

Early PE Fund Quartile Rankings Shown to be Highly Relevant

Funds ranked in both top and bottom fund quartiles early on likely to maintain position at maturity

With over 1,600 private equity funds currently on the road seeking capital, investors are faced with a huge due-diligence task in selecting the best managers to form a long-term relationship with. Preqin's interviews with investors also suggest increased scrutiny of existing relationships – re-ups are far from guaranteed as institutions carefully assess past performance and future prospects.

Fund managers will typically launch a new offering as they come to the end of the investment period for their previous vehicle, often around four years since their last fund closed. With managers' previous funds being less than half way through their life-cycle, the relevance and therefore importance of their performance at this point in time is subject to question. Our latest study sets out to determine the extent to which potential LPs should be assessing fund managers based on relative performance of funds before they achieve maturity.

The Study:

- Preqin analyzed its database of over 5,300 PE funds, identifying 2,500 buyout and venture capital funds with enough maturity to form part of the analysis.
- Preqin analyzed the quartile position of funds during their fourth year, and then viewed the quartile rankings of these same funds at maturity. Preqin also performed the same analysis for funds in their sixth year and then viewed the proportion of funds that change quartile from year to year.

The Results:

- Early quartile rankings for both buyout and venture capital funds are an excellent predictor for future relative performance.
- 50% of buyout funds ranked in top quartile in year four go on to be top quartile at maturity, with 75% beating the median, while 60% of VC funds in top quartile at year four maintain top quartile position at maturity with 76% beating the median.
- Poor relative performance early on in a fund's life proves to be extremely difficult to turn around. 51% of buyout funds in the bottom quartile in year four remain there at maturity, while 60% of VC funds in the bottom quartile at year four maintain this position at maturity.
- By year six quartile rankings are even more important. 67% of top quartile buyout funds in year six maintain this position at maturity, with only 11% failing to beat the median. 73% of venture capital funds maintain their position in the top quartile, with only 5% failing to beat the median. Conversely only 11% of bottom ranked buyout and 7% of bottom ranked venture funds in year six are able to turn things around and beat the median at maturity.

For full results of the study, please visit the following page where you can download a complete version:

http://www.preqin.com/docs/reports/Early_Warning_System_for_LPs.pdf

Comment:

"Despite the fact that funds in their fourth year are still early on in their life-cycle, their performance relative to others provides an excellent indication of future quartile standings. Institutional investors should pay careful attention to a fund manager's quartile ranking for recently launched funds, and those considering purchases on the secondaries market should be extremely wary of bottom quartile funds. Of course, each fund must be assessed on its individual merits - there is a significant minority of funds that are able to overcome disappointing performance early on, with 12% of bottom quartile buyout funds in year four achieving top quartile status at maturity.

In order to help fund managers see how they compare to their peers and to assist investors and advisors in making informed investment decisions, Preqin now provides full complimentary access to its Benchmarks product for all industry professionals."

Tim Friedman, Senior Manager and Author of Report

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.



Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

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