

BVCA Private Equity and Venture Capital Performance Measurement Survey 2008

A survey of independent UK-based funds which raise capital from third party investors

Introduction

PricewaterhouseCoopers, in conjunction with Capital Dynamics and the BVCA – The British Private Equity and Venture Capital Association, is pleased to announce the summary of the 2008 survey, highlighting the performance of 'independent' UK private equity funds – funds raised from external investors for venture capital and private equity investment, but excluding quoted private equity investment trusts (PEITs)* and venture capital trusts (VCTs).

100% of BVCA member firms, which manage funds eligible for this report, responded to the survey. There are now 458 UK-managed funds included in the dataset and we believe this makes it the most complete country specific survey on the performance of private equity funds in the world.

Comparative statistics on UK pension funds, supplied by The WM Company (WM), have also been quoted, although care should be taken in comparing these with private equity results. The return quoted for private equity funds is the internal rate of return (IRR) to investors, net of costs and fees. Returns for WM Pension Funds Assets and indices, however, are gross time-weighted returns.

Private equity is a long-term investment. The return since inception most accurately reflects the performance of private equity since it measures from the actual start of a fund. When comparing with other asset classes, emphasis should be placed on the long-term returns rather than those for the shorter term.

Key Points

- Private equity suffered alongside other asset classes in 2008 as a result of the financial crisis and recession. The annual IRR in 2008 for all funds covered by the survey is -9.8%. This compares favourably with public equity market performance, although when adjusted for exchange rate movements the 2008 IRR drops to -30.3%.**
- The figures show that funds raised during previous downturns, in the years 1991-94 and 2001-03, have produced outstanding returns for investors.
- UK private equity continues to outperform other asset classes over the long-term. The ten-year IRR for all funds stands at 15.4% against 3.7% for Total UK Pension Funds Assets*** and 1.2% for the FTSE all-share over the same ten year period.
- Since-inception returns on funds raised between 1980 and 2004 have displayed notable stability. IRR per annum on a since-inception basis from December 2000 has ranged from a low of 13% to a high of 17.3%, with a 16.4% overall long-term net return to investors to 31 December 2008.
- Venture Capital returns continue to show signs of improvement in the post bubble period (2002 vintage onwards) as the sector emerges from the legacy of the dotcom crash. Whilst market conditions remain difficult, the sector showed some welcome resilience during 2008.

	10 years (% p.a.)	5 years (% p.a.)	3 years (% p.a.)
Total UK Private Equity	15.4	20.4	16.7
Total Pension Funds Assets	3.7	5.5	-0.7
FTSE All-Share	1.2	3.5	-4.8

* PEITs are shown as a separate category for comparison purposes, although not included in the main analysis of independent funds.

** The survey is sterling-based, aiming to provide LPs with an indication of the returns they can expect in sterling terms. For this reason, all cash flows of the non-sterling denominated funds in the study are converted into sterling using the appropriate daily exchange rate to produce pooled IRRs. As a result, any write-downs experienced by these non-sterling denominated funds in 2008 are partially mitigated in sterling terms because of exchange rate movements.

*** As shown in the WM All Funds Universe.

Current Year and Longer Term Returns – IRR (% pa)

Investment Stage and Subcategories

	No of funds	Ten years	Five years	Three years	2008
Pre-1996 vintage funds					
Early Stage	24	39.5	-0.4	-4.5	5.9
Development	35	14.1	20.0	4.4	17.3
Mid MBO	33	13.5	5.7	-7.8	-5.1
Large MBO	26	27.3	56.8	4.2	-54.9
Generalist	36	44.5	41.9	96.2	-16.8
<i>Subtotal pre-1996</i>	<i>154</i>	<i>28.3</i>	<i>31.7</i>	<i>42.3</i>	<i>-11.7</i>

1996 vintage funds onwards					
Venture	114	-1.6	0.6	0.2	-0.5
<i>pre-2002 vintage funds</i>	49	-2.5	-0.3	-2.4	-6.9
<i>2002 vintage funds onwards</i>	65	n/a	2.7	4.9	7.2
Small MBO	28	11.7	18.7	25.4	29.4
Mid MBO	120	14.6	24.8	28.8	4.8
Large MBO	42	16.8	20.9	14.4	-14.4
<i>Subtotal 1996 onwards</i>	<i>304</i>	<i>14.6</i>	<i>20.3</i>	<i>16.6</i>	<i>-9.8</i>
Grand total all funds	458	15.4	20.4	16.7	-9.8

