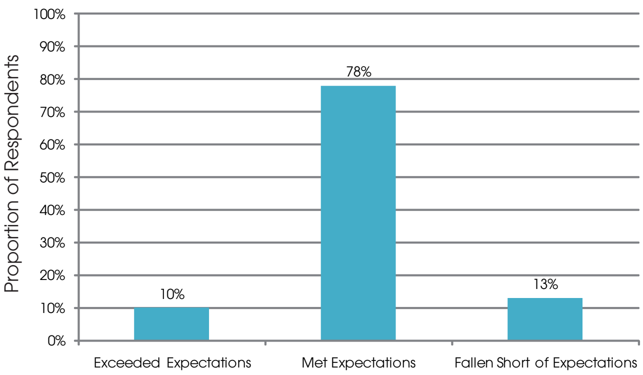


Fig. 9: Proportion of Investors That Feel Their Private Equity Fund Investments Have Lived Up to Expectations - December 2010 Survey



Fundraising in 2011

Conditions for fundraising look set to remain extremely challenging throughout the rest of this year, particularly as many new funds are expected to hit the road in the coming months. LPs are going to be offered a wide choice of funds and it will be difficult for GPs to truly stand out from the crowd, a fact that they must be aware of and prepare for during 2011. GPs preparing to hit the fundraising trail should expect fundraising to take longer and to also have to widen their net, seeking capital from investors in a wider range of locations and identifying those they have not been aware of previously to greatly improve their chances of a successful fundraise.

Fundraising Overview

In Q1 2011, a total of 96 private equity funds worldwide held a final close, raising an aggregate $46.1bn (Fig. 10). This represents the lowest level of quarterly fundraising in the 2004 to Q1 2011 period. These figures would suggest that the fundraising market has not yet fully recovered from the effects of the global financial crisis and conditions still present fund managers seeking investor commitments with challenges.

However, the length of time that funds which closed in Q1 2011 spent on the road is indicative of a more positive trend in the fundraising market. Slightly less than a quarter (22%) of funds that reached a final close in Q1 2011 had been in the market for 7-12 months. The same proportion of fund managers had been attracting capital commitments for 13-18 months, meaning that 44% of funds closed in Q1 2011 managed to conclude their fundraising in 7-18 months, whereas in Q3 2010 - a period that raised nearly $30bn more than Q1 2011 - 48% of fund managers took between 19 and 30 months to complete their fundraising efforts. This suggests that, despite aggregate capital commitments for Q1 2011 being at a depressed level, there is improving sentiment amongst investors toward the asset class. Additionally, over 100 funds in market held an interim close during the quarter, having raised more than $26bn towards their overall targets.

Buyout funds garnered the most capital in Q1 2011, with $12.6bn being raised by 20 such funds (Fig. 12). This figure is the lowest amount of capital raised by buyout funds since Q4 2004, when 37 funds raised $11.9bn. The second-largest amount of capital raised in Q1 2011 was accounted for by venture funds, which raised a combined $9.4bn. Venture funds were the most abundant fund type in terms of number of funds, with 27 vehicles closing in the quarter. Fig. 13 shows details of the 10 largest funds to close during Q1 2011.

Preqin's Funds in Market database contains details of over 1,600 private equity funds on the road seeking capital, plus information on every vehicle that has closed since 2003. For more information about this product and how it can assist you, please visit: www.preqin.com/fim

Fig. 10: All Private Equity Fundraising by Quarter, Q1 2004 - Q1 2011

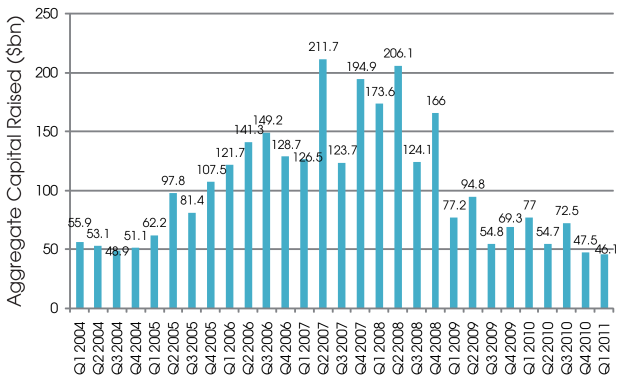


Fig. 11: Time Spent on the Road for Funds Closed in Q1 2011

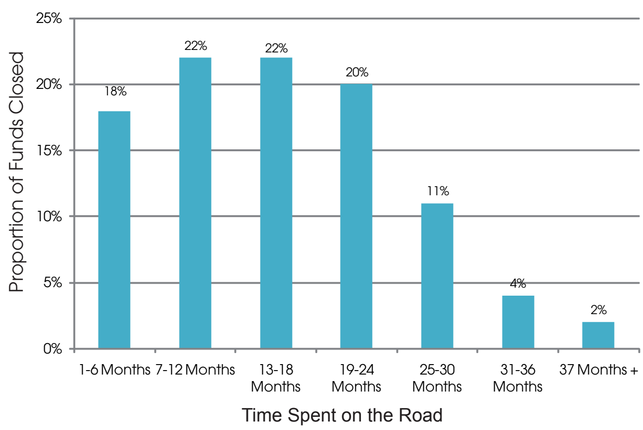


Fig. 12: Private Equity Fundraising by Type, Q1 2011

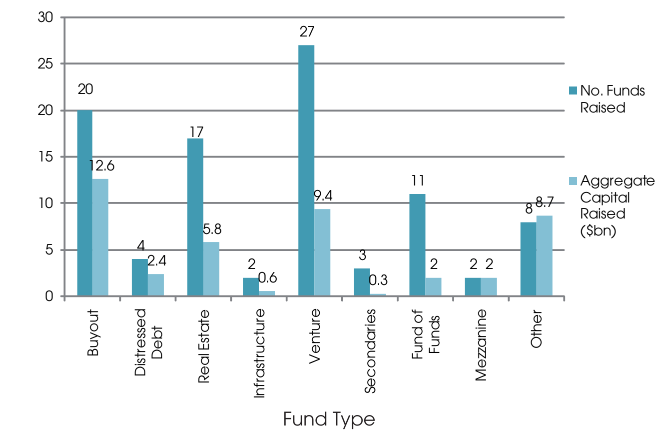


Fig. 13: Top 10 Funds Closed during Q1 2011 by Final Close Size

Fund	Firm	Type	Final Close Size (mn)	Manager Location	Fund Focus
EnCap Energy Capital Fund VIII	EnCap Investments	Natural Resources	3,500 USD	US	US
Golder Thoma Cressey Rauner X	GTCR Golder Rauner	Buyout	3,250 USD	US	US
Baring Asia Private Equity Fund V	Baring Private Equity Asia	Balanced	2,460 USD	Hong Kong	ROW
Gores Capital Partners III	Gores Group	Buyout	2,064 USD	US	US
Yunfeng Fund	Yunfeng Capital	Early Stage	10,000 CNY	China	ROW
Blackstone Real Estate Special Situations Fund II	Blackstone Group	Real Estate	1,500 USD	US	US
InSight Venture Partners VII	InSight Venture Partners	Venture (General)	1,500 USD	US	US
Astorg V	Astorg Partners	Buyout	1,050 EUR	France	Europe
Sequoia Capital 2010	Sequoia Capital	Early Stage	1,358 USD	US	US
Park Square Capital II	Park Square Capital Partners	Mezzanine	850 EUR	UK	Europe

