Content Includes

Asia-Focused Returns
How have Asia-focused private equity funds performed?

Investor Study
We reveal the results of our latest study into global private equity investors' attitudes towards investment in Asia.

Deals
A round up of the current and historical private equity-backed buyout, growth, and venture capital deals market in Asia.

Fundraising Markets
Have Asia-focused funds proved attractive to institutional investors? We assess historical trends and the future outlook.

Preqin Special Report: Asian Private Equity

September 2012

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alternative assets. intelligent data.

Data Sources

Preqin Special Report: Asian Private Equity draws exclusively on the following sources of information:

- Investor Intelligence - The most comprehensive database of current and potential institutional investors in private equity, featuring in-depth profiles of more than 4,400 actively investing LPs and over 1,100 that have put their investments on hold, including investment preferences, future plans, key contact details and more.

- Funds in Market - This constantly updated resource includes details for all private equity funds in market worldwide, with key information on strategy, target sizes, interim closes, placement agents, lawyers, and LPs.

- Deals Analyst - The most extensive, detailed source of information on private equity-backed buyout, growth, and venture capital deals in the world. This comprehensive product contains in-depth data for over 26,500 buyout deals and 29,000 venture capital deals across the globe, including information on deal value, buyers, sellers, investment round, debt financing providers, financial and legal advisors, exit details, and more.

- Performance Analyst - The industry's most extensive and transparent source of net-to-LP private equity fund performance, with full metrics for over 6,000 named vehicles. In terms of capital raised, Performance Analyst contains data for over 70% of all funds raised historically.

Contents

Foreword

The rapid growth of the Asian private equity market in recent years has seen the region, along with other emerging markets, challenge the traditional private equity hubs of North America and Europe for a stronger foothold in the asset class. Investors are increasingly showing an interest in Asia as an alternative to these established markets, and many Asian governments, such as those in China and India, have been keen to capitalize on this appetite for investment by encouraging the flow of private equity capital into the region. As prolonged uncertainty in Western financial markets and the ongoing sovereign debt crisis in Europe show no sign of ending in the short term, now is the time for Asia to proactively close the private equity gap on its Western rivals.

Asia felt the fallout from the global financial crisis less than other regions, making it an attractive region for institutional investors and private equity fund managers alike. The last year has proven to be particularly significant for private equity investment in the region, with many foreign investors now seeking opportunities in the region in order to capitalize on positive economic growth. Additionally, local investors are becoming increasingly sophisticated and are now looking for the large potential returns offered by private equity. This trend is growing across the region, with the likes of China Investment Corporation, one of the world's largest sovereign wealth funds, looking to offset negative returns in its portfolio by actively increasing its exposure to alternative asset classes, including private equity.

With Asia becoming an ever more important part of the private equity industry, we are proud to present this special report, which analyzes the main trends in the region by using Preqin's industry leading private equity data regarding investors, fundraising, performance, deals and more. In addition, in order to analyze current global investor sentiment towards Asian private equity and produce this special report, we conducted interviews with over 100 institutional investors from around the world during August 2012, surveying their attitudes towards private equity investment opportunities in Asia. The sample was selected from Preqin's Investor Intelligence database of over 5,000 LPs, the most comprehensive and accurate source of information on global investors in private equity funds available today.

Asia-focused private equity is a truly global and rapidly growing industry, with managers targeting the region for investment headquartered in regions as diverse as Europe, the US and the Middle East. Preqin, a global firm with an established and growing research office in Singapore, is ideally located to track all aspects of the Asian private equity industry, and, with offices in New York and London, is able to track wider trends across the world. Our worldwide coverage is provided by teams of multi-lingual and local analysts, allowing us to remain in daily contact with private equity fund managers, funds of funds, institutional investors, consultants, and third-party service providers. We believe that by speaking to industry players directly, we are able to collect the most up-to-date information and provide our clients with reliable, pertinent and comprehensive analysis.

We hope you find the Preqin Special Report: Asian Private Equity a useful and interesting guide and, as always, we welcome any feedback and suggestions you may have for future editions. Should you wish to receive any further information on the products and services offered by Preqin, please do not hesitate to contact any of our offices.

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Asia-Focused Fundraising in H1 2012

Fundraising in 2012 is extremely competitive, with new entrants into the market vying with existing participants for the same pool of investor capital. Preqin's inaugural Asia-Pacific Private Equity Special Report recorded 1,701 funds that were on the road globally in August 2011 (including those that invest in infrastructure and real estate) seeking $683.9bn in aggregate capital commitments. A year later, there are 1,879 private equity funds on the road globally, targeting $775.3bn from investors. This represents a 10% increase in the number of funds on the road and a 13% rise in aggregate target capital.

Of the current funds in market, 386 (21%) are Asia-focused vehicles that are seeking to raise $129.8bn collectively, making up approximately 17% of the aggregate capital being sought globally. These levels are similar to Europe-focused funds, highlighting how Asian private equity is catching up with the traditional hubs. At present there is significant momentum within the Asian fundraising market, with nearly half (47%) of all Asia-focused vehicles having held an interim close, securing $26.2bn in aggregate commitments.

