2011 Global Private Equity Report

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2011: A Year of Recovery?
- Tim Friedman, Preqin

2010 saw activity in the private equity-backed buyout market recovering to reach the kind of levels not seen since the onset of the financial crisis. Q4 in particular represented a very strong quarter, with $64bn of new deals announced – the highest since Q2 2008 – and $72bn in exits – the highest quarter of all time. 2011 is already continuing on a similar path, with high-profile deals such as Thomas H. Lee's buyout of Acosta and Advent's buyout of The Priory Group in the pipeline, and a number of high profile IPOs and other exits also slated.

The story in the fundraising market was less encouraging, with the $225bn raised over the course of the year being the lowest total since 2004. However, fundraising is to an extent a lagging indicator. Funds, especially in the current environment, take some time to raise, and the dearth of new vehicles achieving a final close is more a reflection of lacking institutional investor confidence in 2009 than anything else. Although the 2009 fundraising figures are higher, a considerable amount of funds that held a final close during that period gathered the majority of their commitments before Lehman Brothers went under in late 2008.

With institutional investors remaining reluctant to commit new capital, the difficulties seen in the fundraising market of 2009 led to many prominent fund managers delaying fundraising efforts until investor sentiment and cash flow became more positive. As a result, although the number of funds out there remained relatively high, many of the larger, more established firms were holding back, and the number of funds on road fell.

The success stories of firms such as Inflexion (raising £375mn within four months of launch), and Atlas Capital Holdings (closing nearly 50% above target on $365mn) show that for firms with strong past performance and a well-informed, strong investor base, fundraising was indeed possible, and in quick time at, or even above, targeted amounts. This is certainly encouraging news for a number of other firms planning to launch funds this year. The significant pick-up in activity is leading to capital now being pulled through the private equity cash cycle once again, and as a result, it will be necessary for investors to make new investments if they wish to maintain their allocations to the asset class. In December 2010 we interviewed 100 leading LPs from around the world, revealing that not only do the majority of investors intend to at least maintain their exposure to private equity (96%), 37% actually expect to increase allocations in the longer term. In terms of their planned activity, 78% expect to match or exceed 2010 investment levels, with 45% expecting to commit more capital in 2011 compared with 2010.

Of course, the other effect of the increase in investment activity is that many fund managers are now running low on dry powder, and will need to hit the road in order to gain the new commitments that will allow them to invest in new companies in the current cycle. We have already seen major firms such as BC Partners, Vestar Capital Management and Berkshire Partners initiating new fundraising activity, while other significant firms including Providence Equity Partners are also primed to launch.

In recent months the total number and value of funds on the road has increased following two years of slow decline, and this total is certain to increase further in 2011. Although there are more investor dollars out there, they are being spent with more care and consideration than ever before, and there are still nowhere near enough to satisfy the ambitions of the 1,600 firms seeking $600bn worldwide.

Consolidation in the private equity industry is a long process, and it is only now that the total number of active private equity firms is starting to decline in certain sectors, as firms that last raised capital at the turn of the millennium reach the tail-end of their lifecycles and slowly close up shop, with not so many new firms being established to replace them. With the last major fundraising cycle being seen between 2005 and 2008, the majority of firms that are not able to raise new capital in the current market will still continue to operate for a number of years yet – some coming back to market in the future while others only continuing to operate as long as they still hold an investment portfolio.

For those that are able to communicate strong past performance and a compelling investment strategy for the current environment, they will find fundraising to be possible, but those entering the market will find an investor community which has changed significantly since the bumper conditions of four years ago. Investors are looking to reduce the number of existing relationships they hold, and will be scrutinizing re-ups with great care. Nothing is guaranteed.

Looking at geographies, Asia and other emerging markets such as Latin America will grow to represent a major part of the portfolio for a large number of institutions. European managers had a particularly challenging year in 2010, and with AIFM legislation serving to add additional burden to managers and investors alike, 2011 could again present difficulties for the industry. US managers should see conditions steadily improving as certain institutions look to put capital to work for the first time since 2008.

In terms of strategy, mid-market funds, distressed vehicles, and growth and development capital funds will represent popular strategies, and we are also likely to see an uptick in secondaries activity as fund prices stabilize and specialist players such as Coller and Lexington raise additional capital to add to the significant reserves gathered by other prominent firms in recent years.

