

Preqin Research Report Private Equity Performance Report Fund Performance Data as of Q4 2009

June 2010



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Data from Preqin's Performance Analyst has been used to analyze the returns generated by private equity partnerships as at 31 December 2009 to provide an independent and unbiased assessment of the industry's performance. Preqin currently holds transparent net-to-LP performance data for over 5,000 private equity funds of all types and geographic focus, over 65% of all capital ever raised in terms of aggregate value.

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

1. Private Equity Horizon IRR

1.1: Private Equity Performance vs. Public Indices

The overall private equity horizon IRR for the one-year period to December 31st, 2009 stands at 13.8%, a significant improvement on the -9.2% posted as at Q3 2009 or the -27.6% as at Q4 2008. It is important to note that private equity returns and portfolio valuations as of the end of 2008 were almost at their lowest point, being heavily affected by the financial crisis at the time. It is therefore not surprising that the one-year horizon returns are significantly different from those posted in the previous periods as market conditions have since improved.

The one-year returns to Q4 2009 for Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were 26.5%, 35.8% and 78.5% respectively. As with private equity, the public indices were all in negative territory as of December 31st, 2008 but have been improving steadily since.

Over the three-year period, the private equity horizon IRR to December 31st, 2009 is 0.3%, while the figure for the five-year period stands at 17.5%. The three- and five-year returns for Standard & Poor's 500 were -5.6% and 0.4% respectively.

It should be noted that any comparisons of private equity returns with those of public markets need to be viewed with caution. As an illiquid asset, private equity investors are committed for a long period of time and horizon returns are therefore not as relevant as they are for listed equities.

1.2: Private Equity Horizon IRR by Fund Type

As at Q4 2009, all private equity strategies are posting positive one-year returns. With a horizon IRR of 16.7%, buyout is posting the highest returns over the one-year period. Venture capital shows a one-year return of 5%, mezzanine 2.3% and fund of funds 0.2%.

Private equity three-year horizon IRRs are just above 0% for all fund

Fig. 1.1:

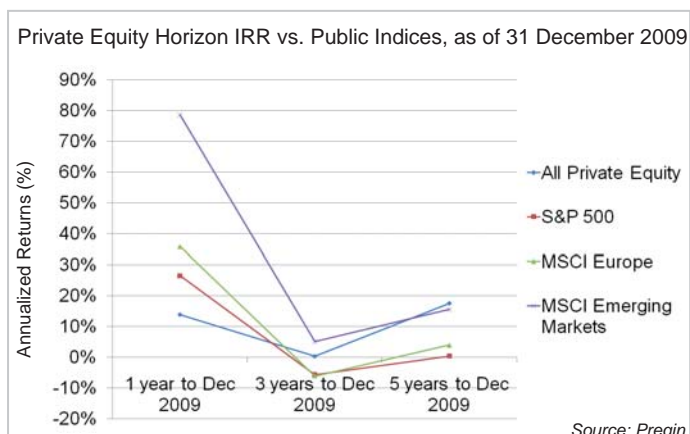
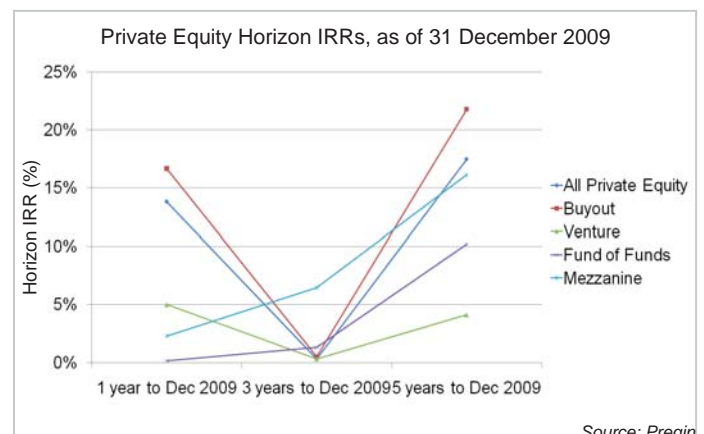


