The 2010 Preqin Global Private Equity Report

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Dear Spotlight Reader,

It's traditional to wish people 'Happy New Year' in January, so we'd like to do that – but will 2010 be a happy new year for the private equity industry?

We think so.

Make no mistake, 2008-2009 took most of us by surprise. Not perhaps the downturn itself, but the sheer severity of it, and the scary correlations across almost all assets and markets. However, the private equity industry by and large followed Winston Churchill's famous advice ("If you're going through Hell, keep going"), focused on portfolio companies and investor communications, and is now well-placed to prosper in 2010 and beyond:

- Yes, fund returns suffered, but appear to have passed the worst, and private equity still outperforms over the medium and longer term. Critics speculated that the 'model was broken' – far from it: it has been stress-tested and come through;
- LPs recognise this. Many can't commit to new funds right now, but most plan to maintain or increase their allocations over the medium term (see our survey on page 17), and know that investments made this year and next should perform well;
- Dealflow shows signs of improving, and the industry has plenty of dry powder to invest.

In short, private equity wasn't part of the problem, but it's certainly part of the solution.

This month's Spotlight takes stock of some of the key issues for the industry, and looks to the year ahead. It draws heavily on our 2010 Global Private Equity Report, published on February 1st.

We appreciate your support over the past year, and will be striving to serve you with data and information to assist you in your business and investments in the year ahead.

So: Happy New Year!

Mark O'Hare

Private Equity • Real Estate • Hedge Funds • Infrastructure

Private Equity Spotlight

January 2010 / Volume 6 - Issue 1

preqin
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Welcome to the latest edition of Private Equity Spotlight, the monthly newsletter from Preqin providing insights into private equity performance, investors and fundraising. Private Equity Spotlight combines information from our online products Performance Analyst, Investor Intelligence, Fund Manager Profiles and Funds in Market.

Private Equity in 2010

If you would like to receive Private Equity Spotlight each month please email spotlight@preqin.com.

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Private Equity:
New Opportunities, New Dynamic

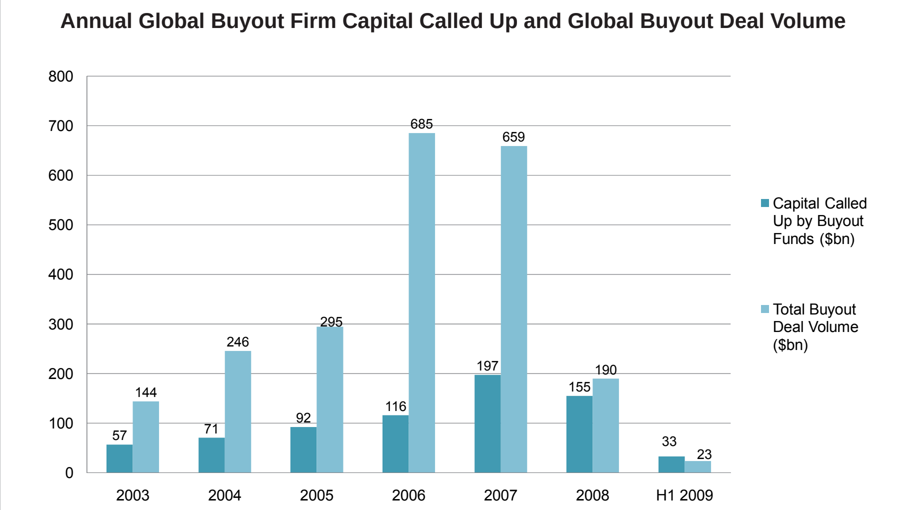
2009 proved to be an extremely challenging year for private equity. The asset class experienced a severe drop in deal flow volume in 2009, accompanied by a significant downward adjustment in valuations for portfolio companies, and the lowest level of new fundraising since 2004. The reversal of fortunes in the previously buoyant debt markets and the changing relationship between private equity and banks has been at the root of many of the issues affecting the industry, with the larger end of the fund manager scale experiencing the most dramatic change in market conditions.

Fig. 1 shows the amount of capital called up by buyout firms from their investors during the course of each year, and the total buyout deal volume by year, for 2003 – H1 2009. For 2006 in particular, the ratio between buyout deal value and call up value was significantly higher than in previous years. The increased ratio between the two values suggests that deals done during this year were highly leveraged, using only a small equity component when financing deals. In contrast, for 2008 and 2009, the two values are much closer aligned, suggesting that deals were being done using significantly less leverage than before. The call-up value for the first half of 2009 is actually higher than the deal volume, suggesting that firms were mostly spending capital on existing portfolio investments, which would not count towards the deal total.

Not only has financing for new deals been an issue, but financial management for existing investments has also presented a major worry. Banks have been focusing on bolstering their balance sheets, and have been unwilling to accept write-downs or forgive breaches of loan covenants set during more prosperous times, making it extremely challenging to restructure financing for existing portfolio investments. As a result of these challenging conditions, deal flow for private equity deals has fallen significantly. The total value for new private equity-backed deals taking place in 2009 was $77bn, a 61% reduction from 2008, and 88% down on 2007.

Adverse market conditions have also led to a reduction in the number of exits for private equity firms, a factor affecting the profitability of existing holdings, and a major contributor to the slow-down in the new fundraising market. With firms not being able to exit their portfolio companies at an acceptable level, many are now holding companies for longer periods than initially planned, leading to a significant drop in distributed capital for investors from exited investments in 2008 and 2009.

Fig. 1:



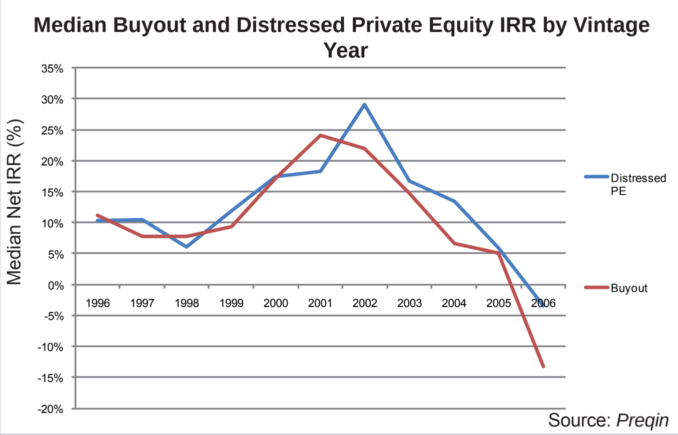
Source: *Dealogic/Preqin*

> "The total value for new private equity-backed deals taking place in 2009 was $77bn, a 61% reduction from 2008"

The dynamic of the private equity market has changed, and as a result limited partners in funds have been far less keen to invest in new private equity vehicles. This is partly due to having less capital available than in previous years as a result of an overall reduction in the values of their entire investment portfolios and a drop in distributed capital from existing private equity investments, but also due to a change in attitude and confidence towards the asset class. In 2009, private equity fundraising had its worst fundraising year since 2004, with only $246bn raised by 482 funds worldwide. This is 61% down on the $636bn raised in 2008, and 62% down on the record $646bn raised in 2007.

The drop in fundraising can also be explained by the poor returns experienced by the industry since the onset of the financial crisis. Over a one-year period to June 2009 private equity returned –23%, with mega buyouts returning –31%.
With deal-flow down, fundraising down, leveraged finance not available at the same rate as in the past, and the market for exits also suffering, the state of the asset class looks relatively bleak. However, while past performance is by no means a guarantee of future returns, if funds raised during the last period of economic downturn are examined, there is certainly evidence that funds raised during difficult periods can actually perform

Fig. 2:



Source: *Preqin*

extremely well.

Fig. 2 shows the median IRR for buyout funds by vintage year, with funds of a 2001 and 2002 vintage being the top performers. A similar phenomenon can be seen with distressed private equity funds, which also saw the highest median performance for the 2002 vintage year (29.1%). Whether or not a similar pattern will be seen in this downturn will depend largely on the ability of firms to finance and complete deals, but there are some potentially highly profitable deals to be done in the current market.

Fortunately, the signs are looking promising: global buyouts amounted to $36.4bn in the fourth quarter of 2009 across 328 deals, up from $17bn across 313 deals in the third quarter and $12.4bn across 252 transactions in the second quarter of 2009. In addition, the return of successful exits such as Metavante (Warburg Pincus) and China Pacific Life Insurance (Carlyle) are certainly encouraging for the industry. We are also seeing early signs of an improvement in fund performance, with the value of funds increasing between the first and second quarters of 2009 (mega buyouts were actually the biggest risers at 5.7%).

