The Preqin Quarterly

Private Equity - Insight on the quarter from the leading provider of alternative assets data

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Q3 2010 OCTOBER 2010

Content Includes....

Consistent Performing Managers

We present our consistent performers ranking for buyout, venture, real estate, funds of funds and other types of firms.

Latest Fundraising Figures and Future Predictions

Fundraising in Q3 2010 was slow but investor sentiment suggests that fundraising will improve significantly in 2011.

Buyout Deals

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Compensation

How have base salaries and bonuses changes since last year?

Q3 Special Guest Contributor: Mounir Guen, MVision

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Editor's Note

As we move into the final quarter of 2010, our data for fundraising and deals hints at further improvement in terms of activity. The $59bn raised worldwide in Q3 represents a 20% rise from Q2, while the $66.7bn in new deals is the largest volume for a quarter since the collapse of Lehman at the end of 2008.

While this data presents cause for cautious optimism, the industry is still a long way from matching the heights of 2006 – 2008, and there is considerable fall-out still to emerge in the wake of the financial crisis. At the beginning of Q4 we have seen a rise in the number of managers on the road, and the aggregate capital being sought by the industry, for the first time since Q1 2009. There are currently 1,547 funds on the road seeking an aggregate $571bn.

While our conversations with institutional investors demonstrate increasing appetite for private equity, there is simply not enough cash to satisfy this high level of supply, and although increasing deal flow is pulling more capital through the private equity cash cycle, it is not yet anywhere near enough to provide the distributions required to satisfy the aspirations of managers on the road. With many investors now looking to maintain fewer relationships, it is clear that many funds on the road are going to struggle and may be set for a long and challenging effort.

We give details for all the latest events in the fundraising market on pages 12-16, for current funds in market on pages 17-18, and provide our predictions for the end of year on page 19. Deals information can be found on pages 20-22.

One especially important factor for institutional investors selecting new investments in the current market is consistency. Which managers have been successful in providing consistently strong returns in a variety of market conditions? In order to shed some light, in this edition of the Quarterly, we present our consistent performers ranking to the public for the first time ever. Please see pages 6-8 for more details.

Our consistent performers ranking is very simple: we look at a universe of fund managers which have raised three or more mature funds, and look at the average quartile placings for their vehicles. We hope that you find this table to be interesting, with some brand name firms and a few lesser known managers also appearing on the lists.

The Preqin Quarterly utilizes data from a variety of Preqin's products and publications in order to give a detailed overview of the latest market conditions. We are also thrilled to have an extended interview with Mounir Guen from leading placement agent MVision which provides further perspectives on the key trends affecting the industry.

We hope that you find the publication to be informative and interesting, and as ever we welcome any feedback and suggestions that you may have for future editions.

Tim Friedman, Editor

MVision

Interview with Mounir Guen, CEO.
Conducted by Tim Friedman, October 2010.

So the third quarter fundraising results are in, and although there have been some notable closes, overall things are still not really picking up. What are you seeing out there on the field?

I'm actually seeing lower levels of activity. There are a lot of partial fundraises happening, with managers holding a close to start investing and stay active, but I'm certainly not seeing what you might call enthusiastic raises. It's true that we have had a bit of a run, with Hitecvision, Gilde and Phoenix all holding successful closings, but we are a long way from seeing a true shift in terms of sentiment.

Do you have any sense of when such a shift might occur?

Here's the dynamic: It takes three to four years for a deep shock to work its way through a private equity portfolio, so to expect a quick rebound is simply unrealistic. The fundamental premise with private equity is that private outperforms public, and yet in markets that have had a deep fall, private is slower to fall and slower to rise from a bottom, meaning investors are more cautious on valuations being used. Plus the whole process is being exacerbated by fund managers utilizing 'ultra' conservative valuations, adopting a policy of under-promising and over-delivering by marking down harder than they should do. These actions are causing serious issues - by marking down some of their portfolios managers have even forced some investors to shut their programs for a couple of years. It's a genuine issue for institutional investors that have ratios to work to.

The true measure of performance in private equity is cash on cash, and with a serious issue being a lack of activity by fund managers on both the investment and exits side, until we get cash-on-cash returns that will drive the balanced movement of capital back into the asset class, the current environment is going to linger.

Historically speaking, a significant proportion of managers were doubling their fund sizes every time they came to market, with the peak really coming in early 2008 with everything reaching 'mega' proportions. What we are seeing now is that the sheer size of the commitments made in this era leaves overall private equity commitments polarized towards vintage years that were extremely challenging. The net effect is that it over-weights the impact, leaving investors needing to assess their portfolios and the position of private equity within that. What they are seeing is that private equity is exhibiting a low level of activity, is not bouncing back as quickly as the public markets, and is not necessarily showing its numbers in the best light. In terms of relative performance I'm sure you're finding that public vs. private is quite close at the moment.

That's certainly what we're seeing with horizon IRR data, the markets are outperforming private equity over a one-year period. So how has this manifested itself in terms of investor behaviour?

When you drill down, you can see how investors' portfolios are guiding their activity in the current climate. Firstly, investors are not keen to increase allocations, and they aren't getting much in the way of distributions to reinvest into new funds. With the capital they do have, they are becoming much more selective. Secondly, investors are becoming increasingly cash-flow sensitive. That's why we are seeing a lot of pressure relating to transparency and waterfall structures with fund terms negotiations. It's concerning for some investors that in the past 10 years an unusual amount of wealth was created, putting a lot of GPs in a comfort zone. Some feel that their edge isn't there anymore, and with it has gone their drive and ability to fight for your money! Investors are therefore sensitive to loss ratios, to visibility, to transparency, consistency to performance, and especially sensitive to activity.

The first thing investors have done is to look at their existing relationships, and decide they don't have the right combination of exposure. Every investor out there is currently pruning these relationships, and I estimate we'll see 20-40% drops.

So what are they basing these decisions on? Is past performance still the driving force as long as the alignment of interests is agreed upon?

No, it's not really being driven by past performance anymore. Private equity has been a rear-view business, but is now much more forward-looking. The key things that institutional investors are looking for are consistency in performance, low loss ratios, ability to generate growth. It's actually quite simple, but the reality is that very few fund managers can actually deliver on these key criteria.

But there are still a lot of fund managers out there on the road?

Yes, but there are a lot of poor products out there in the market, and ultimately not all of them are going to be able to raise capital. The situation demands that a number of managers must leave the industry. The nature of private equity is that funds are not going to shut themselves down – it's at the next fundraise when it's just not going to happen, and there are a lot of managers out there postponing their next fundraise.

Postponing the inevitable.

Believe me there is going to potentially be some drama in the next couple of years if managers are not acting in the best interests of their LPs towards the end of their funds and start to hang onto fee income for as long as possible. Another interesting consideration here is the effect of a manager failing to raise new capital on existing investments and older funds – especially with the more established managers. If you've invested in a number of funds managed by the same manager and still have significant investment in these older funds, can you really afford to let the manager go out of business slowly and lose talented employees? What kind of effect would this have on the mature portfolio? The nature and structure of private equity funds means that some of managers might actually be too important to fail right now, with the investors that have been most loyal historically having to prop up new funds that they might feel actually don't deserve the capital.

So where is the interest in the market going currently? Are there any areas of real interest, and conversely any areas that are in trouble?

Two really interesting trends we are seeing at the moment are with fund size and fund focus. If you think back a couple of years, so-called 'mega' funds were largely being facilitated by the actions of a core group of 'mega' investors which were writing tickets of up to $500mn or more. Now we are seeing the largest commitments coming in around the $100-150mn mark and mega funds are therefore going to struggle to raise cash. In terms of returning investors, they are still going to get above 70%, but in terms of capital, these big investors just don't make the same commitments as a couple of years back, and we are only seeing maybe 40% being recommitted. With no new investors coming in to replace them, these bigger GPs have a real challenge on their hands!

Where commitments to the largest funds have fallen, 'mega' investors are now actually looking to commit larger amounts to smaller funds, as they do want to maintain as many relationships. So where in the past they could commit $30mn to a mid-market fund, they are now looking at $75mn. It means that funds in the $1-2.5bn range actually have the broadest audience today, but they also have to meet the basic criteria, and the reality is that very few do at the moment. There is a dearth of quality managers in the market right now, and what's hurting us as advisors is that we have limited access to quality products. Some other agents out there are hiring new people to focus on mandates coming to market in the coming years, but which of these mandates are going to shift? The top decile? Top quartile? Maybe some big names in the second quartile? Half of the GP population are just not going to shift. Building up staff to focus on funds that aren't going to raise – good luck! First closes are difficult. Finals are difficult and very challenging. You've got lots of funds that get to a certain number but can they get to another number? That's why minimum size closes have become a big focal point. New ideas are emerging, for example, a European GP recognized that earlier investors could be penalized compared with later investors, and so they are trying to create a fairness by creating a discount in the cash-flow for the first closers.

For a lot of investors there is no real advantage to being in a first close. As an investor, the longer you wait, the better you see the unrealized current portfolios and the better you can make a decision. Nobody wants to make a mistake in the selection, so you might as well wait as long as you can. It becomes a Catch 22, because everyone is hanging out and no one is closing - you just put your hands up in the air!

In terms of portfolio focus, on a macro basis, Rest of World is the number one area of growth, and the reason I say Rest of World and not Emerging Markets is because all of us have a different view of what Emerging Markets are. In terms of big growth, we are talking about regions such as China, India, Brazil, Latin America, Africa, Russia... We are going to see portfolios that were at 0-5% private equity for Rest of World moving to 25-30%. This shift means there is being a substitution; programs aren't growing, there is no extra fresh capital, and this is going to come at the expense of US and European GPs. Again though, that's not to say that there isn't money available in Europe and the US because there is. Recent successful and quick fundraising efforts in Europe where overall fundraising is still at such a low level stick out like a sore thumb. For the right managers with the right product there is definitely appetite there, no matter where you are focusing or located.

To finish off, do you have a feeling when things are going to turn around?