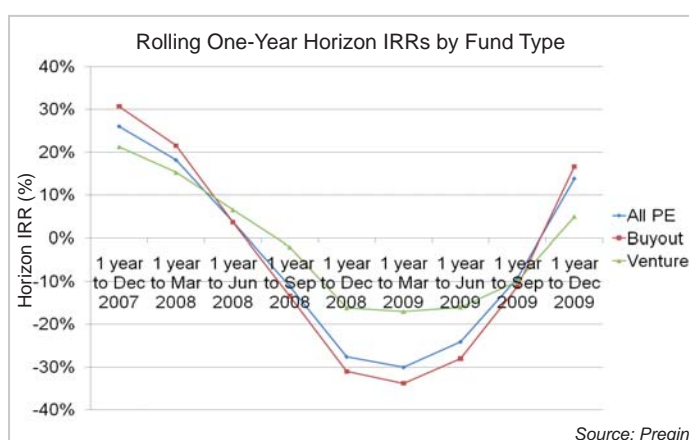
Fig. 1.2:



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Fig. 1.3:



types except mezzanine, which stands at 6.5%. Long-term returns remain strong, with private equity posting an annualized 17.5% over the five-year period. With a horizon IRR of 21.8%, buyout funds are posting the strongest returns over the five-year period.

1.3: Rolling One-Year Horizon IRRs

Over the last few years, one-year private equity returns have fluctuated greatly, going from posting positive to negative returns and then re-entering positive territory again. Standing at 26% in December 2007, the one-year horizon IRR for all private equity declined significantly in the quarters following this. In Q3 2008, it entered negative territory, and in March 2009 reached its lowest point at -30%. In the following quarters, returns remained negative but improved each quarter, moving to -24% in June 2009 to -9% in September 2009. As of December 2009, the one-year horizon IRR for all private equity was positive at 13.8%

As buyout funds account for a large of the capital in the private equity industry, one-year horizon IRRs for this fund type are very similar to those of the private equity industry as a whole. During the period observed, the one-year horizon IRR for venture capital funds has followed a similar trend but not varying to such extremes. The one-year horizon IRR for venture funds stood at 21% in December 2007, reached its lowest point at -17% in March 2009 and posted 5% in Q4 2009.

2. Change in Net Asset Value

2.1: Annual Change in NAV for 2009

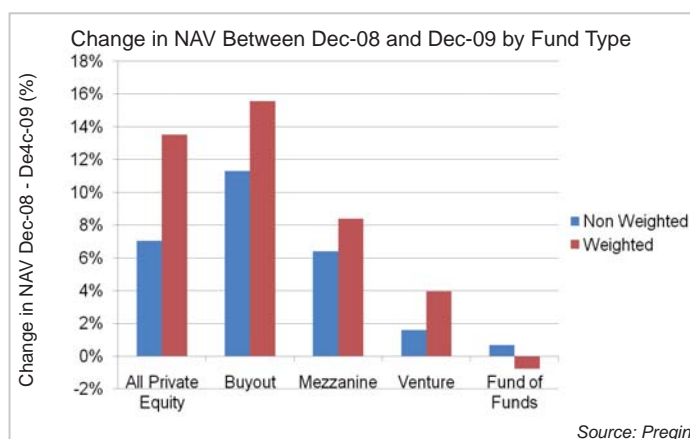
Fig. 2.1 illustrates how private equity fund valuations improved over the period December 31st 2008 to December 31st 2009. Looking at the weighted data, which takes into account fund size, all private equity performance showed an increase in NAV of 13.5% over the course of the year. This compares very favourably to the 15.8% decrease recorded in 2008. The performance of different fund strategies varies significantly; buyout funds experienced the largest improvement, posting an increase of 15.5%. Mezzanine posted an increase of 8.4% and venture capital 4.0%.

