



“Plus ça Change, plus c’est la Meme Chose”

**Private Equity’s Evolving Role in the Economy and in
Investor Portfolios**

July 2010

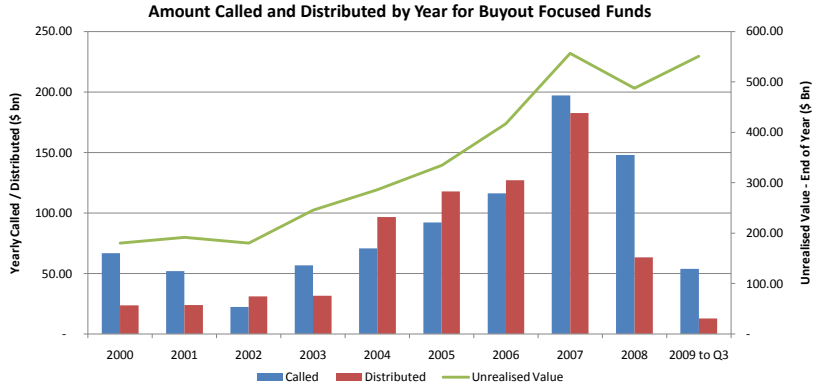
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- Cash Flows for Investors
- Valuations
- Net Returns for Investors – Short Term, Long Term
- Fund Raising
- Deal Activity – Volume and Type
- LPs Plans
- Secondary Activity – Pricing, Volume and Type
- PE’s impact on the broader economy – employment and investment



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NET CASH FLOWS FOR LPs – 2000 - 2009

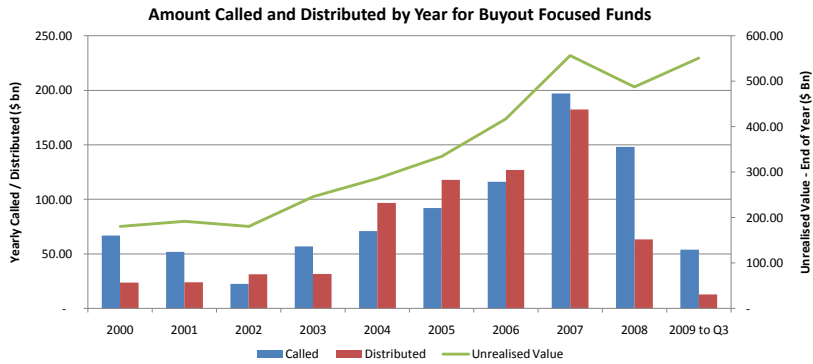


Source: Preqin Performance Analyst Database



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NET CASH FLOWS FOR LPs – 2000 - 2009



“Investment”

“Golden Years”

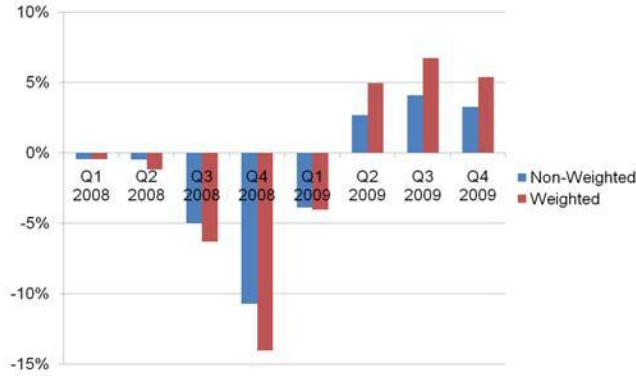
“Uneasy Balance”

“Liquidity Crunch”



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PRIVATE EQUITY VALUATIONS, 2008 - 2009

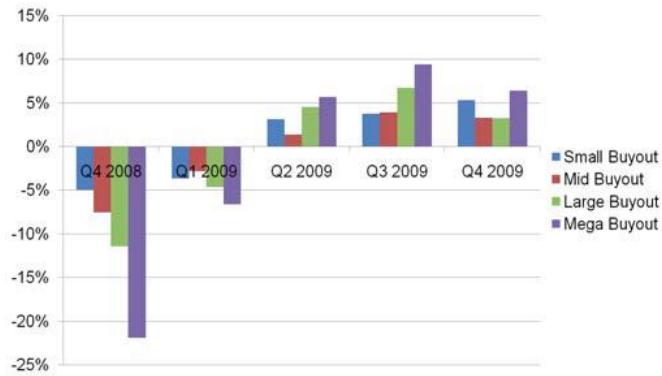


All Private Equity NAV changes quarterly; available in June 2010 Prequin PE Performance Report