The world believes in cycles, but is it really just a matter of time before we are back where we were a couple of years ago? The world is a different place now - the balance of power is changing, the regulations are altering, the financial community is changing, the support systems are changing. I'm just not as euphoric regarding the cyclicality. A lot of people believe that in our current era cycles can be shortened, I'm not necessarily sure of that. As we emerge from the downturn, behaviours have to change, and that includes from us agents. Our skill-set needs to be different; the way that we deal with clients and investors has to alter.

Will we see better days? Yes. Will the community be leaner? Yes, but at the end of the day, its heading in the right direction. Investors have to put their money to work responsibly, and the GPs have to make sure they deliver those long-term active returns and not experiment or stray from their areas of expertise.

A few years ago everyone looked terrific, it actually made things difficult when trying to raise money. These days there's a real difference between the talent and the talentless. It's easier to spot, and harder to fund, that's why the money is not coming out as quickly.

Consistent Performing Managers

Investors are always keen to identify those managers with the most consistent track records. Although past successes are no guarantee of future returns, it is always pertinent to consider a fund manager's track record as it provides an indication of its skill in seeking out potentially profitable investments and generating a good return for its investors. This report looks into the most consistent fund managers in the private equity industry by type: buyout, venture, fund of funds, real estate and other fund types. It does in no way seek to endorse fund managers but rather to illustrate those that have historically been most consistent.

The methodology used to compile these listings looks at the quartile rankings assigned to each fund, where a top quartile fund will be ascribed a score of one, a second quartile fund will be scored two, and so on. Preqin only assigns quartile rankings to funds with more mature vintages and so funds with a vintage between 2008 and 2010 are not considered. Furthermore, the list is restricted to only those managers that have raised three or more funds of a similar strategy and those that have raised a fund in the last six years, and only includes those managers for which Preqin holds performance data. All fund managers appearing on the list have achieved a score of 1.50 or less. A more complete list showing all the managers with above average performance can be found on Preqin's Performance Analyst – for more details please visit www.preqin.com/pa. This analysis was compiled on 10th September 2010 and is taken from Preqin's Performance Analyst database, the industry's most extensive source of net-to-LP private equity fund performance, with full metrics for almost 5,200 named vehicles.

Segulah Management tops the buyout list with the best possible score of 1.00, followed by Excelsior Capital Asia based in Hong Kong and Imperial Capital Group. Also featured in the list are some of the well-established private equity brands such as Apollo, Hellman & Friedman and TPG. The list is dominated by managers based in the US. The sample universe is comprised of 131 firms and 598 funds meeting the criteria, with 15 buyout firms featured on this particular list of consistent performers.

The list of consistent performing venture managers is topped by Nexxus Capital, Pittsford Venture Management and PTV Sciences, each achieving the best possible score of 1.00 with all their funds currently ranked in the top quartile. Some well-established players in the industry also appear, including Sequoia Capital with 1.40, Kleiner Perkins Caufield & Byers with 1.50, and Matrix Partners also with 1.50. The venture universe is derived from 144 firms and 711 funds meeting the selection criteria, and the consistent performers list is comprised of 18 firms.

The most consistent fund of funds manager is currently ACG Private Equity, which has achieved a score of 1.20 with four funds currently ranked in the top quartile and one ranked in the second quartile. The most consistent performing real estate GP is currently JBG Companies, with an average score of 1.00, followed by Brookfield Asset Management and Hearthstone, both currently earning a score of 1.33. The other strategies list is topped by Pegasus Capital Advisors and Wayzata Investment Partners, each with a score of 1.00, with both managers focusing on distressed private equity investments. EnCap Investments has achieved a score of 1.20 and is the best performing natural resources manager. Coller Capital is the most consistent performer in the secondaries sector, with a score of 1.20, and Energy Spectrum Capital has achieved the best score in the infrastructure sector, with 1.50.

Consistent Performing Buyout Managers

Firm	Location	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
Segulah Management	Sweden	3	3	0	1.00
Excelsior Capital Asia	Hong Kong	3	2	1	1.33
Imperial Capital Group	Canada	3	2	1	1.33
Inflexion	UK	3	2	1	1.33
Waterland	Netherlands	3	2	1	1.33
ABRY Partners	US	5	4	0	1.40
Archer Capital	Australia	5	3	2	1.40
Patria Investimentos	Brazil	5	4	0	1.40
Advent International	US	7	5	1	1.43
Apollo Global Management	US	4	2	2	1.50
Hellman & Friedman	US	6	3	3	1.50
Lincolnshire Management	US	4	2	2	1.50
Nordic Capital	Sweden	4	2	2	1.50
Olympus Partners	US	4	2	2	1.50
TPG	US	10	6	3	1.50

Based on a universe of 131 firms and 598 funds fulfilling the selection criteria.

Consistent Performing Venture Managers

Firm	Location	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
Nexxus Capital	Mexico	3	3	0	1.00
Pittsford Ventures Management	US	6	6	0	1.00
PTV Sciences	US	3	3	0	1.00
Avalon Ventures	US	7	6	1	1.14
Ascent Venture Partners	US	4	3	1	1.25
Summit Partners	US	8	6	2	1.25
Benchmark Capital	US	3	2	1	1.33
Birchmere Ventures	US	3	2	1	1.33
FTV Capital	US	3	2	1	1.33
GED Iberian Private Equity	Spain	3	2	1	1.33
IL & FS Investment Managers	India	3	2	1	1.33
InSight Venture Partners	US	6	4	2	1.33
Sequoia Capital	US	10	7	2	1.40
Battery Ventures	US	8	4	4	1.50
Kleiner Perkins Caufield & Byers	US	6	3	3	1.50
Matrix Partners	US	6	3	3	1.50
Technology Crossover Ventures	US	6	3	3	1.50

Based on a universe of 144 firms and 711 funds fulfilling the selection criteria.

Consistent Performing Fund of Funds Managers

Firm	Location	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
ACG Private Equity	France	5	4	1	1.20
PineBridge Investments	US	4	3	1	1.25
Macquarie Funds Group	Australia	7	5	2	1.29
ATP Private Equity Partners	Denmark	3	2	1	1.33
Hirtle, Callaghan & Co.	US	4	2	2	1.50
RCP Advisors	US	4	3	0	1.50
Siguler Guff	US	6	4	1	1.50

Based on a universe of 51 firms and 411 funds fulfilling the selection criteria.

Consistent Performing Real Estate Managers

Firm	Location	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
JBG Companies	US	5	5	0	1.00
Brookfield Asset Management	Canada	6	4	4	1.33
Hearthstone	US	6	5	0	1.33
DRA Advisors	US	5	3	4	1.40
Thayer Lodging Group	US	5	4	0	1.40

Based on a universe of 85 firms and 472 funds fulfilling the selection criteria.

Consistent Performing Managers of Other Fund Types

Firm	Location	Type	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
Pegasus Capital Advisors	US	Distressed Private Equity	3	3	0	1.00
Wayzata Investment Partners	US	Distressed Private Equity	3	3	0	1.00
Coller Capital	UK	Secondaries	5	4	1	1.20
EnCap Investments	US	Natural Resources	5	4	1	1.20
Kayne Anderson Capital Advisors	US	Natural Resources	4	3	1	1.25
JOG Capital	Canada	Natural Resources	3	2	1	1.33
Merit Energy Partners	US	Natural Resources	6	5	0	1.33
Energy Spectrum Capital	US	Infrastructure	4	2	2	1.50

Based on a universe of 70 firms and 339 funds fulfilling the selection criteria.

Investor Appetite for Private Equity

The financial crisis had a noticeable impact on institutional investor activity and confidence in the private equity asset class. A considerable proportion of LPs placed their investments on hold and some of these have yet to re-enter the asset class. Preqin's June 2010 survey of 100 institutional investors found that 32% did not anticipate making any new commitments to private equity funds over the course of 2010.

Our recent conversations with LPs located across the globe have, however, found that there are still many institutions of a wide variety of sizes and locations with capital available for new commitments that are keen to put this capital to work.

Lothian Pension Fund, based in Scotland, is an example of an LP that is set to be active in the asset class during 2010/11. The pension fund has a target allocation to private equity of 6.5% of total assets but has a current allocation of 5.3%. In the 12 months following September 2010, Lothian Pension Fund anticipates committing to six funds and has set aside £100mn for these investments.

The denominator effect left many LPs significantly over-allocated to private equity in 2008 and 2009; however, few LPs were finding themselves in this situation by mid-2010. A December 2008 Preqin survey of institutional investors found that more than a fifth (21%) of respondents were over-allocated to private equity at that time and a further 42% were at their targeted level of exposure. As Fig. 1 shows, however, our June 2010 survey found that just 5% of institutions were over-allocated to the asset class at that time and a considerable 54% had yet to reach their target allocations. As distributions from portfolio funds begin to pick up again, many LPs are now finding themselves in a position where they have capital available for new investments and that they need to make new commitments in order to remain at their targeted level of exposure.

Stapi Lifeyrissjodur is one such LP. The Icelandic pension fund reached its target allocation to private equity of 10% of total assets in 2009 and its investments were placed on hold. It is keen to maintain the current level of exposure it has to the asset class and will soon need to make new commitments in order to achieve this. Consequently, it intends to resume making new commitments in 2011. Though happy with the current relationships it maintains with GPs, it will review and consider opportunities presented to it by managers it has not invested with in the past and will invest with such managers on an ad-hoc basis.