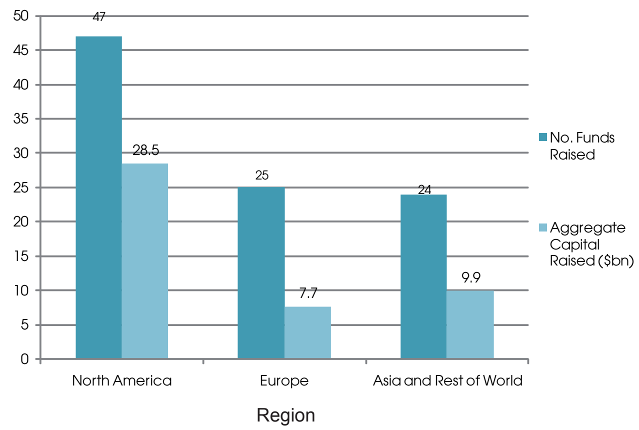
Regional Fundraising

Of the 96 funds that reached a final close in Q1 2011, 49% are primarily focused on deploying capital in North America. Such funds account for 62% of aggregate capital raised in the opening quarter of 2011. This is a similar proportion of total capital that was raised by funds with a focus on North American investment in the previous quarter. Asia and Rest of World-focused funds raised the second-largest amount of capital in Q1 2011, whereas in the previous quarter European-focused funds raised more capital than their Asia and Rest of World counterparts.

As seen in Fig. 14, 47 funds that completed their fundraising efforts in Q1 2011 have a primary geographic focus on North America. Despite the number of funds recorded to have reached a final close in this quarter being considerably less than the 72 funds which closed in the previous quarter, the change in aggregate capital raised was negligible. North America-focused funds raised $28.5bn in Q1 2011, compared to the $29bn that was garnered in Q4 2010. The number of Europe-focused funds to reach a final close also decreased this quarter, with 25 funds completing the fundraising process in Q1 2011 compared to the 40 that closed in Q4 2010. These funds raised less capital than in the previous quarter and accounted for a smaller proportion of total capital raised in Q1 2011 than their equivalents in Q4 2010; $7.7bn representing 17% of the global total as compared to $10.2bn representing 21% in Q4 2010.

Similarly, the number of Asia and Rest of World-focused funds reaching a final close also decreased this quarter; however, capital raised by such funds did increase along with their proportion of total capital raised globally. 45 funds with a primary focus on investment in Asia and Rest of World closed in Q4 2010, raising an aggregate $8.4bn, which represented 18% of capital raised in the quarter. In Q1 2011, the $9.9bn collected by 24 funds accounted for 22% of total global capital raised.

Fig. 14: Private Equity Fundraising by Primary Geographic Focus, Q1 2011



Buyout and Venture Fundraising

An aggregate $12.6bn was raised by the 20 buyout funds that closed in Q1 2011, as shown in Fig.15. In comparison to Q4 2010, these figures represent a drop of 13% in the number of funds closed and a fall of 17%, or $2.6bn, in the aggregate capital raised.

The largest buyout vehicle to close in Q1 2011 was Golder Thoma Cressey Rauner X. The fund, which focuses on making investments in financial services, healthcare, information services and technology companies in the US, closed above its $3bn target on $3.25bn. Another fund that closed above its target was the second-largest buyout fund to close in the quarter: Gores Capital Partners III. This vehicle, which is managed by Gores Group and focuses investment in a wide range of industries, targeted $1.5bn but had raised just over $2bn by the time it made its final close in January 2011.

The number of venture funds reaching a final close in Q1 2011 stood at just over half the number of venture vehicles that closed in Q4 2010, with 27 such funds closing in Q1 2011 compared to 52 in Q4 2010. Despite this, the aggregate capital raised by venture funds in Q1 2011 was 21% higher than it had been in Q4 2010, when such vehicles garnered an aggregate $7.8bn in capital commitments.

Yunfeng Fund was the largest venture fund to reach a final close in Q1 2011. The China-focused fund was raised through two parallel funds. Each parallel fund, denominated in CNY and USD respectively, contributed 50% of the total fund size of CNY 10bn (approx. $1.51bn). The second largest venture vehicle to close in Q1 2011 was InSight Venture Partners VII. It held a final close in January 2011, surpassing its original $1.4bn target and raising a total of $1.5bn.

Fig. 15: Private Equity Buyout Fundraising by Quarter, Q1 2008 - Q1 2011

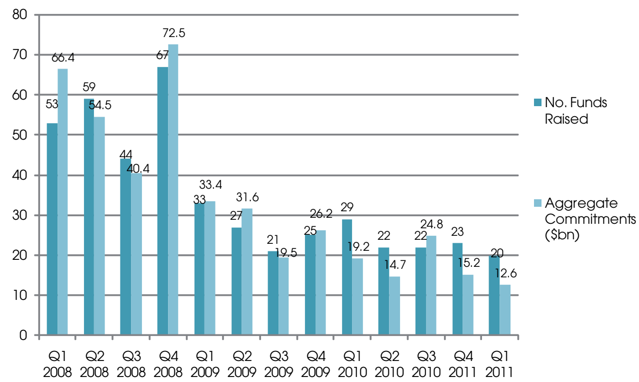


Fig. 16: Private Equity Venture Fundraising by Quarter, Q1 2008 - Q1 2011

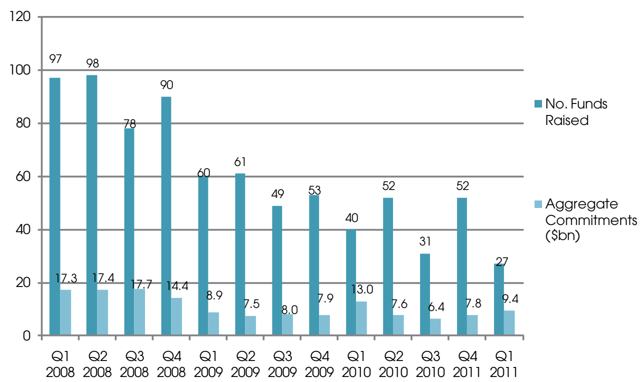


Fig. 17: Five Largest Buyout Funds Closed in Q1 2011

Fund	Fund Manager	Size (mn)
Golder Thoma Cressey Rauner X	GTCR Golder Rauner	3,250 USD
Gores Capital Partners III	Gores Group	2,064 USD
Astorg V	Astorg Partners	1,050 EUR
Birch Hill Equity Partners IV	Birch Hill Equity Partners	1,040 CAD
Snow Phipps Fund II	Snow Phipps Group	613 USD

Fig. 18: Five Largest Venture Funds Closed in Q1 2011

Fund	Fund Manager	Size (mn)
Yunfeng Fund	Yunfeng Capital	10,000 CNY
InSight Venture Partners VII	InSight Venture Partners	1,500 USD
Sequoia Capital 2010	Sequoia Capital	1,358 USD
KKR China Growth Fund	Kohlberg Kravis Roberts	1,000 USD
Everstone Capital Partners II	Everstone Capital	550 USD

Private Equity Fundraising: Other Types

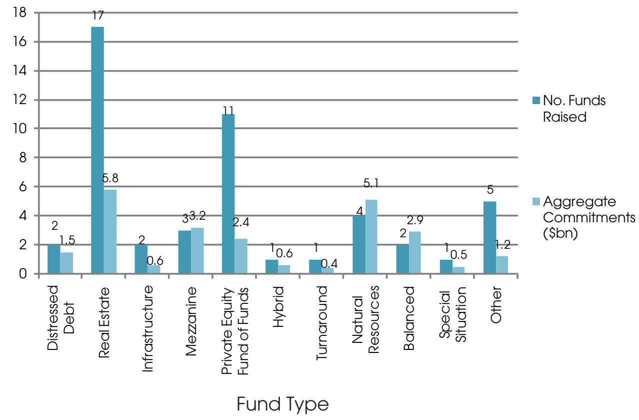
Just over half of private equity capital raised in Q1 2011 was committed to fund types other than buyout and venture. Of these other vehicles, natural resources and real estate funds raised the most capital.