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... PAIN MOST SEVERE IN BIGGEST BUYOUT FUNDS ... BOUNCE-BACK BEEN STRONGEST

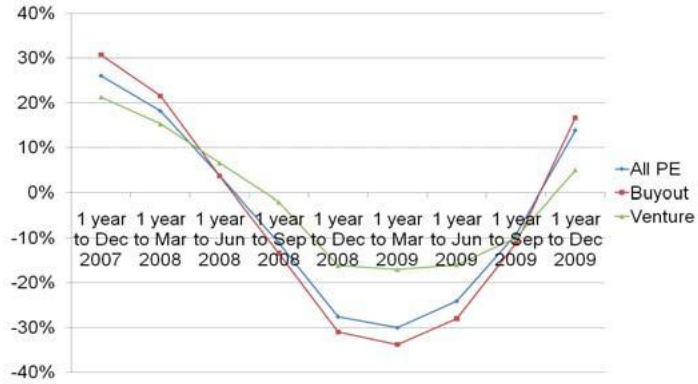


Buyout fund NAV changes quarterly; available in June 2010 Prequin PE Performance Report



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ROLLING 1-YEAR HORIZON IRRs, 2007 - 2009

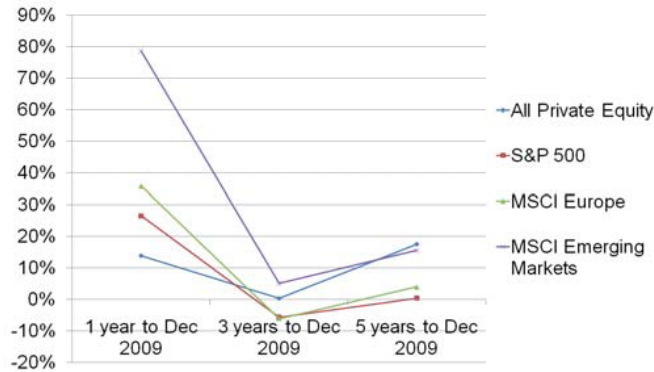


Rolling net-to-LP horizon IRRs by fund type; available in June 2010 Prequin PE Performance Report



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1 / 3 / 5 YEAR PE HORIZON IRRs vs. PUBLIC INDICES



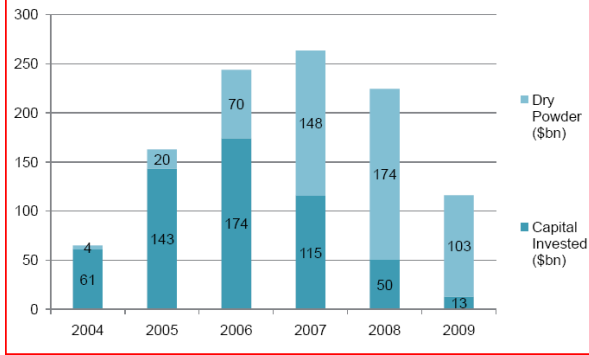
Net-to-LP 1, 3 and 5 Year Horizon IRRs vs. selected public indices; available in June 2010 Prequin PE Performance Report



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2006 VINTAGE BUYOUT FUNDS

Fig. 28: Buyout Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of 31st December 2009



Invested pre-2007

Maximum Pain

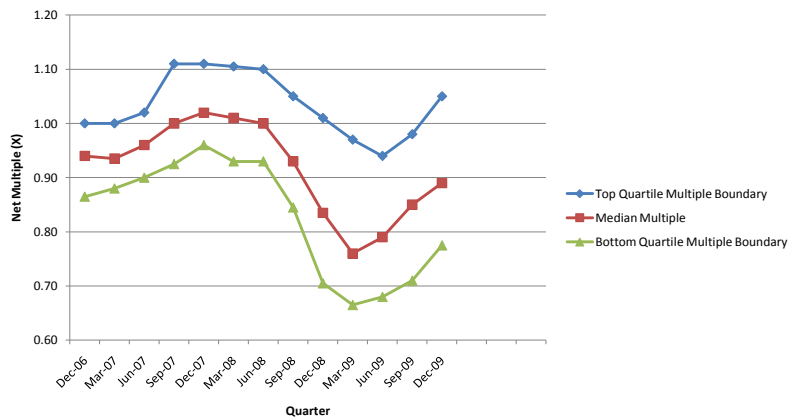
Lots of Dry Powder left



Source: Prequin Quarterly July 2010

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2006 VINTAGE BUYOUT FUNDS . . . ON THE MEND?



