Preqin Research Report

Private Equity Performance Report
Fund Performance Data as of Q3 2009

March 2010

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Private Equity • Real Estate • Hedge Funds • Infrastructure

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Using data from Preqin's Performance Analyst, Preqin has analysed the returns generated by private equity partnerships as at 30 September 2009 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 4,900 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 65% of all capital ever raised.

For more information on Performance Analyst, the private equity industry's leading source of fund performance data, please visit:

www.preqin.com/pa

1. Private Equity Horizon IRR

1.1. Private Equity Returns vs. Public Indices

The overall private equity horizon IRR for the one-year period to September 30th, 2009 stands at -9.2%, an improvement on the -24.1% posted as at June 30th, 2009. The one-year returns for the Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were -6.9%, 1.6% and 19.0% respectively. Over the three-year period, the private equity horizon IRR is 3.6%, while the figure for the five-year period stands at 20.0%.

It should be noted, however, that comparisons with public markets need to be viewed with caution as private equity remains an illiquid investment class, and horizon returns are therefore not as relevant as they are for listed equities.

1.2. Horizon IRR by Fund Type

Private equity returns improved between June and September 2009, but all private equity strategies are still posting negative one-year returns as at Q3 2009. With a horizon IRR of -17.1%, mezzanine is the worst performer, followed by fund of funds with a horizon IRR of -12.0%. Buyout funds are posting one-year returns of -11.2%, still deeply in the red but a significant improvement on the -28.0% posted in Q2 2009.

Private equity three-year horizon IRRs are in positive territory for all types of fund, varying from 1.0% for fund of funds to 6.5% for mezzanine. Long-term returns remain strong, with private equity posting an annualized 20.0% over the five-year period to September 30th, 2009. Buyout funds are posting the strongest returns over the five-year period, with a horizon IRR of 25.4%

Fig. 1.1:

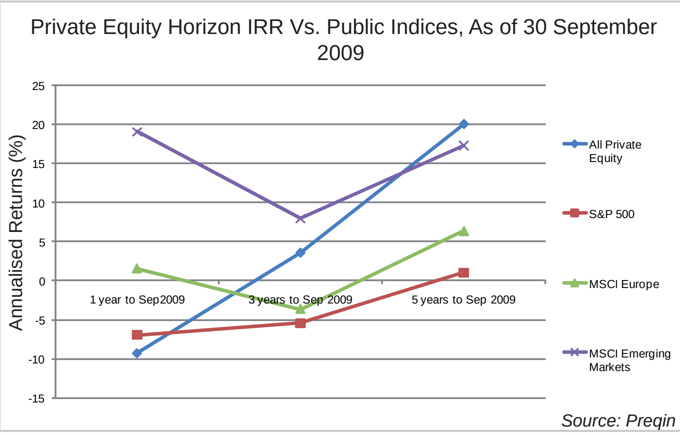

Fig. 1.2:

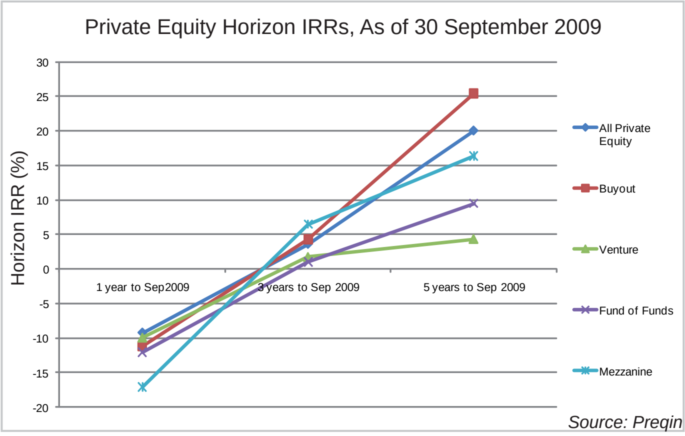

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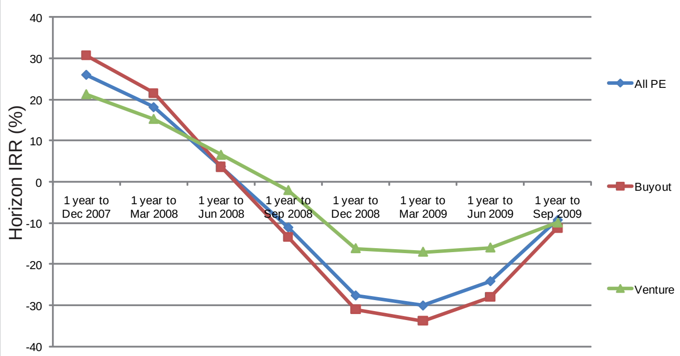
Fig. 1.3:

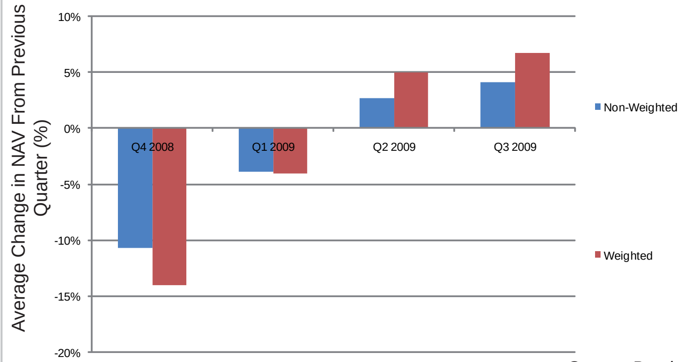
Rolling One-Year Horizon IRRs



Source: Preqin

Fig. 2.1:

All Private Equity Change in NAV by Quarter



Source: Preqin

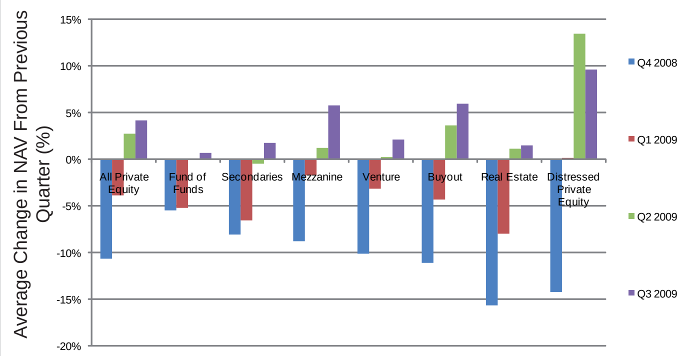
1.3. Rolling One-Year Horizon IRRs

Private equity returns have changed significantly over the last couple of years. The one-year horizon IRR for all private equity, which stood at 26% in December 2007, rapidly decreased during the following quarters. It became negative, during Q3 2008, reaching -11% in September 2008, and reached its lowest point, -30%, in March 2009. As of September 2009, the one-year return remains negative but has improved quite significantly from previous quarters, moving from -30% in March 2009 to -24% in June 2009 and -9% in September 2009.

Rolling one-year horizon IRRs for buyout funds are very similar to those of the private equity industry as a whole. Venture capital funds, which were outperforming the buyout sector from September 2008 to June 2009, are posting similar one-year returns as of Q3 2009.

Fig. 2.2:

Change in NAV by Fund Type



Source: Preqin

2. Change in Net Asset Value

2.1: All Private Equity Change in NAV by Quarter

Fig. 2.1 illustrates the weighted change against the non-weighted change in net asset value from the previous quarter. The weighted change takes into account the fund size, showing the impact of the larger funds in the industry. The weighted change between Q4 2008 and Q3 2009 shows that larger funds were the most affected by the financial crisis. In both Q2 and Q3 2009 the weighted change in NAV was more significant than the non-weighted change. In Q3 2009, there was a 6.7% increase in the weighted NAV from the previous quarter, suggesting that larger funds are beginning their recovery.