With the exception of fund of funds, all fund types show more improvement in their weighted NAV than their non-weighted. The all private equity non-weighted NAV increased by 7.0% compared to 13.5% for the weighted NAV. This indicates that larger funds have seen their valuations improving more significantly than smaller funds. It should be noted, however, that larger funds are recovering from a larger decrease in NAV.

2.2: Change in NAV by Quarter

Fund valuations showed almost no change in Q1 and Q2 2008,

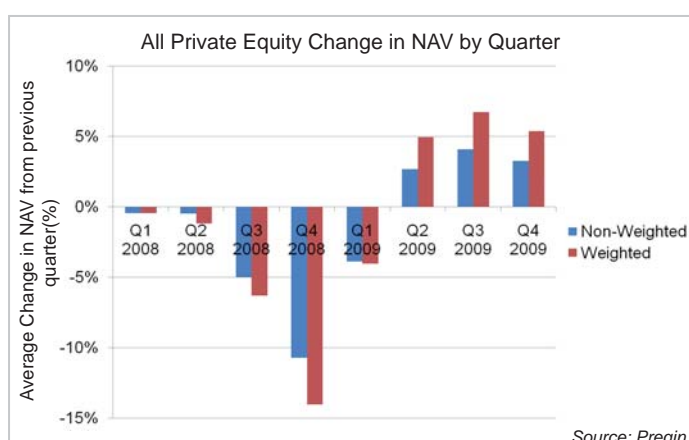
Fig. 2.1:



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Fig. 2.2:

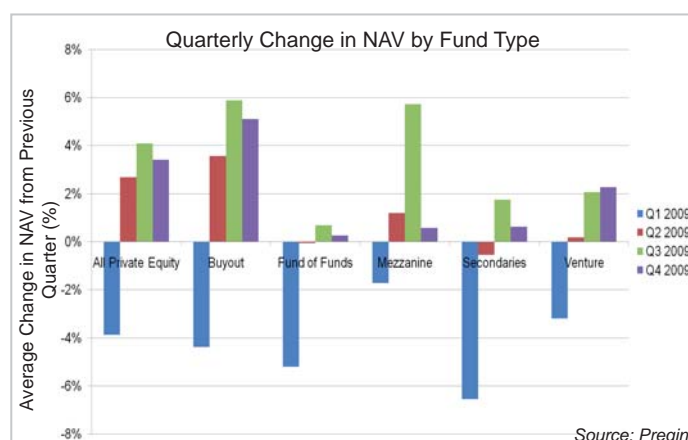


decreased steeply between Q3 2008 and Q1 2009, and started recovering in Q2 2009. The weighted quarterly change shows that the biggest quarter-on-quarter decline in NAV came in Q4 2008, when it decreased by 14%. In the first quarter of 2009 the decrease in NAV continued but was less pronounced. Fund valuations started to recover in the second quarter of 2009 and the largest improvements to NAV occurred over Q3 2009, when valuations increased by 6.7%. Up by 5.4% in the last quarter of the year, fund valuations were still improving at a good rate at the end of 2009.

2.3: Change in NAV by Fund Type

Fig. 2.3 illustrates the non-weighted changes in NAV across the private equity industry for each quarter in 2009. All fund types saw their NAVs decreasing in the first quarter of the year but the fund valuations of nearly all strategies increased in the three subsequent quarters. Buyout funds posted some of the highest quarter-on-quarter increases with 5.9% in Q3 and 5.1% in Q4. Having posted an increase of 5.7% in the third quarter, mezzanine valuations improved by 0.6% in the fourth quarter. NAVs for venture funds increased by about 2% in each of the last two quarters of the year. Funds of funds and secondary funds only show marginal increases in the second half of the year. It should be noted that there is often a quarter lag in the fund valuations of multi-fund strategies due to the reporting schedules of underlying funds.