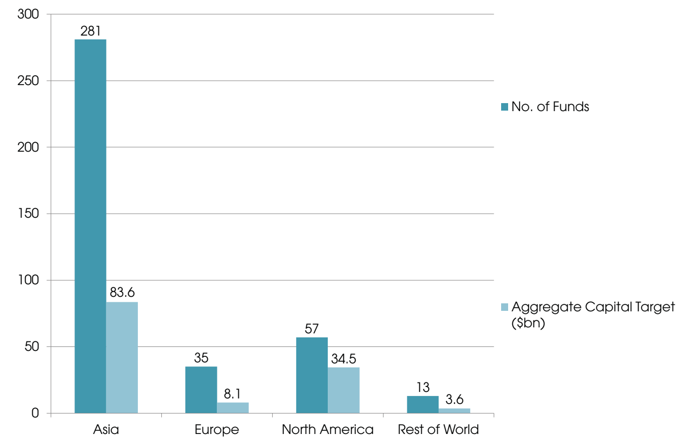
As shown in Fig. 1, 73% of Asia-focused funds currently in market are managed by fund managers based in the region itself, while 15% are raised by North America-headquartered fund managers. In terms of aggregate capital being sought, the difference in the proportions narrows slightly. Fund managers based in Asia are seeking to raise 64% ($83.6bn) of the total capital being sought by Asia-focused private equity funds, while North America-headquartered GPs are seeking to raise 27% ($34.5bn) of the total.

Fig. 2 shows that growth funds are the most common fund type among the Asia-focused fundraising market, accounting for slightly less than one-third (31%) of the vehicles currently on the road that target the region. Growth funds are also targeting the largest pool of capital, with an aggregate fundraising goal of $36bn, representing 28% of all the capital sought by Asia-focused vehicles. The next most numerous fund type is venture capital; 82 such funds, including both generalist and stage-specific vehicles, are seeking to raise $10.8bn in aggregate capital. While there are fewer buyout funds (29) than venture capital funds targeting the region, the former are seeking almost three times the amount of capital ($30.8bn).

Largest Funds Currently in Market

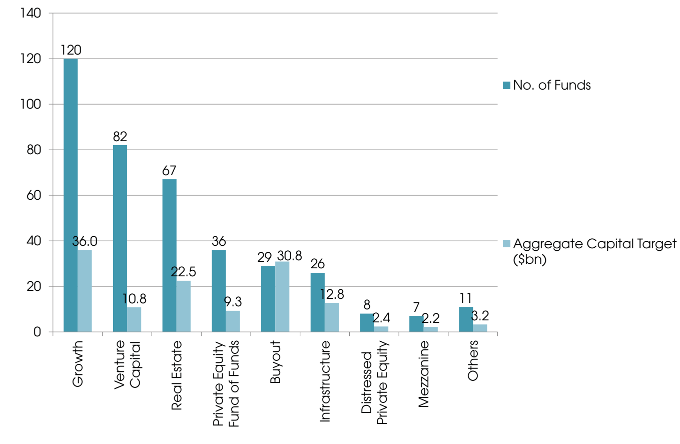
2012 has already seen some of the largest global GPs back on the road with follow-on funds to earlier Asia-focused offerings. The largest Asia-focused fund currently in market is Kohlberg Kravis Roberts' second pan-Asia buyout fund, KKR Asia Fund II. The vehicle is targeting $6bn and has already secured half of this amount in an initial first close that was held earlier in the year. The next largest Asia-focused fund on the road is RRJ Management's RRJ Capital Master Fund II. After holding a $2.3bn final close for RRJ Capital Master Fund I in 2011, the Hong Kong-based firm has made a swift return to the fundraising market and is now targeting $5bn for its second fund. Other significant Asia-focused funds currently on the road include TPG Asia VI and Carlyle Asia Partners IV, which are targeting $4bn and $3.5bn respectively.

Fig. 1: Breakdown of Asia-Focused Funds Currently in Market by Fund Manager Location (As at 16th August 2012)



Source: Preqin Funds in Market Online Service

Fig. 2: Breakdown of Asia-Focused Funds Currently in Market by Fund Type (As at 16th August 2012)



Source: Preqin Funds in Market Online Service

Future Outlook

Fundraising conditions across the world remain challenging; however, Asia-focused funds on the road are showing considerable momentum via interim closes, and the market is welcoming back many large players that have launched new funds. As uncertainty continues to loom over the resolution of the European sovereign debt crisis and US economic growth is also projected to be slow, Asia remains an attractive prospect for investors and fund managers keen to ride the wave of investor interest in the region with new fund launches.

Historical Asia-Focused Fundraising

Asia has attracted increased attention from private equity fund managers and investors alike in recent years. Even though North America and Europe remain the predominant regional focuses of private equity funds, fund managers are eyeing the burgeoning opportunities in Asia, as various countries within the region warm up to the private equity asset class.

As seen in Fig. 3, Asia-focused fundraising began to gather momentum in 2004, when an aggregate $14.4bn was raised, representing three times the average capital raised annually from 2000 to 2003. The number of Asia-focused private equity funds to close peaked in 2007, with 228 funds closing on $71.4bn in aggregate capital. One prominent fund to close in 2007 was KKR Asia Fund, a $4bn buyout vehicle raised by US-headquartered Kohlberg Kravis Roberts.

In the midst of the global financial crisis in 2009, global private equity fundraising experienced a significant dip and total commitments for Asia-focused funds declined to $30.8bn, less than half the capital raised by such funds in 2007. Despite this, private equity players quickly regained confidence in the region and fundraising for Asia has enjoyed a steady year-on-year climb since 2009. Indeed, the number of Asia-focused private equity funds closed in 2011 was close to the all-time peak in 2007. This is in stark contrast to the US and Europe where fundraising remains depressed since the global financial crisis. Despite Asia being a maturing private equity market, fund managers and investors have turned to the region for risk diversification when faced with periods of crisis in North American and European markets.

From January to August 2012, 76 Asia-focused private equity funds reached final close, securing an aggregate $20.4bn in capital commitments. The largest fund closed in this time frame was Mount Kellett Capital Partners II, a $4bn special situations fund that targets Asia with a specific focus on investment in China and India. With a third of the year left, Asia-focused private equity fundraising in 2012 may not surpass the figures of the previous few years, but continued growth in the wider Asian economy is likely to see fundraising in the region grow again.