Fig. 1: Proportion of Investors Currently At, Above or Below Their Target Allocations to Private Equity

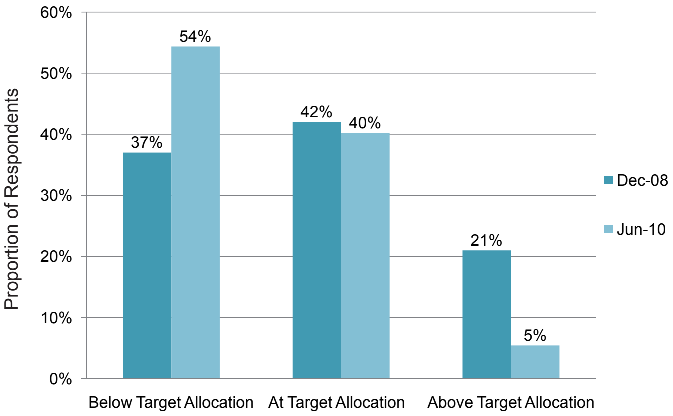
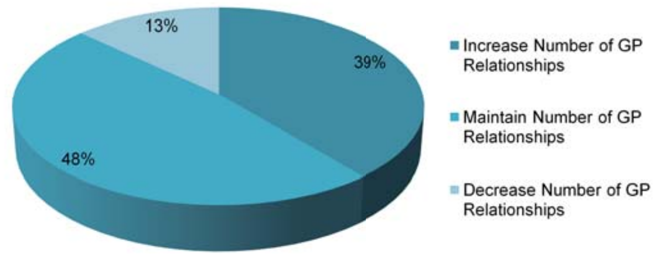


Fig. 2: Likely Changes to Number of GP Relationships Maintained by Investors in Next Two Years



Like Stapi Lifeyrissjodur, many LPs are currently open to forging new relationships with GPs. Some are intending to establish new relationships opportunistically, whereas others are intending to actively seek to add to their roster of GPs. As Fig. 2 shows, a considerable 39% of respondents to our June 2010 survey anticipate increasing the number of GP relationships they manage. Just under half (48%) intend to maintain the number of GP relationships they have at present.

One example of an LP considering investing with GPs it has not worked with before is the African Development Bank. It is looking to commit to up to 20 private equity funds by the end of 2010, investing as much as $250mn, with both managers it has invested with before and those it has not. Another example is Alberta Teachers' Retirement Fund, which increased its target allocation to private equity from 5% of total assets to 10% in 2009 and intends to commit C$200-500mn across three to five new funds during the period June 2010 to May 2011. It plans to take an opportunistic approach to manager selection for these investments.

Just over half of the respondents to our survey would also consider investing in funds being raised by emerging managers. As shown in Fig. 3, of those investors seeking to make new commitments to funds in the next 12 months, 39% will consider investing in first-time funds. A further 14% will invest in spin-off funds but not first-time funds being managed by first-time teams.

We are continuing to see investors set maiden allocations to private equity, bringing with them a fresh supply of capital to the industry. A number of institutions are also, at present, in the process of considering setting aside an allocation to the asset class. The Japanese Government Pension Investment Fund has been considering investing in private equity for a while and commenced a full-scale study into investments in the asset class in September 2010.

Another example is the City of Jacksonville Retirement System, which is hoping to make its first private equity investments shortly. It has received initial board approval for the move but now needs to seek council approval, with a final decision expected in the next few months. It is likely to set a target allocation to private equity of 5% of total assets, which is the maximum it is allowed owing to regulatory restrictions.

Funds of funds continue to be an important source of capital for other private equity funds. These managers have unsurprisingly remained active during the past couple of years and there is a good stock of vehicles currently in the process of fundraising: 141 funds of funds are on the road at present seeking to raise a combined $44bn.

Capvent, for example, is set to start fundraising for its next Europe-focused fund of funds, Capvent European Mid-Market Opportunities Fund II, in October 2010, and plans to make between 20 and 25 commitments to funds through the vehicle. The manager is also active in Asia. It is in the process of raising a $400mn vehicle targeting Asia in general and also closed a $72mn fund of funds targeting opportunities in India in June 2010.

Another fund of funds manager set to be active over the coming months is SL Capital Partners. It held a final close for its European Strategic Partners 2008 fund in September 2010 on €700mn, having secured commitments from more than 50 LPs, including an €18.5mn commitment from the City of London Corporation Pension Fund, a €25mn commitment from Hertfordshire County Council Pension Fund, and a €45mn commitment from Norfolk County Council Pension Fund. SL Capital Partners is also on the road with two further vehicles it has recently started seeking capital for, SL Capital European Smaller Fund and SL Capital North American Smaller Fund.

Fig. 3: Proportion of Investors That Will Consider Investing in First-Time Funds in the Next 12 Months

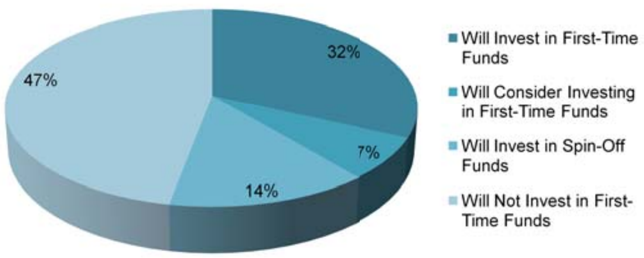
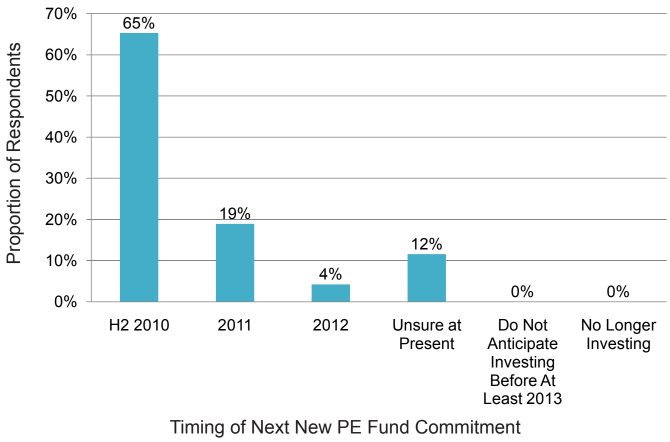


Fig. 4: Time Frame for Next Intended Commitment to a Private Equity Fund



Although there are sectors within the LP community that are set to remain largely inactive in the private equity asset class during the rest of 2010 and 2011, Fig. 4 shows that 84% of respondents to our survey anticipated making at least one new fund commitment in H2 2010 or 2011 and a further 12% were uncertain at that time about the timing of their next commitment. There are clearly significant numbers of LPs seeking to put further capital to work in the sector but there are also more than 1,500 funds on the road competing for capital. The challenge for GPs, therefore, will be to source appropriate targets for their funds and to be heard over the competition in the coming months.

Preqin's Investor Intelligence database contains detailed profiles of over 4,000 active investors in private equity. For more information about this product and how it can assist you, please visit: www.preqin.com/ii

Fundraising Overview

In Q3 2010, 83 private equity funds worldwide reached a final close, raising an aggregate $59bn (Fig. 5). This represents a 20% increase on the amount raised in the previous quarter, during which quarterly fundraising fell to a six-year low. Although improved from the previous quarter, Q3 private equity fundraising fell short of the $66bn raised in Q1 of this year. The figures suggest that the fundraising market remains challenging for managers currently seeking investor commitments.

The length of time that funds which closed in Q3 2010 spent on the road is indicative of the difficult market conditions faced by fund managers. Over a quarter of the funds that reached a final close in Q3 2010 were in market for 19-24 months, as shown in Fig. 6. A further 36% had been on the road for between 25 and 36 months, while 3% had been fundraising for over three years, as illustrated in Fig. 6. Fundraising generally took longer for funds closed in Q3 2010 than in the previous quarter: the proportion of funds that reached a final close in 12 months or less fell from 24% to 15%.

Buyout funds raised the most capital in Q3 2010, with 13 such funds raising an aggregate $21bn (Fig. 7). Although one fewer buyout fund closed than in the previous quarter, the aggregate capital raised by buyout funds increased significantly from Q2, when 14 such funds raised an aggregate $13.9bn. The second-largest amount of capital raised in Q3 2010 was accounted for by real estate funds, with 18 such funds raising a combined $8.7bn. Venture funds were the most abundant and $3.7 bn was raised by the 20 funds of this type that closed during the quarter. Infrastructure fund closes were the least numerous, but the three funds that did close during the quarter raised the third-largest amount of aggregate capital, $8.4bn.

The table on page 13 shows details of the 10 largest funds to close during Q3 2010.

Preqin's Funds in Market database contains details of over 1,500 private equity funds on the road seeking capital, plus information on every vehicle that has closed since 2003. For more information about this product and how it can assist you, please visit: www.preqin.com/fim

Fig. 5: All Private Equity Fundraising by Quarter, Q1 2003 - Q3 2010

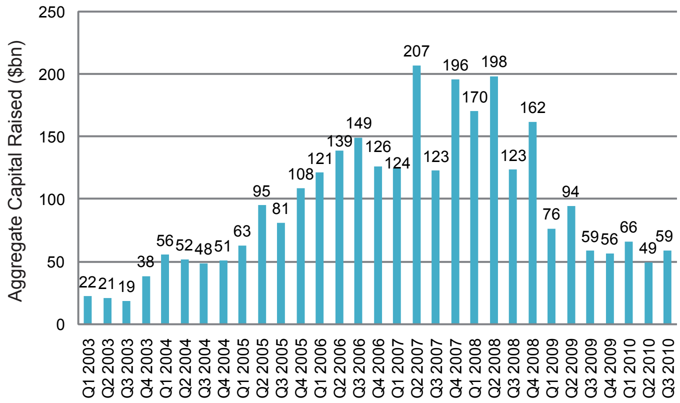


Fig. 6: Time Spent on the Road for Funds Closed in Q3 2010

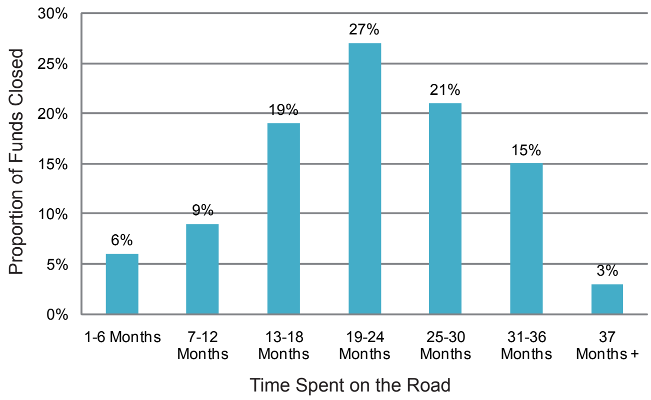
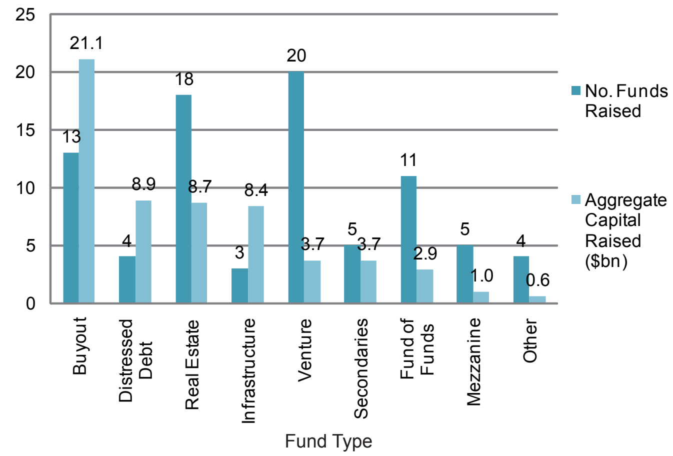