Fig. 2.3:



2.4: Change in Buyout NAV by Fund Size

Fig. 2.4 shows the percentage change in net asset value from the previous quarter of mega, large, mid-market and small buyout funds. Mega buyout funds were the most affected by write downs; their portfolio value decreased by 21.9% in Q4 2008 and a further 6.6% in March 2009. Having recorded the largest quarter-on-quarter declines in NAV, mega buyout funds then posted some of the largest percentage gains as private equity valuations improved. The largest fund valuation improvements took place in the third quarter of 2009, as mega funds posted an increase of 9.4%, large buyouts 6.7%, and mid-market and small buyout funds 3.9% and 3.7% respectively. In the last quarter of 2009, funds of all sizes again posted an increase in their portfolio valuations, with the largest and smallest funds benefiting from higher mark-ups than other fund sizes.

III. Median Net IRR

3.1: Median Net IRR by Fund Type

Fig. 3.1 shows the benchmark median net IRRs as of Q4 2009 for the main private equity strategies by vintage year, showing how each strategy has performed historically. Venture funds generated median returns varying between 20% and 35% for the vintages 1995 to 1997. Median IRRs for venture capital are below 5% for most vintages from 1998 onwards as such funds were affected by the technology crash.

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Fig. 2.4:

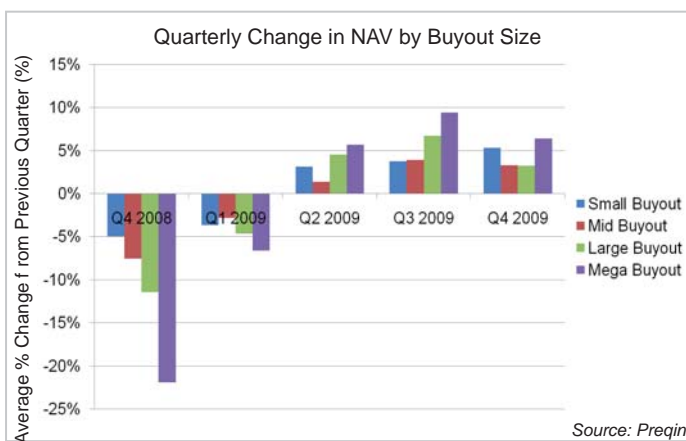
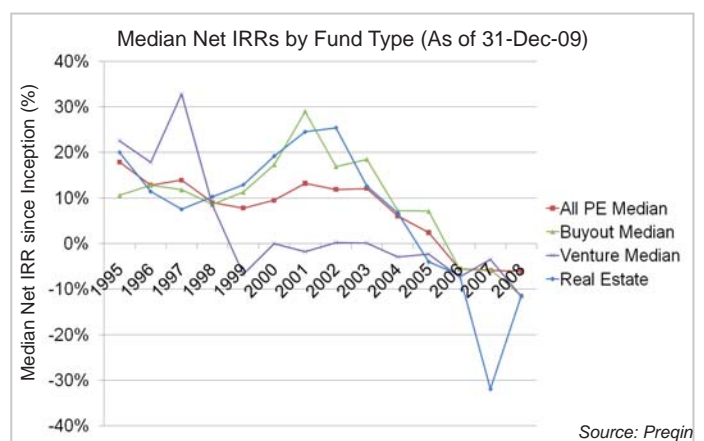


Fig. 3.1:



Buyout funds have median IRRs ranging between 10% and 20% for most vintages, and posted their highest median IRRs for funds of vintage 2001 at 29%. Recent vintages have been affected by the downturn, with median IRRs in the red for vintage 2006 onwards. These funds are still in the early stages of their fund lives and their performance is likely to improve over time as underlying investments mature. We have already seen the 2006 vintage year improve significantly over the course of 2009, and it is possible that we will see the median returns for this vintage moving into positive territory in coming quarters.