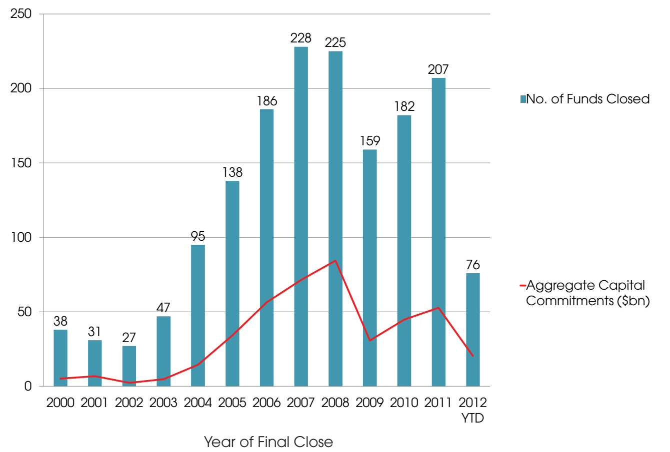
Historical Fundraising by Fund Type

As shown in Fig. 4, more venture capital funds have closed than any other Asia-focused fund type since 2000. However, such funds typically have smaller average fund sizes and therefore it is unsurprising that buyout funds have raised $28.5bn more over the same period. Private real estate funds have also emerged as one of the principal fund types in the Asia-focused private equity universe, with $129.6bn raised by 299 such funds since 2000. Given the developing nature of many Asian economies, growth funds have also proved successful in the fundraising market, with 278 funds successfully raised since 2000, garnering slightly more in aggregate capital commitments than venture capital funds.

Historical Fundraising by Country

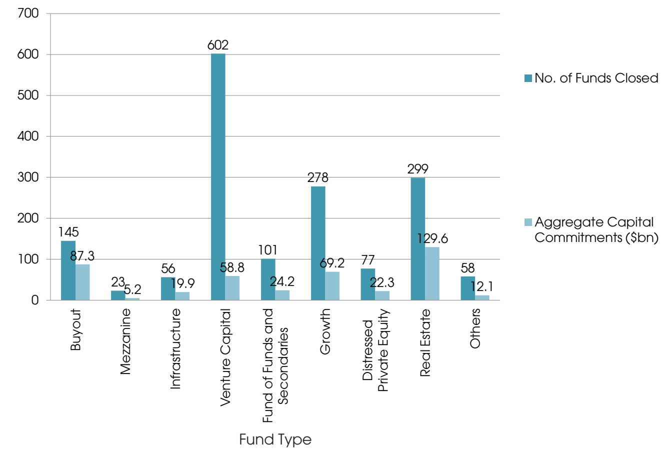
China and India have been key for the continuing economic growth of the region and, as the governments in these two nations – as well as others – take steps to boost private investment in

Fig. 3: Annual Asia-Focused Private Equity Fundraising, 2000 - 2012 YTD (As at 16th August 2012)



Source: Preqin Funds in Market Online Service

Fig. 4: Breakdown of Asia-Focused Private Equity Fundraising by Fund Type, 2000 - 2012 YTD (As at 16th August 2012)



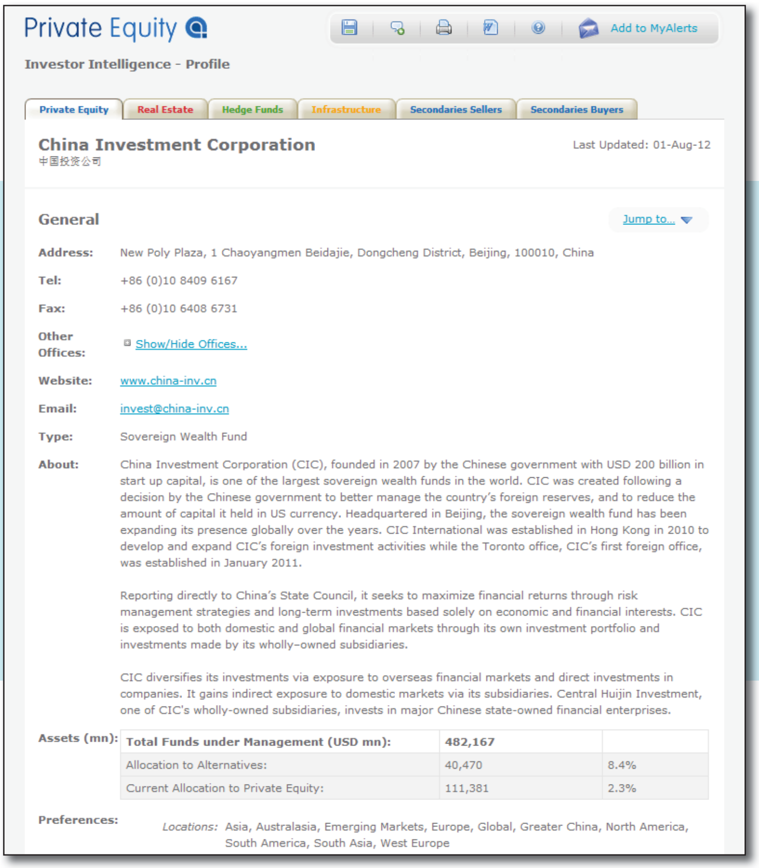
Source: Preqin Funds in Market Online Service

emerging industries by easing regulations, there is increased confidence in the potential growth of the Asian private equity industry. China in particular has seen a number of government-initiated programs to encourage the flow of private capital into young and growing companies. Because of this, China-based fund managers have additional incentives to raise venture capital or growth funds that can win financial support from various regional government institutions across the country. While foreign fund managers flock to invest in China, a considerable number of local fund managers have also emerged across the country to establish CNY-denominated vehicles.