Fig. 7: Private Equity Fundraising by Type, Q3 2010



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Top 10 Funds Closed During Q3 2010 by Final Close Size

Fund	Firm	Type	Amount Closed (mn)	Manager Location	Fund Focus
Blackstone Capital Partners VI	Blackstone Group	Buyout	13,500 USD	US	US
OCM Opportunities Fund VIII	Oaktree Capital Management	Distressed Debt	4,400 USD	US	US
Energy Capital Partners II	Energy Capital Partners	Infrastructure	4,335 USD	US	US
GSO Capital Solutions Fund	Blackstone Group	Distressed Debt	3,250 USD	US	US
Pantheon Global Secondary Fund IV	Pantheon Ventures	Secondaries	3,000 USD	UK	Europe
Brookfield Americas Infrastructure Fund	Brookfield Asset Management	Infrastructure	2,655 USD	Canada	US
Fortress Credit Opportunities Fund II	Fortress Investment Group	Real Estate	2,600 USD	US	US
TA Realty Associates IX	TA Associates Realty	Real Estate	1,700 USD	US	US
Southern Cross Latin America Fund IV	Southern Cross Group	Buyout	1,680 USD	Argentina	ROW
Cube Infrastructure Fund	Natixis Environnement & Infrastructures Luxembourg	Infrastructure	1,080 EUR	Luxembourg	Europe

Regional Fundraising

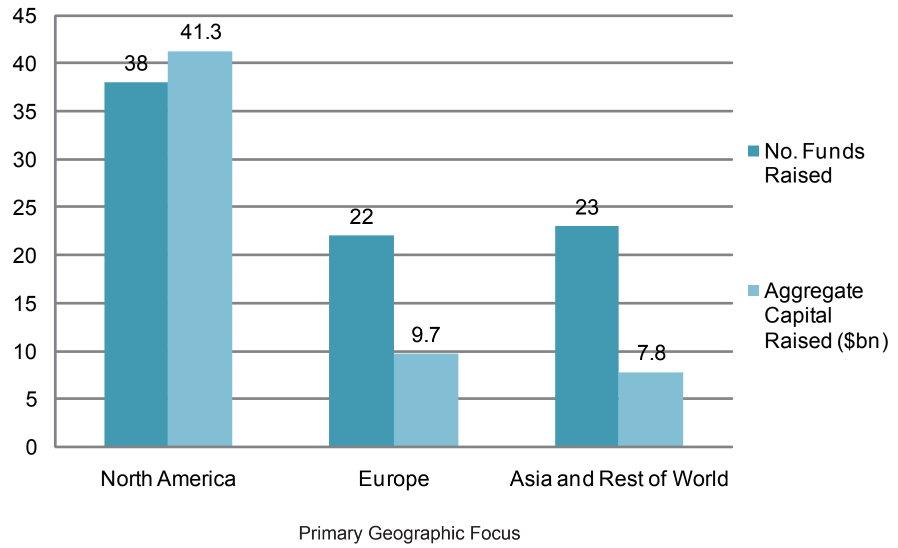
Of the 83 funds that reached a final close during Q3 2010, 45% are primarily focused on making investments in North America. Such funds account for almost three-quarters of the aggregate capital raised in the period (70%). This is a considerable increase from the previous quarter, in which North America-focused funds raised 59% of total capital. Europe-focused funds raised the second-largest amount in Q3 2010, whereas last quarter Asia and Rest of World-focused funds accounted for a larger proportion of aggregate capital than their European counterparts.

As shown in Fig. 8, 38 funds that reached a final close in Q3 2010 are primarily focused on North America. While this is a smaller number than recorded in the previous quarter, the amount of capital raised by these funds increased significantly; $41.3bn was raised in Q3 compared to $24.3bn in Q2 2010. The number of Europe-focused funds reaching a final close increased this quarter, with 22 funds completing the fundraising process in Q3 compared to 19 that closed in Q2. These funds raised slightly more capital than those closing in the previous quarter, but accounted for a smaller proportion of the total aggregate capital raised in Q3 than their equivalents in Q2; 16.5% compared to 22%.

Asia and Rest of World-focused funds also increased in number in Q3, although the capital raised by such funds fell, along with their proportional share of total aggregate capital raised. 17 funds primarily focused on making investments in Asia and Rest of World closed in Q2, raising an aggregate $9bn, 21% of the total capital raised in the quarter. In Q3 2010 however, the $7.8bn collected by the 23 funds to have closed accounted for just 13% of total global capital raised.

The fundraising total for primarily North America-focused funds includes the final close of Blackstone Capital Partners VI, which raised a total of $13.5bn and will also invest a proportion of its capital outside North America.

Fig. 8: Private Equity Fundraising by Primary Geographic Focus, Q3 2010



Buyout & Venture Fundraising

An aggregate $21.1bn was raised by the 13 buyout funds that closed in Q3 2010, as illustrated in Fig. 9. In terms of the number of funds closed, this figure was lower than it had been in the previous quarter. However, the aggregate capital raised by these funds was 48% higher than it had been in Q2, when 14 funds closed raising a total of $14.3bn.

The largest buyout fund to close in Q3 2010 was Blackstone Capital Partners VI. The fund, which primarily focuses on North America, closed just short of its $15bn target on $13.5bn in July 2010. Closing over its initial target of $1.2bn, the Southern Cross Latin America Fund IV was the second-largest fund to close in Q3. With a focus on Argentina and South America, the Southern Cross Group-managed fund reached a final close in September having raised $1.6bn.

The number of venture funds reaching a final close in Q3 2010 was down significantly from the previous quarter, with 20 such funds closing in Q3 compared to 36 in Q2. Consequently, such funds accounted for a smaller proportion of the total capital raised in Q3 than of that raised in Q2; venture funds raised 11% of aggregate capital in Q2 and 6% of that amassed in Q3.

ECP Africa Fund was the largest venture fund to reach a final close in Q3 2010. With a pan-African focus, the expansion fund raised $613mn, which will be invested in a range of industries including telecoms, consumer products and financial services.

Fig. 9: Private Equity Buyout Fundraising by Quarter, Q1 2008 - Q3 2010

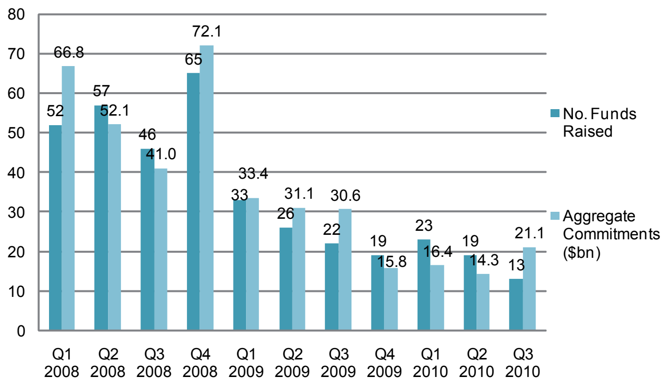


Fig. 10: Private Equity Venture Fundraising by Quarter, Q1 2008 - Q3 2010

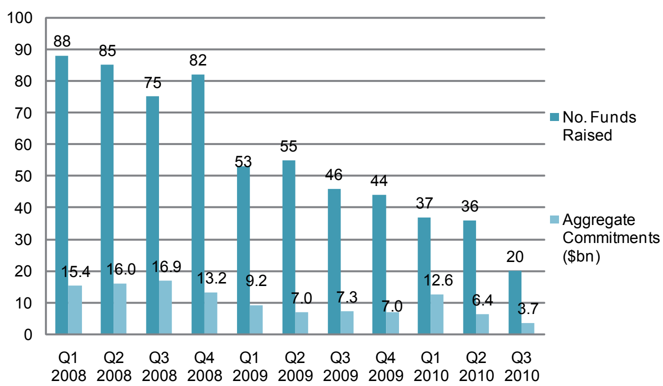


Fig. 11: Five Largest Buyout Funds Closed in Q3 2010

Fund	Fund Manager	Size (mn)
Blackstone Capital Partners VI	Blackstone Group	13,500 USD
Southern Cross Latin America Fund IV	Southern Cross Group	1,680 USD
Veritas Capital Fund IV	Veritas Capital	1,225 USD
Navis Asia Fund VI	Navis Capital Partners	1,200 USD
Partners Group Direct Investments 2009	Partners Group	650 EUR

Fig. 12: Five Largest Venture Funds Closed in Q3 2010

Fund	Fund Manager	Size (mn)
ECP Africa Fund III	Emerging Capital Partners	613 USD
Third Rock Ventures II	Third Rock Ventures	426 USD
DCM VI	DCM	400 USD
Venrock VI	Venrock	350 USD
Founders Fund III	The Founders Fund Management	250 USD

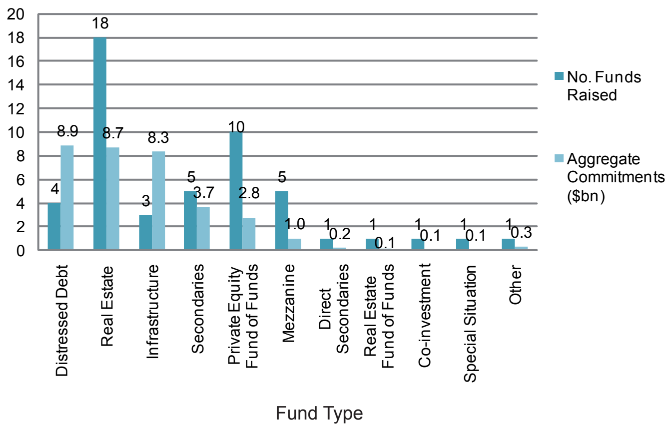
Private Equity Fundraising: Other Types

Buyout and venture funds raised 42% of all private equity capital in Q2 2010, and the remaining 58% was raised by other types of fund. Of these vehicles, real estate and infrastructure funds raised the most capital, with both fund types raising more capital than their counterparts had done in Q2.