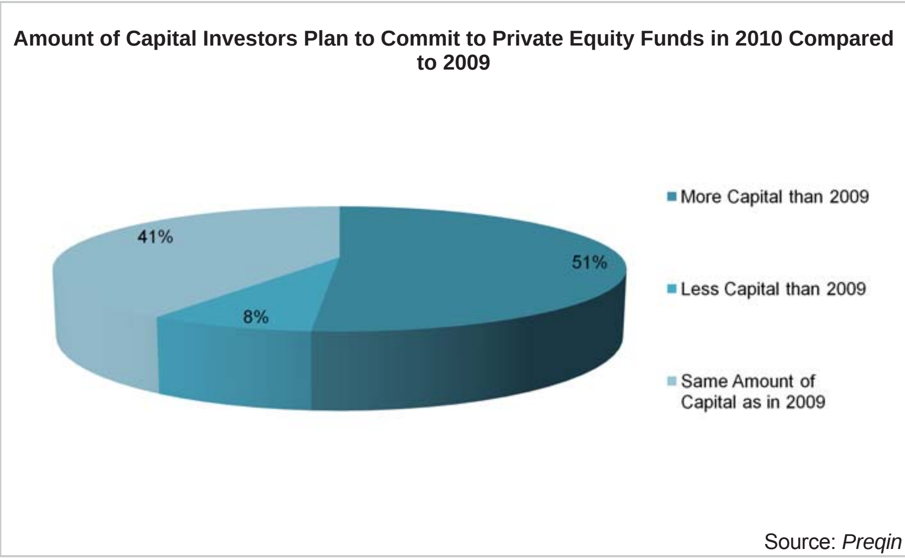
The only metric still on a downward trend is fundraising, with the final quarter of 2009 setting a new low point. Our conversations with investors do show that although confidence is still a world away from the levels seen in 2007, there is reason to believe that the level of commitments will start to improve in 2010, with 51% of investors polled indicating that they would invest more capital in 2010 than 2009, and only 8% investing less. However, a full recovery is still some way off, and will be largely dependent upon the industry's ability to source, finance, complete and exit investments successfully in what remains to be a challenging environment.

With many investors reluctant to commit to fund managers with which they do not have an existing relationship, those fund managers seeking capital in this extremely competitive market will need to ensure that they effectively communicate how they can add real value to portfolios. Innovative strategies and specializations will be key. Managers will also need to prove their ability to provide exceptional returns - top decile will be the new top quartile in 2010. Preqin's survey suggests that while terms and conditions alignment is improving, careful consideration in this area is absolutely vital in the current market. Funds proposing deal-by-deal carry, or with ineffective key-man clauses may struggle, and an adherence to ILPA guidelines would be strongly recommended.

As ever, in 2010 Preqin will continue to assist professionals in all areas of the industry through continuing to provide the most comprehensive, trusted and widely used source of information available on the global private equity industry. Our services are being utilized by professionals across all areas of the asset class, including investors, advisors, fund managers, fund marketers, law firms and many others. If you would like to find out how Preqin can help you to leverage your resources and enjoy success in 2010, please contact us at our New York or London offices, or email us using the details below.

Tim Friedman

Fig. 3:



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The 2010 Preqin Global Alternatives Reports are the most comprehensive reviews of the alternatives investment industry ever undertaken, and are a must have for anyone seeking to understand the latest developments in the private equity, real estate and infrastructure markets.

Intended for use as both a vital source of information about current market conditions, and also as information-packed reference guides, this year's editions include:

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- Detailed analysis on every aspect of the industry with a review of 2009, and predictions for the coming year;
- Comprehensive source of stats - including fundraising, performance, deals, GPs, secondaries, fund terms, investors, placement agents, advisors, law firms;
- Numerous reference guides for different aspects of the industry - Who is the biggest? Where are the centres of activity? How much has been raised? Where is the capital going? Who is investing? What are the biggest deals? What is the outlook for the industry?
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Performance Spotlight:
The Death of the Mega Fund?

The effects of the changing credit market and global economic downturn on different areas of the buyout industry can now be seen through examining the performance of different sized vehicles since the onset of the financial crisis in the third quarter of 2008.

In order to conduct the analysis, Preqin used fund-level performance data taken from Preqin Performance Analyst Online – the world's most comprehensive source of buyout, venture and other private equity performance information, with fund-level metrics for 4,880 vehicles with a combined value of $2.81tn (70% of all funds ever raised by value), including 1,184 buyout funds with a total value of $1.31tn.

The funds were split by size into small (≤$500mn), mid-market ($501-$1,500mn), large ($1,501-$4,500mn) and mega (>$4,500mn) in order to fully evaluate the effects on the different sectors within the industry.

Fig. 1 shows the amount of capital called up by private equity firms from their investors during the course of each year, and the total deal volume by year, for 2003 – H1 2009 (deal volume data provided by Dealogic for years 2003 - 2008). The graph suggests that use of leverage was at its highest in 2006, while in H1 2009 firms were spending capital on existing portfolio investments, causing the called-up figure to be higher than the deal volume figure.

The five-year returns of buyout funds to June 2009 in all size groups are strong, with IRRs of over 20% for most groups, rising to nearly 30% for mid-market buyout funds, as shown in Fig. 2. The spread of three-year returns amongst the different size groups is much more pronounced, with mega buyout funds posting a negative IRR while small buyout funds show positive returns of 18.6%. One-year returns for all groups of buyout funds to June 2009 are negative, with mega buyout funds again the worst performers, with -31.4%, and small buyout funds again were relatively less impacted, with -12.9% IRR.

Fig. 3 shows the percentage change

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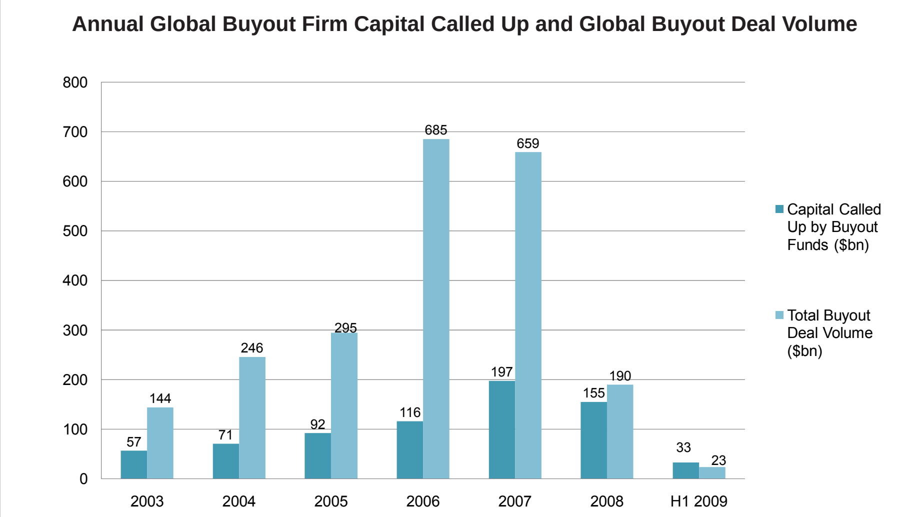
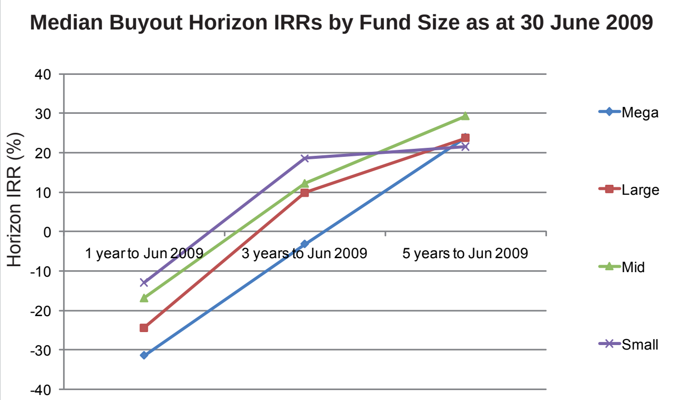


Source: *Dealogic/Preqin*

Fig. 2:



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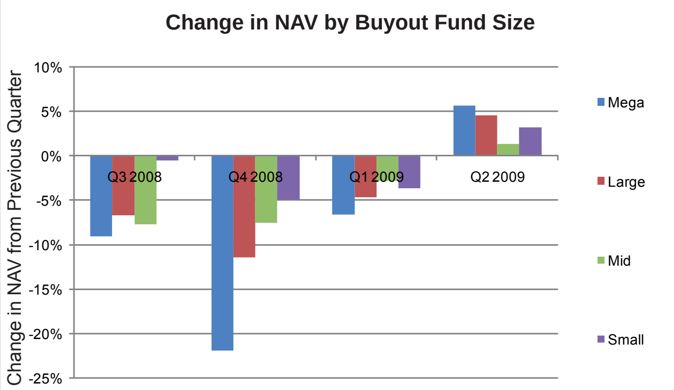
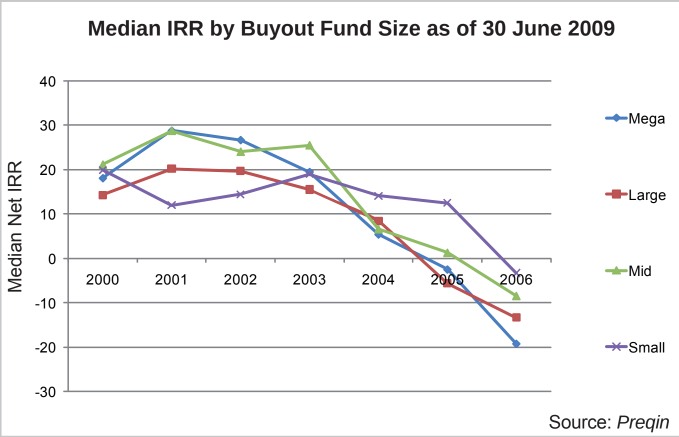


Source: *Preqin*

Fig. 4:



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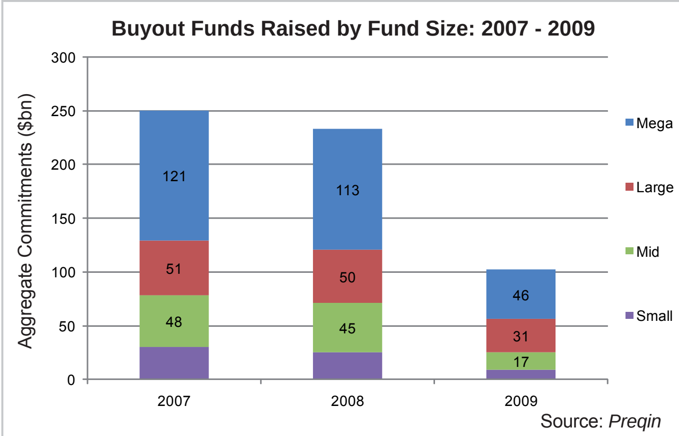

in net asset value from the previous quarter of buyout funds in each size group. Having posted the largest quarter-on-quarter declines in NAV in each of the three previous quarters, mega buyout funds posted the largest percentage gain for Q2 2009 at 5.7%, while large buyout funds posted an increase of 4.5% from Q1 NAV.

Fig. 4 shows median IRRs for each buyout fund size group by vintage year, confirming that small buyout funds have been the best performers for the most recent vintages shown. For vintages prior to 2004, mega and mid-market funds have generally performed the best.

In 2009, 84 buyout funds raised an aggregate $102bn, down from the 213 funds that raised an aggregate $233bn in 2008. Six mega buyout funds closed in the year, raising a total of $46bn, much less than the $113bn raised by 11 mega funds in 2008. Just over half of all buyout funds closed in 2009 were in the smallest fund size range of less than $500mn, but they represented only about 10% of the aggregate committed capital.

Etienne Paresys

Preqin currently holds transparent net-to-LP performance data for over 4,900 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 please visit:
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Fund Manager Spotlight:
Global Buyout Activity

In 2009, the buyout industry witnessed a significant decline in the number and aggregate value of deals announced globally during the year, illustrating the continuing effect of the global financial crisis on the buyout sector. However, the final quarter of the year saw a marked increase in deal activity, an indication that buyout deals may be on the rise in 2010.

2009 in Context: Long-Term Trends

Fig. 1 shows the aggregate value and number of deals, excluding add-on deals, completed globally across the buyout industry between 2000 and 2009. It clearly displays the decline in buyout activity over the past two years. The number and value of deals across the global buyout sector continually increased between 2001 and 2006, peaking in 2006, when 2,547 buyout deals valued at $685bn were announced, making it a record-breaking year for deals in the buyout industry. Buyout dealflow continued at similar levels in 2007, with 2,556 deals with an aggregate value of $659bn completed during the year.

This was before the impact of the credit crisis was felt across the sector, leading to notably lower levels of activity in 2008 and 2009. In 2008, 1,846 buyout deals were announced, with an aggregate value of $190bn. This represented a 28% decrease in the number of deals and a 72% decrease in the value of deals compared to the previous year. The effects of the global credit crisis continued to be felt in 2009, when 925 deals valued at $75bn were announced, registering a 50% drop in the number of deals and a 60% decrease in the value of deals compared to 2008.

Quarterly Dealflow

In 2009, there were 1,161 buyout deals (including add-ons) announced globally, representing an aggregate deal value of $78.6bn. Fig. 2 displays the number and aggregate value of buyout deals in 2009 by quarter and shows a marked increase in both towards the end of the year, and in particular a significant

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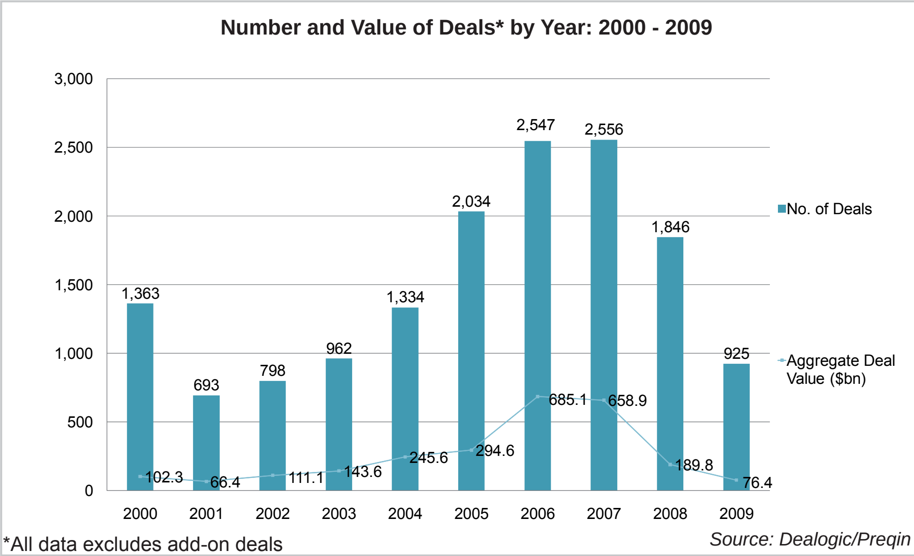
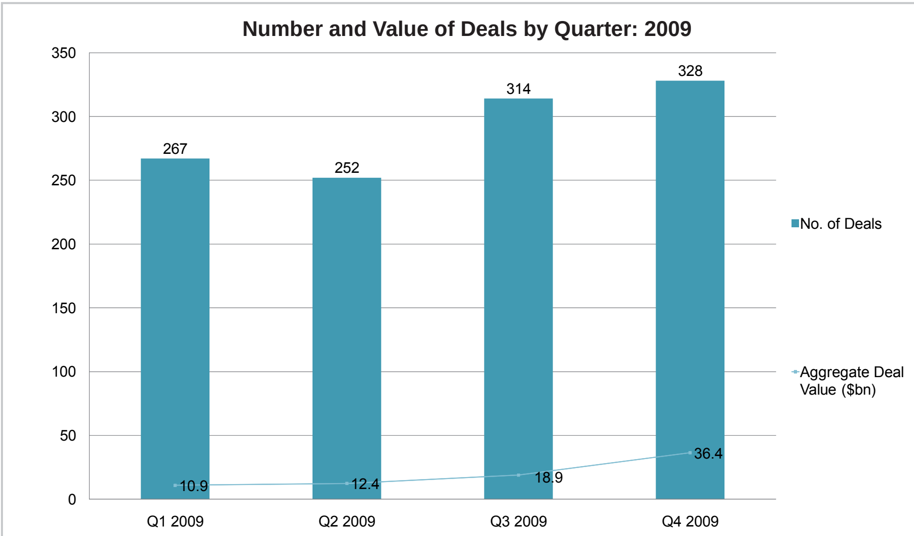


*All data excludes add-on deals

Source: Dealogic/Preqin

Fig. 2:



Source: Preqin

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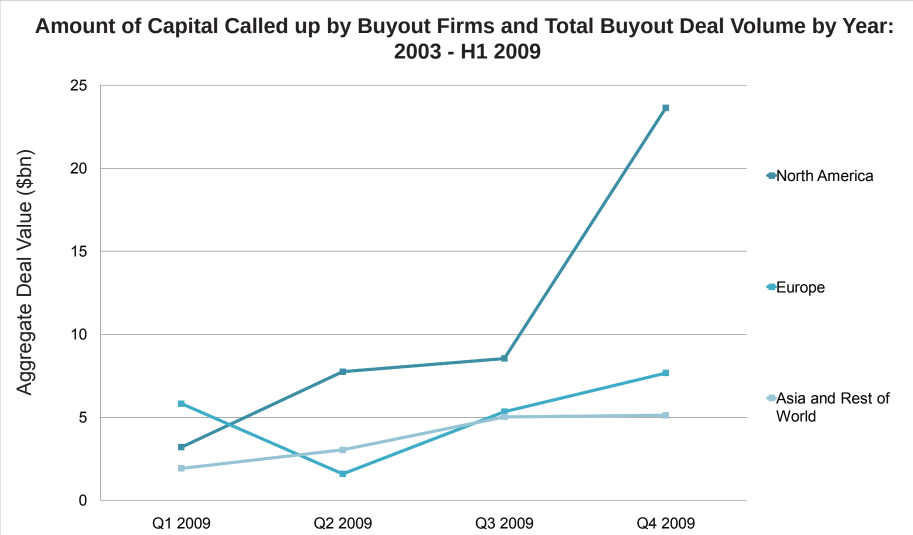


Source: Preqin

increase in aggregate deal value in Q4. During the first quarter of 2009, there were 267 buyout deals announced globally with an aggregate value of $11bn, while in the following quarter there were 252 buyout deals valued at $12bn. Q3 2009 saw 314 buyout deals with an aggregate value of $19bn completed, representing a 24% increase in the number of deals and a 52% increase in the aggregate deal value of deals from the previous quarter. In the final quarter of the year, 328 buyout deals were announced globally with an aggregate value of $36bn, almost double the value of deals announced in the previous quarter. Significant deals announced in Q4 2009 included: the definitive agreement for the public to private of IMS Health, with TPG and CPP Investment Board acquiring the firm in a transaction valued at $5.2bn, Blackstone Group's acquisition of Busch Entertainment Corporation in a transaction valued at $2.7bn; and CVC Capital Partner's acquisition of the Central European operations of Anheuser-Busch InBev in a transaction valued at €2.2bn.

Dealflow by Region

In terms of region, deals involving assets located in the US had the largest aggregate value of all deals completed in 2009, with a total of 690 deals valued at $43bn completed in the year. This accounted for 56% of the global aggregate deal value. The aggregate value of US buyout deals increased towards the end of the year, with $24bn worth of deals completed in Q4, nearly triple the value of those posted in Q3.

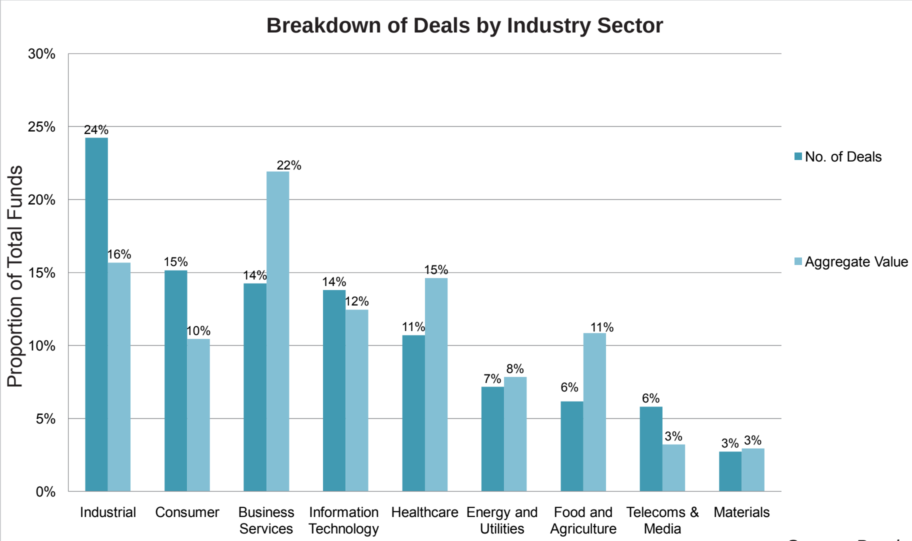
340 deals were announced in Europe during 2009, aggregating $20bn in value. Fig. 3 shows that buyout activity in this region saw a decline in Q2, with the value of deals falling to under $2bn from the $6bn seen in Q1. This, however, was followed by a period of steady growth in Q3 and Q4, with deal value reaching $5bn in Q3 and nearly $8bn in Q4. Buyout activity in Asia and Rest of World remained relatively stable throughout 2009, with a total of 131 buyout deals valued at $15bn, representing 19.7% of the global aggregate deal value. Significant deals in Asia and Rest of World during 2009 included KKR's buyout of South Korean company Oriental Brewery from Anheuser-Busch InBev in a transaction valued at approximately $1.8bn.

Dealflow by Industry Sector

In terms of market sector, the industrial sector had the highest number of deals in 2009, accounting for nearly a quarter of all deals made in the buyout sector in the year. The capital invested in this type of fund was relatively low however, accounting for just 16% of the total. This suggests that deals made in this sector are relatively small compared with deals made in other industries. The second-largest number of deals were made in the consumer industry, which includes sectors such as retail, consumer products and entertainment. It accounted for 15% of all buyout deals completed during the year. In terms of capital, one-tenth of all buyout capital was invested in this sector in 2009.

The business services and information technology sectors each accounted for 14% of the buyout deals completed in 2009. The amount of capital deployed

Fig. 4:



Source: Preqin

in each of these industries varied considerably however, with 12% of all buyout capital going to the information technology sector, compared to 22% deployed in the business services sector, which accounted for the largest proportion of total buyout capital of any industry sector.

Conclusions

2009 has seen the global financial crisis continue to affect the buyout industry, with challenging market conditions leading to a decrease in dealflow across the sector. However, there was an increase in deal activity in the final quarter of the year, with 328 buyout deals with an aggregate value of $36bn announced in Q4 2009. This was almost double the value of deals completed in Q3, when 314 deals valued at $19bn were announced. In Q4 2009, several transactions valued at over $1bn were made. These mega transactions suggest that buyout houses are finding it easier to arrange financing from investment banks for larger transactions, signalling that we could see a significant increase in buyout deal activity in 2010.

Manuel Carvalho

The data used in Fund Manager Spotlight is taken from Preqin's industry-leading product, Fund Manager Profiles.

For more information or to register for trial access, please visit:

www.preqin.com/fmp

Fundraising Spotlight:
Fundraising Update - Q4 2009

Private equity fundraising in Q4 2009 was at its lowest in more than six years, with an aggregate $35bn raised by 75 funds closed in the period. Funds primarily focusing on North America raised the most, with 30 vehicles raising an aggregate $19bn, while Europe focused funds raised $11bn and Asia and Rest of World focused funds raised $5bn. The largest fund to close in the quarter was Clayton Dubilier & Rice VIII, a buyout fund targeting companies in North America and Europe. It closed at the very end of 2009 with total commitments of $5bn. The $35bn raised by private equity funds in Q4 2009 means that the fundraising total for 2009 as a whole, $246bn, was at its lowest level since 2004.The largest fund to close during the whole of 2009 was CVC European Equity Partners V, which closed early in the year with €10.75bn in commitments. The vehicle invests in mid-market companies in Europe.

The number and aggregate target of funds in the market seeking capital from investors has continued to fall, following the trend seen over the course of 2009. The aggregate target of funds on the road has now fallen to $699bn, a 21% fall from its peak of $888bn in January 2009. This is due to a slowdown in new fundraising launches and an increase in the number of fundraisings being put on hold or abandoned altogether.

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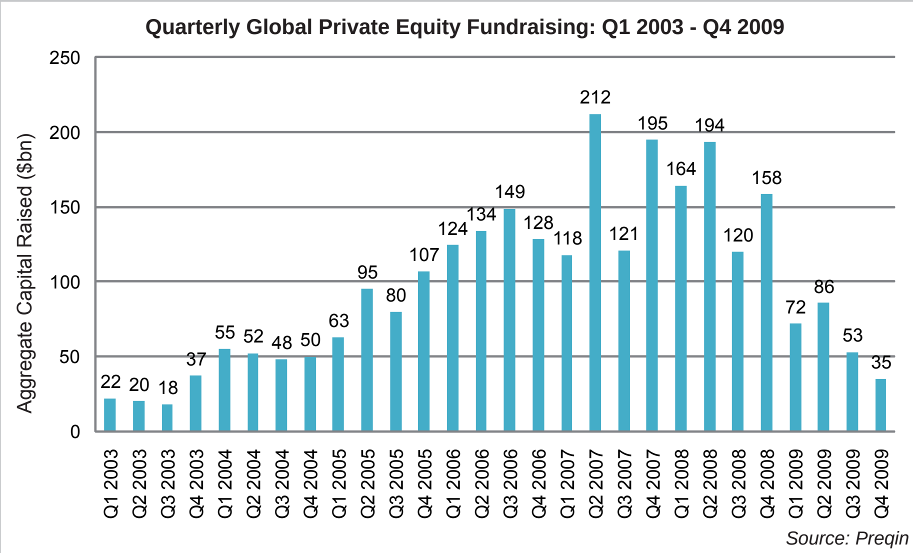

The average length of time taken for a fund to reach a final close has increased dramatically over the last two years, and now stands at more than 18 months after fundraising launch for funds closed in 2009, up from one year for funds closed in 2007 and over 15 months for funds closed in 2008.

