

Preqin Research Report Private Equity Performance Report Fund Data as of Q1 2009

October 2009



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Using data from Preqin's Performance Analyst database of private equity fund performance, Preqin has analysed the returns generated by private equity partnerships as at 31 March 2009 in order to provide an independent and unbiased description of the industry performance. Preqin currently holds transparent net-to-LP performance data for over 4,800 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 65% of all capital ever raised.

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. Horizon IRR by Fund Type

All private equity strategies posted negative one-year returns for the period ending March 31, 2009. With a horizon IRR of -40.5%, private equity real estate is the worst performing private equity strategy, suffering from the aftershock of the sub-prime crash and the credit squeeze. Buyout funds were the second-worst performers, with a horizon IRR of -33.8% during the period. Other strategies have suffered less, with fund of funds

at around -20.0% and venture capital at -17.1%. Mezzanine, the only strategy that posted positive one-year returns in Q4 2008, is now also in the red, at -2.0%.

Mid- and long-term horizon IRRs are all in positive territory, with the exception of three-year real estate returns to March 2009, with an IRR of -4.0%. With 6.0% net returns over a three-year period, mid-term overall private equity returns have certainly been affected by the current crisis, but long-term performance remains strong, at 20.6% over five years.

1.2. Private Equity Returns vs. Public Indices

Compared to public indices, private equity is still generating better returns. As of March 31st, 2009, the one-year returns for the Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were -38.1%, -49.9% and -47.1% respectively, compared with -30.0% for private equity. Horizon IRRs for all private equity have also beaten these public indices over the three- and five-year periods, where private equity outperformed the S&P 500 by 19.1 percentage points over the three-year period and by 25.4 percentage points over the five-year period. All public indices were posting negative returns over a three-year period, while private equity was still showing positive returns of 6%.

Fig. 1.1:

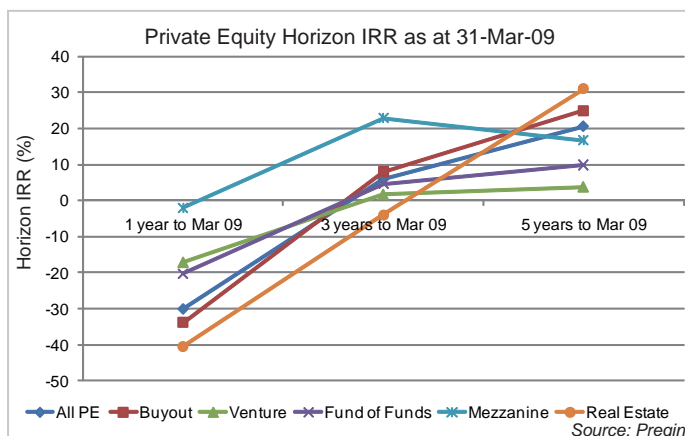
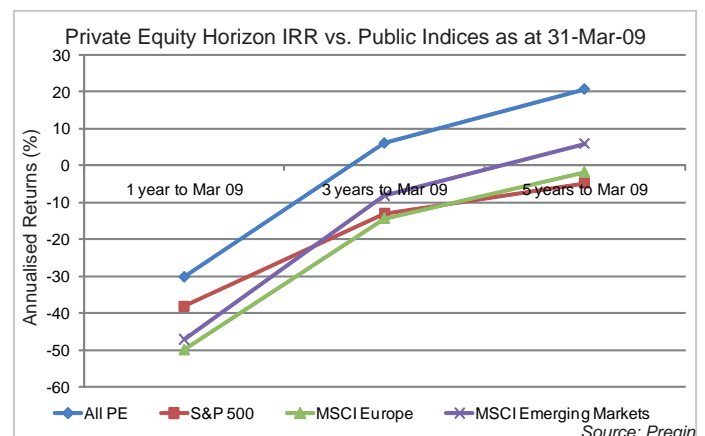