The largest China-focused fund that closed in 2011 was Hony Capital Fund V, a $2.4bn buyout vehicle managed by Hony Capital. The China-based firm also closed its second domestic vehicle, Hony Capital RMB Fund II, at CNY 10bn ($1.5bn) that year.

Preqin - Global Coverage

With analysts located around the world, Preqin is ideally placed to provide private equity intelligence on a global basis.



Preqin has dedicated teams of analysts based in New York, London and Singapore speaking directly to investors, fund managers and third-party service providers all around the world, ensuring that our data is up to date, reliable and accurate.

In addition, we use multiple different sources to ensure that our private equity data is the most globally comprehensive and detailed available anywhere.

Want to find out more about how Preqin can help you? Please visit:

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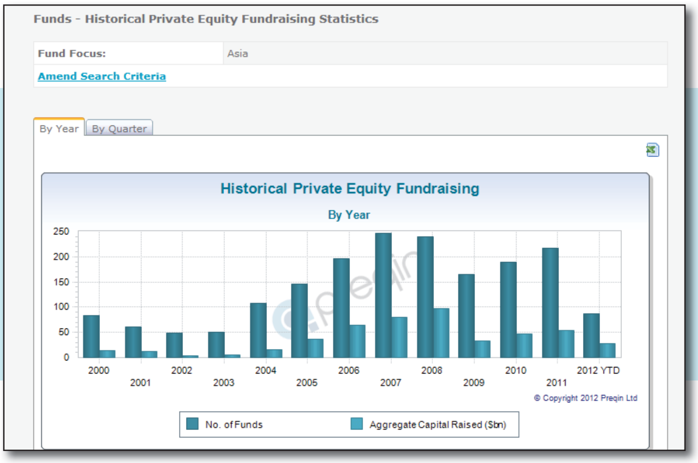

Preqin offers industry-leading private equity intelligence covering:

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- Buyout deals
- Venture capital deals
- Fund managers
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Asia-Based Investor Universe

At present, Preqin's Investor Intelligence product tracks 407 active investors based in Asia, representing 9% of the global active private equity investor universe. As shown in Fig. 5, these investors are split chiefly between four nations that collectively account for almost three-quarters of the Asian investor universe: Japan (23%), China (22%), South Korea (15%) and India (13%).

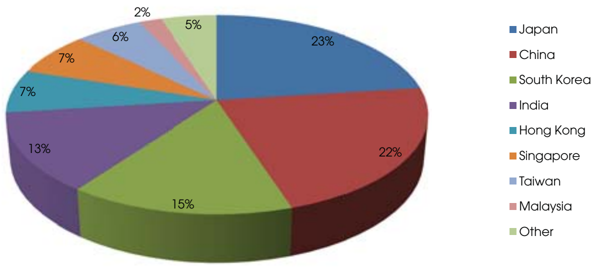
Corporate investors are the most common type of private equity investor in Asia, representing 18% of the universe, while banks and investment banks account for 14% and insurance companies 12%. As shown in Fig. 6, the most common investor types in Europe and North America, foundations, endowments and pension funds, together make up less than 8% of the Asia LP universe. Interestingly, even though sovereign wealth funds only make up 3% of the Asian LP universe by number, they account for over 10% of the $21tn aggregate AUM of the Asian LP universe. A list of five notable sovereign wealth funds based in Asia can be seen in Fig. 7.

In terms of investment preferences, Asia-based LPs favour investments in venture capital or growth vehicles, which is indicative of the rapid growth in relatively young companies across the region. Sixty-three percent of Asian investors have invested in or are looking to invest in venture capital funds, while 51% show an active appetite for growth vehicles. Buyout funds attract interest from 44% of the total investor pool in the region. Asia-based LPs have been more tentative than non-Asian LPs when pursuing newer private equity strategies, such as distressed private equity, mezzanine, secondaries and natural resources. As the private equity industry continues to develop and mature, however, we would anticipate that Asian LPs will diversify into new approaches to the asset class.

Asian LPs, like those based in other regions of the world, tend to prefer to invest close to home, with 86% showing an active appetite for private equity funds focused on investing in the region itself. This figure is much higher than the 32% that consider investments in North America, and the 24% that target Europe-focused private equity vehicles.

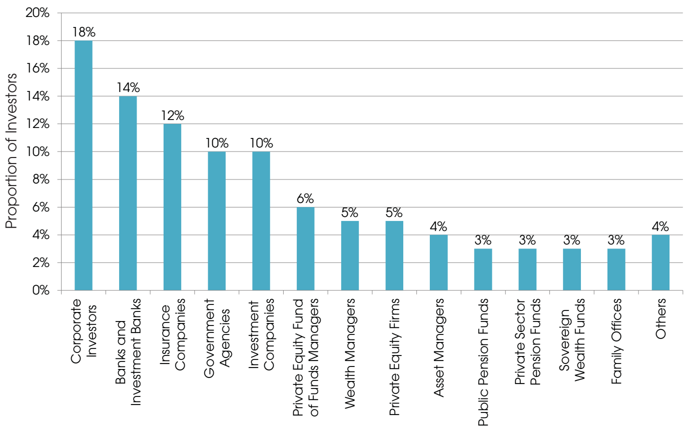
In terms of attitudes towards first-time funds, 38% of Asia-based investors will actively invest in first-time funds, while a further 10% will invest with spin-off managers. An additional 19% of the investor pool in Asia is willing to consider first-time funds on a case-by-case basis, leaving 33% that will not commit to these vehicles.