As shown in Fig. 19, the four natural resources funds that reached final close in the quarter raised an aggregate $5.1bn. As well as raising more capital in Q1 2011 than in Q4 2010, natural resources funds accounted for a slightly larger proportion of total global private equity capital raised during the quarter, collecting 11% in Q1 2011 as compared to the 10% in Q4 2010. EnCap Energy Capital Fund VIII was the largest natural resources fund to close in Q1 2011, exceeding its original $2.5bn fundraising target to reach a size of $3.5bn.

Two balanced funds raised a combined total of $2.9bn compared to the $158mn raised by the two balanced funds that closed in Q4 2010. This total was largely due to the final close of the Asia and Rest of World-focused Baring Asia Private Equity Fund V, which finished fundraising in February having garnered $2.46bn in capital commitments. The fund features in Fig. 22, which shows the ten largest funds to close in Q1 2011, excluding buyout and venture funds.

Following EnCap Energy Capital Fund VIII and Baring Asia Private Equity Fund V, Blackstone Real Estate Special Situations Fund II was the next largest non-buyout or venture fund to close in Q1 2011. It reached a final close on $1.5bn and is one of two real estate funds to feature in Fig. 20.

Fig. 19: Private Equity Fundraising (Excluding Buyout and Venture Funds) by Fund Type, Q1 2011



Of the three mezzanine funds to feature in the largest funds list for the quarter, Park Square Capital II is the largest. Park Square works with financial sponsors in transactions ranging from the mid-market to the largest buyouts.

Fig. 20: 10 Largest Funds (Excluding Buyout and Venture Funds) Closed in Q1 2011

Fund	Fund Manager	Fund Type	Size (mn)
EnCap Energy Capital Fund VIII	EnCap Investments	Natural Resources	3,500 USD
Baring Asia Private Equity Fund V	Baring Private Equity Asia	Balanced	2,460 USD
Blackstone Real Estate Special Situations Fund II	Blackstone Group	Real Estate	1,500 US
Park Square Capital II	Park Square Capital Partners	Mezzanine	850 EUR
Portfolio Advisors Private Equity Fund VI	Portfolio Advisors	Private Equity Fund of Funds	1,100 USD
Catalyst Fund III	Catalyst Capital Group	Distressed Debt	1,000 USD
Audax Mezzanine Fund III	Audax Group	Mezzanine	1,000 USD
Morgan Stanley Credit Partners	Morgan Stanley Private Equity	Mezzanine	956 USD
Merit Energy Partners H	Merit Energy Partners	Natural Resources	912 USD
Vornado Capital Partners	Vornado Realty Trust	Real Estate	800 USD
Partners Group Global Infrastructure 2009	Partners Group	Infrastructure Fund of Funds	500 EUR

Mid-Market Funds Connect With Investors

In December 2010, Preqin undertook a study of institutional investors' attitudes towards different private equity fund types. The purpose was to find out which fund types LPs believed offer the best opportunities, and to establish the areas in which they were seeking to invest during 2011. The majority of respondents (56%) felt that small to mid-market buyout funds offered the best investment opportunities, while just 12% of investors saw large to mega-market funds as attractive.

The disparity in investors' current appetite amongst buyout fund size groups suggests that an individual fund's experience and success in the market could differ significantly from that of its larger or smaller counterparts. The various sizes of buyout funds also attract different types of institutional investors and have different fundraising goals.

To investigate the buyout fund environment further, we have analyzed the success of the various fund sizes in achieving their fundraising goals in terms of average time spent in market seeking capital, and their ability to realize target fund sizes.

As seen in Fig. 21, mid-market funds have been the most successful in exceeding their fundraising goals, with 58% of such vehicles that closed in the period 2009 - Q1 2011 doing so above target. In contrast, 25% of mega funds surpassed their fundraising target in the same period. Additionally, just 26% of small buyout funds exceeded their respective fundraising targets. Mega and small funds were also the most likely to fall short of their original targets.

The differences in the buyout fundraising market can also be highlighted by comparing the average time that funds spent on the road. All things considered equal, those funds that are considered more attractive by institutional investors should close more quickly than less popular counterparts. As shown in Fig. 22, mega-market vehicles spent the longest amount of time on the road, taking an average of 21.5 months to reach final close, whereas mid-market funds took just 16.9 months. Small buyout funds also took an average of more than 20 months.

The above results suggest that investors in buyout funds over the past couple of years have preferred to invest in the mid-range buyout funds, rather than those at the extremities of the size scale, i.e. small and mega funds.

Fig 21: Percentage of Target Achieved by Buyouts Funds Closed in 2009 - Q1 2011

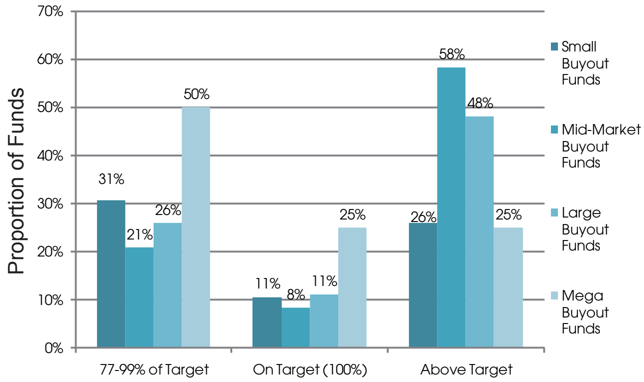
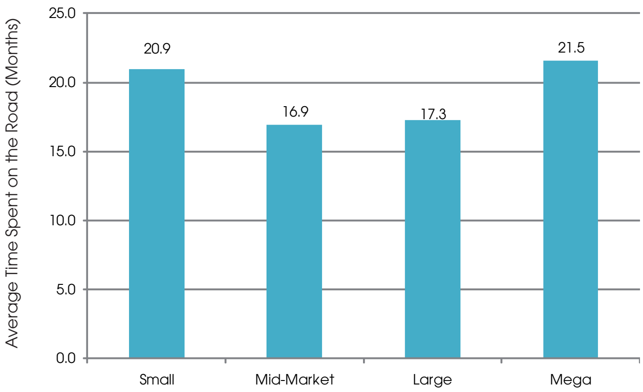


Fig 22: Average Time Spent on the Road for Buyout Funds Closed in 2009 - Q1 2011



Funds on the Road Overview

The start of 2011 saw the most private equity funds on the road for a year and a half, coupled with the highest aggregate capital targeted by funds in market for over half a year. Going into Q2 2011, both the level of capital sought by private equity firms and the number of funds in market has increased still further, with 1,644 funds on the road collectively targeting $661bn. This represents an increase of almost 10% in the aggregate targeted capital since the start of the year, and is the fourth quarter-on-quarter increase in both the number of funds raising capital and the total aggregate capital targeted by funds on the road.