Fig. 13 shows that real estate funds raised the most capital of all funds excluding venture and buyout; $8.7 was raised by the 18 funds of this type that reached a final close in the quarter. Despite the increase in capital raised, real estate funds accounted for a slightly smaller proportion of all capital collected in Q3, 15% compared to the 16% share in Q2. Fortress Credit Opportunities Fund II was the largest real estate fund to close in the period, and it closed over its $2bn target having raised $2.6bn.

Private equity funds of funds raised 145% more in Q3 than their equivalents that closed in the previous quarter. 10 such funds raised $2.7bn compared to the $1.1bn raised by the six funds of funds that closed in Q2. One fund of funds that closed in Q3 2010 is included in Fig. 14, which shows the 10 largest funds (excluding buyout and venture) funds to reach a final close in Q3 2010. Europe-focused European Strategic Partners 2008 finished fundraising in September having raised €700mn. One real estate fund of funds reached a final close in Q3 2010 having collected $109mn.

Fig. 13: Private Equity Fundraising (Excluding Buyout and Venture Funds) by Fund Type, Q3 2010



OCM Opportunities Fund VIII was the largest non-buyout or venture fund to close in Q3. The fund closed on $4.4bn, below its target of $5bn, and is the first of the three distressed debt funds to feature in Fig. 14.

One secondaries fund, Pantheon Global Secondary Fund IV, appears in the table. Managed by Pantheon Ventures, the fund has a global focus and closed below its $3.7bn target on $3bn in July 2010.

Fig. 14: 10 Largest Funds (Excluding Buyout and Venture Funds) Closed in Q3 2010

Fund	Fund Manager	Fund Type	Size (mn)
OCM Opportunities Fund VIII	Oaktree Capital Management	Distressed Debt	4,400 USD
Energy Capital Partners II	Energy Capital Partners	Infrastructure	4,335 USD
GSO Capital Solutions Fund	Blackstone Group	Distressed Debt	3,250 USD
Pantheon Global Secondary Fund IV	Pantheon Ventures	Secondaries	3,000 USD
Brookfield Americas Infrastructure Fund	Brookfield Asset Management	Infrastructure	2,655 USD
Fortress Credit Opportunities Fund II	Fortress Investment Group	Real Estate	2,600 USD
TA Realty Associates IX	TA Associates Realty	Real Estate	1,700 USD
Cube Infrastructure Fund	Natixis Environnement & Infrastructures Luxembourg	Infrastructure	1,080 EUR
H.I.G. Bayside Loan Opportunity Fund II	Bayside Capital	Distressed Debt	1,100 USD
European Strategic Partners 2008	SL Capital Partners	Fund of Funds	700 EUR

Funds on the Road Overview

Q4 2010 sees the first quarter-on-quarter increase in the aggregate capital targeted by funds on the road for over a year and a half. Throughout 2010 the number and aggregate target of private equity vehicles on the road had been in decline, but going into the final quarter of the year there are 1,547 funds targeting an aggregate $571bn, marking a 2% increase from the previous quarter in the capital targeted.

Despite this increase there are still fewer vehicles on the road and less capital being targeted than at the beginning of the year, as can be seen in Fig. 15. At the start of the year 1,582 funds were seeking to raise an aggregate $691bn, 17% more capital than is being targeted by funds on the road as of Q4 2010. The average target size of funds in market has also decreased over this period. In Q1 2010 the average target of a fund in market stood at $440mn; as of Q4 2010 it stands at $370mn. These figures show that the difficult fundraising conditions in the wake of the financial crisis are yet to ease and a significant number of fund managers with vehicles on the road are having to reduce their fundraising targets as a result.

A large proportion of the funds in market are primarily focused on North America, with 696 such vehicles targeting an aggregate $275bn, as shown in Fig. 16. Primarily North America-focused funds account for 45% of the number of funds in market and nearly half of the aggregate target capital. Such funds also have the largest average target size out of all funds in market, with the average fund target of a North America-focused fund standing at $400mn, compared to $360mn for Europe-focused funds and $340mn for Asia and Rest of World-focused funds.

Fig. 15: Funds in Market by Quarter, Q4 2008 - Q4 2010

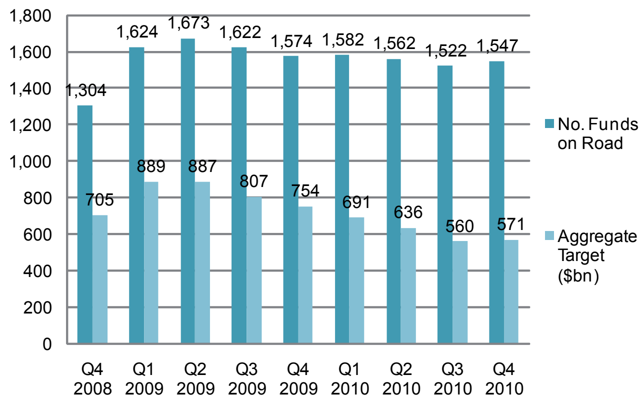
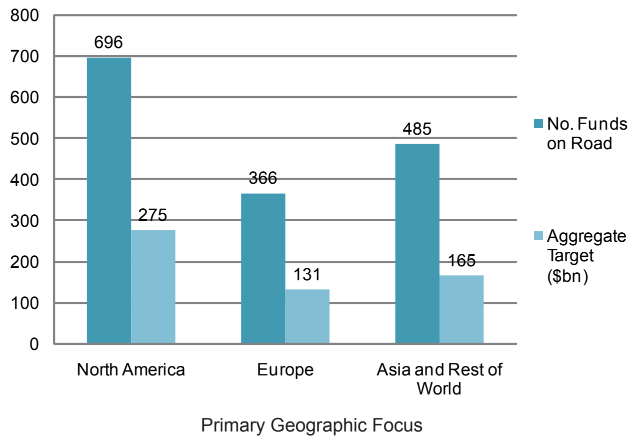


Fig. 16: Composition of Funds in Market by Primary Geographic Focus



Asia and Rest of World-focused funds are targeting the second-largest amount of capital. 485 such vehicles are seeking $165bn in aggregate commitments, accounting for 31% of the number of funds and 29% of the aggregate targeted capital of all funds in market.

There are currently 366 primarily Europe-focused funds on the road targeting an aggregate $131bn in investor capital. Europe-focused funds account for 23% of the global targeted capital and 24% of the number of funds on the road.

The largest fund currently in market is BC European Cap IX, a European-focused buyout fund targeting capital commitments of €6bn. The fund, which is managed by London-based firm BC Partners, plans to invest in a diverse range of industries throughout Europe.

Funds on the Road by Type

Real estate funds are targeting the largest amount of capital of all funds in market, accounting for 23% of all the commitments being sought by private equity funds in market worldwide (Fig. 17). As of Q4 2010 there are 403 private equity real estate vehicles on the road targeting an aggregate $132bn in investor commitments. The largest real estate funds on the road are Lone Star Fund VII and Lone Star Real Estate Fund II, both of which are targeting $4bn to invest globally.

Buyout funds have the second-largest aggregate target, with 194 such funds looking to raise $106bn and accounting for 19% of the aggregate target of all funds.

Venture funds are the most numerous type of fund in market, with 460 such vehicles currently on the road representing 30% of the total number of funds in market. Such vehicles are targeting the third-largest amount of capital, with an aggregate target of $90bn.

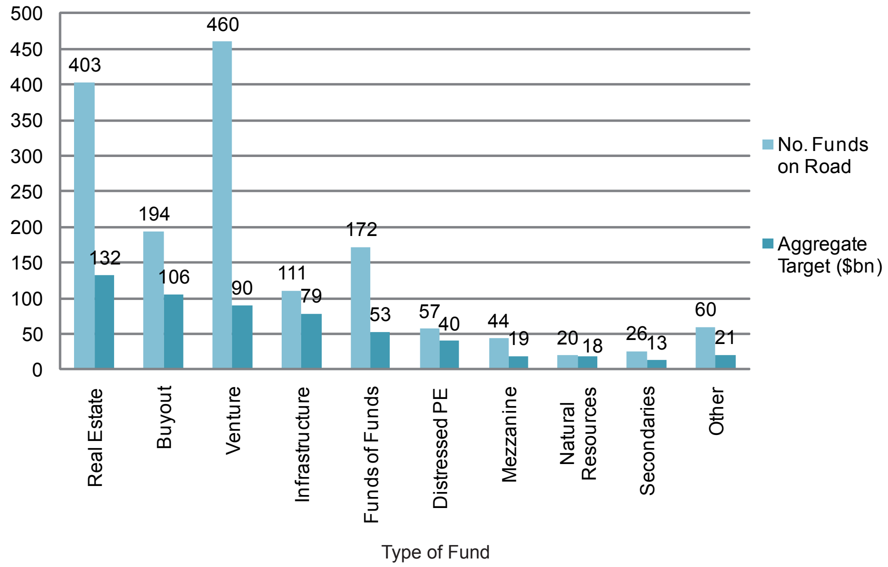
The fourth-largest amount of capital is being targeted by infrastructure funds, with 111 such vehicles seeking $79bn in aggregate commitments and accounting for 14% of the capital targeted.