Fig. 5: Breakdown of Asia-Based LPs by Location



Source: Preqin Investor Intelligence Online Service

Fig. 6: Breakdown of Asia-Based LPs by Institution Type



Source: Preqin Investor Intelligence Online Service

Fig. 7: Notable Asia-Based Sovereign Wealth Funds Investing in Private Equity

Investor Name	Location	AUM ($mn)	PE Allocation (% of AUM)	Likely to Commit to New Funds in H2 2012 / H1 2013
China Investment Corporation	China	482,167	2.3	Yes
Hong Kong Monetary Authority	Hong Kong	328,466	N/A	Opportunistic
Government of Singapore Investment Corporation (GIC)	Singapore	247,500	N/A	Yes
Korea Investment Corporation	South Korea	50,000	4	Yes
Brunei Investment Agency	Brunei	39,300	N/A	Opportunistic

Source: Preqin Investor Intelligence Online Service

Global Investor Survey - Views on Asia

With the repercussions of the credit crunch in 2008 and the more recent escalation of the eurozone sovereign debt crisis, institutional investor interest in emerging market private equity has continued to grow, with increasing numbers of LPs looking towards less traditional markets for increased portfolio diversity and performance. Asia in particular remains an attractive investment destination for LPs, with Preqin's H2 2012 Private Equity Investor Outlook study revealing that a significant 38% of investors worldwide feel that the region is currently presenting the best investment opportunities within emerging markets. In order to assess LPs' current attitudes towards Asia and their future plans in more detail, we conducted over 100 in-depth interviews with investors from around the world that have an interest in the region.

Allocations to Asia

Ninety-one percent of the investors polled have specific target allocations for their Asian private equity investments, while 9% take a more opportunistic approach (see Fig. 8). The majority of investors with specific Asian allocations are targeting 25% or less of their private equity investments on the region; however, a not insignificant 7% of investors are targeting between 26% and 75% of their private equity investments on Asia. The 16% of investors which are targeting 76% or more of their investments on Asia are, of course, primarily based in the region itself.

Geographical Preferences

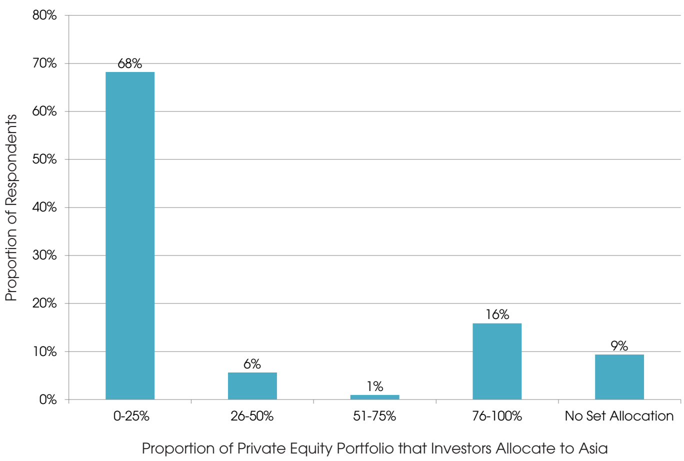
As Fig. 9 displays, Greater China continues to attract the most attention from LPs, with over half (58%) of the investors we spoke to stating that the region is presenting attractive investment opportunities within Asia, followed by India, which was named by 36% of LPs. In a similar study conducted last year, a higher 68% and 61% named China and India as presenting attractive investment opportunities respectively. Some investors named a number of fast growing regions as presenting more favourable opportunities, including countries such as Vietnam.

In terms of the geographical scope of the funds that investors look to commit to, over one-third (35%) of LPs prefer to invest in country-specific funds, allowing them to tap local expertise and to control the geographic exposure they gain. A German insurance company told us: “We are likely to focus more on country-specific funds going forward, as we are looking to target certain countries.” Thirty-one percent of LPs look to gain exposure to Asia through pan-Asia funds, while 16% prefer to invest in funds focusing on opportunities via a wider global mandate. Twenty-three percent of LPs prefer to take an opportunistic approach when investing in private equity in Asia.

Fund Manager Location Preferences

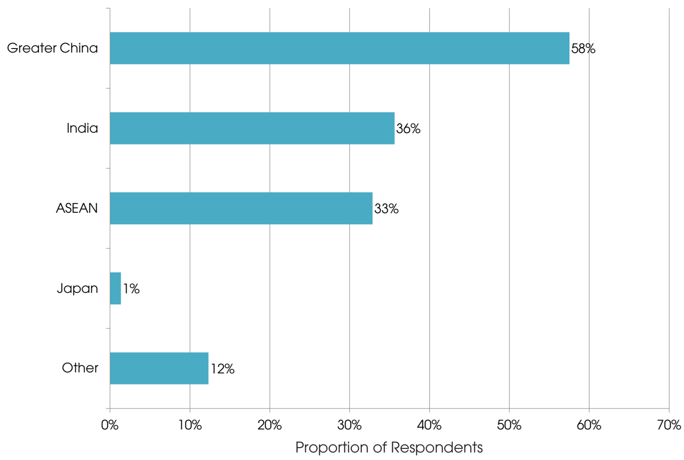
When considering which fund managers to work with when investing in Asia, the vast majority of LPs expect the fund manager to have some local presence within the region. Over half (55%) of LPs prefer to invest with a local manager that has an office in the investee country, while a further 24% will consider investing with an international manager on the proviso that they operate a local office. Local presence and expertise are clearly viewed as important factors by LPs, though a significant 21% of LPs told us they have no particular preference with regards to fund manager location and instead are primarily concerned with the past performance and track record of the GP, as opposed to their physical location.