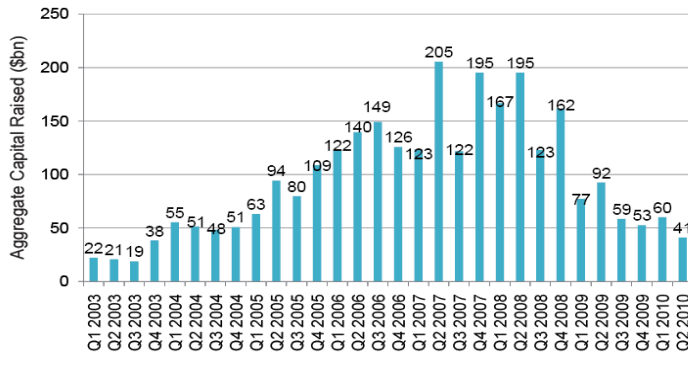
Source: Prequin Performance Analyst Database



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FUNDRAISING – STILL VERY CHALLENGING

Fig. 5: All Private Equity Fundraising by Quarter: Q1 2003 - Q2 2010



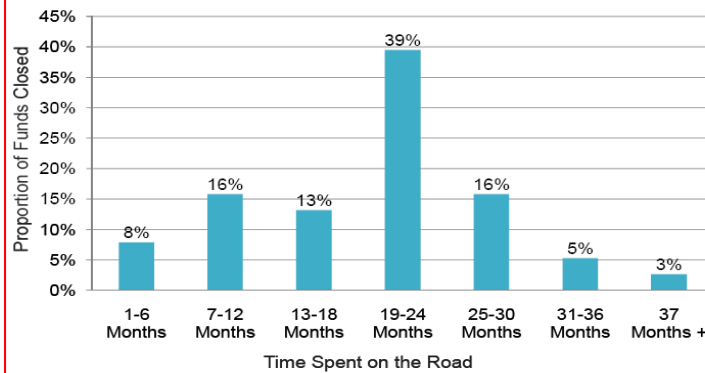
Source: Preqin Quarterly July 2010



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... AND TAKING GPs A LONG TIME

Fig. 6: Time Spent on the Road for Funds Closed in Q2 2010



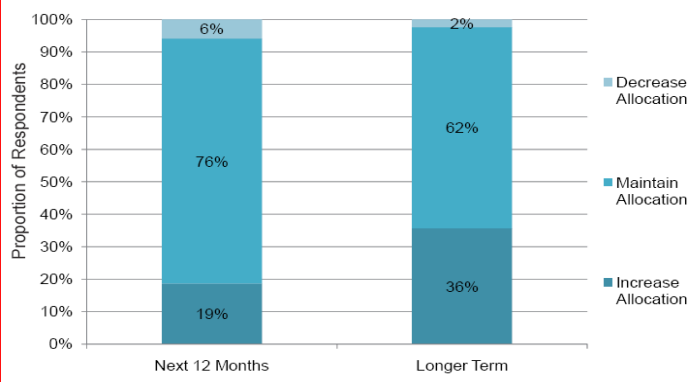
Source: Preqin Quarterly July 2010



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LPS STILL PLAN TO ALLOCATE MORE TO PE