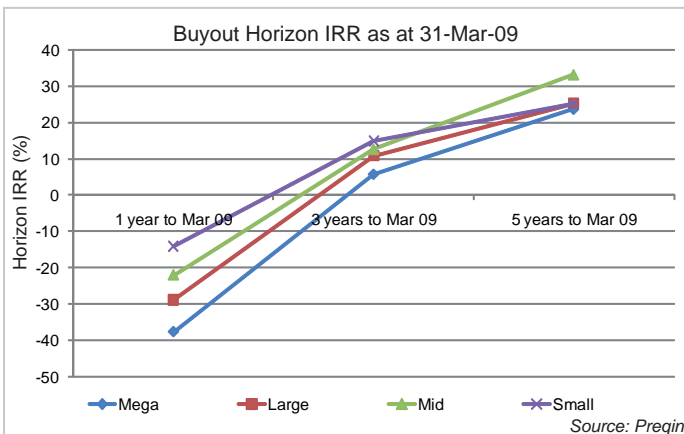
Fig. 1.2:



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Fig. 1.3:



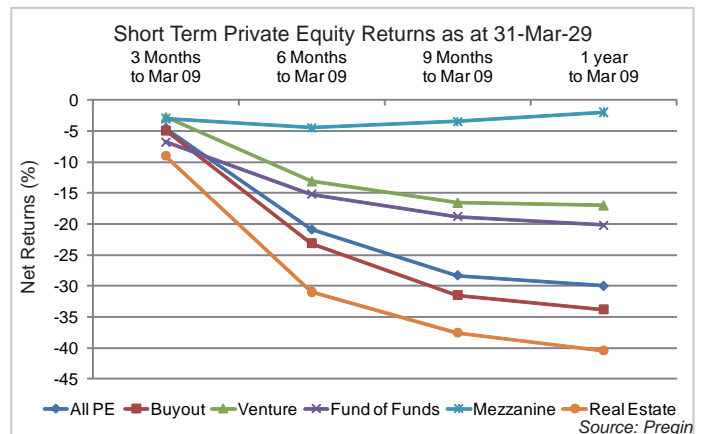
It should be noted, however, that comparisons made between the public indices and private equity at March 2009 are made at a particularly difficult period as the public markets bottomed out during this period. Furthermore, comparisons with public markets need to be viewed with caution as private equity remains an illiquid investment and horizon returns are therefore not as relevant as for listed equities.

1.3. Buyout Horizon IRR

The performance of buyout funds is critical as many LPs have a large amount of capital committed to such funds. Furthermore, the large nature of buyout funds means that they make up a large proportion of the private equity market and therefore the performance of these funds will closely resemble that of private equity overall. Breaking up buyout funds by fund capitalisation shows that they are posting significantly different returns according to their size.

Buyout funds of all sizes have generated comparable performances over a five-year period, but over the short term there is a far greater disparity between the returns being posted. Mega buyout funds are posting the lowest one-year returns at -37.6%, while small buyout funds are less negative, with -14.1% over the same period.

Fig. 1.4:



1.4. Short-Term Returns

Short-term private equity returns show that investors suffered their biggest loss in the fourth quarter of 2008 and although there were further declines in Q1 2009, they were nowhere near as severe as in the previous quarter. All types of private equity are still in the red, and as a result it is still too soon to declare that returns are improving. However, these results and the improving situation in the public markets following on from March 2009 are encouraging signs that the worst is over. Overall private equity returns stood at -30% for the one-year period to March 2009, reaching -28.3% (-37.7% annualised) over nine months, -20.9% (-41.8% annualised) over six months and posting -4.6% (-18.4% annualised) over three months. The three-month returns for all private equity strategies to March 2009 range between -3% and -9%. The long-term nature of private equity investments mean that short-term returns are not definitive indicators of the overall performance of the fund. They are useful to understand recent trends and developments but do not truly reflect how the industry is performing overall.