We have already seen an increase in the levels of capital being called up and distributed, and we expect such activity to remain at a relatively high level as firms put remaining dry powder from older vintages to work and exit some of the investments made during the previous cycle. The recovery in fund NAVs is expected to continue, and

Deal-Driven Optimism
- Simon Walker, Chief Executive, BVCA

As the private equity industry limbers up for a fresh bout of fundraising, it's worth taking a moment over how far the industry has come over the last 12 months. At the tail end of 2008, Boston Consulting Group made the much-publicised prediction that up to 50% of all companies backed by private equity funds would default on their debts, and as many as 40% of buyout firms would cease to exist.

The reality, clearly, has failed to be quite so apocalyptic. Certainly there have been failures, both at portfolio company and fund level, but the degree to which our industry, in general, was able to withstand the worst that the economic storm threw at us deserves to be recognised.

Private equity leaves the recession looking quite different to how it went in. Debt to equity multiples are probably the most obvious indications that today's buyout market is not all about enormous leverage, but there are other, more subtle signs. In particular, the increasingly hands-on role private equity funds now take in their portfolio companies. A result of the economic pressures of the last three plus years, it has become imperative for buyout firms to actively get involved in the operations of their portfolio investments by setting out business plans, establishing financial targets and ensuring interests are aligned between the management team and the private equity firm.

And as 2010 drew to a close, such a strategy started to reap rewards with a huge surge in divestments. There were over US$70bn of private equity exits globally in the final quarter of the year, the highest quarterly figure on record.

Investments are also on the up, with European deal flow in Q4 almost 40% higher than the same period last year. The opening few weeks of 2011 have demonstrated a similar resurgence with a number of deals finalised or announced.

It is against such a backdrop of increased activity that private equity professionals are allowing themselves a degree of optimism for the year ahead. Cautious optimism of course, but there is now a real sense that the worst is behind us and all are eager to get investing, owning and building businesses.

This is not to say there will not be challenges ahead. Banks are still reluctant to loan, and although debt prices have edged down, it is still expensive. Trade buyers are slowly coming back into the market, and they are expected to do so significantly in 2011 and 2012, but it is likely to be more of a trickle than a wave for the short term. And of course the public markets. Certainly no friend to private equity in 2010, it is hoped IPOs will prove a more viable alternative for divesting buyout houses than they have been for the last three years.

In the face of an unwelcoming public market and a paucity of trade buyers, private equity firms turned to each other to exit. Secondary buyouts came to dominate the exit statistics last year and they are likely to remain a significant source of deal flow for some time to come. And so they should. A number of secondary buyouts occur between funds that operate at different levels in the market – Bridgepoint selling Pets at Home to KKR is probably the most high-profile example – where the original investor has taken the business as far as it can and it requires funding levels and an international exposure that only a global buyout house can bring.

Exposure was something European regulators were especially keen on in 2010. The single most important piece of legislation to directly affect our industry was ratified last year, but whilst many of the worst aspects of the Alternative Investment Fund Managers (AIFM) Directive were mitigated, there are still areas of concern and the road between political approval and legal implementation is likely to be a long and difficult one. The process now enters its second stage, which is concerned with translating the Directive into national law, something which could take up to two years. The BVCA, along with its European counterparts the EVCA, will dedicate much of its time to a forensic involvement in the critical implementation phase of this exercise.

The other big challenge for the year ahead will be fundraising, as I alluded to at the beginning. With the next cycle set to kick off any minute now, it will be a real test of investor commitment. There is no doubt that some funds will struggle. But I am supremely confident the industry will continue to thrive and not, as our dear friends in Boston predicted, fall by the wayside.

Fig. 3.3: Estimated Private Equity Employment by City

City*	Estimated Total Employment
New York	11,500
London	7,000
San Francisco**	4,000
Boston	3,000
Los Angeles	2,300
Paris	2,200
Chicago	1,900
Washington	1,400
Hong Kong	1,100
Dallas	1,000

*Based upon location of head office for each firm
** Includes Menlo Park, Palo Alto and San Mateo

Fig. 3.4: Estimated Private Equity Employment by Firm Type

Firm Type*	Estimated Total Employment
Buyout	22,500
Venture	21,500
Real Estate	12,200
Private Equity Fund of Funds	5,300
Distressed Private Equity	3,700
Infrastructure	2,700
Mezzanine	2,100
Other	3,000
Total	**73,000**

*Based upon main firm strategy

Number of Employees at Private Equity Firms by City

Fig. 3.3 shows the estimated employment at private equity firms by city. New York tops the list, with more than 11,000 people employed by firms headquartered in the city. London is second, with an estimated 7,000 private equity professionals. Four out of the top five cities are in the US, with San Francisco, Boston and Los Angeles following London in the list.

