

# Preqin Research Report Private Equity Performance Report Fund Data as of Q2 2009

December 2009



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Using data from Performance Analyst, Preqin has analysed the returns generated by private equity partnerships as at 30th June 2009 in order to provide an independent and unbiased assessment of the industry's performance. 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:

[www.preqin.com/pa](http://www.preqin.com/pa)

## Horizon IRRs as of June 2009

The overall private equity horizon IRR for the year to June 30th, 2009 stands at -24.1%. The one-year returns for the Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were -26.2%, -34.1% and -27.8% respectively. Over the three-year period, the private equity horizon IRR to Q2 2009 is 2.1%, while the figure for the five-year period stands at 18.9%, as shown in Fig. 1.1. The three- and five-year returns for the Standard & Poor's 500 were -8.2% and -2.2% respectively.

It should be noted, however, that comparisons with public markets need to be viewed with caution as private equity remains an illiquid

investment class, and horizon returns are therefore not as relevant as they are for listed equities.

All private equity strategies posted negative one-year returns for the period ending June 30, 2009. With a horizon IRR of -28.0%, buyout is the worst performing private equity strategy. Being the largest strategy by share of capital commitments, it is significantly influencing the returns calculated for the private equity industry as a whole. Fund of funds is the second-worst performing strategy, with a horizon IRR of -19.4% during the period. Other strategies' horizon IRRs have suffered slightly less, with venture capital at -16.0%, and mezzanine and distressed private equity around -14%.

Mid- and long-term horizon IRRs are all in positive territory, with the exception of the three-year fund of funds IRR to June 09, which stands at -0.7%. Other private equity strategies are showing modest three-year returns, at around 2%. With a three-year IRR of 9.9%, mezzanine funds are the best performers during that period. Long-term performance remains very strong, with buyout and mezzanine at around 25% over the five-year period. Venture capital and fund of funds are posting positive but lower returns over that period, with five-year horizon IRRs at 3.2% and 6.3% respectively.

Fig. 1.1:

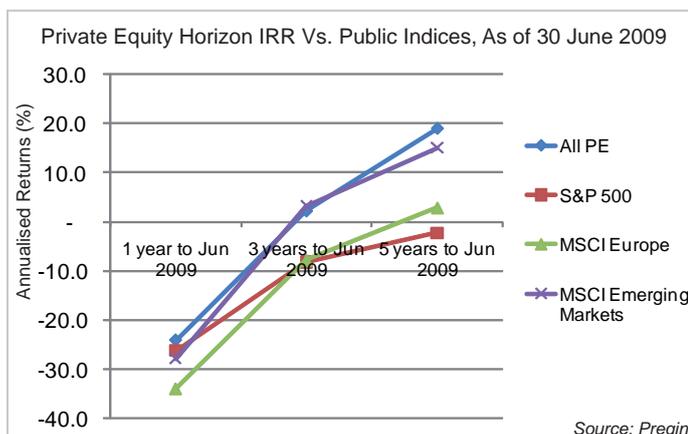
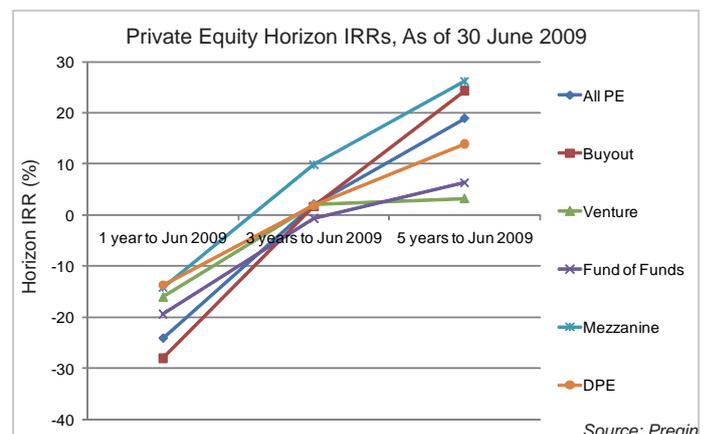


Fig. 1.2:



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Fig. 1.3:

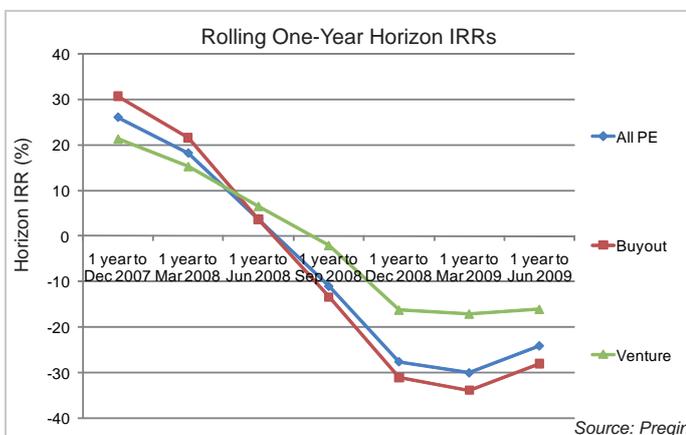
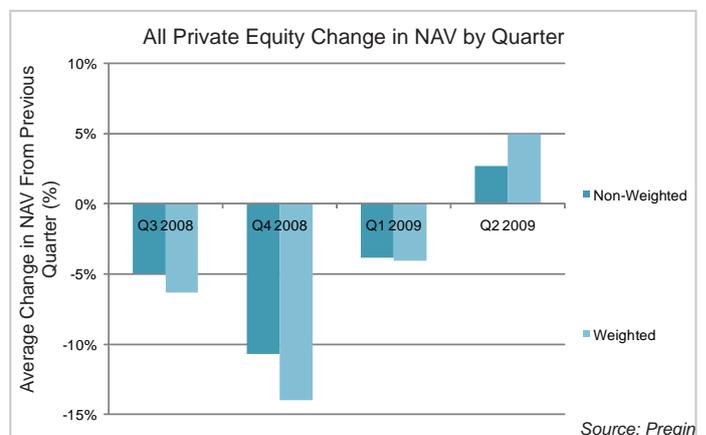


Fig. 2.1:



## Rolling One-Year Horizon IRRs:

Private equity returns have changed significantly over the last couple of years. The one-year horizon IRR for all private equity, which stood at 26% in December 2007, has rapidly decreased during the following quarters, it became negative, at -11% in September 2008 and reached its lowest point, at -30%, in March 2009. The one-year rolling IRR decreased steeply until December 2008, but the decline decelerates notably between Q4 2008 and Q1 2009. The one-year return remains negative as of June 2009, but has improved quite significantly from that of the previous quarter, moving from -30% in March 2009 to -24% in June 2009.

Rolling one-year horizon IRRs for buyout funds are very similar to those of the private equity as a whole because a large proportion of the industry's capital is committed to buyout funds. Venture capital funds that were posting lower returns than buyouts as of December 2007 are now outperforming the buyout sector. They have also been strongly affected by the financial crisis but as of June 2009 their one-year IRR, standing at -16%, is in not as bad a position as that of the buyout industry.

## All Private Equity Change in NAV by Quarter

Recently, private equity funds have experienced a particularly volatile period, with the onset of the credit crunch, the introduction of mark-to-market portfolio valuations in the US, which came into force on 31 December 2008 and the continuation of market

instability. The release of June 2009 data shows that the private equity industry is beginning to recover and that fund valuations are showing early signs of improvement.

The weighted quarterly change, which takes into account fund size, shows a healthy increase of 5.0% between Q1 2009 and Q2 2009. By comparison, the non-weighted change shows an increase of 2.7% for the same quarter and the discrepancy between these figures demonstrates that the larger funds are posting higher valuation increases than the smaller funds. As highlighted later in this report, mega-large buyout funds are the main driver behind the overall weighted quarterly change, as these funds saw their valuations increased by 5.7% over the quarter.

Conditions in the public markets were favourable in Q3 2009, so we can assume it is likely, with mark-to-market valuations, that Q3 2009 private equity valuations will show continued improvement from the Q1 2009 low point.

## Change in NAV by Fund Type for Q4 2008 to Q2 2009

Analysing the industry by fund type on a non-weighted basis reveals that buyout funds have seen the biggest increase in net asset value in Q2 2009 from the previous quarter: 3.6%. Private equity real estate, another strategy particularly affected by the subprime crisis, posted a modest increase of 1.1% from the previous quarter. The multi-fund strategies, fund of funds and

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secondaries, are both reporting small declines in June 2009 of -0.1% and -0.5% respectively, but these might be explained by possible quarter-lag of the reporting dates of their underlying partnership investments. Mezzanine focused funds posted a quarterly increase from Q1 2009 of 1.2%. Venture fund managers saw little change in their June 2009 portfolio valuations posting an increase of 0.2%. Across the main industry fund types, portfolio valuations are showing signs of improvement, most noticeably for buyout funds, to which many LPs have allocated a significant portion of their portfolios.

valuations for small and mid-market buyout funds also improved during Q2 2009 but to a lesser extent.