Fig. 23 displays the change in the number of funds on the road and aggregate capital targeted at the start of each quarter since Q1 2009. Since the start of Q3 2010, the number of funds in market has grown steadily, increasing by 8% over the period.

As shown in Fig. 24, the largest proportion of funds will primarily focus on investments in North America, with 751 such vehicles targeting an aggregate $322bn. These funds account for 46% of all funds on the road and almost half of the aggregate capital being targeted. Funds that primarily focus on North America also have the largest average fund size out of all funds in market, with the average fund target standing at $429mn, compared to $424mn for Europe-focused funds and $345mn for Asia and Rest of World-focused funds.

Asia and Rest of World-focused funds are targeting the second-largest amount of capital, with 506 vehicles seeking $175bn in investor capital, accounting for 31% of the number of funds in market and 26% of the total aggregate targeted capital. There are currently 387 primarily Europe-focused funds on the road targeting an aggregate $164bn in capital commitments. These funds account for 25% of the global targeted capital and 23% of the number of funds on the road.

The two largest funds currently in market are Blackstone Real Estate Partners VII and KKR North American XI, both of which are targeting capital commitments of €10bn. Blackstone Real Estate Partners VII is a global opportunistic real estate fund, whereas the latter invests in buyout opportunities in mature, large-cap firms across North America.

Fig. 23: Funds in Market by Quarter, Q4 2008 - Q2 2011

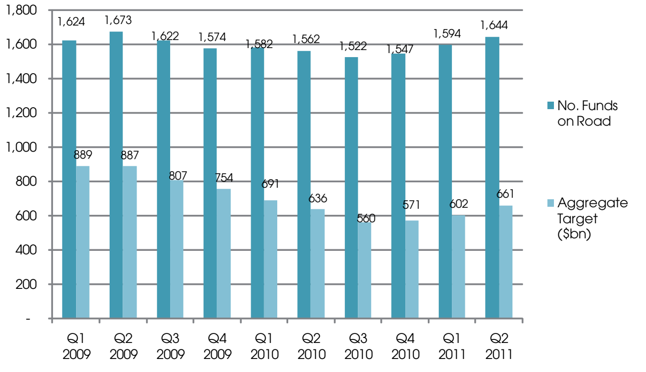
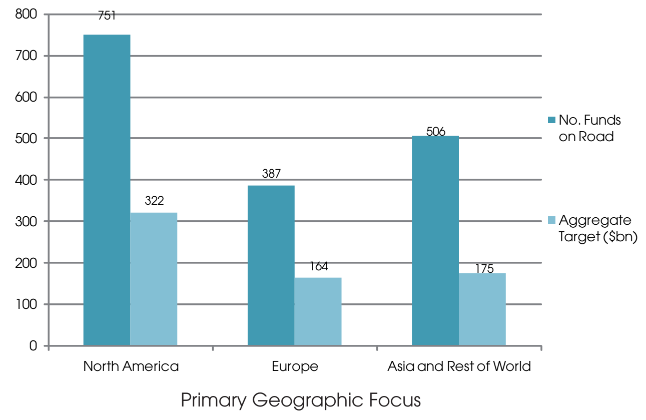


Fig. 24: Composition of Funds in Market by Primary Geographic Focus



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Funds on the Road by Type

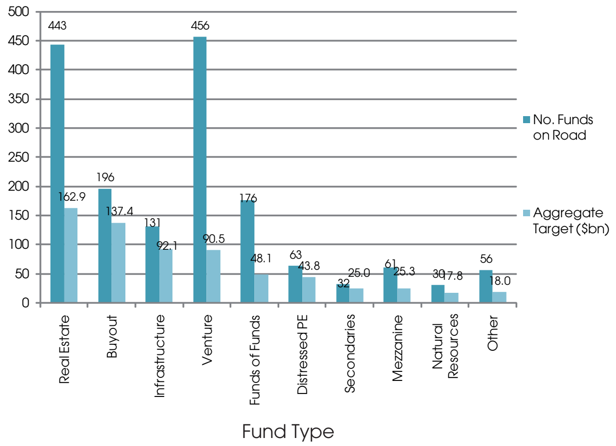
Real estate funds are targeting the largest amount of capital of all funds on the road, accounting for 25% of all the commitments currently being sought by private equity funds in market, as shown in Fig. 25. Going into Q2 2011, there are 443 private equity real estate vehicles on the road targeting an aggregate $163bn in capital commitments.

Buyout and infrastructure funds have the second and third-largest aggregate targets, with 196 buyout funds looking to raise $137bn and 131 infrastructure funds seeking $92bn in capital commitments. The two fund types account for 21% and 14% respectively of the aggregate target of all funds on the road.

Venture funds are the most numerous type of fund on the road, with 456 such vehicles currently in market accounting for 28% of the total number of funds currently fundraising. Venture funds are targeting the fourth-largest amount of capital, with an aggregate target of $91bn. The Shanghai Financial Sector Investment Fund is the largest venture capital fund currently on the road, seeking a total of CNY 20bn ($2.9bn) in commitments. The fund predominantly targets start-up firms in China, with a main industry focus of the financial services sector, but will consider other venture opportunities across development-orientated sectors such as manufacturing and natural resources.

Funds of funds, distressed private equity funds, and secondaries funds all account for significant proportions of the private equity funds on the road. There are 176 funds of funds currently in market targeting $48bn, which represents 7% of the capital sought by all funds currently raising. Distressed private equity funds account for 7% of the total targeted capital, with 63 funds in market seeking $44bn. Secondary funds account for 4% of all capital targeted, with 32 such funds looking to raise $25bn. Distressed debt funds alone have the largest average target size of all funds in market, with an average target of just over $1bn.

Fig. 25: Composition of Funds in Market by Type



Preqin's Funds in Market database contains details of over 1,600 private equity funds on the road seeking capital, plus information on every vehicle that has closed since 2003. For more information about this product and how it can assist you, please visit:
www.preqin.com/fim

Fig. 26: 10 Largest Funds in Market

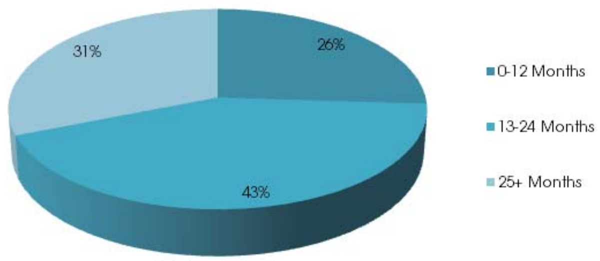
Fund	Fund Manager	Fund Type	Fund Target (mn)	Fund Status	Location Focus	Fund Manager Location
KKR North American XI Fund	Kohlberg Kravis Roberts	Buyout	10,000 USD	Raising	North America	US
Providence Equity Partners VII	Providence Equity Partners	Buyout	8,000 USD	Raising	US, West Europe, North Africa	US
BC European Cap IX	BC Partners	Buyout	6,000 EUR	First Close	Europe	UK
Cinven V	Cinven	Buyout	5,000 EUR	Raising	Europe	UK
Lexington Capital Partners VII	Lexington Partners	Secondaries	6,000 USD	Fourth Close	Global	US
EQT VI	EQT Partners	Buyout	4,250 EUR	Raising	Europe, Nordic	Sweden
Coller International Partners VI	Coller Capital	Secondaries	5,000 USD	Raising	North America, Europe, Asia	UK
Global Infrastructure Partners II	Global Infrastructure Partners	Infrastructure	5,000 USD	Raising	Global	US
Berkshire Fund VIII	Berkshire Partners	Buyout	4,000 USD	Raising	North America	US
Lone Star Fund VII	Lone Star Funds	Real Estate	4,000 USD	Fourth Close	Japan, North America, West Europe	US

Fundraising Future Predictions

There are currently 1,644 funds on the road seeking an aggregate $661bn in capital commitments. To put that in perspective, that equates to a 67% increase in terms of capital sought compared with January 2007, a year when total capital raised over the course of the year reached $653bn – around three times the current pace.