Fig. 8: Proportion of Private Equity Portfolio that Investors Allocate to Asia



Source: Preqin

Fig. 9: Countries and Regions within Asia that Investors Feel Are Currently Presenting the Best Investment Opportunities



Source: Preqin

First-time funds continue to be approached with caution by investors, with Asia-based fund managers being no exception. Nevertheless, many LPs that target private equity investments in Asia understand that the private equity industry in the region is still developing and, as a result, are slightly more willing to invest in emerging managers. Forty-two percent of LPs with an interest in Asia will consider committing to a first-time vehicle, which is higher than the 34% of the limited partner universe as a whole that will do so. A further 6% of LPs with an interest in Asia will commit to a fund raised by a spin-off team.

Fund Type Preferences

Over half (54%) of respondents to the study feel that growth funds are presenting the best investment opportunities in Asia at present, as displayed in Fig. 10. This reflects the fact that many markets in Asia are growing rapidly. One-quarter of LPs named small to mid-market buyout funds as presenting attractive investment opportunities in Asia, which is a considerably smaller proportion compared to the 49% of LPs worldwide that named this fund type as the most favourable in Preqin's recent study. A US foundation noted: "We have not seen much buyout activity in Asia compared to other regions." Similarly, distressed private equity funds have attracted less attention in Asia than in more developed markets. Just 3% of the LPs we spoke to felt distressed private equity funds are presenting attractive opportunities in Asia, as the majority of investors feel there are more attractive distressed opportunities in Europe and elsewhere.

Nearly half (48%) of investors prefer to gain exposure via funds that focus 100% on Asia, demonstrating the growing focus on investment in the region. As the Asian economies have continued to develop, LPs are more confident in gaining exposure to solely Asia-focused funds, as opposed to funds that only include Asia as a part of a wider remit and that may only allocate a small amount of capital to the region. However, it is important to recognize that fund of funds vehicles remain a useful method of gaining exposure to the asset class, and more specifically Asia, for some institutional investors. Fund of funds vehicles allow LPs to hold more diverse portfolios of investments through smaller numbers of commitments, with 13% of LPs stating they prefer to gain exposure to Asia through funds of funds. One European investor told us: "If we were bigger we might look at direct funds, but funds of funds are more appropriate for our size."

Future Intentions for Private Equity Investments in Asia

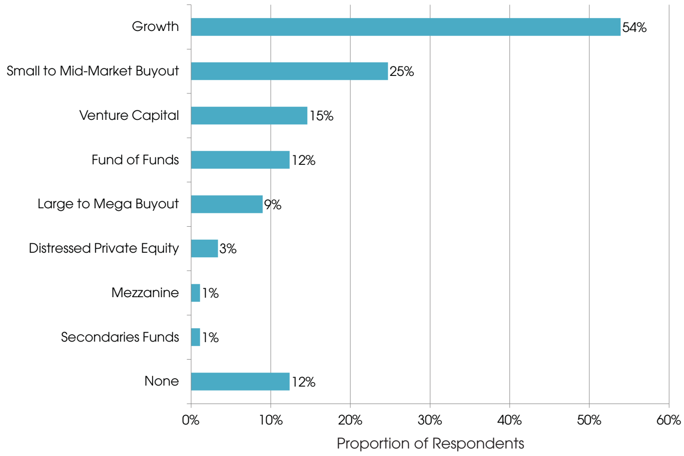
During 2012 so far, 35% of the LPs we spoke to have made new commitments to private equity funds focusing on opportunities in Asia, with the region looking set to remain an important part of LPs' investment portfolios over the next year. As shown in Fig. 11, over one-third (34%) of LPs expect to increase their allocation to Asia over the next 12 months, with a further 65% of investors looking to maintain their current level of exposure to the region.

The general consensus among investors is that over the longer term, Asia is likely to continue to be an integral part of their portfolios, with almost half (49%) of the investors we spoke to planning to increase the proportion of their private equity portfolio that is allocated to Asia. As Asian economies continue to develop and the local private equity industry becomes ever more sophisticated, the future will likely see even more interest from investors around the world.

Outlook for Asian Private Equity

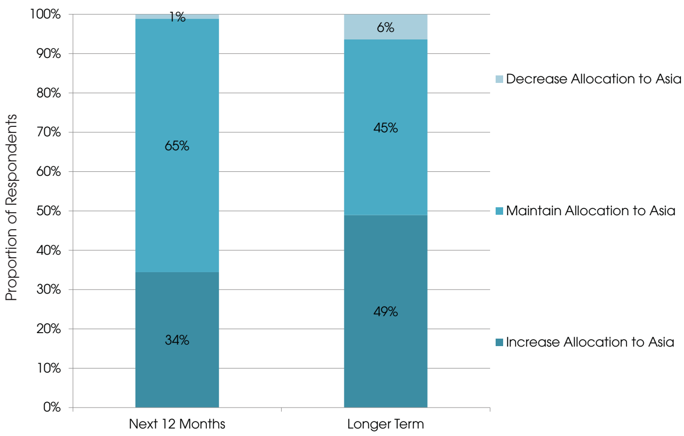
From our conversations with institutional investors around the world, it is evident that Asia remains an attractive investment proposition for many LPs. In recent years we have seen growing interest in the region, which has been buoyed by the rapid expansion of many Asian economies, the increasing maturity of the local private equity industry, and the recent turmoil that has prevailed in more developed financial markets. In addition, the region now plays host to a number of nascent private equity hubs such as Mumbai and Singapore, which is an encouraging sign for the future development of the Asian private equity industry.

Fig. 10: Fund Types Investors View as Currently Presenting the Best Investment Opportunities in Asia



Source: Preqin

Fig. 11: Investors' Intentions for the Proportion of Their Private Equity Portfolio that Is Allocated to Asia



Source: Preqin

As LPs become more confident about and experienced at investing in Asia, the way they access the region will undoubtedly evolve and there will be changes in the countries and regions they will look to gain exposure to. However, should economic growth continue it is likely that the region will become more and more significant for the private equity asset class as a whole.