Number of Employees at Private Equity Firms by Firm Type

Fig. 3.4 shows estimated employment at private equity firms for each of the main private equity strategies. Buyout and venture firms employ the largest numbers of people, with each firm type having a total of more than 20,000 employees. Real estate is the next largest, with an estimated 12,200 people employed at real estate firms. Private equity fund of funds managers have an estimated 5,300 employees worldwide.

Average Number of Employees at Private Equity Firms by Assets under Management

The number of staff employed by a private equity firm varies significantly with assets under management, as shown in Fig. 3.5. Firms with less than $250mn in assets under management have an average of 10.4 employees, while firms with $10bn or more in total assets employ an average of 194.6 people.

There are significant economies of scale to be enjoyed by the larger private equity firms, and such firms typically have fewer staff per $1bn in assets under management than their smaller counterparts. Fig. 3.5 shows that firms with less than $250mn in assets under management employ, on average, the equivalent of 92.3 members of staff per $1bn in assets, i.e. $10.8mn managed per employee. For firms with $10bn or more in total assets, this falls to just 9.3 employees per $1bn, or one employee for every $107.5mn managed.

Since the management fees that private equity firms collect are usually calculated as a percentage of total investor commitments to a firm's funds, one would expect that the percentage rates charged by firms managing the largest funds would be less than those charged by firms managing smaller funds. This is generally the case, but the slightly lower fees only partially reflect the economies of scale that the larger firms benefit from. As a result, the operating economics of the largest funds are very favourable and the management fees earned by these vehicles have become a significant source of income for their managers.

Share of Total Private Equity Employment by Assets under Management

Fig. 3.6 gives a breakdown of total employment at buyout and venture firms by firm assets under management. Four-fifths of venture employees work for venture firms with less than $1bn in assets under management, a much higher proportion than the figure for buyouts firms. Just over a third of all buyout firm employees work for firms with less than $1bn in assets under management, while a significant 40% work for firms with $5bn or more in total assets.

Fig. 3.5: Average Number of Employees by Firm Assets under Management

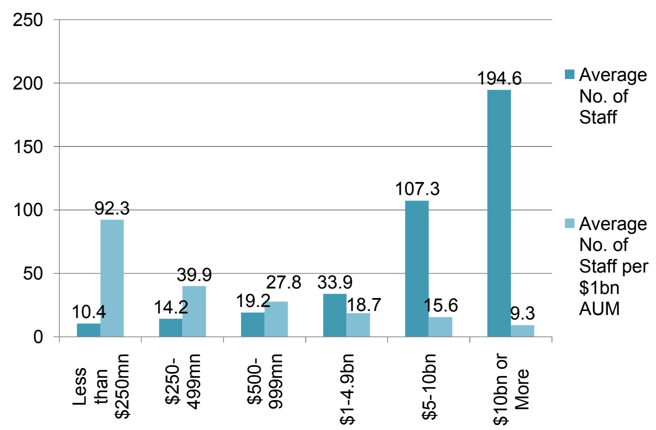


Fig. 3.6: Share of Total Industry Employees for Buyout and Venture Firms by Firm Assets under Management