This analysis highlights signs of recovery in the private equity industry, as performance improved during Q2 2009. One-year returns are still negative but over the medium to long term, private equity is still showing healthy returns and is outperforming public indices. Considering improvements in the public market since June 2009, we should be confident that September's private equity figures will also show improvement.

## Quarterly Change in Buyout NAV by Fund Size

The large levels of capital being raised by mega buyout funds in recent years has led to the performance of the private equity industry as a whole being strongly influenced by these funds. By classifying funds according to their size, it is possible to analyse the role of the larger buyout funds in the industry. Fig 2.3 shows that mega buyout funds were the most affected by write downs, decreasing their portfolio value by -21.9% in Q4 2008 and a further -6.6% in March 2009. Mega buyout funds posted the best performance improvement in Q2 2009, as their net asset values increased by 5.7% over the quarter. Large buyout funds show similar trends, although the fluctuations in net asset value are less volatile. The most current figures for this fund size show valuations improving by 4.5% between March and June 2009. Portfolio

Fig. 2.2:

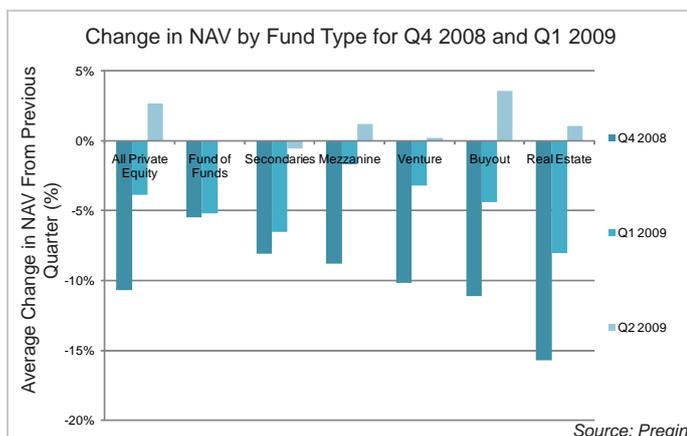
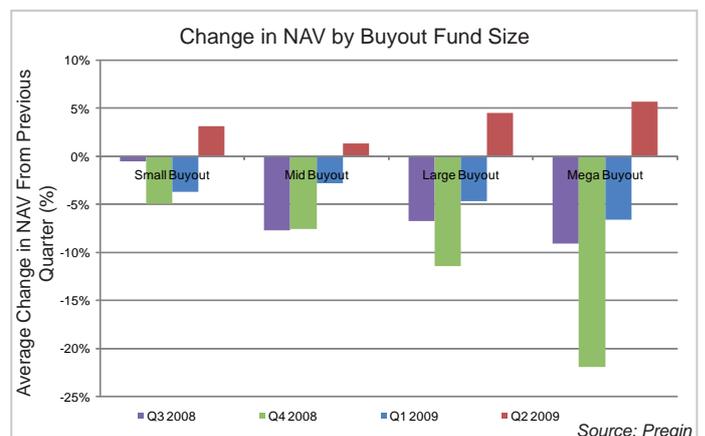


Fig. 2.3:



# Data Source

## Preqin's Performance Analyst

December 2009

Preqin's Performance Analyst is the most comprehensive, detailed source of private equity performance data available today. Preqin's team of analysts collect and monitor data from a number of different sources, including from GPs themselves, in order to provide the most comprehensive private equity performance data available today.

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

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

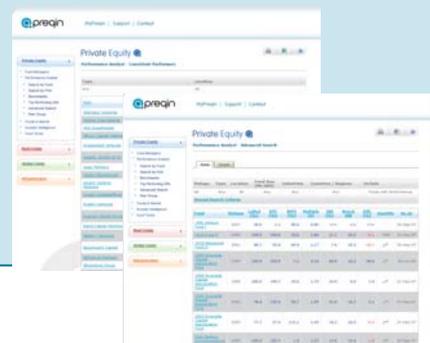
All of our Performance Data conforms to the same standardized metrics, with all data representing net to LP returns. We currently hold transparent net-to-LP performance data for over 4,800 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 65%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

[www.preqin.com/demo](http://www.preqin.com/demo)

Or contact us at our New York or London offices:

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# Preqin

## About the Company

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

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

Our customers can access this market intelligence in four different ways:

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information on the private equity industry then we can help. Our information is drawn from as many sources as possible, with our large teams of dedicated analysts working to ensure that our research is far reaching, detailed and up to date.

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Preqin regularly releases research and information on fund performance and all other aspects of the private equity industry, both as research reports and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit [www.peqin.com/spotlight](http://www.peqin.com/spotlight)