2. Change in Net Asset Value

The financial crisis coupled with the obligatory fair value methodology has seen the value of private equity funds fall, most notably since the third quarter of 2008 when Lehman

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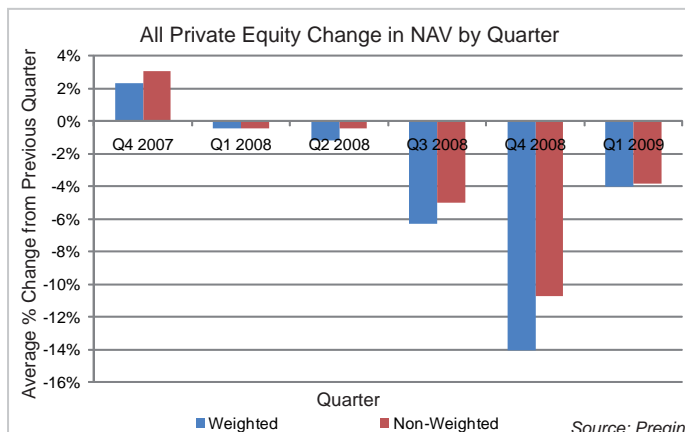
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Brothers collapsed. Although figures from March 2009 show valuations are still falling, the decline is not as severe as either the third or fourth quarter of 2008. The following analysis calculates the change in private equity net asset value between two successive quarters, making adjustments for the capital called and distributions received during that period.

2.1: All Private Equity Change in NAV by Quarter

Fig. 2.1 provides snapshots of the effects of the financial crisis on the industry, beginning with the credit crunch in December 2007. As shown by the graph, the effects of the credit crisis and falling public markets took some time to hit private equity valuations. Looking at the weighted change, which takes into account fund size and demonstrates the role larger funds have in the industry, fund valuations increased between Q3 and Q4 2007 by 2% and show almost no change in value in Q1 and Q2 2008. It is not until Q3 2008, the quarter in which Lehman Brothers filed for bankruptcy, that NAV starts to decline significantly quarter on quarter. The biggest quarter-on-quarter decline in average NAV came in Q4 2008, when it decreased by 14%. In Q1 2009 the decrease in fund valuations continued, but at a much slower rate, with a 4% average decrease measured between the last quarter in 2008 and the first quarter in 2009.

Fig. 2.1:



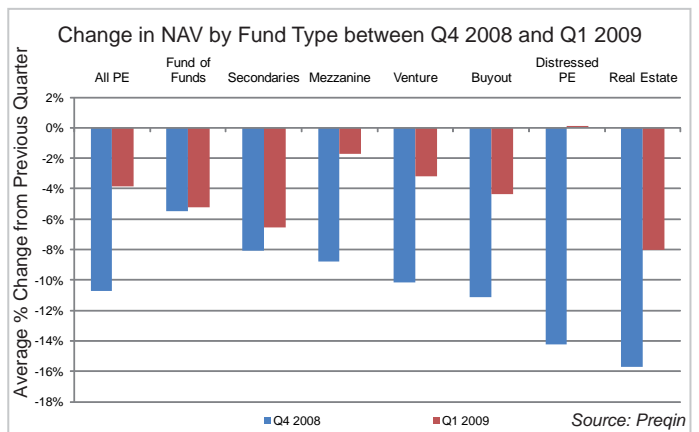
2.2: Change in NAV by Fund Type for Q4 2008 and Q1 2009

Analysing the quarterly change in net asset value by fund type demonstrates that real estate funds were the most affected, both in the last quarter of 2008 and in the first quarter of 2009. Real estate fund managers wrote down the value of their investments by 15.7% in Q4 2008 and a further 8.0% in Q1 2009. Distressed private equity suffered the second-largest quarter-on-quarter decline in NAV, falling by 14.2% in Q3 2008. Buyout and venture followed next, showing decreases in value of 11.1% and 10.2% respectively in Q4 2008 and further declines of 4.4% and 3.2% respectively in Q1 2009. Funds of funds and secondary funds of funds showed the least change in value compared to other fund types; however they still show quarterly changes of -5.5% in Q4 2008 and -5.2% in Q1 2009 for funds of funds and -8.1% and -6.5% respectively for secondaries. This may be a result of a quarter lag in the valuation of some of the underlying portfolio funds.

