Press Release – Immediate Release **12th January 2010**

The Death of the Mega Fund?

Mega Buyout Fund Returns at –31.4% for Year to 2009;
Mid-Market Funds Less Affected at –16.7%, Small Buyout Funds at –12.9%

The effects of the changing credit market and global economic downturn on different areas of the buyout industry can now be seen through examining the performance of different sized vehicles since the onset of the financial crisis in the third quarter of 2008.

In order to conduct the analysis Preqin used fund-level performance data taken from Preqin Performance Analyst Online – the world's most comprehensive source of buyout, venture and other private equity performance, with fund level metrics for 4,880 vehicles with a combined value of $2.81tn (70% of all funds ever raised by value), including 1,184 buyout funds with a total value of $1.31tn.

The funds were split by size into small (≤$500mn), mid-market ($501-$1,500mn), large ($1,501-$4,500mn) and mega (>$4,500mn) in order to fully evaluate the effects on different sectors within the industry.

The results in full can be seen on the factsheet accompanying this release

Important statistics include:

- Mega buyout funds are now providing the worst returns over the one-year (-31.4%) and three-year periods (-3.1%). Their five-year returns are significantly better, at +23.9%.
- Large buyouts are the second-worst performing fund type, returning +23.7% over five years, +9.9% over three years and -24.4% over one year.
- Mid-market buyout funds are the strongest performers over five years (+29.3%), and are the second-highest performers over three years (+12.2%) and one year (-16.7%).
- Small buyout funds have performed the best over one year (-12.9%) and three years (+18.6%), and the worst over five years (+21.5%).
- Mega buyout funds were most affected following the onset of the credit crisis, with fund values falling by -9.1% in Q3 2008 and by -21.9% in Q4 2008.
- All areas of the industry saw a drop in valuations since Q3 2008. However, it appears that the bottom has now been reached, and fund valuations are improving across the board. Mega buyout funds actually saw the highest increase in value in Q2 2009 (5.7%).
- By fund vintage year, small and mid-market buyout vehicles are the better performers for the most recent vintage years of 2004 – 2006. For vehicles launched in 2000 – 2003, mega buyout funds tend to be the higher performers. Mid-market funds have performed consistently well.
- Despite recent encouraging signs, there is evidence that LPs are far less keen to invest in mega-sized funds than in the past. In Preqin's survey of 100 leading investors in private equity conducted in December 2009, just 9% indicated that they would be investing in mega buyout funds in 2010. In contrast 53% indicated a preference for small and mid-sized funds.
- Similarly, investors were asked if there were any fund types in which they had been previously active that they were now avoiding. 37% indicated that they would now be avoiding mega buyout funds after previously having invested in them, with just 5% responding that they would be avoiding small and mid-market funds.

Comment:

Our analysis shows that while the effects of the financial crisis have been felt across the whole of the buyout industry, it is the very largest funds that have been most affected. The data shows a significant narrowing between equity capital being spent by buyout firms and the total deal value, suggesting a drop in the levels of leverage being used to finance deals. With the very largest firms being heavily reliant upon highly leveraged deals, it is unsurprising that the economic downturn is affecting this sector the most.

With many banks much more risk averse than in the past, it has been impossible for the bigger firms to achieve financing using the same kind of leverage as in previous years. Not only has financing for new deals been an issue, but financial management for existing investments has also presented a major worry. Banks have been focusing on bolstering their balance sheets, and have been unwilling to accept write-downs or forgive breaches of loan covenants set during more prosperous times, making it extremely challenging to restructure financing for existing portfolio investments. As a result, investors are far more hesitant to commit to the largest funds than in the past, with mid-market and smaller buyouts funds currently providing more appeal.

However, there are some positive signs. There have been some recent successes from big buyout firms in the fundraising market, such as Hellman and Friedman with an $8.8bn fund, and Clayton Dubilier and Rice with a $5bn fund. There are also indications that the market for new deals is also improving, with the value of deals done in Q4 2009 ($34.6bn) being the highest since the onset of the financial crisis, and over double that of Q3 2009 ($17bn). With fund valuations now starting to improve, and with debt markets beginning to improve, we would expect that the mega-buyout market will bounce back, and will remain an important sector in the industry. However, it will be some time before the kind of fundraising and deals activity seen in 2006 – 2007 are once again attained.

Tim Friedman, Spokesman

The results in full can be seen on the factsheet accompanying this release

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

Note to Editors:

- Please note that Preqin has completely replaced Private Equity Intelligence as the official company name.
- Preqin is spelled without the letter 'U' after the 'Q'.

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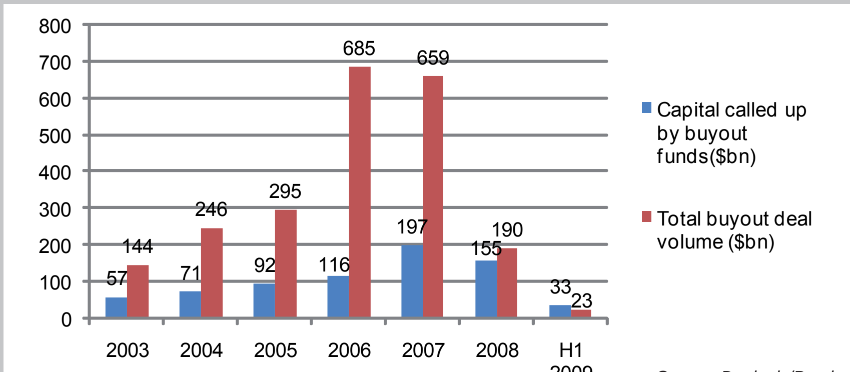
Preqin Research Report