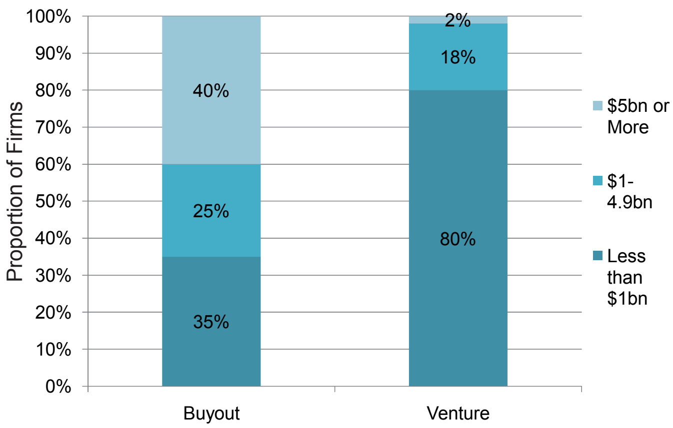


Fig. 4.3: Annual Private Equity Capital Raised: New vs. Existing GPs

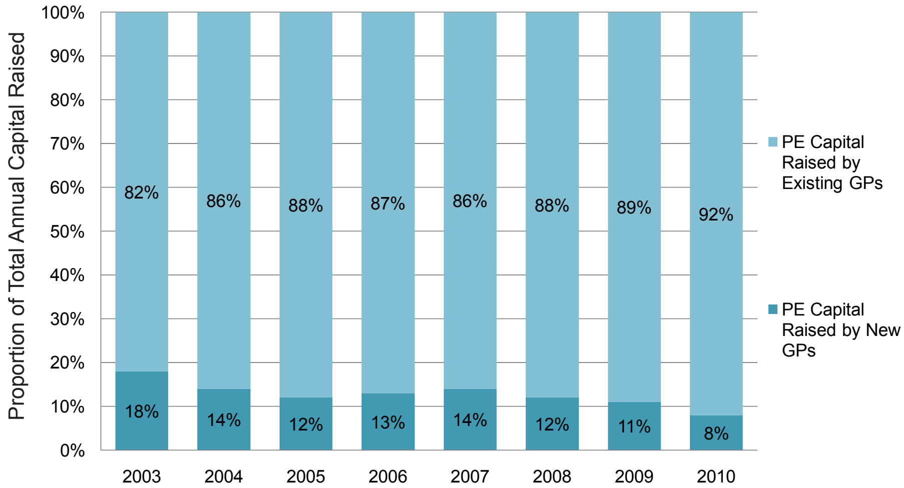


Fig. 4.4: Buyout - 20 Largest GPs by Total Funds Raised in the Last 10 Years

Rank	Firm Name	Total Funds Raised Last 10 Years ($bn)	GP Location
1	Kohlberg Kravis Roberts	46.7	US
2	TPG	46.5	US
3	Blackstone Group	41.7	US
4	Carlyle Group	40.6	US
5	CVC Capital Partners	37.0	UK
6	Apollo Global Management	30.6	US
7	Bain Capital	29.1	US
8	Goldman Sachs Merchant Banking Division	28.8	US
9	Apax Partners	24.8	UK
10	Advent International	21.7	US
11	Hellman & Friedman	20.7	US
12	Permira	18.0	UK
13	Providence Equity Partners	16.4	US
14	JC Flowers & Co	14.4	US
15	Silver Lake	14.1	US
16	Charterhouse Capital Partners	13.1	UK
17	Bridgepoint Capital	12.8	UK
18	Cinven	12.6	UK
19	EQT Partners	10.9	Sweden
20	Madison Dearborn Partners	10.3	US

Fig. 4.5: Buyout - 20 Largest GPs by Estimated Dry Powder

Rank	Firm Name	Estimated Dry Powder ($bn)	GP Location
1	TPG	18.2	US
2	Carlyle Group	16.6	US
3	CVC Capital Partners	15.2	UK
4	Blackstone Group	15.2	US
5	Goldman Sachs Merchant Banking Division	13.4	US
6	Bain Capital	10.4	US
7	Hellman & Friedman	10.1	US
8	Advent International	9.6	US
9	Kohlberg Kravis Roberts	9.3	US
10	Apollo Global Management	8.9	US
11	Charterhouse Capital Partners	8.0	UK
12	Apax Partners	6.5	UK
13	Bridgepoint Capital	5.8	UK
14	Silver Lake	5.6	US
15	JC Flowers & Co	4.8	US
16	TA Associates	4.7	US
17	Lindsay Goldberg	4.3	US
18	Kelso & Company	4.1	US
19	Thomas H Lee Partners	4.0	US
20	Golden Gate Capital	4.0	US