Only 60% of private equity investors surveyed in December 2009 made at least one new commitment to a private equity fund in 2009, while 40% of investors did not make any new commitments. Just over half of investors plan to make their next commitment to a private equity fund in

Fig. 2:

10 Largest Funds to Hold a Final Close in 2009

Fund	Firm	Type	Amount Closed (mn)	Manager Country	Fund Focus
CVC European Equity Partners V	CVC Capital Partners	Buyout	10,750 EUR	UK	Europe
First Reserve Fund XII	First Reserve Corporation	Natural Resources	8,821 USD	US	US
Hellman & Friedman VII	Hellman & Friedman	Buyout	8,800 USD	US	US
KKR European Fund III	Kohlberg Kravis Roberts	Buyout	6,000 EUR	US	Europe
Riverstone/Carlyle Global Energy and Power Fund IV	Riverstone Holdings LLC	Natural Resources	6,000 USD	US	US
GS Vintage Fund V	Goldman Sachs Private Equity Group	Secondaries	5,500 USD	US	US
Charterhouse Capital Partners IX	Charterhouse Capital Partners	Buyout	4,000 EUR	UK	Europe
Clayton Dubilier & Rice VIII	Clayton Dubilier & Rice	Buyout	5,000 USD	US	US
Lindsay Goldberg - Fund III	Lindsay Goldberg	Buyout	4,700 USD	US	US
Blackstone Real Estate Partners Europe III	Blackstone Real Estate Advisors	Real Estate	3,116 EUR	US	Europe

Source: *Preqin*

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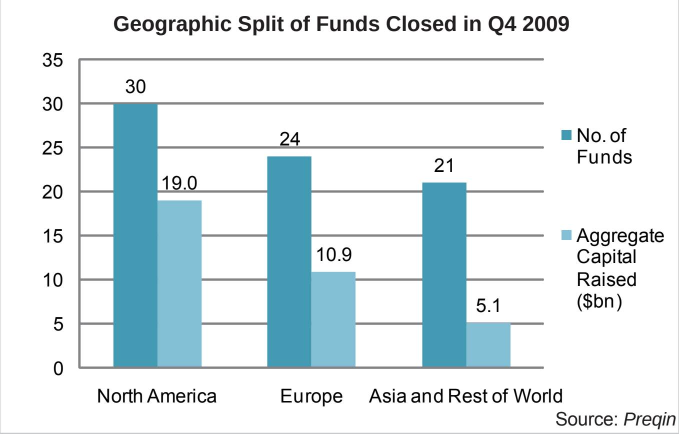

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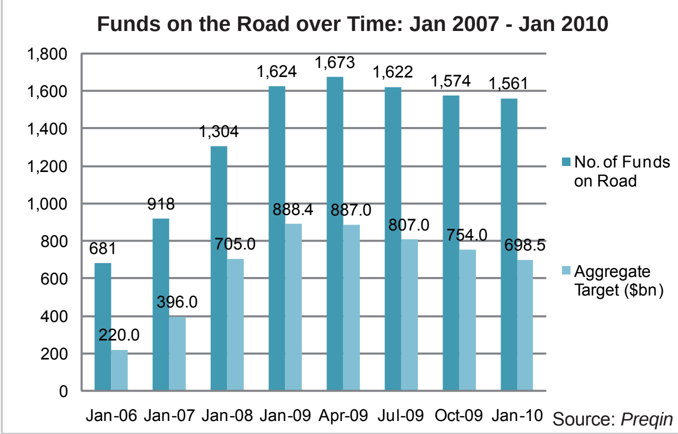


the first half of 2010, and 16% plan to wait until the second half of the year. 4% of investors will not be investing again until 2011 and a further 4% do not plan to invest for at least two years. One-quarter of investors are unsure as to the timing of their next commitment to a private equity fund. Although 70% of investors have seen their private equity investments meet their expectations, a significant 23% have seen returns fall short, with only 7% reporting that performance has exceeded expectations.

Sam Meakin

Fig. 5:

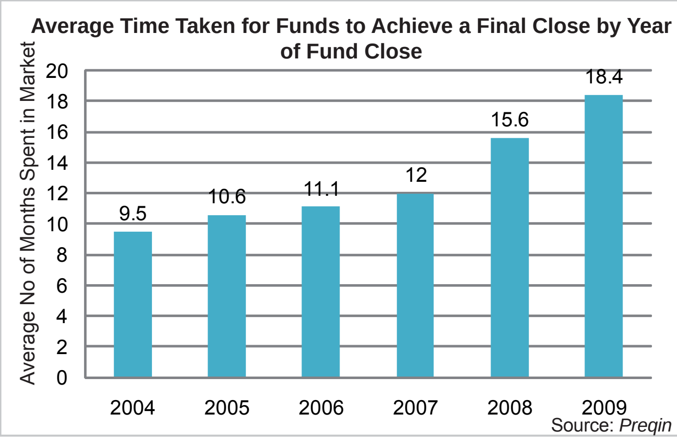


Fig. 6:

Breakdown of 2009 Fundraising by Type and Geography

	Global		North America		Europe		ROW	
Type of Funds	No. of Funds	Aggregate Capital ($bn)	No. of Funds	Aggregate Capital ($bn)	No. of Funds	Aggregate Capital ($bn)	No. of Funds	Aggregate Capital ($bn)
Balanced	3	0.4	1	0.1	2	0.3		
Buyout	84	102.2	42	57.8	26	36.7	16	7.8
Distressed PE	11	2.5	5	1.5	4	0.8	2	0.2
Fund of Funds	55	21.0	28	15.0	17	4.6	10	1.3
Infrastructure	11	6.3	1	0.4	2	2.5	8	3.4
Mezzanine	16	6.4	7	2.5	7	3.7	2	0.2
Nat. Resources	7	16.9	5	16.1	1	0.0	1	0.8
Real Estate	96	40.6	50	21.4	25	13.0	21	6.2
Secondaries	14	18.5	9	13.2	5	5.3		
Venture	170	27.3	75	15.1	41	5.4	54	6.8
Other	15	3.4	5	1.6	6	1.4	4	0.5

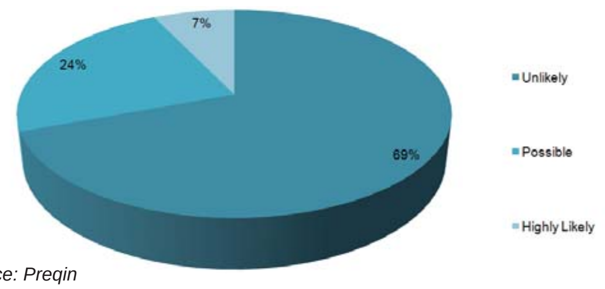
Source: *Preqin*

Secondaries Spotlight

Preqin's Secondary Market Monitor (SMM) comprises a comprehensive database of secondary market players. Included are both traditional and non-traditional buyers of private equity fund interests, potential sellers of fund interests, and secondary market intermediaries.

Fig. 1:

Likelihood of Non-Traditional Buyers Purchasing Fund Interests on the Secondary Market within the Next 24 Months

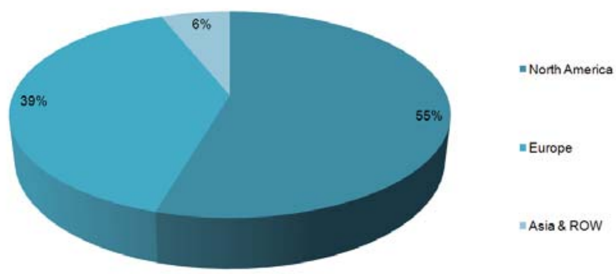


Source: Preqin

Defining traditional buyers as primary and secondary fund of funds managers, Fig. 1 shows the proportion of non-traditional buyer types that would consider secondary market purchasing opportunities within the next 24 months. A significant 31% of all non-traditional buyer types surveyed would consider entering the secondary market in a buying capacity, which highlights the benefits of secondary market investment for LPs such as pension funds, endowments and insurance companies.

