

Measuring Private Equity Performance

Vintage Year - The year of first draw down of capital for investment purposes, which generally coincides with the first year of a partnership's term. **The year in which a private equity fund makes its first investment using LP capital.**

Capital Commitment - Investors in a private equity fund commit to investing a specified sum of money in the fund partnership over a specified period of time. **This amount should exclude the GP contribution to the fund.**

Capital Calls/Draw Down - When a PE firm decides to make an investment, it will approach the LPs in order to draw down their money. This is the actual act of transferring the committed capital. This amount should **include management fees.**

$$\text{Called up (\%)} = \frac{\text{Total LP Contribution}}{\text{Total LP Commitment}} \times 100$$

Called-up: measure of the cumulative LP capital invested relative to the total capital committed by the LPs

Capital Distribution –These are the returns that an investor in a private equity fund receives. It is the income and capital realised from investments less expenses and liabilities. Once a limited partner has had their cost of investment returned, further distributions are actual profit. This amount should **exclude any carry/performance fees earned by the GP.**

$$\text{Distributed (\%)} = \frac{\text{Total LP Distribution}}{\text{Total LP Contribution}} \times 100$$

Distribution to Paid-In (DPI): measure of the cumulative investment returned to the investor relative to invested capital.

Fair Value/Market Value – A valuation that represents the amount at which an asset could be acquired or sold in a transaction between willing parties. Also referred to as Ending Market Value, Net Asset Value or Residual Value. **This amount should exclude any carry/performance fees earned by the GP and include a provision of carry for unrealized investments.**

$$\text{Rem.Value (\%)} = \frac{\text{Unrealised Value of Fund}}{\text{Total LP Contribution}} \times 100$$

Residual Value to Paid-In (RVPI): measure of how much of the investors' capital is still tied up in the equity of the fund.

Multiple (X) reveals how many times investors have, or are likely to get their money back and make a profit from their investments. It is the sum of the Residual value of the portfolio plus distributed capital.

$$\text{Multiple (X)} = \frac{\{ \text{Distribution (\%)} + \text{Value (\%)} \}}{100}$$

Internal rate of return (IRR) = This is the most appropriate performance benchmark for private equity investments. In simple terms, it is a time-weighted return expressed as a percentage. IRR uses the present sum of cash contributed, the present value of distributions and the current value of unrealised investments and applies a discount. **This amount should exclude any carry/performance fees earned by the GP and include a provision of carry for unrealized investments.**

Preqin: Performance Ratios - Fund Example

Example:

The following example simulates how to calculate the performance ratio for a fund with the following characteristics:

Total LP Commitment= USD 10,000,000

Total Capital Called to Date = USD 1,455,000

Total Distribution to Date = USD 750,000

Unrealised fair value = USD 1,190,000

As of Date: 30-Jun-2009

Explaining the Called-Up Ratio:

Called-up (%): is a measure of the cumulative capital invested (including management fees) relative to the total capital committed

$$\text{Called up (\%)} = \frac{\text{Total LP Contribution}}{\text{Total LP Commitment}} \times 100$$

The called-up ratio in this example would be calculated as follows:

Total capital called to date **including management fees** = 1,455,000

Fund Size = 10,000,000

$$\text{Called-up (\%)} = \frac{1,455,000}{10,000,000} \times 100$$

Called-up (%) = 14.6

Explaining the Distribution to Paid-In (DPI %) Ratio:

Distribution to Paid-In (DPI %): measure of the cumulative investment returned to the investor relative to invested capital.

$$\text{Distribution (\%)} = \frac{\text{Total LP Distribution}}{\text{Total LP Contribution}} \times 100$$

The distribution to paid-in ratio in this example would be calculated as follows:

Total Distributions to Date = 750,000

Total Capital Called = 1,455,000

$$\text{Distribution to Paid-In (DPI \%)} = \frac{750,000}{1,455,000} \times 100$$

Distribution to Paid-In (DPI %) = 51.5



Explaining the Remaining Value to Paid-In (RVPI %) Ratio:

Remaining Value to Paid-In (RVPI %): measure of how much of the investors' capital is still tied up in the equity of the fund.

Note: Portfolio valuations should be carried out in accordance with IFRS; GAAP; FAS 157 and/or International Private Equity and Venture Capital (IPEVC) guidelines.

$$\text{Remaining Value to Paid-In (RVPI \%)} = \frac{\text{Unrealised Value of Fund}}{\text{Total LP Contribution}} \times 100$$

Then the remaining value to paid-in ratio in this example would be calculated as follows:

Unrealised fair value = 1,190,000

Total Capital Called = 1,455,000

$$\text{Remaining Value to Paid-In (RVPI \%)} = \frac{1,190,000}{1,455,000} \times 100$$

Remaining Value to Paid-In (RVPI %) = 81.8

Explaining the IRR (Internal Rate of Return):

Internal rate of return (IRR): This is the most appropriate performance benchmark for private equity investments. IRR uses the present sum of cash contributed, the present value of distributions and the current value of unrealised investments and applies a discount. Assuming that the transactions for this fund were as following - the net IRR can be calculated on **Excel** using the cash flow data:

Transaction Type	Transaction Date	Transaction Amount
Capital Call	14-Jan-06	- 100,000
Capital Call	25-Jan-06	- 105,000
Capital Call	16-Feb-06	- 100,000
Capital Call	17-Jan-06	- 175,000
Management Fees	31-Mar-06	- 10,000
Capital Call	16-Apr-06	- 100,000
Capital Call	25-Jun-06	- 105,000
Capital Call	16-Sep-06	- 100,000
Capital Call	25-Nov-06	- 175,000
Management Fees	31-Dec-06	- 10,000
Capital Call	16-Apr-07	- 100,000
Capital Call	20-Sep-07	- 100,000
Distribution	15-Nov-07	250,000
Management Fees	31/12/2007	- 10,000
Capital Call	25/06/2008	- 105,000
Distribution	01/07/2008	300,000
Capital Call	20/09/2008	- 50,000
Management Fees	31/12/2008	- 10,000
Capital Call	19/01/2009	- 100,000
Distribution	16/05/2009	200,000
Unrealised Fair Value	30/06/2009	1,190,000
	Net IRR:	14.0%

IRR: Formula in Excel = XIRR(values, date)

Capital Calls: negative sign; All Management Fees: negative sign;
Distribution: positive sign; Unrealised Fair Value: positive sign

Definition of Vintage Year:

The year of the first draw down of LP capital for investment purposes, which generally coincides with the first year of a partnership's term. Alternatively, the year in which the private equity fund makes its first investment.

Performance Overview:

Using the ratios as calculated above the performance ratios for this fund will be as following:

Fund Name	Vintage	Type	Total LP Commitment (Mn)	Called (%)	Dist. (%) (DPI)	Rem. Value (%) (RVPI)	Net IRR (%)	As-of Date
Sample Fund	2006	Venture	10 USD	14.6	51.5	81.8	14	30-Jun-09