2.3: Change in NAV by Vintage Year for Q4 2008 and Q1 2009

Fig. 2.3 shows that, on average, the NAV of vintage 2002 funds suffered the greatest decline in both quarters, with 15.1% in Q4 2008 and 6.9% in Q1 2009. 2004 vintage funds were the next

Fig. 2.2:



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Fig. 2.3:

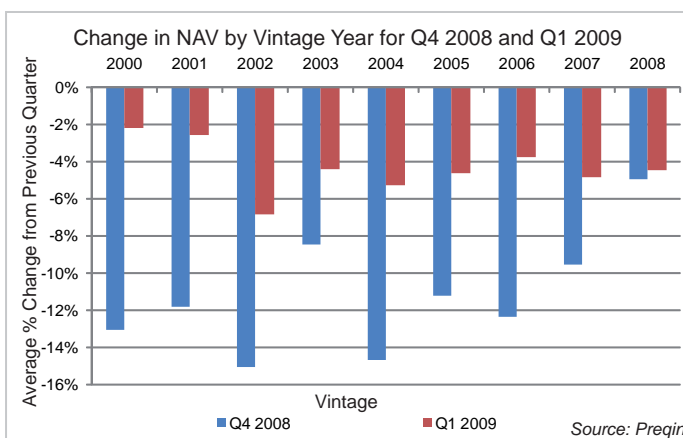
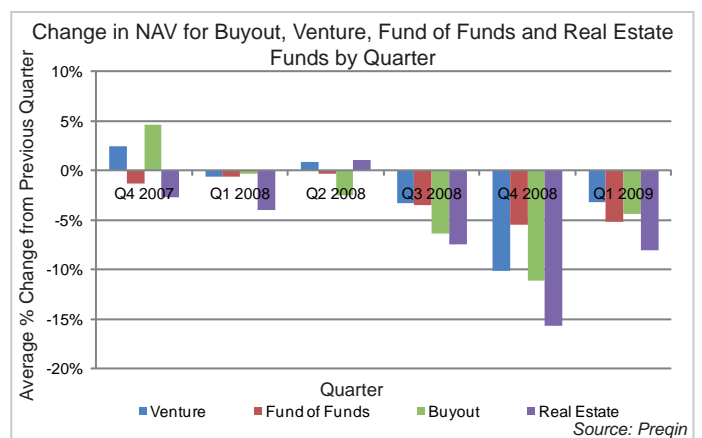


Fig. 2.4:



hardest hit as fund managers devalued their portfolios by 14.7% in the fourth quarter of 2008 and a further 5.3% in Q1 2009. The vintages 2005 and 2006, the ones with the most significant proportions of unrealised portfolio, have lost 11.3% and 12.4% of their value respectively in Q4 2008 and a further 4.7% and 3.8% respectively in Q1 2009. The most recent vintage, 2008, shows quarterly changes of -5.0% and -4.5% in December 2008 and March 2009 respectively. It is natural for recent vintages to show losses in the early stage of their investment life since it takes time before the effects of the fund managers' expertise become tangible.

