This report is an excerpt from: **Preqin Quarterly: Private Equity, Q3 2012**. To download the full report please visit: https://www.preqin.com/docs/quarterly/PE/Private_Equity_Quarterly_Q3_2012.pdf

Private Equity Assets under Management Hit $3tn

For the first time ever the aggregate assets under management (AUM) of private equity funds have surpassed $3tn – an important milestone for the industry at a time of heightened regulatory, political and investor scrutiny.

Preqin defines the AUM of a private equity firm as the sum of all uncalled commitments (dry powder) and the market value of the remaining companies in its portfolio. All dry powder figures also include capital that may be used to pay management fees, and as typical private equity funds usually charge 2% annual management fees during their investment periods, more than 10% of a fund's commitments may not be directly used for investment.

As shown in Fig. 1, following relatively lower levels of growth in AUM from 2000 to 2004, between 2004 and 2007, the private equity industry expanded by 136%, driven by the emergence of mega buyout funds and strong fundraising conditions, which led to AUM standing at $2.3tn as of December 2007. Following this 'boom period', however, AUM fell slightly in 2008 due to instability in the global financial markets and falling asset valuations. Since then, however, AUM has begun to increase again and hit the $3tn mark towards the end of 2011. As of 31st December 2011, the total AUM of the private equity industry stood at $3.0tn, an increase of around 9% from December 2010, with just over $1tn in dry powder and just over $2tn in unrealized portfolio value.

Assets under Management by Fund Type

The assets under management by funds of different types as of 31st December 2011 are shown in Fig. 2. Traditionally, buyout firms attract the most capital and correspondingly, they hold the largest assets under management compared to other private equity strategies. At present, such funds hold $392bn in dry powder and $804bn in unrealized portfolio value. In terms of AUM, real estate is the next largest strategy, with $570bn in assets under management, followed by venture capital, with $365bn. Distressed private equity and infrastructure managers have similar assets under management, amounting to $228bn and $216bn respectively, while AUM figures for growth funds stand at $144bn and mezzanine at $119bn.

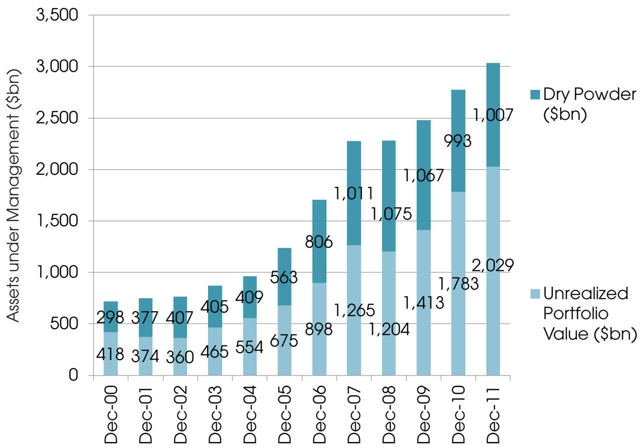
Assets under Management by Vintage Year

Vintage 2011 funds are currently showing the highest levels of available capital, with $296bn in dry powder ready to deploy, while funds of earlier vintage years have less available capital as they are further along in their investment cycles. The funds that were the hardest hit by the financial crisis were vintage 2005-2007 funds and these vehicles represent 56% of unrealized portfolio value within the private equity industry. The majority of these funds' investments would have been made at the height of the credit boom before the financial crisis, representing the time when company valuations would have been at their highest.

Outlook for the Industry

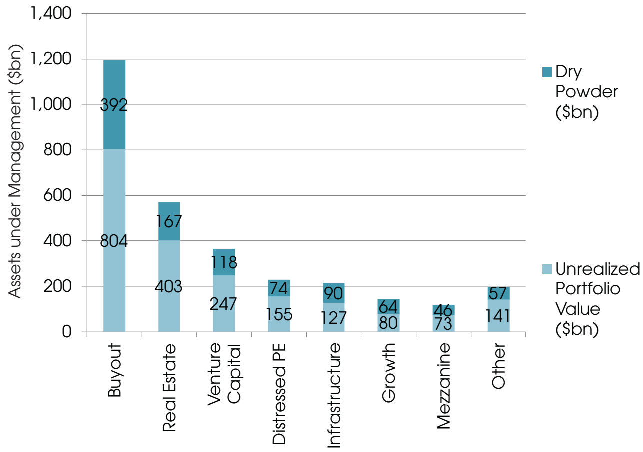
It is positive news for the asset class that despite the challenges faced by many fund managers attempting to raise capital, and overall fundraising levels remaining significantly lower than the 'boom period', the industry has nevertheless grown considerably. At present, two-thirds of the AUM currently held by the private equity industry is accounted for by unrealized investments. Despite this, it is important to note that much of the capital resulting from the sale of these assets will be filtered back into the industry via future commitments as LPs look to maintain their allocation levels to the asset class.

Fig. 1: All Private Equity Assets under Management, 2000 - 2011



Source: 2012 Preqin Private Equity Performance Monitor

Fig. 2: Private Equity Assets under Management by Fund Type



Source: 2012 Preqin Private Equity Performance Monitor