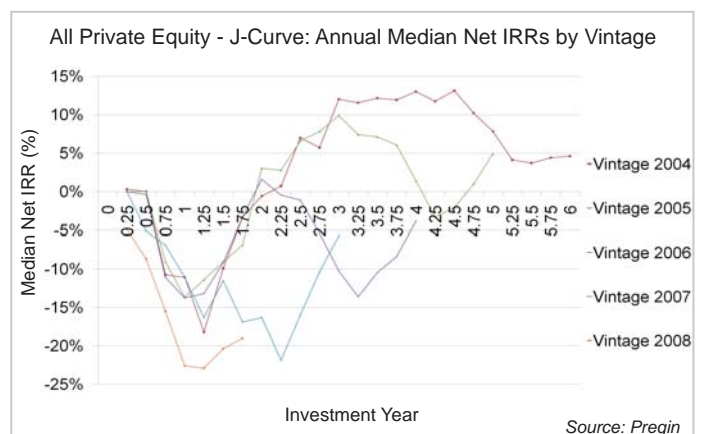
Conclusion

During the financial crisis the performance of private equity funds deteriorated considerably. Private equity managers had to significantly mark down their portfolio companies during the second half of 2008, resulting in substantial decreases in net asset values. Company valuations and private equity performance started to improve from the second quarter of 2009 and the industry has since continued its

3.2: J-Curves of Net IRR

Typically, private equity IRRs are negative in the first few years of a fund's life, increasing over time as investments are exited, and then stabilizing in the final years of the fund's life. IRRs following this trend form a J-curve trajectory. The financial crisis has differed these J-curves, which could now perhaps be better described as W-curves. Plotting the median net IRRs for each quarter end, Fig. 3.2 shows private equity J-curves for the vintages 2004 to 2008. The graph illustrates that private equity IRRs decreased steeply from September 2008, generally reaching their lowest point in Q1 2009. Since Q2 2009, net IRRs have improved but funds of vintage 2004 to 2006 have not yet reached the level at which they stood before the financial crisis. It is likely that IRRs will continue to improve over the following quarters but the J-curve pattern is now irreversibly modified.

Fig. 3.2:



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recovery. The release of December 2009 data confirms that private equity performance is still improving as the one-year horizon IRR turned positive again and fund valuations continued to increase at a fast rate in the last quarter of 2009. Even the 2006 buyout vintage, which was heavily affected by the global downturn, is now showing an improvement and is likely to move back into positive territory in the coming quarters. Although private equity is being outperformed by the public markets over the short term, over the long term private equity is providing strong returns, confirming the long-term attractiveness of the asset class.

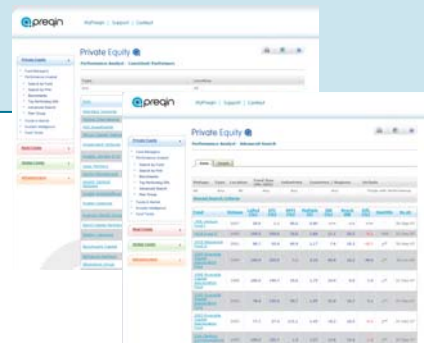
All of Preqin's benchmark performance showing median and quartile splits by type, size, region and more can be accessed for free by all private equity professionals on our Performance Benchmarks Online Service. To register, please visit: www.preqin.com/benchmarks

All the data used to create this report can be found on Preqin's Performance Analyst Online Database. Preqin's Performance Analyst is the most comprehensive, detailed source of private equity performance data available today. Preqin's team of analysts collect and monitor data from a number of different sources, including from GPs themselves, in order to provide the most comprehensive private equity performance data available today.

All of our Performance Data conforms to the same standardized metrics, with all data representing net to LP returns. We currently hold transparent net-to-LP performance data for over 5000 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 65% of all capital ever raised.

To register for a demo, please visit:

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Preqin regularly releases research and information on fundraising and all other aspects of the private equity industry as both research reports, and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit www.preqin.com/spotlight

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