Funds of funds, distressed private equity funds, and mezzanine funds all account for a significant proportion of the private equity funds in market. Funds of funds represent 9% of all capital sought by funds in market, with 172 funds targeting $53bn. There are 57 distressed private equity funds targeting $40bn, accounting for 7% of the total targeted capital. Mezzanine funds account for 3% of all capital targeted, with 44 such funds looking to raise $19bn.

Natural resources funds have the largest average target size of all funds in market. Such funds have an average target size of $900mn. African Agricultural Land Fund is the largest natural resources fund in market and is targeting €2bn. It invests in the Sub-Saharan agricultural sector.

Preqin's Funds in Market database contains details of over 1,500 private equity funds on the road seeking capital, plus information on every vehicle that has closed since 2003. For more information about this product and how it can assist you, please visit: www.preqin.com/fim

Fig. 17: Composition of Funds in Market by Fund Type



Fundraising Future Predictions

Although it is not yet coming through in the figures for fund final closes, we are seeing confidence in the asset class slowly returning. Investors are increasingly enthusiastic about making new investments, partly as a result of increasing distributions coming their way, and also due to further improvement in existing fund portfolios as the industry continues to recover. Fund managers are responding, with some established names having launched new fundraising efforts in Q3 2010, and more planning to launch in the coming months.

Preqin has always reported fund closing statistics based on final close rather than interim close data, partially for reasons of consistency, but mostly due to this being the point in time when a lot of fund managers will begin to start putting capital raised to work in earnest. Although our figures show fundraising reaching a low point this year, much of the capital raised by funds achieving a final close in 2009 was actually committed prior to the financial downturn, with very little capital being committed in 2009 itself. We are now starting to see funds close which raised most or all of their capital post-September 2008, showing that private equity investors remain confident towards the asset class and its ability to produce returns in the current financial climate.

Looking forwards, the fundraising market will also be buoyed by further increases in dealflow, with private equity-backed buyouts reaching their highest levels since the onset of the financial crisis. This will lead to more capital being pulled through the private equity cash cycle, resulting in more distributed capital to be reinvested into new vehicles.

However, the industry is still a long way from reaching a full recovery. Although conditions are improving, fundraising and dealflow are still failing to match the levels seen in 2006 – 2008. At the same time the number and aggregate target value of funds on the road has not dropped by the same kind of factor, and actually saw a modest increase over the last quarter. This means that there is still an over-supply of new funds, and there is simply not enough capital to go around.

LPs are becoming more discerning when making new investments, and some are looking to reduce the number of relationships that they hold in their portfolios, making things even harder for some GPs which are no longer able to rely upon re-ups to get a good proportion of their new funds raised. That's not to say that there is not money out there for the right offerings. Fig. 18 below shows a selection of funds raised since 2008 that have raised in quick time and on or above target. For those managers with a well-positioned, quality offering and excellent and consistent performance to fall back on, fundraising need not be such a daunting task. On the flip-side, there are managers out there that will simply not be able to raise capital, with some further industry consolidation likely to occur over the next few months.

On an overall basis, based on our conversations with institutional investors around the world, placement agents and fund managers, we are predicting that fundraising volumes will continue to improve slowly in 2010, with a more significant rise coming in 2011. We are projecting total fundraising for 2010 to reach around $260bn by the end of the year.

Fig. 18: Funds Launched Since 2008 That Have Reached a Final Close on or Above Target in Less Than a Year

Fund	Fund Final Close Details
Inflexion 2010 Buyout Fund	Closed on £375mn in 2010. The fund was on the road for 121 days.
HitecVision Asset Solutions	Raised $420mn 320 days after launching. Its target was $75mn.
India Value Fund IV	Raised in 150 days, meeting its target of $725mn.
Abbott Capital Private Equity Investors 2010	Fund of funds that had a target of $75mn but raised $110mn in 175 days.
Mason Wells Buyout Fund III	Exceeded its target of $400mn, raising $525mn 223 days after launch.
Capiton IV	Met its target of €350mn and closed 222 days after launch.
DT Capital Partners RMB Fund	Exceeded its target of CNY 1bn, raising CNY 1.5bn in 226 days.
Atlas Capital Resources	Launched with a target of $250mn, raised $365mn 251 days after launch.
Aditya Birla Private Equity Fund I	Raised $196mn 267 days after launch, exceeding its target of $100mn.
Southern Cross Latin America Fund IV	Exceeded its target of $1.25bn, raising $1.68bn 324 days after launch.

Deals Overview & Deals by Region

A total of 515 private equity-backed buyout deals were announced in Q3 2010 with an aggregate value of $66.7bn. This represents a 29% increase in the aggregate value from Q2 2010, when 498 deals were announced with an aggregate value of $51.9bn, and a notable 147% increase on the value reported in Q1 2010, which saw 396 deals valued at $27bn. Deal flow globally in Q3 2010 represents the strongest quarter for buyout deals in the post-credit crunch landscape, with the aggregate value of deals announced in Q3 2010 more than treble the value of deals seen during the same period in 2009.

Q3 2010 has seen aggregate deal value remain strong globally in comparison to the previous year, with deal values in North America and Europe significantly higher than during 2009. In Q3 2010, North American aggregate deal value increased 6.5% from the previous quarter, with 249 deals valued at $34.2 bn announced in Q3 2010, up from the 233 buyouts valued at $32bn in Q2 2010. Furthermore, Q3 2010 deal flow in North America represents a significant 165% increase on the aggregate deal value seen in the region in Q1 2010, and remains notably higher than deal flow witnessed in the region during 2009. However, North American deal flow remains significantly lower in comparison to the buyout boom era of 2007, which saw $124.3bn and $173.1bn in aggregate deal value during its first and second quarter, respectively.

European aggregate deal value in Q3 2010 increased significantly from the previous quarter, with 186 buyouts valued at $26.3bn announced during the quarter, a notable 120% increase from the $12bn in deal value witnessed during Q2 2010, and close to treble the European aggregate deal value seen in Q1 2010. Deal flow in Asia and Rest of World has continued to hover above the levels seen in 2009, with 80 deals valued at $6.2bn announced in the region, a 62% increase from the $3.8bn in value reported a year earlier in Q3 2009. However, the value of deals in Asia and Rest of World has dipped slightly from the $7.8bn in value witnessed during Q2 2010.

Fig. 19: Quarterly Number and Value of Deals, Q1 2007 - Q3 2010

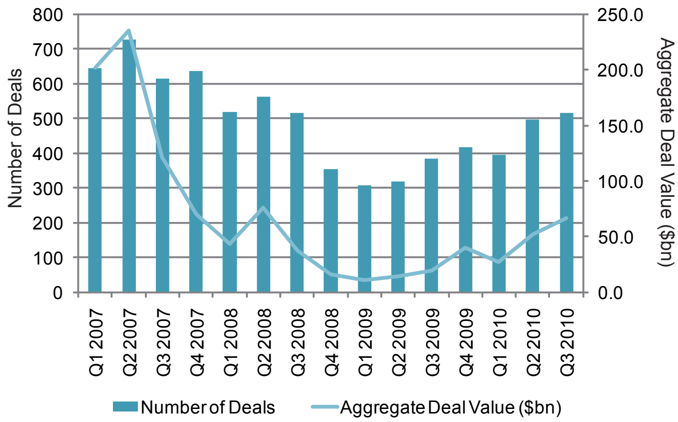
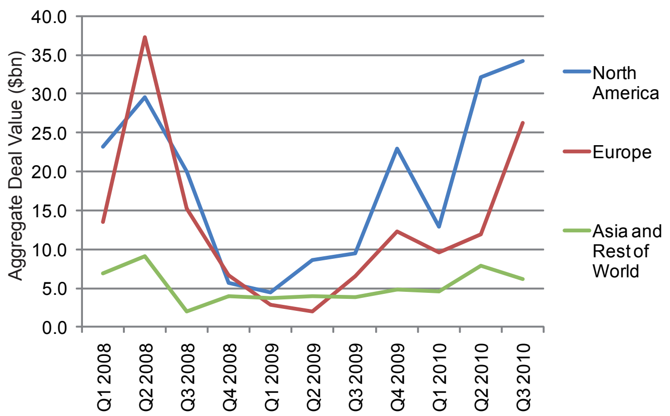


Fig. 20: Quarterly Aggregate Deal Value by Regional Focus, Q1 2008 - Q3 2010



Preqin's Deals Analyst database contains in-depth data for over 15,000 buyout deals across the globe. For more information about this product and how it can assist you, please visit: www.preqin.com/deals

Deals by Type, Value & Industry

Almost half of all deals announced globally in Q3 2010 were leveraged buyouts, accounting for almost two-thirds of the aggregate deal value worldwide during the quarter. Growth capital accounted for 23% of investments and 6% of total deal value worldwide in Q3 2010. In addition, public to private transactions accounted for 23% of aggregate deal value yet only represented 3% of all announced deals during the past quarter. Notable public to private deals for this quarter include the announced $4.7bn acquisition of Dynegy, Inc. by the Blackstone Group, and the $5bn take-private of Tomkins Plc. by the Canada Pension Plan Investment Board and Onex Corporation.

Q3 2010 figures on the number and aggregate value of deals shows an increase in the bracket of deals exceeding $1bn in comparison to the previous quarter. In Q3 2010, deals valued at over $1bn accounted for 60% of global aggregate deal value, in comparison to the previous quarter, where deals in this size range made up 46% of investments. Mid-market buyouts accounted for 25% of the global aggregate value of buyouts in Q3 2010, down from the 36% of total aggregate that deals in this size bracket represented in Q2 2010. Deals that were valued at less than $100mn represented over half of the number of deals in Q3 2010, accounting for approximately 5% of total private equity transactions this quarter.

Buyout activity in Q3 2010 saw the highest dealflow in the industrial sector, with over a quarter of all buyout deals announced globally and over a fifth of the global aggregate value of buyouts attributed to deals in the sector. This was followed by the business services industry, which accounted for 15% of all deals and 16% of global aggregate value of buyouts announced in Q3 2010. Other prominent industry sectors for buyouts in Q3 2010 include the consumer & retail and the healthcare sectors, with both sectors each accounting for 10% of the aggregate value of deals globally. Notably, whilst 5% of all deals occurred in the food & agriculture industries, this sector accounted for a sizeable 13% of the global value of deals, including the announced $4bn acquisition of nutritional supplements provider NBTY by the Carlyle Group in July 2010.