Mezzanine GPs
Key Stats and Facts

Fig. 4.22: Breakdown of Mezzanine Firms by Number of Funds Raised

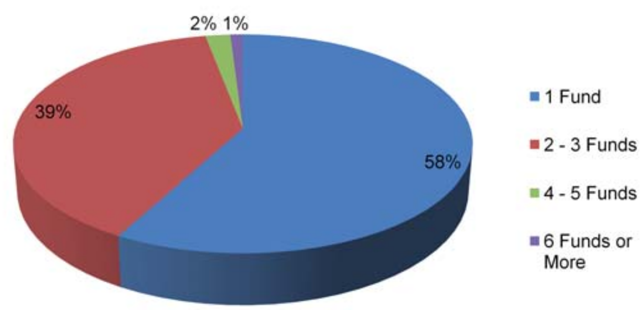


Fig. 4.23: Number of Firms Actively Managing Mezzanine Funds by Country

GP Location	No. of Firms
US	120
UK	14
France	11
Canada	8
Italy	4

Fig. 4.24: Mezzanine Firms' Industry Preferences for Underlying Investments

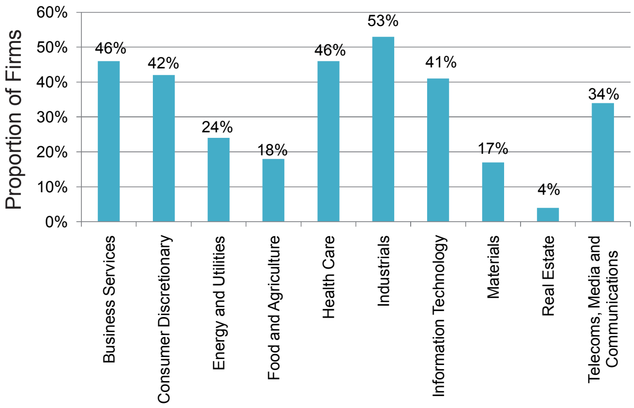


Fig. 4.25: 10 Largest Mezzanine Funds Raised of All Time

Fund	Firm Name	Year Raised	Amount Closed (bn)	GP Location
GS Mezzanine Partners V	Goldman Sachs Merchant Banking Division	2008	13.0 USD	US
GS Mezzanine Partners 2006	Goldman Sachs Merchant Banking Division	2006	5.3 USD	US
TCW / Crescent Mezzanine V	TCW Group	2008	2.9 USD	US
TCW Energy Fund XIV	TCW Group	2008	2.6 USD	US
GS Mezzanine Partners III	Goldman Sachs Merchant Banking Division	2003	2.0 USD	US
GSO Capital Opportunities Fund	Blackstone Group	2008	2.0 USD	US
ICG European Fund 2006	Intermediate Capital Group	2007	1.3 EUR	UK
TCW / Crescent Mezzanine IV	TCW Group	2006	1.6 USD	US
Tower Square Capital Partners III	Babson Capital Management	2008	1.6 USD	US
DLJ Investment Partners III	Credit Suisse Customized Fund Investment Group	2007	1.5 USD	US

European Fundraising

Overview

Fundraising for Europe-focused funds was challenging in 2010, with 122 funds raising an aggregate $50bn, down from $82bn raised by 189 funds in 2009.

Breakdown by Type of Funds

Europe-focused private equity fundraising was led by buyout funds, with 28 buyout vehicles raising over $16bn and accounting for nearly a third of capital raised by funds focusing on the region in 2010. Aggregate capital commitments to Europe-focused buyout funds fell by nearly 40% from the previous year, although the number of funds raised has seen only a marginal decrease.

Venture funds focusing on the region saw the highest number of final closes of the fund types in 2010. Despite the number of final closes dropping from 49 in 2009 to 29 in 2010, venture funds still accounted for 24% of all private equity funds primarily targeting Europe. In terms of aggregate capital, venture vehicles raised over $5bn in 2010, a slight decrease from just over $6bn raised in 2009.

Not as abundant as venture funds, but holding a larger share in terms of capital raised, were infrastructure funds. The number of Europe-focused infrastructure vehicles closing increased significantly from four in 2009 to 13 in 2010, and the aggregate capital raised by the funds increased from $2.6bn to $8bn.

Fund Size Breakdown

The average size of private equity funds targeting Europe in 2010 was $436mn, a decrease on the average size in 2009 of $487mn. In 2010 there were 13 funds primarily focusing on Europe that recorded a final close of $1bn or more, accounting for nearly 50% of the aggregate capital raised by funds focused on Europe. The largest fund was Pantheon Global Secondary Fund IV, which closed on just over €2.3bn and accounted for 6% of the capital raised by all Europe focused funds in 2010.

Predictions for 2011

Europe-focused fundraising generally decreased over the four quarters of 2010, from over $19.5bn raised in the first quarter to approximately $6.5bn in the fourth quarter. Despite the unfavourable fundraising climate over the past two years, there are signs there could be an upturn in 2011. There are currently 391 European-focused funds on the road seeking nearly $147bn in capital and nearly half of these have already had at least one interim close, indicating a certain level of momentum in the market.