There are two ways of assessing future fundraising trends – from the perspective of the overall market, and from the viewpoint of the individual fund managers on the road seeking capital. From the perspective of the overall market, conditions are starting to brighten. Record levels of exits from existing investments have provided limited partners with fresh funds to plough into new vehicles, and although the final close figures are not yet showing a dramatic rise, the interim close figures hint at a more positive outlook for industry with 110 funds hitting an interim close in Q1 2011, raising an aggregate $26.3bn.

Fig. 27: Split of Time Spent on the Road by Funds Currently Seeking Capital



Delving deeper into the data for Q1, there are signs of increasing investor confidence – especially in Europe, where we have seen two significant interim closes for BC Partners and Montagu, which point to a much brighter future. LPs do have more cash available to invest, and this is reflected in the 54% of investors interviewed that expect to put more capital to work in 2011 than last year.

As a result, we do expect that total capital raised by the industry will start to pick up as we move through 2011, replenishing some of the asset class's firepower which has started to drop in the past couple of years.

Looking at things from the individual firms' perspective reveals a rather different picture. Although investors will be putting more cash to work in 2011, it will certainly not be enough to satisfy the ambitions of the 1,644 funds eager to secure commitments. Q1 2011 saw 156 new managers hitting the road – 60 more than left the marketplace due to funds achieving a final close. Although capital available to LPs has risen, it has failed to keep pace with the increasing supply of vehicles on the road.

What this means for fund managers depends on the fund manager in question: their relationship with existing LPs, past performance and appetite for their strategy. The average time for a fund to raise may be at 16 months, but there is huge variation between the time taken by different managers, with 31% achieving a final close in less than nine months, and nearly 20% taking more than two years. For fund managers to be successful in the current market, the approach to fundraising has to be perfect in terms of positioning, priming investors, getting the terms and conditions right and ensuring that the strategy is compelling. We are also noticing a trend in fund managers increasing their commitments to their own vehicles so they have some real skin in the game.

As Fig. 27 shows, 31% of firms have already been in market for more than two years. In some cases this will be by design, but in most it suggests a protracted effort that is costly and potentially distracting for the GPs in question. It is clear that not all firms seeking capital will be successful in achieving their targets, but if they are to give themselves the best shot it is vital they ensure that they are exhibiting best practice at all stages of their fundraising efforts. For some of the 500 fund managers that have been attempting to collect capital for more than 24 months, there may be difficult decisions ahead in 2011.

Deals and Exits Overview

A total of 623 PE buyout deals were announced in Q1 2011, with an aggregate value of $49.9bn. This represents a 26% decrease from the previous quarter, when 677 deals valued at $67bn were reported. However, Q1 2011 represents a 72% increase on the value of deals witnessed during the same quarter in 2010, when 470 deals valued at $29bn took place.

While the value of deals has seen a notable dip in Q1 2011 from the previous quarter, this is largely due to a lack of large and mega size buyout deals, rather than due to a lack of overall deal flow. Only 11 deals valued at over $1bn and just one valued at over $2.5bn were announced in Q1 2011, in comparison to 15 deals valued at over $1bn and four at over $2.5bn in Q4 2010. With 623 deals announced during the quarter, Q1 2011 is only surpassed by Q4 2010 in terms of the number of deals and Q4 2010 represented the strongest quarter of deal flow since the onset of the financial crisis. As more data comes in, we expect the Q1 2011 number of deals to near the figure seen in Q4 2010.

North American deals represent 45% of the value of deals announced in Q1 2011, with $22.6bn in value reported in the region. This represents a significant 41% decrease in the value of North American deals in comparison to the previous quarter, when $38.3bn in deal value was reported. This is largely due to an absence of large and mega buyout activity during the quarter. European deal value has remained relatively stable, with $17bn announced for the quarter, a slight drop from the $19.7bn announced in Q4 2010. The aggregate value of deals announced for Asia and Rest of World has increased by 15% from the previous quarter, from $8.9bn to $10.3bn in Q1 2011.

In Q1 2011, 254 PE buyout-backed exits valued at $77.2bn were announced, almost matching the levels set in Q4 2010, when 304 exits were valued at $79.7bn, which was the strongest quarter for buyout-backed exits ever. As more data filters through in the coming weeks, it is expected that the value of exits in Q1 2011 is set to surpass the levels seen in Q4 2010, while the number of exits is also set to increase closer to levels seen during the previous quarter. The number and value of buyout-backed exits have increased steadily in recent quarters, attaining record levels at the end of 2010, and these levels of exits are expected to continue as buyout houses begin to exit investments made during the buyout boom era of 2005-2007.

Fig. 28: Number and Aggregate Value of PE-Backed Deals Globally, Q1 2006 - Q1 2011

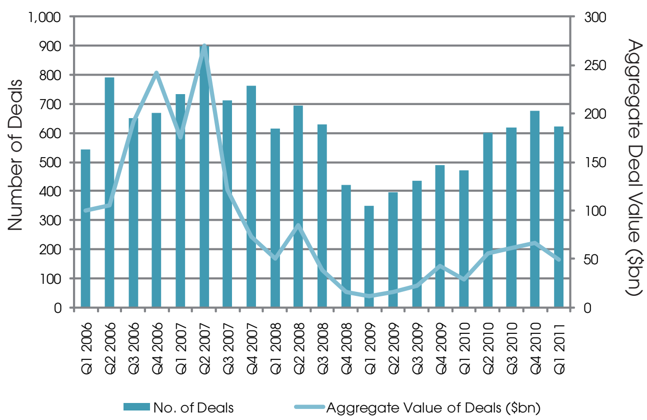


Fig. 29: Aggregate Value of PE-Backed Deals by Region, Q1 2008 - Q1 2011

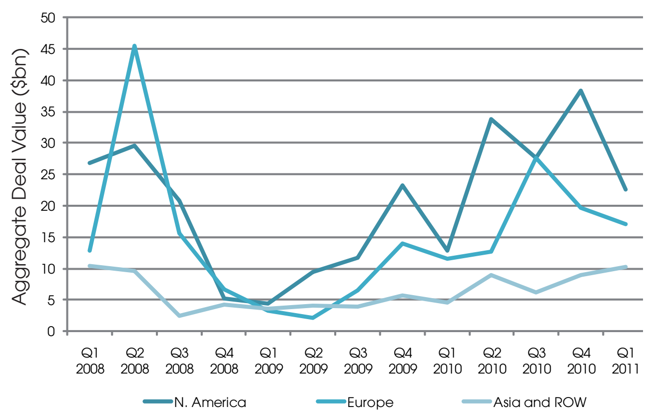
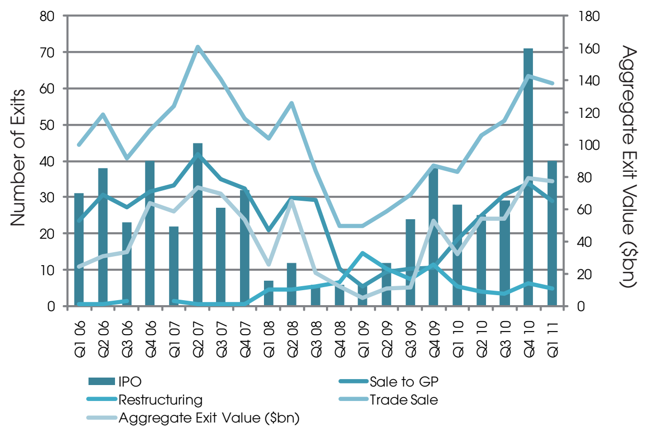