2.4: Change in NAV for Buyout, Venture, Fund of Funds and Real Estate Funds by Quarter

Fig. 2.4 depicts the quarterly change in value for buyout, venture, fund of funds and real estate focused funds between December 2007 and March 2009. Private equity real estate funds have been the most severely affected in the industry, with write downs beginning in December 2007, after the onset of the subprime mortgage crisis, and continuing until March 2009, despite a respite in Q2 2008, when the strategy showed marginal signs of improvement as valuations increased by 1.0%. The fourth quarter of 2008 has by far the sharpest decline in portfolio valuations as fund managers wrote down their investments by 15.7%, and there was a further 8.0% in March

2009. Venture valuations decreased by 10.2% in Q4 2008 and by 3.2% in Q1 2009. Fund of funds managers saw little variation in their portfolio values between Q4 2007 and Q2 2008, but have started to show tangible write downs since September 2008. Buyout funds had a 4.6% increase in value between September and December 2007 and did not start to decline quarter on quarter until Q2 2008, which was followed by large write downs in September 2008, December 2008 and March 2009.

2.5: Quarterly Change in Buyout NAV by Fund Size

Breaking down the buyout industry by fund size shows that buyout funds are posting significantly different returns according to their sizes. Fig. 2.5 provides an overview of the quarterly changes for buyout funds from December 2007 to March 2009, illustrating the especially big effect that the crisis has had on the NAVs of the largest funds. Across the industry, December 2007 valuations were positive, with all fund sizes showing an increase in value from the previous quarter. Negative changes were recorded in Q1 2008 for mid-market and mega funds, with all sizes measuring quarter-on-quarter declines by Q3 2008. As they use less leverage, small buyout funds are less prone to the adverse effects of the current economic crisis and fund revaluation techniques, and have shown better returns during the period observed. Despite the fact that their valuations have

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Fig. 2.5:

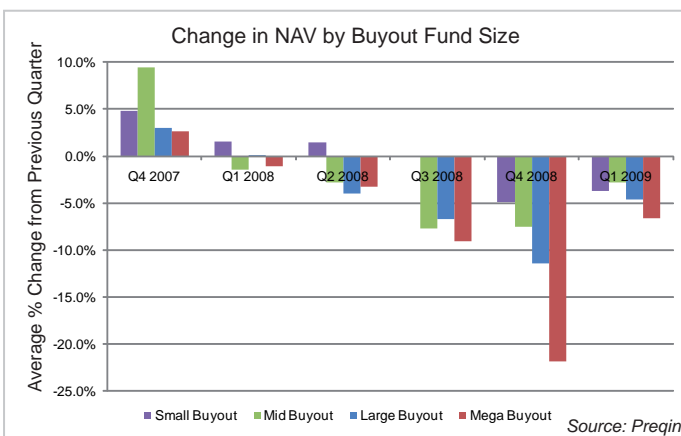
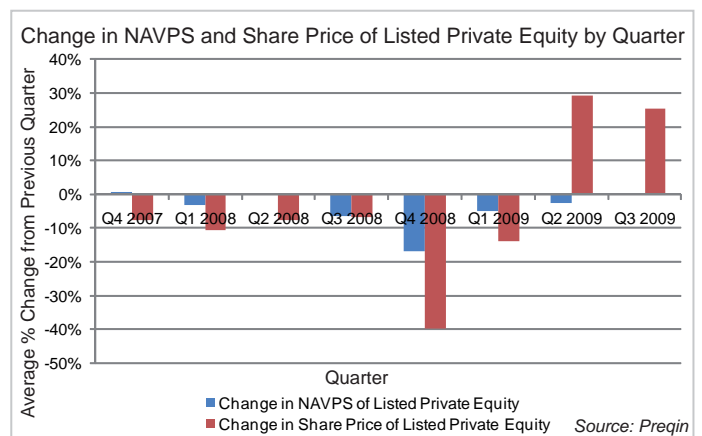


Fig. 3.1:



decreased quarter on quarter, they have not suffered such big declines as large and mega buyouts. The first quarter of 2009 shows a relatively smaller quarter-on-quarter decrease of around 4% across all fund sizes.