Fig. 2.3:

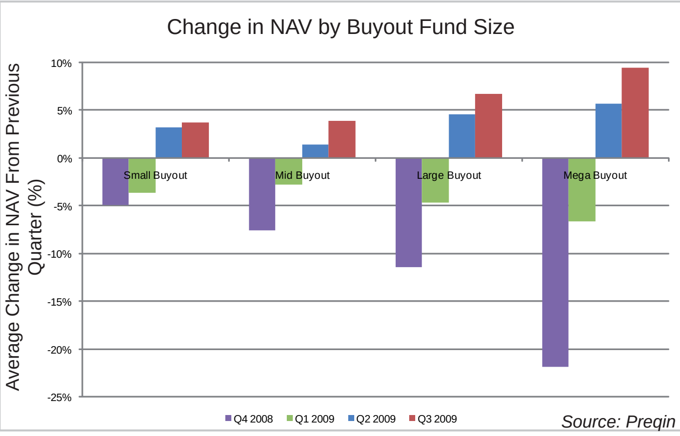
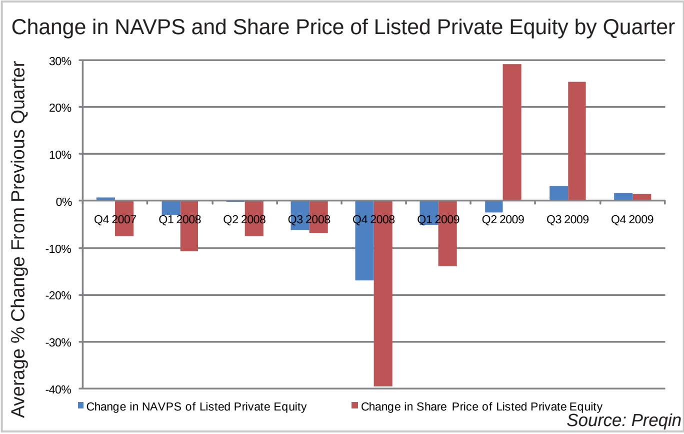


Fig. 3.1:



2.2: Change in NAV by Fund Type for Q4 2008 to Q3 2009

Fig. 2.2 illustrates the non-weighted changes in NAV and shows that, across the industry, NAV increased in Q3 2009.

Most noticeably, distressed private equity funds are posting the highest quarter-on-quarter increase: 9.6%. Buyout funds are showing an increase of 5.9%, while mezzanine funds posted an increase of 5.7%. Private equity real estate, a strategy particuarly affected by the subprime crisis, posted a modest increase of 1.4%. Both primary and secondary funds of funds show marginal increases: 1.7% and 0.7% respectively. Due to the reporting schedules of underlying funds, there is often a quarter lag in the fund valuations for multi-fund strategies.

2.3: Quarterly Change in Buyout NAV by Fund Size

The large levels of capital being raised by mega buyout funds in recent years has led to the performance of the private equity industry as a whole being strongly influenced by these funds. By classifying funds according to their size, it is possible to analyse the role of the larger buyout funds in the industry. Fig. 2.3 shows that funds of all sizes are posting an increase in their portfolio valuations for September 2009. Funds classified as mega buyout are showing the largest change, with fund managers marking up their valuations by an average 9.4% in Q3 2009. Large buyout funds are posting an increase of 6.7% for Q3, followed by mid and small buyout funds with quarterly increases of 3.9% and 3.7% respectively.

3. Listed Private Equity: Trends & Developments

The performance of listed private vehicles is comparable to that of the unlisted sector. Listed private equity funds are traded daily and publish their financial reports earlier than their unlisted counterparts therefore by analysing their latest performance figures we can predict how traditional private equity will perform in Q4 2009. Preqin analyses performance metrics for approximately 100 listed private equity vehicles.

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

Quarterly changes in net asset value for unlisted and listed private equity are strongly correlated. As with traditional private equity, net asset value per share (NAVPS) saw little change in Q4 2007, Q1 2008 and Q2 2008. In Q3 2008, listed private equity vehicles saw the value of their portfolio companies drop and listed private equity

NAVPS dropped by 17%. NAVPS continued to decrease in Q1 and Q2 2009 before they began their recovery in Q3 2009.

