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.

\[
\text{Called up} \% = \frac{\text{Total LP Contribution}}{\text{Total LP Commitment}} \times 100
\]

**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.

\[
\text{Distributed} \% = \frac{\text{Total LP Distribution}}{\text{Total LP Contribution}} \times 100
\]

**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.

\[
\text{Rem.Value} \% = \frac{\text{Unrealised Value of Fund}}{\text{Total LP Contribution}} \times 100
\]

**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.

\[
\text{Multiple (X)} = \frac{\left(\text{Distribution} \% + \text{Value} \%\right)}{100}
\]

**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.
**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.

\[
\text{Called-up} \% = \left( \frac{\text{Total LP Contribution}}{\text{Total LP Commitment}} \right) \times 100
\]

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
- 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.

\[
\text{Distribution} \% = \left( \frac{\text{Total LP Distribution}}{\text{Total LP Contribution}} \right) \times 100
\]

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
- 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.

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

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:

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

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:

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