Fig. 2: Investors' Intentions for Their Private Equity Allocations



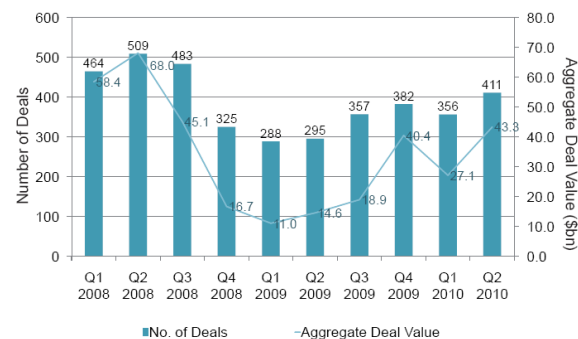
Source: Preqin Quarterly July 2010



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CLEAR RECOVERY IN DEAL-FLOW

Fig. 19: Number and Aggregate Value of Buyout Deals by Quarter



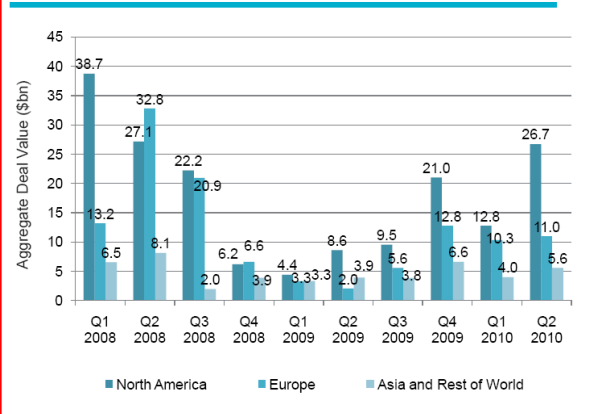
Source: Preqin Quarterly July 2010



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... ESPECIALLY N. AMERICA, ASIA – EUROPE STILL WEAK

Fig. 20: Aggregate Deal Value in Quarter by Regional Focus



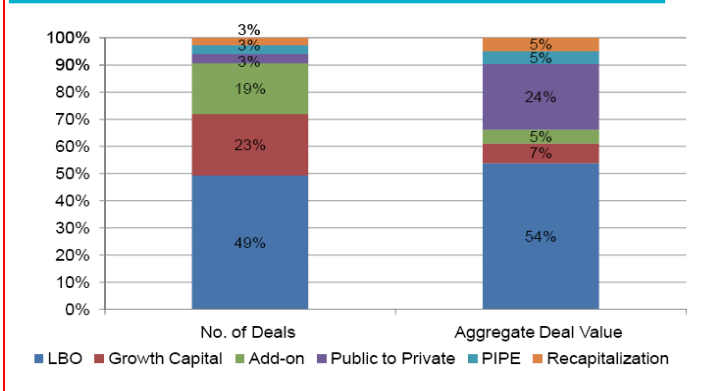
Source: Preqin Quarterly July 2010



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MANY GROWTH CAPITAL AND ADD-ON DEALS

Fig. 21: Aggregate Deal Value in Quarter by Type



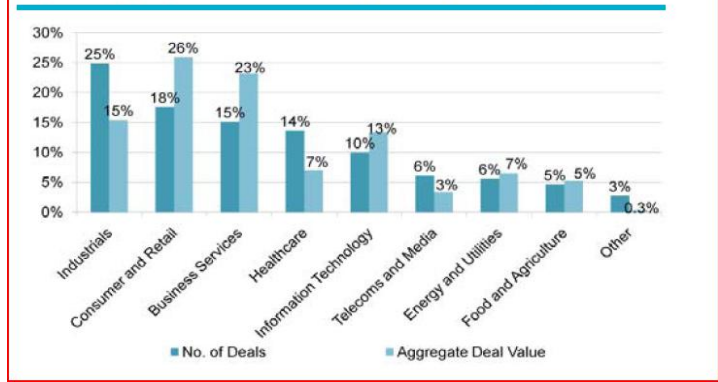
Source: Preqin Quarterly July 2010



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DEALS ACROSS A WIDE RANGE OF INDUSTRIES

Fig. 22: Aggregate Deal Value in Quarter by Industry



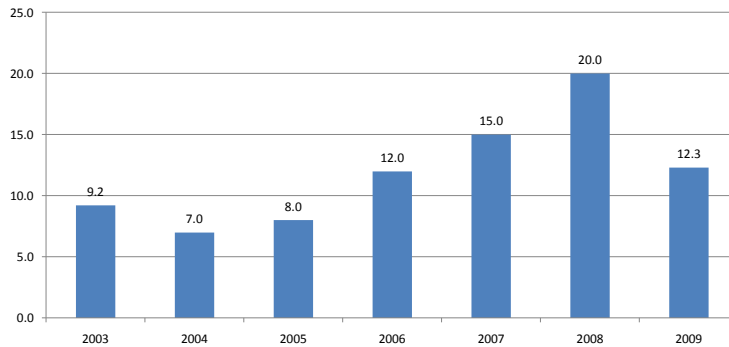
Source: Preqin Quarterly July 2010



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GLOBAL PE SECONDARIES VOLUMES, 2003 - 2009

Global PE Secondary Market Transaction Volume, \$bn



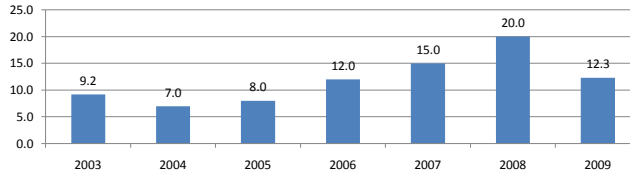
Source: 2003 – 2008 UBS



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Secondary Market Development, 2003 - 2010