Fig. 5.15: Annual Europe-Focused Fundraising, 2005 - 2010

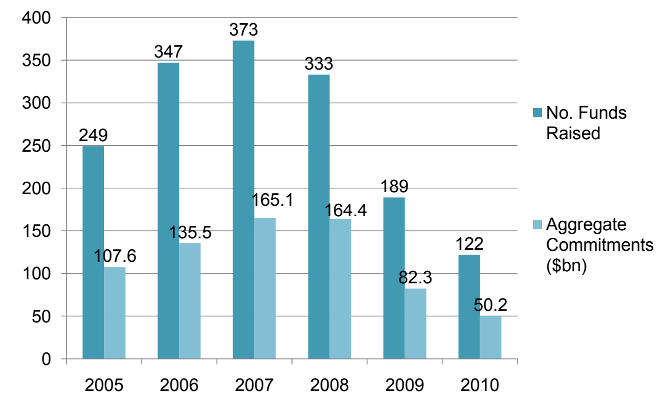


Fig. 5.14: 10 Largest Europe-Focused Funds Closed in 2010

Fund	Fund Type	Amount Closed (€mn)
Pantheon Global Secondary Fund IV	Secondaries	2,311
Triton Fund III	Buyout	2,250
HgCapital 6	Buyout	2,180
Apollo European Principal Finance Fund	Distressed Debt	1,400
3i Growth Capital Fund	Growth	1,200
Macquarie European Infrastructure Fund III	Infrastructure	1,200
Antin Infrastructure Fund	Infrastructure	1,100
Cube Infrastructure Fund	Infrastructure	1,080
ATP Private Equity Partners IV	Fund of Funds	1,000
Crown Global Secondaries II	Secondaries	954

Private Equity Benchmarks

Fund Type: Buyout
Geographic Focus: All Regions
Benchmark Type: Median
As At: 30 Jun 10

Vintage	No. Funds	Median Fund			Mutliple Quartiles (X)			IRR Quartiles (%)			IRR Max/Min (%)	
		Called (%)	Dist (%) DPI	Value (%) RVPI	Q1	Median	Q3	Q1	Median	Q3	Max	Min
2010	14	13.2	0.0	87.0	0.92	0.87	0.13	n/m	n/m	n/m	n/m	n/m
2009	20	16.2	0.0	85.3	1.04	0.88	0.80	n/m	n/m	n/m	n/m	n/m
2008	54	31.2	1.0	92.0	1.09	0.98	0.80	8.4	-1.5	-20.6	45.8	-62.2
2007	68	49.9	0.7	94.8	1.16	0.99	0.86	7.4	-0.1	-7.1	22.6	-42.6
2006	65	77.3	5.4	86.7	1.11	0.97	0.81	4.5	-1.9	-9.8	33.0	-64.7
2005	75	88.7	25.2	83.6	1.44	1.17	1.02	13.0	5.9	0.8	76.9	-17.7
2004	36	91.4	43.1	83.3	1.74	1.37	1.15	25.0	13.5	5.6	85.9	-5.7
2003	26	92.5	78.1	70.7	2.00	1.66	1.37	30.1	17.0	11.2	91.0	-16.2
2002	26	95.4	111.7	36.3	2.07	1.62	1.35	33.5	17.6	8.8	51.9	-34.3
2001	30	95.8	163.3	36.9	2.64	2.00	1.50	40.0	28.1	13.2	95.4	9.0
2000	63	97.0	142.2	34.9	2.20	1.79	1.45	24.6	20.5	12.0	57.5	-8.9
1999	47	97.4	135.9	9.1	1.89	1.52	1.12	17.0	8.7	5.0	27.0	-25.1
1998	56	99.7	130.8	4.5	1.78	1.47	0.95	14.4	8.0	-2.4	31.3	-100.0
1997	43	100.0	148.7	0.0	2.12	1.56	1.14	19.9	9.6	2.7	84.5	-11.2
1996	25	99.4	134.2	0.2	2.06	1.54	1.07	23.3	9.6	0.9	147.4	-16.2
1995	28	100.0	150.0	0.0	2.19	1.56	1.14	25.4	10.7	2.7	59.9	-15.5
1994	32	100.0	197.2	0.0	2.47	1.97	1.53	37.4	22.6	12.8	92.2	-1.1
1993	20	100.0	196.0	0.0	2.63	2.02	1.61	25.3	17.8	10.2	58.0	0.8
1992	19	100.0	192.0	0.0	2.39	1.93	1.30	29.6	21.2	7.9	58.1	-49.9
1991	11	100.0	221.8	0.0	3.17	2.22	2.09	30.6	25.0	21.7	54.7	-0.5
1990	23	100.0	207.2	0.0	2.72	2.07	1.54	26.0	15.4	7.9	70.0	2.4

Fund Type: Buyout by Fund Size
Geographic Focus: All Regions
Benchmark Type: Median