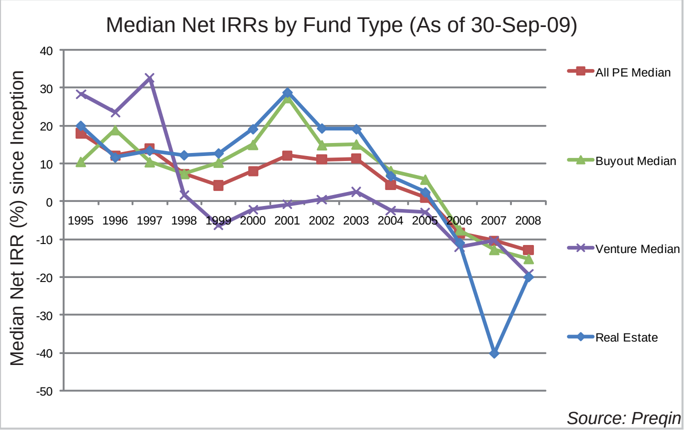
Quarterly changes in share prices fluctuate greatly over the period shown, but reflect the trend shown by NAVs during this time. Share prices dropped dramatically in Q4 2008, posting a decline of 39.6%, but they recovered over Q2 2009 and Q3 2009, posting increases of 29.2% and 25.4% respectively. For the quarter ending 31 December 2009, both share prices and NAVPS are posting positive but relatively small quarterly increases.

4. Median Net IRRs since Inception (Data as of September 2009)

4.1: Median Net IRRs by Fund Type (As of 30 September 2009)

Fig. 4.1 shows the benchmark median net IRRs for the main private equity strategies by vintage year, illustrating that most types of funds have performed well historically. With a 32.6% median IRR, venture funds of vintage 1997 generated the best median return for the period observed. The second and third best median returns have been produced by funds with a 2001 vintage: real estate funds have generated 28.8%, while buyout funds have a median IRR of 24.2%. Venture funds with this vintage are in the red however, after the effects of the technology crash. The returns for 2006 vintage funds and onwards are closely grouped together, particularly for the most recent vintages. 2007 and 2008 vintages are showing the effects of the credit crisis, with all median IRRs in negative territory. It must be emphasized that these funds are still relatively early in their fund lives and their performance could improve over time as underlying investments mature and are realized.

Fig. 4.1:

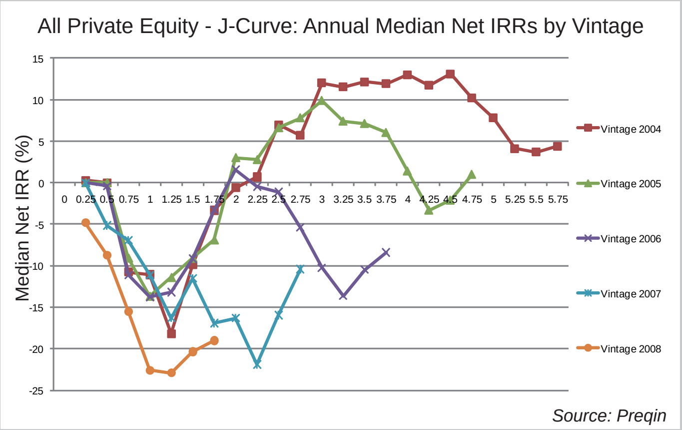


Source: Preqin

4.2: J Curves

Private equity IRRs should usually follow a J-curve trajectory, with returns being negative in the early years of a fund's life, increasing over time as investments are exited, and then stabilizing in the final years of the fund's life. The financial crisis has distorted these J-curves so that some could now be better described as W-curves. Fig. 4.2 shows private equity J-curves by plotting the median net IRRs of recent vintages for each quarter end. The graph demonstrates that, across most recent vintages, private equity IRRs decreased from September 2008, reaching their lowest point in Q1 2009. Funds of these vintages will have been actively investing when asset prices were at their highest and their investments have been severely affected since. These funds are still in the early stages of their life span but many will find it difficult to fully recover and offer attractive returns to their investors.

Fig. 4.2:



Source: Preqin

Conclusion

Private equity saw one of its most turbulent periods beginning with the subprime mortgage crisis in 2007, followed by the collapse of Lehman Brothers a year later, and the ensuing market instability, which persisted into the first quarter of 2009. The private equity industry was further affected by introduction of new accounting principles ensuring fund managers value their portfolios using fair value methodology, and caused private equity funds to suffer from steep devaluations. With the release of September 2009 data, it can be seen the industry is recovering as valuations continue to increase on the gains made in H1 2009. As anticipated with the rally seen in the public markets in September 2009, private equity funds have seen their performance improving producing another quarter of increased NAVs. This is an encouraging sign for the industry that was severely affected by the financial crisis and the implementation of FASB 157.

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 six main areas:

- Fund Performance
- 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 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**

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