Asian Private Equity-Backed Deal Market

Since 2009, over 2,900 private equity-backed buyout, growth, and venture capital deals have been completed in Asia, representing over 10% of all deals globally. With 21% of funds in market currently focused on Asia, the region looks set to remain prominent in the PE and VC deal markets in forthcoming years.

Fig. 12 shows the number and value of Asian deals since 2009, demonstrating a deal market that has grown significantly since the financial crisis despite the challenges faced due to the turbulent global economy. In particular, deal flow in Asia witnessed noteworthy gains in late 2010 and into 2011, with Q4 2011 representing a post-Lehman high for aggregate deal value in the region.

Despite a decline in deal value in Q1 2012 due to tightening credit markets, the 216 deals valued at $7.9bn in Q2 2012 represent a post-Lehman high for the number of deals in Asia. This is an indication of the thriving deals market currently witnessed in Asia, which is in marked contrast to the situation in Europe and the US, where deal volumes remain depressed post-financial crisis.

Proportion of Deals by Investment Type

As of September 2012, buyout deals have accounted for 27% of all PE-backed Asian deals in 2012, an increase of five percentage points from 2009 and 2010, with fund managers in Asia displaying increased appetite for LBOs in recent years as the deal market matures across the continent. Venture capital deals account for 61% of the 2012 total to date, an increase from the 56% and 59% of investments that venture capital deals accounted for in 2010 and 2011 respectively.

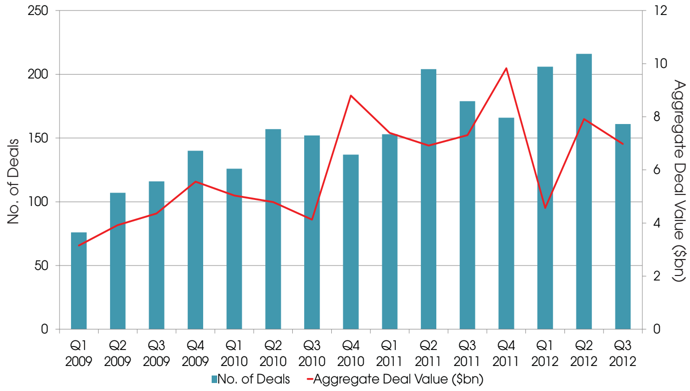
As the proportion of buyout and venture capital deals have increased this year, the proportion of the total accounted for by private equity-backed growth capital deals in 2012 has decreased by four percentage points from 2011, and by 10 percentage points from 2010, with such deals making 13% of the total so far this year. This indicates that fund managers in Asia are increasingly looking to invest on opposite sides of the spectrum, with early stage and mature investments currently appearing more attractive than growth capital deals in development stage companies.

Proportion of Deals by Location

The Asian private equity-backed deal market is dominated largely by India and China, with 85% of deals from January to September 2012 located in these regions, followed by 4% in Japan and 11% in other countries such as Singapore (3.6%) and South Korea (2%).

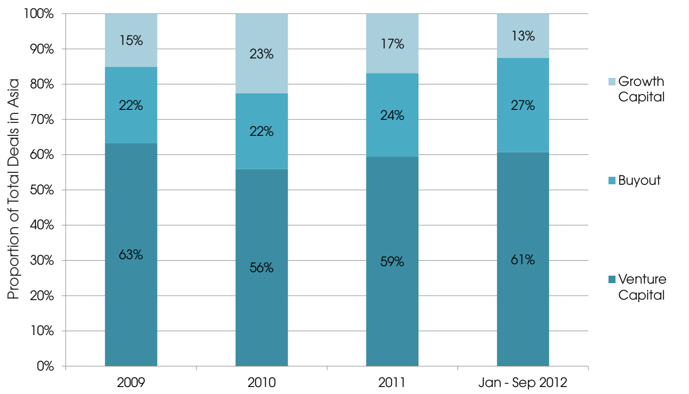
The Indian deal market has in particular witnessed a surge in activity in recent years, growing from representing approximately a third of all deals in 2009 to now representing almost two-thirds of investment activity in 2012 to date. Conversely, while remaining a key investment area in Asia, China has witnessed declines in activity this year, representing a quarter of all private equity-backed deals in 2012 to date, down from the 51% market share it held in 2009, largely attributable to investor fears over the lack of an exit market in the country. Japan represents 4% of all deals in 2012 to date, with the country remaining a key area of investment for buyouts in particular, as 12% of all Asian buyouts during 2012 so far have been located in the country, including the largest Asian private equity-backed deal of the year to date, the announced acquisition of a 50% stake in Jupiter Shop Channel by Bain Capital for JPY 100bn in June 2012.

Fig. 12: Number and Aggregate Value of Private Equity-Backed Buyout, Growth, and Venture Capital Deals in Asia, Q1 2009 - Q3 2012 (As of 7th September 2012)



Source: Preqin Deals Analyst Online Service

Fig. 13: Breakdown of Deals in Asia by Investment Type, 2009 - 2012 (As of 7th September 2012)



Source: Preqin Deals Analyst Online Service

Included as part of Preqin's integrated 360° online private equity database, or available as separate Buyout and Venture Capital modules, Deals Analyst provides detailed and extensive information on private equity and venture capital-backed deals globally. The product has in-depth data for over 26,000 buyout deals and 29,000 venture capital deals across the globe.

For more information on how Deals Analyst can help you, please visit:

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Asia-Focused Private Equity Performance

One of the factors that makes Asia-focused private equity investment attractive to institutional investors is the returns potential of emerging markets. Regions such as Asia are believed to offer opportunities for higher performance, albeit with increased risk when viewed in isolation.