Performance of Mega, Large, Mid and Small Buyout Funds

Fig. 1: Amount of Capital Called up by Private Equity Firms and Total Deal Volume by Year: 2003 – 2009 (First Half)



Source: Dealogic/Preqin

Fig. 2: Buyout Fund Horizon IRRs by Size as at 30 June 2009

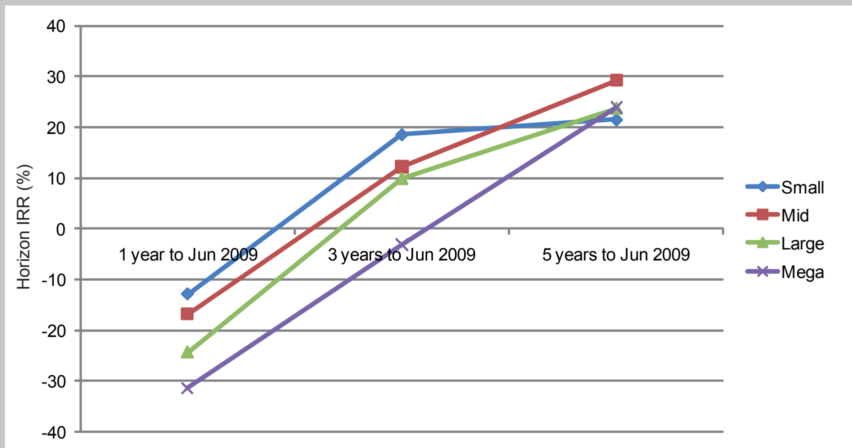


Fig. 1 shows the amount of capital called up by private equity firms from their investors during the course of each year, and the total deal volume by year, for 2003 – H1 2009 (deal volume data provided by Dealogic for years 2003 - 2008). The graph suggests that use of leverage was at its highest in 2006, while in H1 2009 firms were spending capital on existing portfolio investments, causing the called-up figure to be higher than the deal volume figure.

The five-year returns of buyout funds to June 2009 in all size groups are strong, with IRRs of over 20% for most groups, rising to nearly 30% for mid-market buyout funds, as shown in Fig. 2. The spread of three-year returns amongst the different size groups is much more pronounced, with mega buyout funds posting a negative IRR while small buyout funds show positive returns of 18.6%. One-year returns for all groups of buyout funds to June 2009 are negative, with mega buyout funds again the worst performers, with -31.4%, and small buyout funds again were relatively less impacted, with -12.9% IRR.

Fig. 3 shows the percentage change in net asset value from the previous quarter of buyout funds in each size group. Having posted the largest quarter-on-quarter declines in NAV in each of the three previous quarters, mega buyout funds posted the largest percentage gain for Q2 2009 at 5.7%, while large buyout funds posted an increase of 4.5% from Q1 NAV.

Fig. 4 shows median IRRs for each buyout fund size group by vintage year, confirming that small buyout funds have been the best performers for the most recent vintages shown. For vintages prior to 2004, mega and mid-market funds have generally performed the best.

In 2009, 84 buyout funds raised an aggregate $102.2bn, down from the 213 funds that raised an aggregate $233bn in 2008. Six mega buyout funds closed in the year, raising a total of $46bn, much less than the $113bn raised by 11 mega funds in 2008. Just over half of all buyout funds closed in 2009 were in the smallest fund size range of less than $500mn, but they represented only about 10% of the aggregate committed capital.

Definition used for Mega; Large; Mid; Small Buyout:

	Small	Mid	Large	Mega
Vintage 97-04	≤ $300mn	$301-750mn	$751-2,000mn	> $2,000mn
Vintage 05-08	≤ $500mn	$501-1,500mn	$1,501-4,500mn	> $4,500mn

Fig. 3: Change in NAV by Buyout Fund Size

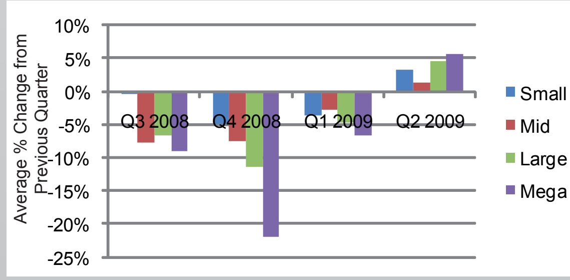


Fig. 4: Median IRR by Buyout Fund Size as at 30 June 2009

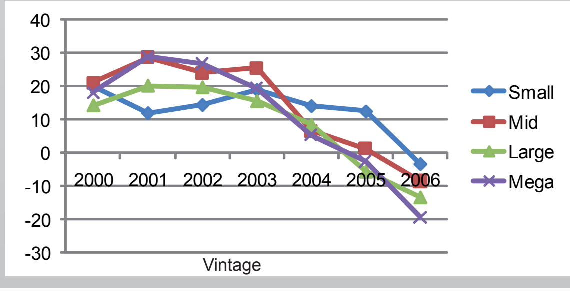


Fig. 5: Buyout Funds Raised by Fund Size: 2007 – 2009