Fig. 30: Number of PE-Backed Exits by Type and Aggregate Exit Value, Q1 2007 - Q1 2011



Deals by Type, Value and Industry

In Q1 2011, just over 60% of the aggregate value of deals and more than 40% of the number of deals were leveraged buyouts. Growth capital deals accounted for 18% of the number and 8% in aggregate value. Public to private and PIPE deals collectively made up 6% of the number of deals but contributed 20% in aggregate value to PE-backed deals globally in the quarter. Notable deals announced in this quarter include: the $3.2bn privatization of Emergency Medical Services by Clayton Dubilier & Rice; the $2.4bn merger of radio broadcasters Citadel Broadcasting and Cumulus Media Inc., which is backed by a consortium of private equity investors including Bain Capital, Blackstone Group, Crestview Partners, and Thomas H Lee Partners; and the A$2.1 billion restructuring of energy giant Alinta Energy by TPG.

During the first quarter of 2011, deals valued at over $1bn represented 6% and 40% of the number and aggregate value of deals announced respectively. When compared to the breakdown of aggregate value over the whole of 2010, the share accounted for by large-cap deals has decreased by six percentage points, with deals valued at over $1bn representing 46% of the value of deals in 2010. Mid-market buyout deals announced in Q1 2011 contributed 21% to the number of deals and 41% to the aggregate value of deals this quarter globally, an increase from 2010 as a whole, when 18% of the number and 36% of the value of buyouts were attributed to mid-market deals in the $250mn-$1bn range. Small-cap deals represented the bulk of deals announced this quarter, with 73% of deals valued at less than $250mn, representing 19% of the aggregate value of deals announced in the first three months of 2011.

PE-backed buyout deal flow in Q1 2011 was highest in the industrials sector, with over a quarter of all buyout deals announced globally and almost a fifth of the global aggregate value of buyouts attributed to deals in the sector. In terms of number of deals, this was followed by the consumer and retail, and business services sectors, which accounted for 16% and 15% of all deals respectively, and 9% each of the aggregate value of deals. Notably, while only 6% of all buyouts in Q1 2011 occurred in the telecoms and media sector, it accounted for a sizeable 17% of the global value of deals, including the announced £700mn buyout of Phones4u by BC Partners from Providence Equity Partners.

Fig. 31: Breakdown of Number and Aggregate Value of PE-Backed Deals by Type, Q1 2011

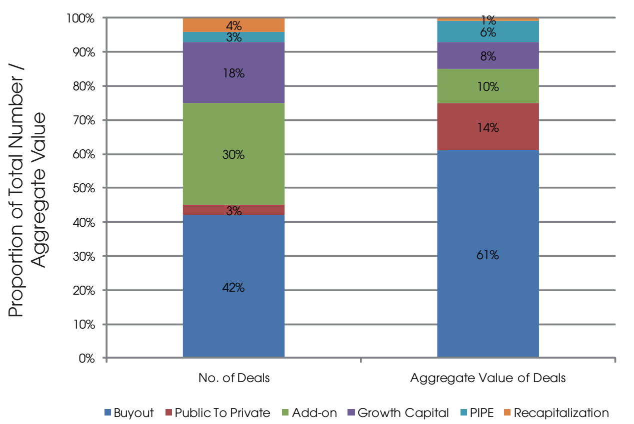


Fig. 32: Breakdown of Number and Aggregate Value of PE-Backed Deals by Value Band, Q1 2011

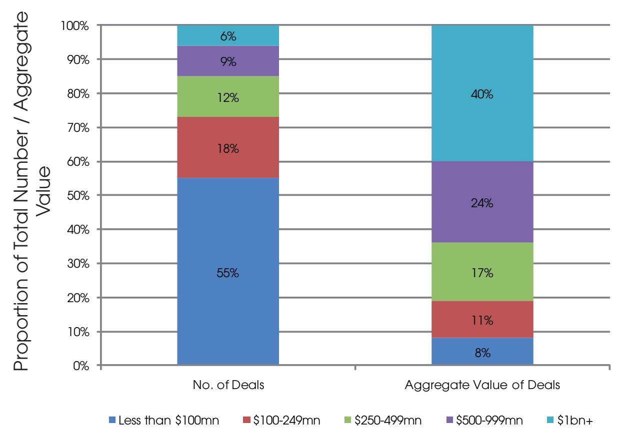
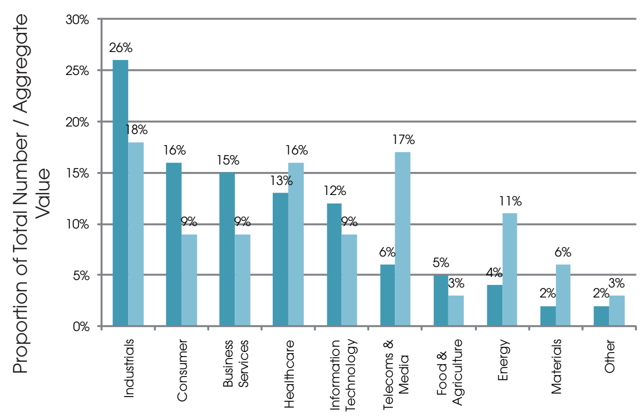


Fig. 33: Breakdown of Number and Value of PE-Backed Deals by Industry, Q1 2011



Largest Deals & Notable Exits

Fig. 34: 10 Largest Buyout PE-Backed Deals Globally, Q1 2011

Name	Date	Type	Deal Size (mn)	Buyers	Sellers	Industry	Location
Emergency Medical Services	Feb-11	Public To Private	USD 3,200	Clayton Dubilier & Rice		Healthcare	US
Citadel Broadcasting	Mar-11	Merger	USD 2,400	Bain Capital, Blackstone Group, Crestview Partners, Cumulus Inc., Macquarie Bank, Thomas H Lee Partners	JP Morgan	Media	US
Alinta Energy	Mar-11	Restructuring	AUD 2,100	TPG		Energy	Australia
Acosta, Inc.	Jan-11	Buyout	USD 2,000	Thomas H Lee Partners	AEA Investors	Marketing	US
Elkem	Jan-11	Add-on	USD 2,000	Blackstone Group, Bluestar	Orkla ASA	Materials	Norway
Ansaldo Energia	Mar-11	Buyout	EUR 1,233	Finmeccanica, First Reserve Corporation		Power	Italy
The Priory Group	Jan-11	Buyout	GBP 925	Advent International	RBS Asset Management	Healthcare	UK
Patni Computer Systems	Jan-11	Buyout	USD 1,220	Apax Partners, iGate	General Atlantic	IT	India
Capio Spanish Hospitals	Jan-11	Buyout	900	CVC Capital Partners	Apax Partners, Nordic Capital	Healthcare	Spain
Phones4U	Mar-11	Buyout	700	BC Partners	Providence Equity Partners	Telecoms	UK