Vintage	Mega Buyout				Large Buyout				Mid-Market Buyout				Small Buyout			
	Median		Weighted		Median		Weighted		Median		Weighted		Median		Weighted	
	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)
2010	n/m	n/m	0.00	n/m	0.46	n/m	0.55	n/m	0.21	n/m	0.43	n/m	0.15	n/m	0.44	n/m
2009	n/m	n/m	0.94	n/m	0.85	n/m	0.85	n/m	0.89	n/m	0.80	n/m	1.03	n/m	0.73	n/m
2008	0.82	-8.1	0.97	-4.7	1.02	2.9	1.03	6.1	0.89	-10.8	0.86	-13.2	0.99	-0.5	0.94	-2.5
2007	0.97	-1.3	0.90	-3.7	1.00	0.0	0.98	-2.8	1.04	4.2	1.02	-1.2	0.95	0.2	0.94	-1.2
2006	0.88	-5.9	0.86	-7.3	0.97	-1.7	0.92	-4.5	0.96	-1.0	0.94	-3.0	1.01	-0.6	0.99	-3.9
2005	1.30	8.8	1.31	7.6	1.02	0.7	1.13	8.6	1.12	5.7	1.16	6.5	1.33	12.1	1.28	13.1
2004	1.37	8.7	1.47	14.9	1.26	13.5	1.32	21.8	1.41	13.3	1.59	19.9	1.24	9.1	1.51	12.1
2003	1.72	23.1	1.87	26.5	1.75	17.6	1.80	29.3	1.68	16.6	1.72	21.0	1.44	10.2	1.55	11.4
2002	1.83	34.1	1.79	28.6	1.75	22.5	1.73	19.6	1.61	15.3	1.58	16.8	1.54	18.6	1.71	21.5
2001	2.32	33.6	2.38	32.7	1.65	21.1	2.06	23.9	1.92	28.0	2.07	27.6	2.42	31.2	2.16	25.9
2000	1.81	18.1	1.90	16.9	1.62	14.2	1.61	14.7	1.91	21.3	1.84	20.6	2.01	18.5	1.83	16.4
1999	1.64	12.0	1.59	9.7	1.38	-0.8	1.42	-0.5	1.51	9.1	1.55	10.6	1.38	12.8	1.36	10.0
1998	1.38	8.0	1.41	5.4	1.39	9.3	1.35	3.5	1.37	7.5	1.38	1.8	1.65	9.7	1.73	11.2
1997	1.58	9.9	1.36	5.5	1.64	9.0	1.75	18.2	1.05	1.3	1.10	2.8	1.58	9.3	1.47	7.8
1996	-	-	-	-	1.40	8.3	1.50	10.3	1.49	9.3	1.49	12.3	1.80	15.2	1.75	15.8
1995	-	-	-	-	1.58	10.7	1.74	16.5	1.31	-1.5	1.51	3.4	1.56	17.6	1.93	19.4
1994	-	-	-	-	1.72	36.3	1.86	37.5	1.95	25.1	2.27	28.1	1.92	19.0	2.01	19.3

Definitions used for mega, large, mid-market, and small buyout funds:	Small	Mid	Large	Mega
Vintage 92-96	≤ $200mn	$201-500mn	> $500mn	-
Vintage 97-04	≤ $300mn	$301-750mn	$751-2,000mn	> $2,000mn
Vintage 05-10	≤ $500mn	$501-1,500mn	$1,501-4,500mn	> $4,500mn

preqin
alternative assets. intelligent data.

Investor Appetite
for Private Equity in 2011

December 2010 LP Survey Results

The onset of the financial crisis saw private equity fundraising become a much more challenging prospect for fund managers. Many institutional investors that had previously been active in the asset class placed their investments on hold and GPs struggled to raise capital for new vehicles.

Fundraising remained extremely difficult in 2010with $225bn raised in the year, less than the $296bn raised in the same period the year before.

To gain an indication of what can be expected in terms of fundraising in 2011, Preqin interviewed a global sample of 100 institutional investors in private equity in December 2010 in order to assess their current attitudes to the market and their plans for future investments in the asset class.

Low Levels of Activity in 2010

Last year's survey, conducted in December 2009, found that 40% of LPs had opted not to make any new commitments to private equity funds over the course of that year. Little changed in 2010; 42% of respondents to our December 2010 survey told us they had not made a single commitment to a fund during 2010.

The vast majority of investors are currently at or above their target allocations to private equity. As Fig. 10.11 shows, 13% of investors are exceeding their target allocations. The proportion of LPs that have yet to reach their target allocations has fallen by 12 percentage points from 45% in December 2009 to 33% in December 2010 and more LPs are finding themselves at their targeted level of exposure to the asset class.