Global PE Secondary Market Transaction Volume, \$bn



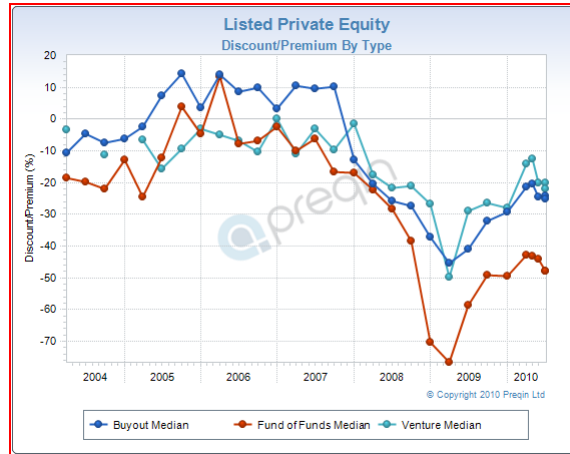
	2003	2004	2005	2006	2007	2008	2009	2010
LP Liquidity:	OK	Good	Good	Good	Changing	Poor	Poor	Better
Secondary Discount	-30%	-12%	-7%	8%	4%	-28%	-44%	20-30%

➤ Market needs 'reasonable' pricing



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LISTED PE AND SECONDARY PRICING HAS IMPROVED



Source: Preqin Secondary Market Monitor



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SELECTED MAJOR SECONDARIES TRANSACTIONS IN 2010

Month	Status	Seller	Buyer	Value
February	Not Completed	Harvard Management Company	n/a	USD 500 million
April	Completed	Bank of America	AXA Private Equity	USD 1.9 billion
May	Not Completed	Royal Bank of Scotland	AlInvest Partners	EUR 400 million
May	Completed	Saad Group	HarbourVest Partners. Other buyers potentially purchased fund stakes.	USD 450 million
June	Not Completed	Deutsche Bank	Sal. Oppenheim	EUR 500-600 million
July	Completed	Citigroup	Lexington Partners	USD 900 million
July	Completed	CIBC Merchant Banking	Landmark Partners	USD 200-300 million
July	Not Completed	Public Sector Pension Investment Board	n/a	USD 1.5-2 billion



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PE IMPACT ON BROADER ECONOMY - JOBS

PE investment often saves jobs and increases employment over time

Shapiro, Robert and Pham, Nam. "American Jobs and the Impact of Private Equity Transactions," Private Equity Council, January 2008

Ernst & Young, Transaction Advisory Services, "How Do Private Equity Investors Create Value? A Study of 2006 Exits in the US and Western Europe," 2007

The Global Economic Impact of Private Equity Report 2008, "Private Equity and Employment," World Economic Forum, January 2008



Source: Private Equity Council

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PE IMPACT ON BROADER ECONOMY – COMPANIES

**PE partnerships
improve the
performance of their
portfolio companies**

How Do Private Equity Investors Create Value? A study of 2007 Exits,” Ernst & Young, 2008

The Global Impact of Private Equity Report 2009, “Do Private Equity-owned Firms Have Better Management Practices?” World Economic Forum, January 2009

Cao, Jerry X. and Lerner, Josh, “The Performance of Reverse Leveraged Buyouts,” Swedish Institute for Financial Research Conference on The Economics of the Private Equity Market, October 15, 2006



Source: Private Equity Council

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PE IMPACT ON BROADER ECONOMY - RETURNS

**PE investments
deliver superior
returns to pension
funds, foundations
and endowments**

Thomson Reuters Private Equity Performance Index (PEPI)

Public Value: A Primer on Private Equity,” – Private Equity Council 2007 – analysis of data from Venture Economics and Bloomberg



Source: Private Equity Council

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PE IMPACT ON BROADER ECONOMY - INNOVATION

PE investment spurs innovation

Lerner, Josh, Morten Sørensen, & Per Strömberg. "Private Equity and Long-Run Investment: The Case for Innovation," The Global Economic Impact of Private Equity Report 2008, World Economic Forum, January 2008



Source: Private Equity Council

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PE IMPACT ON BROADER ECONOMY - PRIMING

PE is "the first money in" during the early days of economic recovery

Shapiro, Robert "The Role of Private Equity Promoting Economic Recovery," The Private Equity Council, March 2009



Source: Private Equity Council

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Thank you!

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Bill Franklin, Conversus Asset Management
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Wilson Warren, Lexington Partners