3. Listed Private Equity: Trends & Developments

The listed private equity industry provides an alternative to traditional private equity funds, allowing any potential investors to gain exposure to the industry. All investment strategies are represented by various listed private equity funds, making the sector directly comparable to unlisted private equity. Preqin analyses performance metrics for approximately 100 listed private equity vehicles.

3.1: Average Change in NAVPS and Share Price of Listed Private Equity by Quarter

The changes in listed private equity net asset value per share (NAVPS) are strongly correlated to that of traditional private equity funds, registering very little change in Q4 2007, Q1 2008 and Q2 2008. In Q3 2008, listed private equity companies devalued their average NAVPS by 6.3%; however the most significant change was in December 2008, when the industry complied with fair market valuation techniques and the NAVPS dropped by 17%. To date, there are no NAVPS figures available

for September 2009, as companies have not released their Q3 financial reports. The quarterly changes in share prices reflect the trends seen in the NAVPS but their variations are much more extreme. December 2008 was also the lowest point for investors, with a decline of 39.6% in the share price and a further decline of 14.0% in the first quarter of 2009. During Q2 and Q3 2009, the share prices increased very rapidly, by 29.2% in June and 25.4% in September 2009.

3.2: Listed Private Equity Share Prices (rebased at 100 as of 31 December 2007)

Fig. 3.2 displays the changes in listed private equity share prices by fund type from December 2007 to date. The share prices were rebased to 100 in December 2007. The trends set by traditional private equity funds are again mirrored in this graph – December 2007 marks the peak in prices and some variation in the share prices follows in the first, second and third quarters of 2008. December 2008 shows a steep drop in the share price average and this trend continues until Q1 2009, which marks the lowest point for all the fund types. However, since March 2009 the industry has shown signs of recovery, with share prices steadily increasing, a trend which should be reflected in the unlisted private equity industry.

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Fig. 3.2:

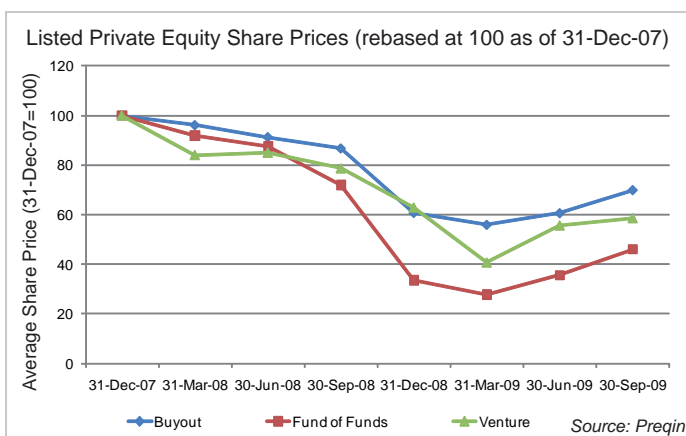
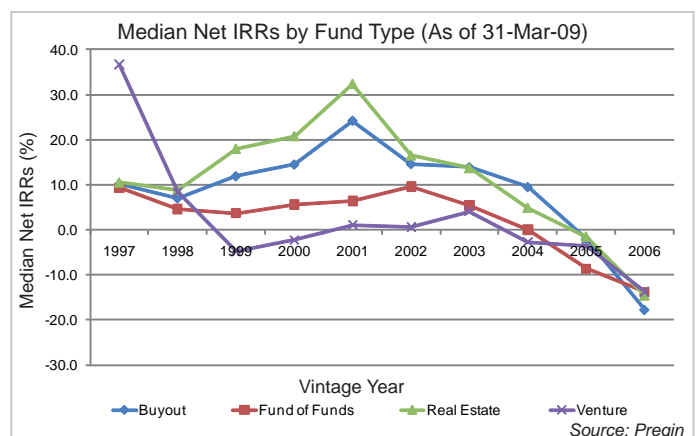


Fig. 4.1:



4. Median Net IRRs Since Inception (Data as of March 2009)

4.1: Median Net IRRs by Fund Type (As of 31 March 2009)

Fig. 4.1 shows the benchmark median net IRRs for the main private equity strategies by vintage year, illustrating that most types of funds have performed well historically. With a 36.7% median IRR, venture funds of vintage 1997 generated the best median return for the period observed. The second and third best median returns have been produced by funds with a 2001 vintage: real estate funds have generated 32.4% while buyout funds have a median IRR of 24.2%. Funds with 2001 vintages have produced the greatest spread of returns: the median real estate fund is above 30% and venture funds are in the red, after the effects of the technology crash. The returns for 2002 vintage funds and onwards are closely grouped together, particularly for the most recent vintages. 2005 and 2006 vintages are showing the effects of the credit crisis, with all median IRRs in negative territory. It must be emphasised that these funds are still relatively immature and their performance should improve over time as underlying investments mature and are realised.

Preqin Performance Data and Analysis

Evidence shows that private equity performance was still in decline during Q1 2009, but that the rate of decline had slowed considerably from 2008. Considering the medium- to long-term performance, the asset class is still showing healthy returns and clearly outperforms public indices. Private equity is certainly experiencing one of its most difficult periods but the rapid drops in valuations seen during Q4 2008 are slowing, leading us to believe that the worst is over.

The data used for this research has been taken from Preqin's Performance Analyst database, and Preqin's Performance Benchmarks products. For more information, please visit: www.preqin.com/performance

Preqin's Performance Benchmarks are now available free of charge. To register, please visit: www.preqin.com/benchmarks

Data Source

Preqin's Performance Analyst

October 2009

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.

This high level of coverage enables us to produce the most meaningful benchmarking and comparative tools available in the industry. Key features of this powerful database include:

- View performance data on-line: for private equity funds worldwide. Compare individual funds against each other and the appropriate benchmarks.
- Compare funds of all types: venture, buyout, mezzanine, distressed, special situations, real estate, natural resources; fund-of-funds, secondary.
- Assess key performance data for each fund: size, vintage, type, called-up, distributed, unrealised value, multiple, IRR.
- View historic performance for over 15,000 data points to assess how performance data has changed overtime (Premium access required).
- Keep current with developments: with monthly updates you always have access to the latest data.
- View cash flow graphs for over 1,700 funds: assess how quickly funds have called and distributed capital and what their net cash flow position is.
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- Median, pool, weighted and average Benchmarks: view fully transparent market benchmarks by fund type and region focus. Benchmarks data for called-up, distribution, value and top, median and bottom quartile IRRs and multiples.
- Top Performing GPs: view a list of firms who have consistently had funds ranked in the 1st and 2nd quartiles.
- Download: data to spreadsheet for further analysis.
- Create a tailored peer group: of funds for comparative purposes.

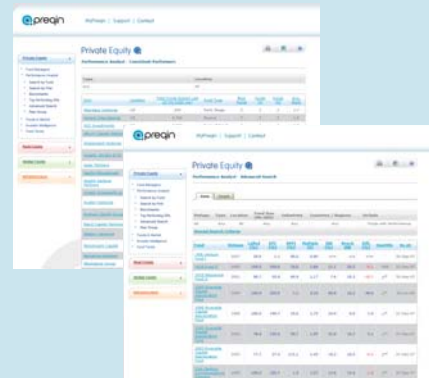
All of our Performance Data conforms to the same standardized metrics, with all data representing net to LP returns. We currently hold transparent net-to-LP performance data for over 4,800 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 65% of all capital ever raised. To register for a trial, please visit:

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Or contact us at our New York or London offices:

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Preqin

About the Company

Preqin private equity provides information products and services to private equity and venture capital firms, fund of funds, investors, placement agents, law firms, investment banks and advisors across six main areas:

- Fund Performance
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles
- Compensation

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