Risk and Return Analysis

Each geographic region has its own characteristics, causing variations in the risk and return trade-offs, and direct comparisons of the individual risk and returns of different private equity strategies should be assessed with caution. Fig. 14 shows the risk-return profiles of North America-, Europe- and Asia-focused private equity funds of vintages between 1999 and 2009. The level of risk for each strategy is represented by the standard deviation of the net IRRs, and geographies with a higher standard deviation are positioned higher up the chart. The geography generating the best median performance is positioned furthest to the right of the chart. An investment region located nearer the bottom right of the chart therefore has a more favourable risk-return ratio.

For funds with a main focus on investment in North America and Europe, the median net IRRs are 7.2% and 8.0% respectively, while Asia-focused funds have an IRR of 8.1%. Asia, however, also represents the most risky region of investment, with a standard deviation of 20.2%, compared to 17.4% and 15.9% for Europe and North America respectively.

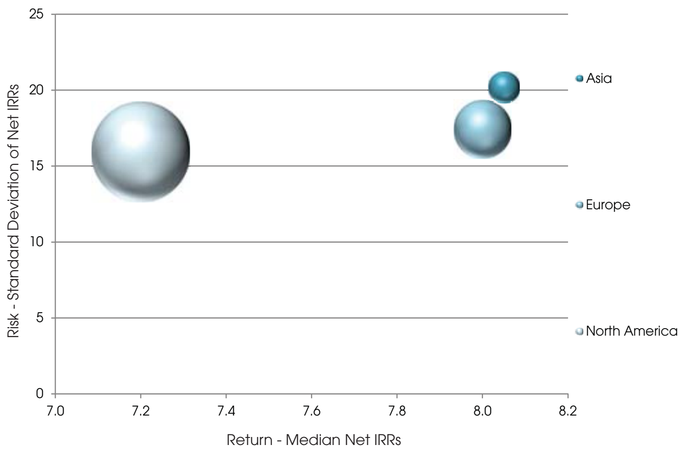
Median Performance and Quartile Boundaries

The median net IRRs and quartile boundaries by vintage year for Asia-focused funds are shown in Fig. 15. The top quartile boundary and median IRRs are positive across all vintages, but the bottom quartile boundary falls into negative territory for funds of 2006, 2008 and 2009 vintages. The highest median IRR is seen for vintage 2001 funds, with a figure of 30.9%. The lowest bottom quartile boundary of -10.0% is currently seen among vintage 2009 funds; however, these funds are still early in their fund lives and returns could change as the fund life progresses. Mirroring trends in other regions around the world, Asia-focused private equity also shows a considerable discrepancy between top and bottom quartile fund performance. For funds of vintages 2000-2009, the gap between the top and bottom quartile boundaries ranges between 11.5% (vintage 2001) and 25.3% (vintage 2009). Clearly, while outperformance in Asia-focused private equity is certainly possible, the key issue for institutional investors is selecting the best fund managers.

Called-up, Distributions and Residual Value Ratios

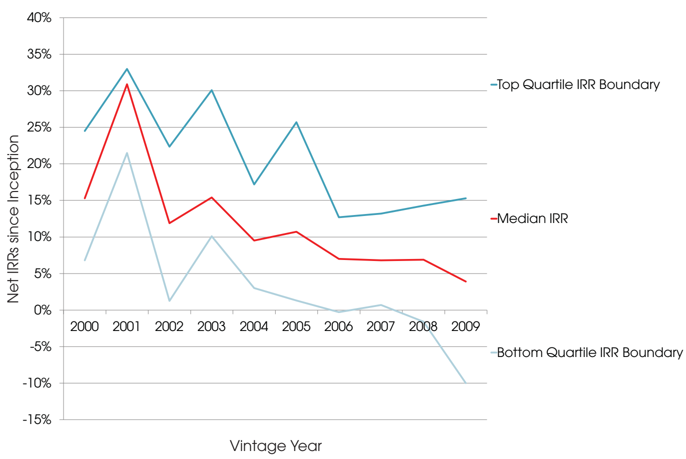
Fig. 16 shows the median called, distributions and residual value ratios for funds with an investment focus on Asia. Vintage 2001 funds have distributed 198.1% of paid-in capital and still have 32.6% of called capital remaining as unrealized value. In contrast, funds with more recent vintage years have distributed less capital, but have a greater proportion of unrealized value to paid-in capital.

Fig. 14: Private Equity Risk and Return by Regional Focus (Vintage 1999 - 2009)



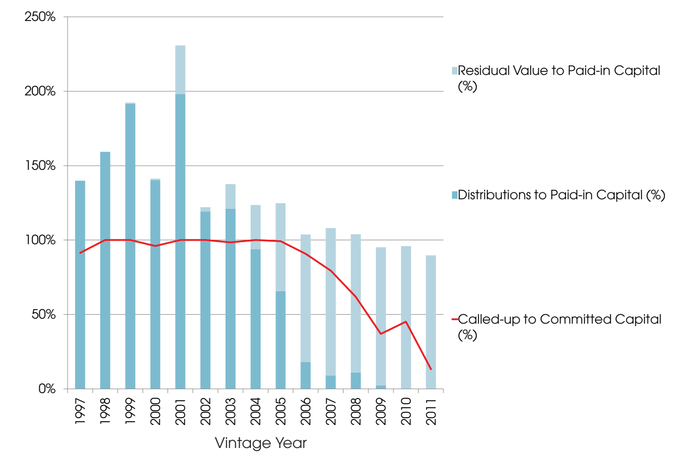
Source: Preqin Performance Analyst Online Service

Fig. 15: Asia-Focused Funds - Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin Performance Analyst Online Service

Fig. 16: Asia-Focused Funds - Median Called-Up, Distributions and Residual Value Ratios by Vintage Year



Source: Preqin Performance Analyst Online Service

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