Fig. 2:

Breakdown of Firms Actively Managing Secondaries Funds by Primary Location



Source: Preqin

Fig. 2 shows a breakdown of firms actively managing a dedicated secondaries fund by primary location. The majority of active firms (55%) are based in North America, while 39% are based in Europe and 6% in Asia and Rest of World.

According to Preqin's unique pricing model, a $10,000,000 commitment to the median 2005 buyout fund - which would have called $8,530,000 and has a reported net asset value (NAV) of $7,097,000 - would today fetch $4,289,000 on the secondary market, or approximately 60% of its NAV.

Secondaries News

Stanford Management Company has called off its secondary market sale.

The USD 12.6 billion endowment has decided not to sell a portfolio of alternative assets that received bids totalling more than USD 1 billion. In October 2009, potential buyers were invited to bid on the portfolio of buyout, venture, distressed debt, forestry and real estate funds. Stanford had requested a structured sale, whereby it would only sell around 10% to 20% of its interests. However, the endowment's overall liquidity is reported to have improved with recovering stock and bond markets, so it decided that a secondary sale was not necessary to meet its liquidity and portfolio balancing objectives.

Partners Group has held a final close on its latest vehicle to invest purely in the secondary market.

Partners Group Secondary 2008 has closed above its target of EUR 2 billion on its hard cap of EUR 2.5 billion. It is the third vehicle in the series raised by the fund of funds manager. The fund will follow the same investment strategy as it predecessors, primarily looking to purchase interests in buyout funds in Europe, North America and Asia. Commitments came from a number of pension funds, insurance companies, family offices and endowments, including a USD 81 million commitment from New Jersey State Investment Council.

Kerry Pogue

Investor Spotlight:
Investor Appetite for Private Equity in 2010

Fundraising for private equity funds was a challenging prospect for GPs during 2009, a fact that is supported by the findings of our December 2009 survey of the attitudes of LPs towards private equity. We spoke to a representative sample of 106 global institutional investors in private equity and found that a considerable 40% had not made a commitment to a private equity fund over the course of the year. Moreover, many of those that had remained active had made commitments at a slower pace than in previous years.

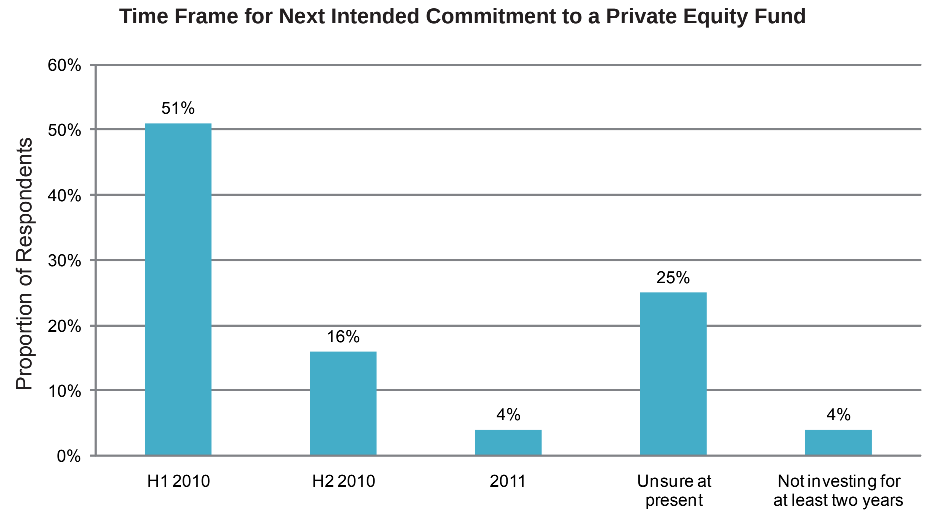
With 1,561 funds on the road seeking an aggregate $698.5bn, competition for commitments from investors is set to be intense over the course of 2010. Furthermore, although 45% of survey respondents are below their target allocations, a significant 13% are currently exceeding their target allocations to private equity and 42% are at their targeted levels of exposure.

So what lies in store for GPs that will be fundraising during 2010? We asked investors about their current appetite for private equity funds, the time frame for their next planned commitments, and their opinions of the typical fund terms and conditions they are offered at present.

Returning Investor Appetite

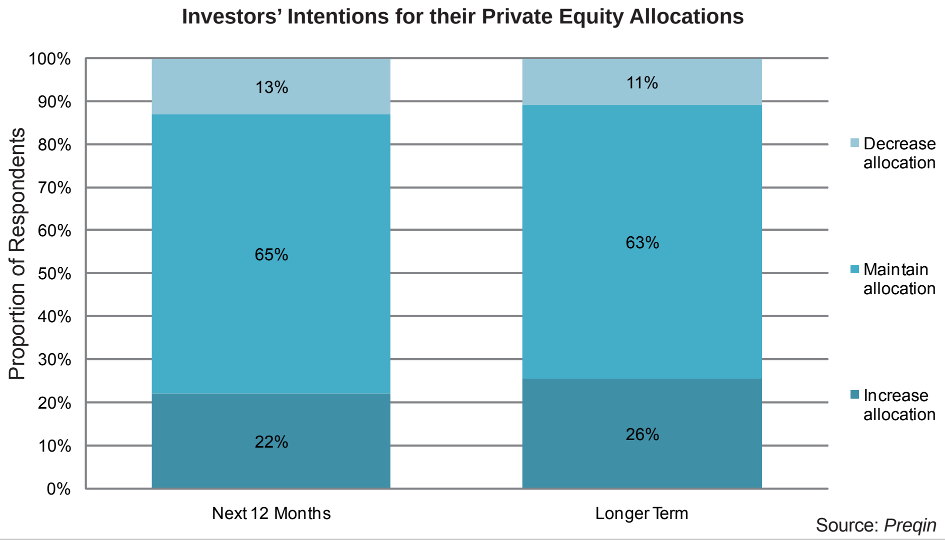
The good news for fund managers is that investors are gradually beginning to return to market. As shown in Fig. 1, our survey found that two-thirds (67%) of investors are planning to make new commitments to private equity funds during 2010. In fact, 51% of the sample intend to make these commitments within the first six months of the year. A further 25% have yet to finalise the expected timing of their next commitment. No investors told us they were no longer looking to invest in private equity.

Fig. 1:



Source: *Preqin*

Fig. 2:



Source: *Preqin*

The amount of capital allocated by investors to new private equity commitments in 2010 is also set to rise. 51% anticipate committing a greater volume of capital to funds in 2010 than in 2009 and a further 41% will continue to commit at the same pace as last year. Just 8% are intending to commit less in the coming year, and this is not always a reflection of their views on the quality of opportunities presented in the current market. For example, an endowment that intends to commit less in 2010 than in 2009 told us that it "made lots of commitments in 2009 to build up [its] allocation to private equity and so [expects] to just invest to maintain the allocation in 2010."

In general, attitudes to private equity amongst institutional investors have remained relatively strong. As Fig. 2 shows, 65% of respondents told us they intend to maintain their allocations during 2010, and a further 22% expect to increase their allocations. 13% of investors are looking to reduce their exposure to the asset class in the next 12 months.

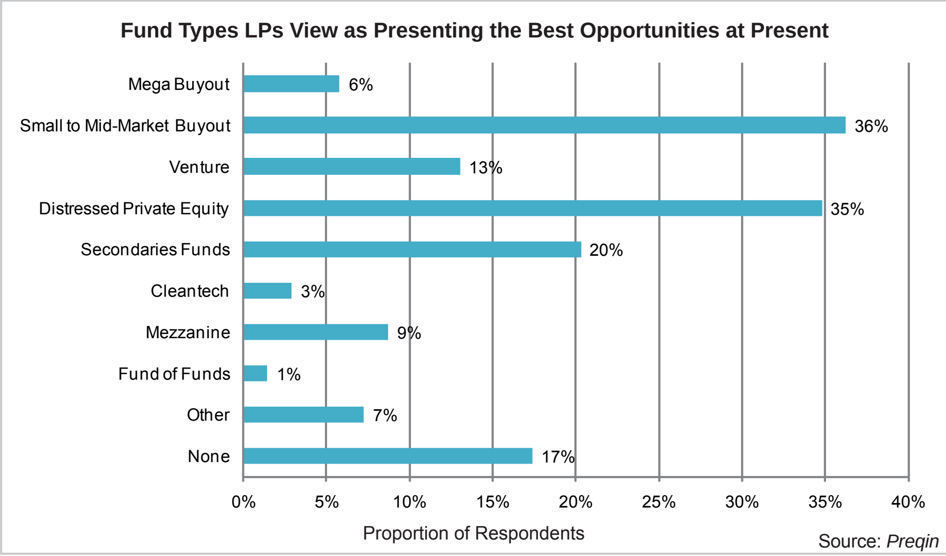
Investors' longer-term plans for their private equity allocations also look reasonably promising for fund managers. The vast majority of investors intend to either maintain or increase their allocations over the next three to five years, although 11% plan to reduce their exposure over this period. In addition, it is to be expected that capital will continue to flow into the market from new entrants to the asset class, and Preqin is currently tracking over 100 investors that are considering setting their maiden allocations to private equity or are exploring a variety of alternative assets, potentially including private equity in their plans.