Fig. 21: Aggregate Deal Value in Quarter by Type

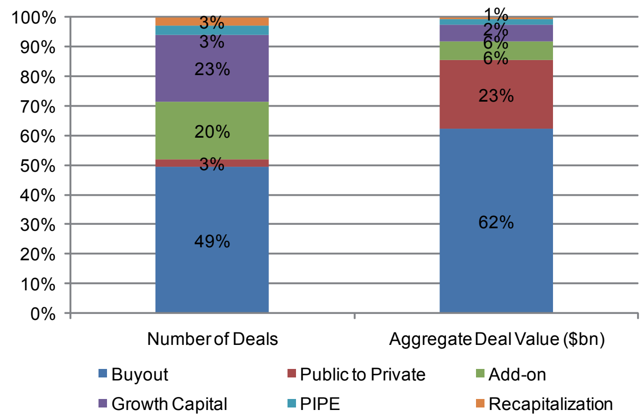


Fig. 22: Aggregate Deal Value in Quarter by Value Band

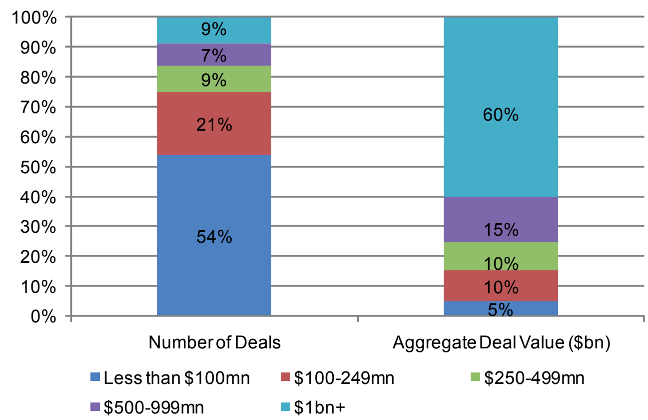
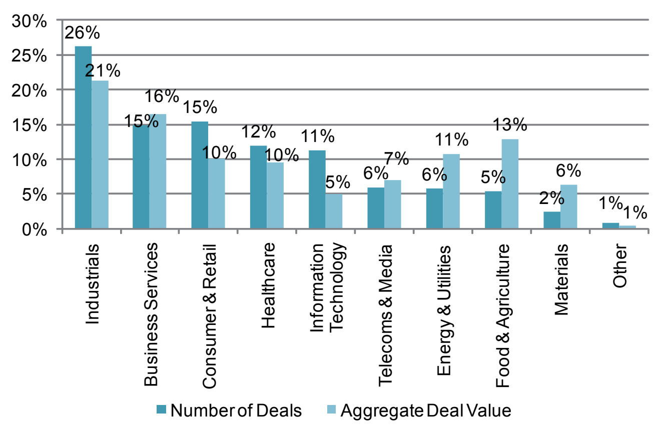


Fig. 23: Number and Aggregate Value of Global Buyouts by Industry, Q3 2010



Largest Deals & Notable Exits

During Q3 2010, 190 PE-backed exits occurred, with an exit transaction size of $56.7bn. This represents a 22% increase in aggregate exit value from the previous quarter, when 169 exits valued at $46.4bn took place, and represents more than double the value of exits seen in Q1 2010, where 140 exits valued at $26.9bn occurred. Exit activity during Q3 2010 represents the most active quarter for exits in the post-financial crises landscape, with the aggregate exit transaction value of Q3 2010 matching the levels of exit activity seen during the pre-downturn era.

Fig. 24: Quarterly Number of PE-Backed Exits by Type and Aggregate Exit Value, Q1 2007 - Q3 2010

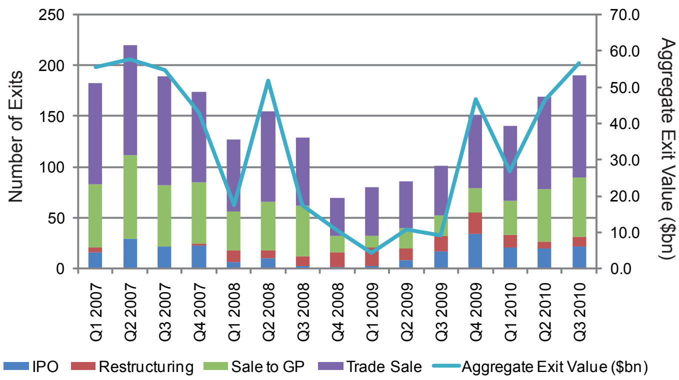


Fig. 25: 10 Largest Deals, Q3 2010

Company Name	Date	Deal Value	Investment Type	Acquirer/Financial Sponsor	Location	Industry
Tomkins plc	Jul-10	USD 5bn	Public to Private	CPP Investment Board, Onex Corporation	UK	Engineering
Dynegy Inc.	Aug-10	USD 4.7bn	Public to Private	Blackstone Group	US	Energy
NBTY	Jul-10	USD 4bn	Public to Private	Carlyle Group	US	Food
Sunrise	Sep-10	CHF 3.3bn	Buyout	CVC Capital Partners	Switzerland	Telecoms
MultiPlan, Inc.	Jul-10	USD 3.1bn	Buyout	BC Partners, Silver Lake	US	Healthcare IT
RBS WorldPay	Aug-10	USD 2.7bn	Buyout	Advent International, Bain Capital	US	Financial Services
Abertis	Aug-10	EUR 1.72bn	Buyout	CVC Capital Partners, Grupo ACS	Spain	Industrial
Picard	Jul-10	EUR 1.5bn	Buyout	Lion Capital	France	Food
Visma	Sep-10	NOK 11bn	Buyout	Kohlberg Kravis Roberts	Norway	Software
Univar	Sep-10	USD 1.79bn	Buyout	Clayton Dubilier & Rice	US	Chemicals

Fig. 26: Five Notable Exits, Q3 2010

Company Name	Date Acquired	Firms Investing	Transaction Size	Exit Type	Exit Date	Sold To	Exit Transaction Size
TDC A/S	Jan-06	Apax Partners, Blackstone Group, Kohlberg Kravis Roberts, Permira, Providence Equity Partners	USD 12.8bn	Secondary Buyout Sale*	Sep-10	CVC Capital Partners	CHF 3.3bn*
Burger King	Dec-02	Bain Capital, Goldman Sachs Private Equity Group, TPG	USD 1.5bn	Sale to Investment Company	Sep-10	3G Capital	USD 3.26bn
MultiPlan, Inc.	Apr-06	Carlyle Group, Welsh Carson Anderson & Stowe	USD 1bn	Secondary Buyout Sale	Jul-10	BC Partners, Silver Lake	USD 3.1bn
Impress Cooperatieve	May-97	Doughty Hanson & Co		Trade Sale	Sep-10	Ardagh Glass Group	EUR 1.7bn
Intergraph Corporation	Nov-06	Hellman & Friedman, JMI Equity, TPG	USD 1.3bn	Trade Sale	Jul-10	Hexagon AB	USD 2.13bn

* Partial Exit

Dry Powder

Since the onset of the financial crisis in 2008 the amount of dry powder available to fund managers has declined across the entire private equity industry. In Q3 2010 fundraising remained slow while deal volume picked up, and as a result private equity dry powder levels decreased by 6% from the last quarter.

As Fig. 27 shows, between December 2008 and September 2010 the amount of dry powder available has decreased across all private equity fund types with the exception of distressed private equity. The most significant decrease has been for mezzanine funds, with the level of uncalled capital available to such funds decreasing by 11% between December 2008 and September 2010. The dry powder reserves of venture funds and buyout funds have decreased by 9% and 8% respectively in this period, while the level of dry powder available to real estate funds has decreased by 3%.

The split of dry powder by fund geographic focus in Fig. 28 shows that the uncalled capital available for investment primarily in North America has decreased by 8% between December 2008 and September 2010. During the same period the dry powder reserves of funds primarily focused on Europe and those primarily focused on Asia and Rest of World have decreased by 9% each.

Fig. 29 shows the amount of capital invested and dry powder remaining for buyout funds of vintages 2004-2010. The median investment period for buyout funds is five years, which means that vintage 2006 and 2007 funds will be nearing the end of their investment periods in the next few years.

Vintage 2006 funds, which will typically be reaching the end of their investment periods in 2011, still have $49bn of dry powder at their disposal, while vintage 2007 funds have $119bn. It is likely that fund managers will be keen to deploy this capital over the next two to three years, a factor contributing to the recent increase in deal activity.