Fig. 35: Five Notable Exits, Q1 2011

Company Name	Date Acquired	Firms Investing	Acquisition Size	Exit Type	Exit Date	Sold To	Exit Size	Industry	Location
Kabel BW	Apr-06	EQT Partners	EUR 1,300	Trade Sale	Mar-11	Liberty Global	EUR 3,160	Telecom Media	Germany
Seven Media Group*	Nov-06	Kohlberg Kravis Roberts	AUD 3,200	Merger	Feb-11	Western Australia Newspaper Holdings Limited	AUD 4,100	Media	US
HCA*	Jul-06	Bain Capital, Citigroup, Kohlberg Kravis Roberts, Merrill Lynch Global Private Equity, Ridgemont Equity Partners	USD 33,000	IPO	Mar-11		USD 3,786	Healthcare	US
Converteam	Nov-05	Barclays Private Equity, LBO France	EUR 2,000	Trade Sale	Mar-11	General Electric	USD 3,200		France
Kinder Morgan, Inc.*	Aug-06	AIG, Carlyle Group, Goldman Sachs Merchant Banking Division, Riverstone Holdings	USD 22,400	IPO	Feb-11		USD 2,865		US

* Denotes a partial exit

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Dry Powder

The amount of dry powder available to fund managers has declined across the entire private equity industry since the financial crisis in 2008. A combination of the slow fundraising seen in Q1 2011 and a recent rise in deal activity has resulted in a decrease of 3% in dry powder levels since Q4 2010.

Fig. 36 displays the amount of dry powder available across all the private equity fund types. It can be seen from the graph that the amount of dry powder available across all fund types has dropped each year since 2008. Buyout funds show the most significant decrease in the level of uncalled capital, with dry powder decreasing by 17% between December 2008 and March 2011. Over the same period, mezzanine funds reported a decrease of 13%, while real estate and venture dry powder levels decreased by 8% and 5% respectively.

Fig. 37 illustrates the geographic split of dry powder. Between December 2008 and March 2011 the uncalled capital available to funds primarily investing in Europe decreased by 14%; North America-focused funds saw a decline of 13%, while dry powder for funds investing in Asia and Rest of World decreased by 9%.

Fig. 38 examines the amount of capital invested and dry powder available to buyout funds of vintages 2005-2010. The median investment period for buyout funds is five years, implying that vintage 2007 and 2008 funds will be approaching the end of their investment periods over the next few years. Vintage 2007 funds will be nearing the end of their investment periods in 2012. These funds currently have $96bn in dry powder to deploy, while vintage 2008 funds have $121bn at their disposal. Fund managers will be keen to use this capital over the next two to three years and this is already evident in the recent increase in deal activity.

Preqin's Fund Manager Profiles product shows current and historic dry powder levels across the global private equity industry, including in-depth analysis by region, fund type and fund size.For more information about this product and how it can assist you, please visit: www.preqin.com/fmp

Fig. 36: Dry Powder by Fund Type, 2003 - 2011, as of March 2011

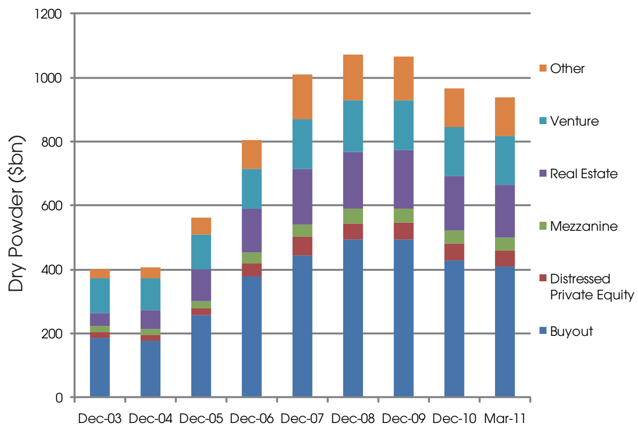


Fig. 37: Dry Powder by Primary Region Focus, 2003 - 2011, as of March 2011

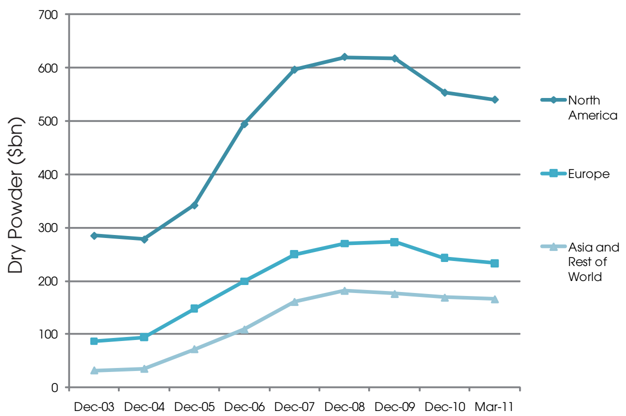
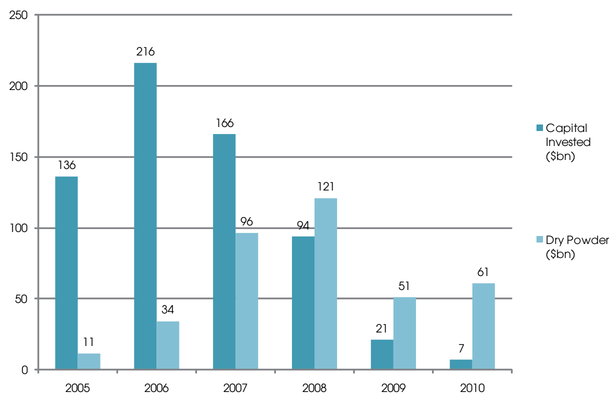


Fig. 38: Buyout Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of 31 March 2011



Performance Update

To provide an independent and unbiased assessment of the industry's performance, Preqin has analyzed the returns generated by private equity partnerships as of 30 September 2010, using data from Performance Analyst. Preqin currently holds transparent net-to-LP performance data for over 5,300 private equity vehicles of all types and geographic focus. In terms of aggregate value, this represents around 70% of all capital 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

Fig. 39 shows the one-year change in net asset value (NAV) as at each quarter end from December 2009 to September 2010. The latest figures show an average return over the year to September 2010 of 12.0% for the non-weighted metric and 14.4% for the weighted metric. The weighted metric takes into account fund sizes, suggesting that the larger funds in the industry increased in value more than the smaller funds. It should be noted that larger funds had previously been more affected by the financial crisis than smaller funds.

The quarterly weighted change in NAV by fund type is shown in Fig. 40. Q3 2010 data shows that all the private equity fund types reported an increase in valuation: buyout funds reported an increase of 3.5%, fund of funds 2.9%, mezzanine 1.3%, secondaries 2.0% and venture 2.1%. Overall, the private equity industry has shown a quarterly increase of 1.5% for September 2010.