Investor Areas of Interest

In the current financial climate, many investors have been reassessing their strategies with the aim of identifying which private equity fund types best take advantage of opportunities in the market at present. Without prompting with pre-defined answers, we asked investors to state which types of private equity fund are currently presenting the best opportunities.

As Fig. 3 shows, the fund types most frequently cited by investors as being most attractive at present were distressed private equity funds, with 35% of respondents naming this fund type, and small to mid-market buyout funds, with 36% of investors. 20% of investors felt secondaries funds currently present attractive opportunities.

Fig. 3:



Investor Attitudes towards Fund Terms and Conditions

The fund terms and conditions being offered by prospective GPs are becoming increasingly important to institutional investors, as they recognise the significant impact that these can have on the returns received from the fund.

Over 2009, a growing number of LPs found that they were able to wield an increasing amount of influence in the negotiations of fund terms and conditions as GPs found it more difficult to secure commitments. A European bank told us that LPs "have been too passive" and that they now "have the right to push back and push harder" for the concessions they require from GPs.

Investors are increasingly willing to walk away from negotiations if dissatisfied with the fund terms and

Fig. 4:

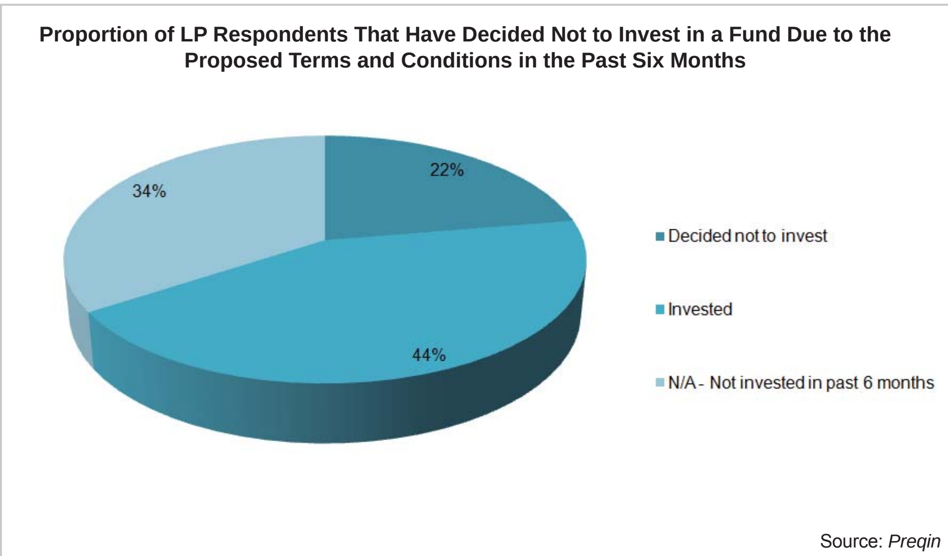
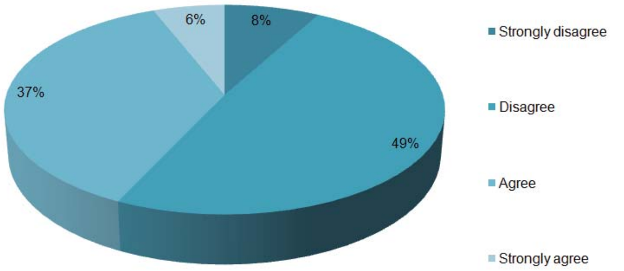


Fig. 5:

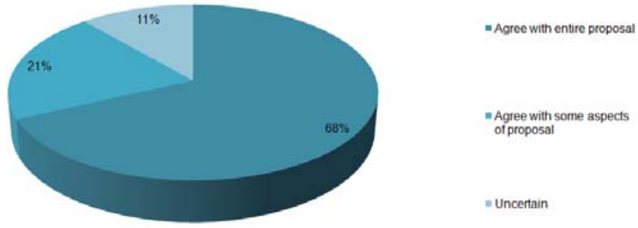
Proportion of LP Respondents That Agree with the Statement That GP and LP Interests are Properly Aligned at Present



Source: *Preqin*

Fig. 6:

Proportion of LPs That Agree with the ILPA Private Equity Principles



Source: *Preqin*

conditions they are offered. As Fig. 4 shows, 22% of respondents to our survey opted not to invest in a fund as a result of the proposed terms and conditions, equating to a considerable third of the respondents that invested in the past six months. In comparison, in our survey of LPs in December 2008, 24% told us that they reconsidered making a commitment as a result of the proposed terms and conditions, although some of these LPs still ultimately made a commitment to these funds.

A significant proportion of the LPs we spoke to are still dissatisfied with the terms and conditions they are offered by GPs, and the majority, 57%, told us they felt that GP and LP interests were still not properly aligned, as shown in Fig. 5. This reflects a considerable shift in LP views from April 2008, when just 18% of respondents to a similar survey conducted by Preqin felt that GP and LP interests were not properly aligned. Fund terms and conditions most frequently cited by LPs as requiring further adjustment include management fees, the carry structure and clawback, and the rebate of deal-related fees.

With such a proportion of LPs still dissatisfied with fund terms and conditions, it is perhaps unsurprising that the Private Equity Principles, released in September 2009 by the Institutional Limited Partners Association (ILPA), attracted such a degree of attention from private equity investors. ILPA asserted that, as limited partnership agreements now exceed 100 pages in length, it has become increasingly difficult to “focus on what aligns the interests of the limited partner with the general partner,” and provided details of preferred terms that it hoped would be taken up by GPs.

We asked LPs whether they agreed with the Private Equity Principles as laid out by ILPA and just over two-thirds of respondents told us that they agreed with the whole proposal, as shown in Fig. 6. A further 21% agreed with the majority of the proposal but had some reservations. None of the LPs we spoke to disagreed with the proposal. A European investor said: “They are excellent. I now use them as a checklist when I look at the terms of a fund.” Although ILPA’s principles are unenforceable, the considerable support shown for them by LPs means that they should not be overlooked by GPs on the road with new fund offerings.

Fundraising in 2010

GPs seeking to raise fresh capital for funds in 2010 can take many positives from the results of this year’s survey: growing numbers of investors are set to return to the market and make fresh private equity commitments in the year ahead, and the pace at which they make commitments also looks set to increase.

Despite this, getting LPs to sign off on new fund commitments is set to remain difficult for many GPs in the coming year. Investors are showing a greater aversion to risk in their portfolios and many are conducting much more intensive due diligence processes. LPs are also more willing than in the past to walk away from fund negotiations as a result of the terms they are offered, and consequently GPs should pay even closer attention to fund terms and conditions in the year ahead, both when drafting fund documentation and when entering into negotiations with prospective LPs. Support for the ILPA Private Equity Principles is widespread within the LP community, and GPs that offer more LP-friendly terms and conditions, and are seen to have applied the principles when drafting their fund terms and conditions, will increase their chances of securing commitments from LPs in 2010.

This article is an excerpt from the 2010 Preqin Global Private Equity Report, which is out now.

For more information please visit: www.preqin.com/reports

Helen Kenyon

Conferences Spotlight: Forthcoming Events

LSE Alternative Investments Conference

Date: 25th & 26th January 2010

Location: Marriot Hotel, Grosvenor Square, London

Organiser: London School of Economics

The LSE Alternative Investments Conference is the world's largest student conference on private equity and hedge funds. The conference takes place in the Marriot Hotel in Grosvenor Square, London. Last year students from over 70 universities attended, and delegates participated in a mixture of keynote speeches, panel discussions and seminars.

Information:

www.lseaic.com

Wharton Private Equity & Venture Capital Conference

Date: 5th February 2010

Location: Hyatt at the Bellevue

Organiser: Wharton Business School

The Wharton School of the University of Pennsylanvia is delighted to host its 16th annual Wharton Private Equity and Venture Capital Conference themed A New Dawn: Investing in the Post Crisis World.