Preqin's Fund Manager Profiles database lets you view current and historic dry powder levels across the global private equity industry. For more information about this product and how it can assist you, please visit: www.preqin.com/fmp

Fig. 27: Dry Powder by Fund Type, 2003 - 2010 YTD

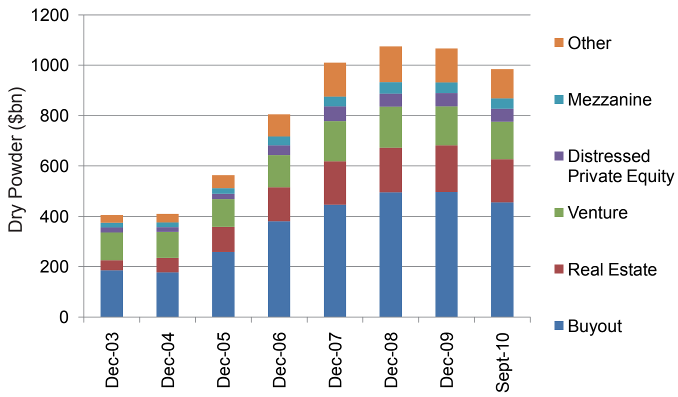


Fig. 28: Dry Powder by Primary Regional Focus, 2003 - 2010 YTD

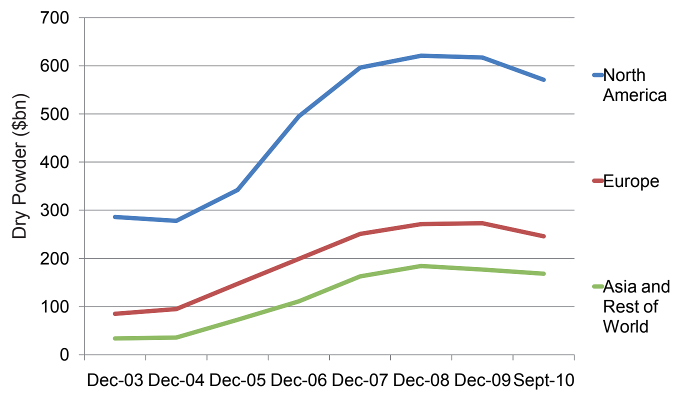
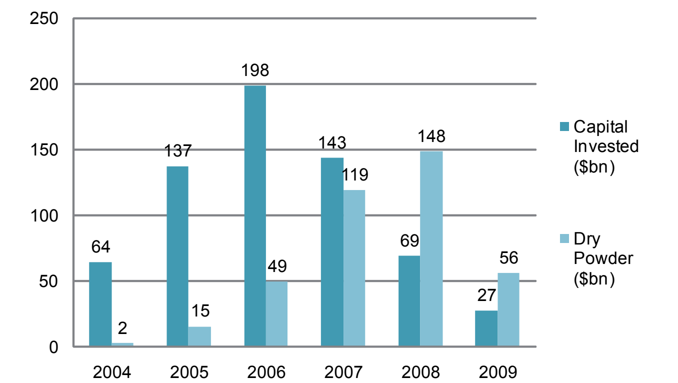


Fig. 29: Buyout Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of 31st December 2009



Performance Update

Using data from Performance Analyst, Preqin has analyzed the returns generated by private equity partnerships as at 31 March 2010 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 5,200 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 70% of all capital ever raised by the industry.

For more information on Performance Analyst, the private equity industry's leading source of fund performance data, please visit: www.preqin.com/pa

Fig. 30 shows the change in net asset value (NAV) between successive quarters from Q2 2009 to Q1 2010. The industry's fund valuations have consistently increased quarter on quarter throughout the period. The largest change occurred over Q3 2009, when the non-weighted average change in net asset value for all private equity funds was 4.1%, and the weighted change was 6.7%. This weighted change takes into account fund sizes, suggesting that larger funds have outperformed smaller funds in each of the four quarters shown. Q1 2010 data shows an increase of 2.2% in the weighted metric and 1.7% in the non-weighted. However, it is important to note that larger funds had previously been more adversely affected by the financial crisis than smaller funds.

Fig. 31 shows the horizon IRR of all private equity funds over the one-, three- and five-year periods compared to the returns achieved by three public indices benchmarks. The overall private equity horizon IRR for the one-year period to 31 March 2010 stands at 21.8%, an improvement on the 13.8% posted as of 31 December 2009 and significantly better than the -9.2% as of Q3 2009 and the -27.6% as of Q4 2008.

The one-year returns to Q1 2010 for the Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were 49.8%, 56.1% and 81.1% respectively, higher than the one-year private equity returns to Q1 2010. As with private equity, the public indices were all posting negative returns as of the first quarter of 2009 but have been improving since.

Over the three-year period, the returns achieved by all four indices are more closely bunched, and the private equity horizon IRR to 31 March 2010 is -0.3%, while the figure for the five-year period stands at 16.8%.The three- and five-year returns for the Standard & Poor's 500 were -4.2% and 1.9% respectively.

Fig. 30: All Private Equity Change in NAV by Quarter

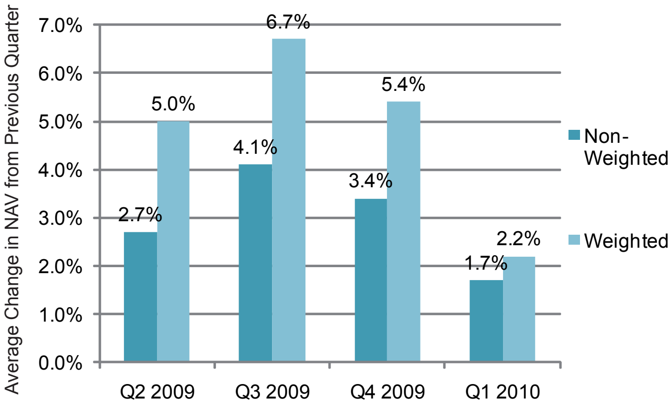
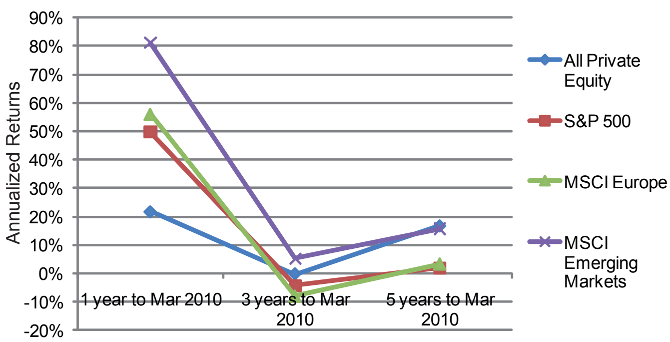


Fig. 31: Private Equity Horizon IRR vs. Public Indices, as of 31 March 2010



Preqin's Performance Analyst database contains full metrics for over 5,200 named vehicles. For more information about this product and how it can assist you, please visit: www.preqin.com/pa

Compensation at Private Equity Firms

Following improvements in the performance of private equity funds after the portfolio valuation lows in early 2009, this article, using data taken from the forthcoming 2011 Preqin Private Equity Compensation and Employment Review, takes a brief look at the changes in both base salaries and bonuses at private equity firms over the past year. The information is based upon a survey, conducted over the course of Q3 2010 in conjunction with leading compensation specialists FPL Associates, of more than 100 of the most prominent firms in the private equity industry today.

Fig. 32 shows how overall base salaries have changed between 2009 and 2010 at firms participating in the survey. It reveals that, at a firm-wide level, 44% of firms implemented a freeze in base salaries from 2009 to 2010. Nearly a third of firms had base salary increases of 1-5%, and less than a quarter of firms oversaw base salary increases of more than 5%. A small proportion of participating firms decreased base salaries over the period.

Another component of compensation to consider is the proportion of the targeted bonus pool that companies are paying out to their employees for performance. Fig. 33 shows that in calendar/fiscal year 2009, more than a quarter of participating firms did not pay out any of their budgeted bonus pool to employees. Overall, nearly half of firms paid out 50% or less of their target bonus pool, and 61% of firms paid out less than 100% of their budgeted pool.

Fig. 34 shows how participating firms' actual bonus pools compared to the previous year's payouts. The bonus payout decreased at 23% of participating firms and increased at 28%, remaining the same as the previous year at 49% of firms. The median decrease in the actual bonus pool from the previous, at firms reporting a decrease, was 42%, higher than the median increase at firms that reported an overall increase in the bonus pool, which stands at 23%.

The 2011 Preqin Private Equity Compensation and Employment Review contains information on the latest trends in private equity compensation and employment. For more information about this publication, please visit: www.preqin.com/compensation

Fig. 32: Breakdown of Average Firm-Wide Percentage Change in Base Salary between Calendar/Fiscal Year 2009 and Calendar/Fiscal Year 2010

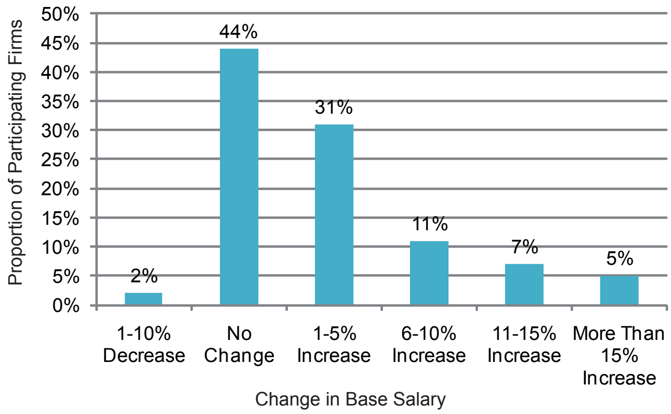


Fig. 33: Breakdown of Proportion of Budgeted/Target Bonus Pool Paid out for Performance in Calendar/Fiscal Year 2009

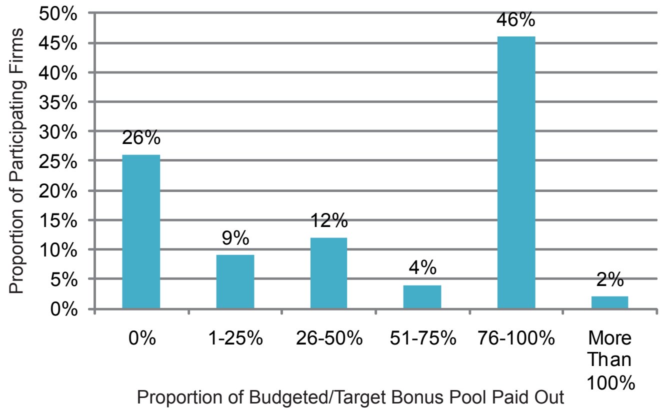
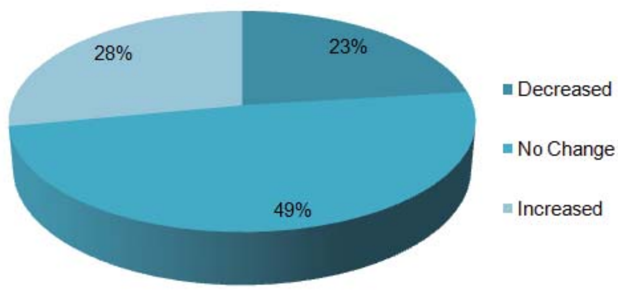


Fig. 34: Breakdown of How Participating Firms' Actual Bonus Pools for Performance in Calendar/Fiscal Year 2009 Changed Compared to the Previous Year



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