Fig. 41 examines the horizon IRR of all private equity funds over the one-, three- and five-year periods and the returns achieved by three public indices across the same timeframe through September 2010. The overall private equity horizon IRR for the one-year period stands at 16%, for the three-year period at -2.2%, and for the five-year period at 13.7%. Over the three- and five-year periods, returns for all private equity and MSCI Emerging Markets are broadly similar, with the two significantly outperforming the S&P 500 and MSCI Europe. In the year to September 2010, MSCI Emerging Markets posted 20.2%.

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.

Fig. 39: Average Change in NAV for All Private Equity

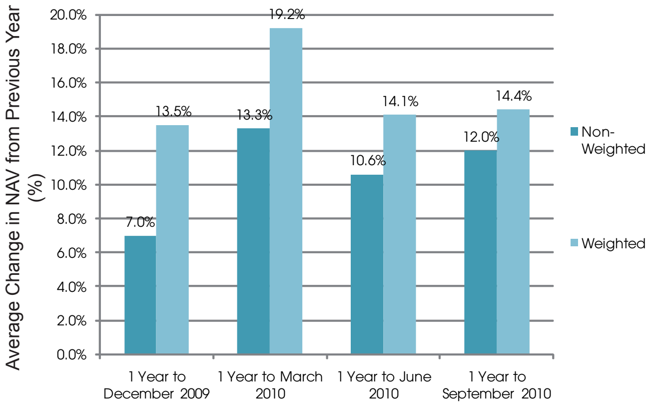


Fig. 40: Weighted Quarterly Change in NAV by Fund Type

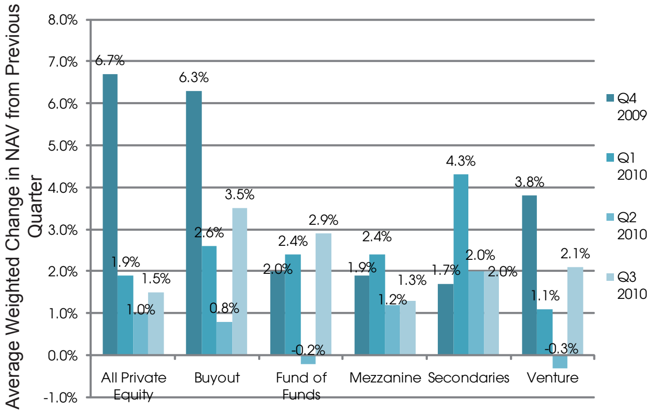
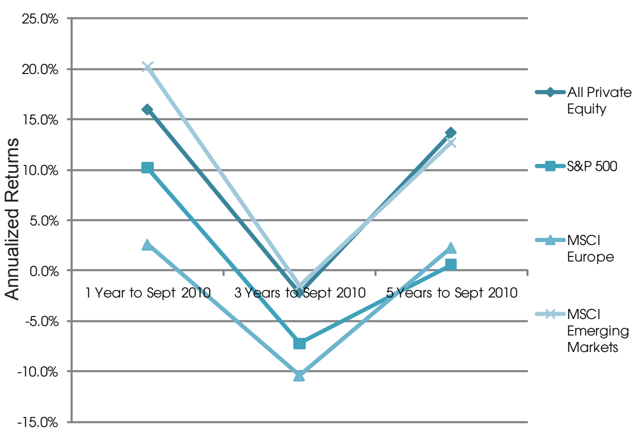


Fig. 41: Private Equity Horizon IRRs vs. Public Indices as of 30 Sept 2010



Sovereign Wealth Funds in Private Equity

During 2009-2010 many sovereign wealth funds (SWFs) were called upon to make up the fiscal shortfalls of governments caused by the financial crisis; however it would appear that the period of government-made withdrawals from SWF accounts has come to an end. 2010-2011 saw the total aggregate value of all SWFs globally increase to $3.98 trillion, up from $3.59 trillion in the previous year.

In this time, SWFs have increasingly sought exposure to private equity as a means of diversifying their investment portfolios. As shown in Fig. 42, the proportion of SWFs investing in private equity increased to 59% from 55% during the last year. In addition to this increase, a further 9% of all SWFs are currently considering setting a maiden allocation to the asset class.

Of those currently investing in the asset class, 47% invest in private equity funds while a further 12% make direct investments only. A key feature of SWF fund investors, and evidence of their sophistication and resources in assessing opportunities, is a willingness to co-invest alongside funds in which they are limited partners – around 43% of SWF private equity fund investors are interested in such opportunities.

Fig. 43 shows that 96% of SWFs investing in private equity have a preference for buyout funds. This is understandable given the huge assets under management of some SWFs, since buyout funds tend to receive much larger commitments than other types of private equity funds. Korea Investment Corporation (KIC), for example, typically commits $100 million to individual private equity funds, which is more than the entire target size of many funds of other types.

Almost two-thirds of SWFs investing in private equity funds seek investments in venture funds, particularly those with a domestic development mandate. In the wake of the financial crisis, many SWFs were attracted to distressed and turnaround funds, with 40% seeking investments in funds pursuing these strategies. One example is Ireland's National Pensions Reserve Fund, which invests via a 20-25% allocation to special situations and distressed debt investments.

Similar proportions of SWFs have regional preferences for private equity investments in North America, Europe and Asia, with around 80% of funds investing in the asset class stating each as a preference. Just under half prefer MENA-based private equity, with most of those themselves based in the region.

SWFs were an active investor type in the private equity market throughout 2010 and indications are they will be again in 2011, both as direct and as fund investors. The number of such institutions investing in private equity appears to be increasing year-on-year, and of those that already invest in the asset class, a number are diversifying and broadening their portfolios. Many SWFs have taken advantage of opportunities that have arisen during the financial downturn, and it is expected that distressed private equity and turnaround funds will continue to be areas of focus for investment by SWFs in 2011.

Fig. 42: Proportion of Sovereign Wealth Funds Investing in Private Equity

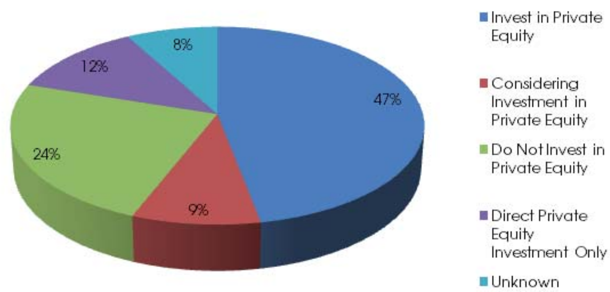
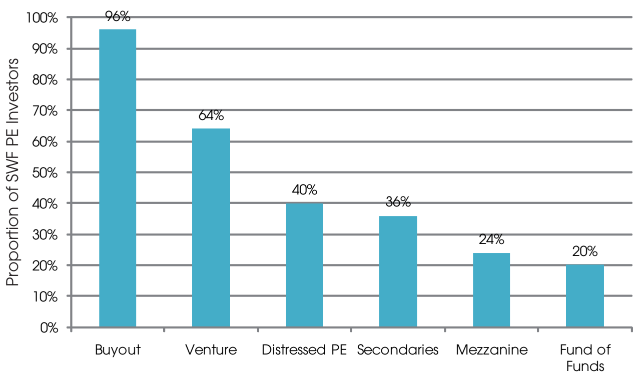


Fig. 43: Fund Type Preferences of Sovereign Wealth Funds Investing in Private Equity



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