Information:

www.whartonpeconference.org

Indian Investment Summit

Date: 8-10th February 2010

Location: JW Marriott Mumbai, India

Organiser: Terrapinn Pte Ltd

India Investment Summit is where industry experts converge and share their thoughts, ideas and strategies to capitalize on the tremendous opportunities in India. Find out comparative advantages of asset allocation into India, access new opportunities for partnerships and investments and to understand institutional appetite, new capital sources and funding models.

Information:

www.terrapinn.com/2010/indiainvest

Asset Allocation Summit Asia 2010

Date: 15-17th March 2010

Location: Four Seasons Hotel, Hong Kong

Organiser: Terrapinn

With the success of the Asset Allocation Summit series of conferences in Australia, New Zealand and Europe, Asset Allocation Summit Asia 2010 is the single most important driver for investment performance, focusing on strategic and tactical asset allocation for asset managers and Asian institutional investors, in wake of financial crisis.

Information:

www.terrapinn.com/2010/aasasia/index.stm

CIS Private Equity and Venture Capital

Date: 23-24th March 2010

Location: Moscow, Russia

Organiser: C5

C5's flagship CIS Private Equity and Venture Capital Forum returns to Moscow - bigger, more practical, and topical than ever, offering you a chance to meet top CIS investors, private equity luminaries and to get the best coverage of the region under one roof! This is truly a "must attend" event, critical to the success of your business.

Information:

www.c5-online.com/CISPE

World Private Equity Congress 2010

Date: 8-9th April 2010

Location: SHERATON HONG KONG HOTEL & TOWERS, Hong Kong

Organiser: Standard Board Pvt. Ltd.

Standard Board is pleased to announce the WORLD PRIVATE EQUITY CONGRESS to be held on 8 -9 April, 2010 in Kuala Lumpur, Malaysia at the Asia most exotic and beautiful venue "Palace of Golden Horses". Representatives from firms speaking at the conference include Barclays Capital - UK, AllEquity Funds - Russia, Cube Consultants – Korea, The Environmental Parliament – UK and many more .

Information:

www.standardboard.com/wpec2010/

Conferences Spotlight: Forthcoming Events

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
LSE Alternative Investments Conference	25 - 26 January 2010	London	LSE
Private Equity Analyst Outlook 2010	26 - 27 January 2010	New York	Dow Jones Events
Buyouts South 2010	28 January 2010	Boca Raton, FL	Buyouts Conferences
European Pensions Symposium	3 - 5 February 2010	Rome	Institutional Investor
Investment Performance Analysis & Risk Management Asia 2010	3 - 4 February 2010	Hong Kong	IQPC
2010 Wharton Private Equity & Venture Capital Conference	05 February 2010	Philadelphia	Wharton
SuperReturn International 2009	8 - 11 February 2010	Berlin	ICBI
India Investment Summit 2010	8 - 10 February 2010	Mumbai	Terrapinn
Foundation & Endowment Investment Summit	17 - 18 February 2010	Toronto	The Strategy Institute
Asset Allocation Summit Australia 2010	22 - 26 February 2010	Sydney	Terrapinn
The Active-Passive Investor Summit	22 February 2010	New York	IMN
Institutional Investors' Congress	22 - 23 February 2010	Vienna	Opal Financial Group
8th Annual European Corporate Restructuring Summit	22 - 23 February 2010	London	Euromoney Seminars
Emerging Markets Investor Forum	25 - 26 February 2010	New York	PEI Media
15th Annual Public Funds Summit	1 - 3 March 2010	Huntington Beach, CA	IMN
AVCJ Private Equity & Venture Forum	3 - 5 March 2010	Sydney	Incisive Media
Distressed Debt & Restructurings	3 - 4 March 2010	Frankfurt	C5
Microfinance Investment Summit	10 - 11 March 2010	Geneva	C5
DBR Restructuring & Turnaround Summit	10 March 2010	New York	Dow Jones Events
EVCA Investors' Forum 2010	10 - 11 March 2010	Geneva	EVCA
Rights & Responsibilities of Institutional Investors	11 March 2010	Amsterdam	Institutional Investor Events
Go4Europe Conference	15 March 2010	Tel Aviv	Cukierman & Co
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn
Private Equity Exit Strategies	16 - 17 March 2010	London	IIR
Investment Forum for Endowments, Foundations and Pension Funds	18 March 2010	Los Angeles	Argyle Executive Forum
6th AustralAsian Cleantech Forum	22 - 26 March 2010	Melbourne	Terrapinn
Asset Allocation Summit Africa 2010	23 - 26 March 2010	Cape Town	Terrapinn
Private Banking Asia 2010	23 - 25 March 2010	Singapore	Terrapinn
CIS Private Equity and Venture Capital	23 - 24 March 2010	Moscow	C5
Distressed Investing and Financial Restructuring Australia	31 March - 1 April 2010	Sydney	Euromoney Seminars

Investor Spotlight: LP News

AP-Fonden 1 (AP1) will remain an active investor in private equity in 2010.

The SEK 200 billion Swedish Pension Fund will seek to commit between SEK 2.2 billion and SEK 2.5 billion to the asset class during the course of 2010. AP1 has a current allocation to private equity of around 1.3% and committed capital brings this figure closer to 5%; it has a target allocation of 5% to the asset class. AP1 will cautiously invest in the asset class during the next 12 months, diversifying its portfolio by vintage year, fund type and geography. During this time the pension fund will make its maiden private equity investments in Asia. It will seek investments in secondary vehicles and distressed private equity amongst others, but will look away from mega buyout funds.

Alberta Investment Management Corporation (AIMCo) is moving away from fund investments.

As part of its new investment strategy, AIMCo will be looking to make more direct investments and co-investments in private equity opportunities going forward. It will still make commitments to private equity funds but with no fixed target allocation; it will invest more on a deal-by-deal basis. The asset manager will continue to use private equity fund investments to access areas of the market where it cannot make direct investments, such as distressed private equity and Asian markets. It will also consider investments in US and European small- to mid-market buyout funds of up to USD 2 billion in size where it can act as a lead investor. AIMCo made one fund commitment in 2009 and is likely to next invest in the latter half of 2010. Due to its new strategy, the number of manager relationships AIMCo maintains is likely to decrease.

Montana Board of Investments (MBI) will continue to invest in private equity in 2010.

The public pension fund made some private equity commitments in 2009; due to economic uncertainty, few investments were made early in the year. MBI is currently just under its 12% target allocation, with 11% of total assets invested in the asset class, and expects to make five or six new fund commitments in the next 12 months, allocating up to USD 200 million in total to the new investments. The pension fund has no strong preference in terms of fund type and looks to invest broadly across each vintage year. It gains exposure to emerging markets via fund of funds investments.

CPP Investment Board (CPPIB) will look to remain active in private equity during 2010.

The CAD 123.8 billion public pension fund currently has more than CAD 20 billion invested in private equity. It will look to remain active in the asset class during 2010 and expects to commit to between five and ten vehicles over the course of the year, committing a total of CAD 3 billion to CAD 6 billion to these vehicles. CPPIB will look to diversify these investments across geography and fund type. In terms of geography, CPPIB currently has a preference for vehicles in North America, Europe, Asia and India, with particular interest in buyout and expansion vehicles. CPPIB limits its investments in venture vehicles to Canada only.

International Finance Corporation (IFC) expects to ramp up commitments to private equity in 2010.

IFC, the private sector focused arm of the World Bank, plans to increase its rate of private equity commitments in the coming year. As in the past, it will continue to focus on emerging markets funds. Within emerging markets, IFC feels that regions such as Africa, Central Europe, Central Asia, Latin America and Southeast Asia present greater potential for new private equity opportunities compared to a decade ago. IFC invests in nearly all fund types, with a particular focus on growth funds, and does not differentiate between first-time and experienced managers. It prefers to focus on the skill of fund managers and a considerable number of its commitments have been made to first-time fund managers. The IFC has an overall investment portfolio worth approximately USD 22 billion, 10.8% of which is allocated to private equity.

European Bank for Reconstruction and Development (EBRD) is looking to increase private equity commitments in 2010.

EBRD will focus on single country funds and secondary funds, and it will continue to be supportive of first-time funds. EBRD requires that fund managers adhere to stringent governance and transparency principles, as well as its environmental and social policy. It will consider funds that invest in large companies through to micro-enterprises in the agriculture, energy, financial, media, sustainability, tourism and transport sectors. In 2009, the EBRD committed approximately EUR 6 billion to alternative investment projects, and had an allocation of approximately 8% to direct and indirect private equity. It does not maintain a private equity target because it prefers to invest as opportunities arise.

Hanna Ohlsson