When the responses from LPs in different regions are compared, a considerable 18% of North American LPs are exceeding their target allocations, significantly more than the 10% of European respondents and 11% of Asia and Rest of World respondents

Fig. 10.11: Proportion of Investors Currently At, Above or Below Their Target Allocations to Private Equity

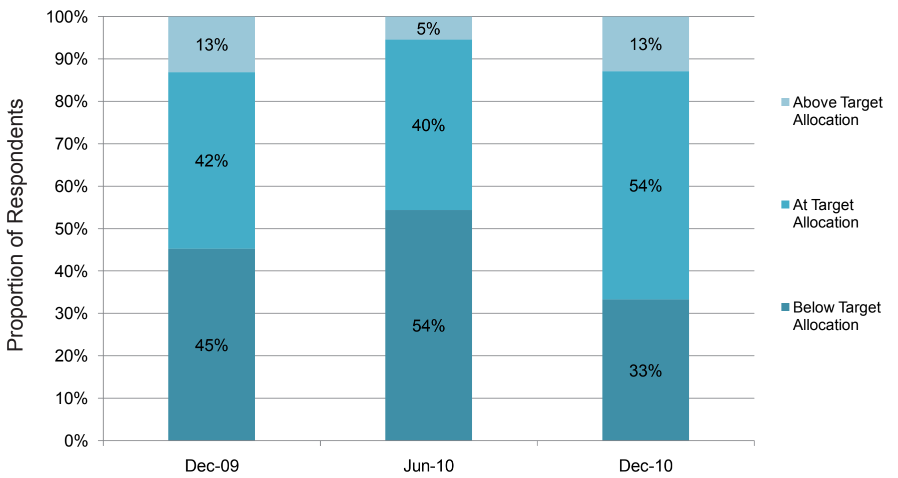
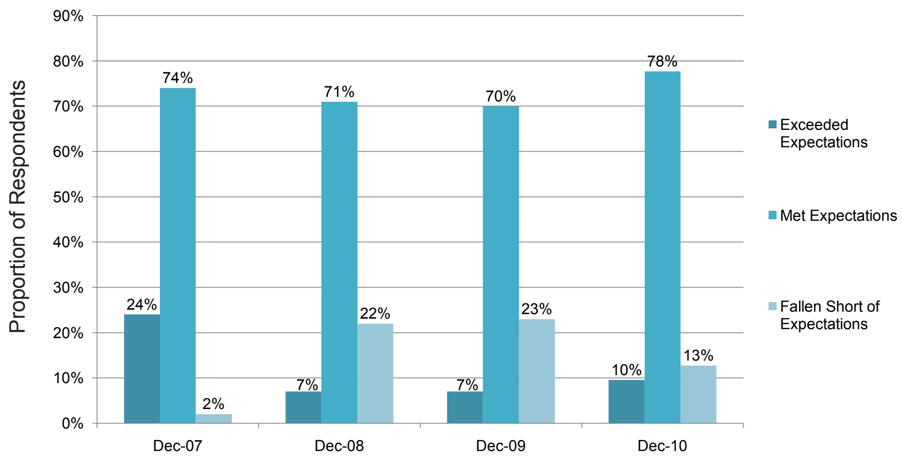


Fig. 10.12: Proportion of Investors That Feel Their Private Equity Fund Investments Have Lived Up to Expectations



that are also over-allocated to private equity. 40% of European investors are in fact below their target allocations.

LPs' Returns Expectations

Over the past couple of years, LPs have seen the valuations of many of their private equity fund investments fall significantly. Despite this, the vast majority feel their private equity investments have met or exceeded their expectations. Fig. 10.12 shows how investors' levels of satisfaction with their private equity investments have changed over the past few years. In December 2007, 24% of LPs felt their private equity investments had exceeded their expectations. In

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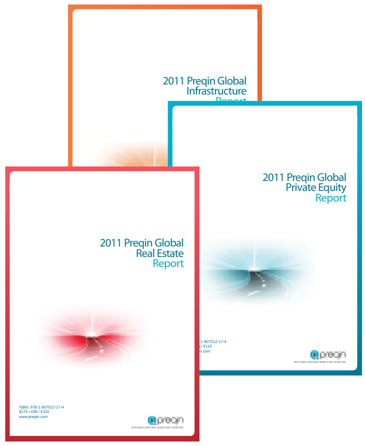

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