Subcategories (all vintages)					
UK	328	12.8	18.5	17.9	-3.5
Non-UK	130	16.6	20.9	16.5	-10.6
Pan-European	123	18.1	22.5	17.5	-11.4
Technology	130	-2.0	0.9	0.7	0.8
Non-Technology	328	16.8	22.0	17.9	-10.3
Investment Trusts*	24	6.8	9.8	4.2	-19.7

*Annualised weighted average total net asset value return, calculated by Fundamental Data, www.funddata.com

Vintage Year

	No of funds	Ten years	Five years	Three years	2008
1980-84	13	59.6	n/a	n/a	n/a
1985-89	68	28.6	7.4	6.6	3.0
1990	13	9.2	36.2	84.9	20.6
1991	14	-4.7	213.6	-17.9	-44.6
1992	7	25.1	55.6	-46.3	-93.5
1993	10	18.6	30.7	53.1	-3.4
1994	20	39.8	25.9	-14.3	-27.3
1995	9	22.8	40.8	97.5	-52.7
1996	14	22.4	30.3	65.9	385.9
1997	24	15.6	18.5	29.5	-33.0
1998	16	13.9	26.0	62.6	216.3
1999	27	n/a	20.8	17.7	-1.7
2000	29	n/a	25.2	33.6	-15.4
2001	29	n/a	36.9	36.3	1.4
2002	20	n/a	32.5	26.9	-11.7
2003	20	n/a	26.8	29.5	-4.8
2004	7	n/a	n/a	53.7	42.2
2005	23	n/a	n/a	4.6	-12.0
2006	39	n/a	n/a	n/a	-22.6
2007	37	n/a	n/a	n/a	-0.3
2008	19	n/a	n/a	n/a	n/a
Total	458	15.4	20.4	16.7	-9.8

Since Inception Return – IRR (% pa)

Investment Stage and Subcategories

	No of funds	To Dec '08	To Dec '07	To Dec '06	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01	To Dec '00
Pre-1996 vintage funds										
Early Stage	24	9.2	9.2	9.3	8.8	8.9	8.9	9.0	9.1	9.3
Development	35	10.2	10.2	10.2	10.0	10.0	10.0	10.1	10.1	10.4
Mid MBO	33	15.8	15.8	15.8	15.8	15.9	15.9	15.9	16.0	16.1
Large MBO	26	18.2	18.2	18.2	18.2	18.1	18.1	18.2	18.1	18.7
Generalist	36	15.8	15.8	15.6	15.6	15.5	15.6	15.6	15.8	16.1
<i>Subtotal pre-1996</i>	<i>154</i>	<i>15.6</i>	<i>15.6</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.9</i>

1996 vintage funds onwards										
Venture	73	-1.8	-1.6	-0.6	-1.9	-2.4	8.7	29.7	42.0	86.7
<i>pre-2002 vintage funds</i>	<i>49</i>	<i>-2.6</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>2002 vintage funds onwards</i>	<i>24</i>	<i>1.7</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Small MBO	16	6.5	7.3	3.2	1.9	0.3	3.2	1.3	2.6	-14.2
Mid MBO	76	14.9	14.9	13.2	9.3	5.9	4.3	3.6	8.0	17.6
Large MBO	21	21.5	23.7	21.0	18.0	13.9	14.3	16.5	30.6	25.2
<i>Subtotal 1996 onwards</i>	<i>186</i>	<i>17.2</i>	<i>18.9</i>	<i>16.4</i>	<i>13.2</i>	<i>9.4</i>	<i>9.7</i>	<i>11.7</i>	<i>19.8</i>	<i>25.9</i>
Grand total all funds	340	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2	16.4

Subcategories (all vintages)										
UK	256	14.6	14.6	14.4	14.0	13.6	14.1	14.5	15.4	16.2
Non-UK	84	18.5	20.2	17.9	14.9	11.8	12.6	15.1	18.7	17.5
Pan-European	77	20.3	21.6	19.7	17.4	14.0	14.9	16.9	20.9	20.4
Technology	96	-0.6	-0.1	1.0	0.1	0.9	7.4	10.7	12.1	12.8
Non-Technology	244	17.8	18.7	17.3	15.7	14.2	14.5	15.3	17.0	17.3

Vintage Year

	No of funds	To Dec '08	To Dec '07	To Dec '06	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01	To Dec '00
1980-84	13	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
1985-89	68	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8
1990	13	11.3	11.3	11.3	11.1	11.1	11.1	11.6	11.5	11.8
1991	14	23.4	23.4	23.4	23.4	23.3	23.3	23.3	23.3	23.7
1992	7	20.3	20.3	20.3	20.3	20.3	20.2	20.1	20.0	19.7
1993	10	15.2	15.3	15.3	14.8	14.0	14.6	14.6	14.6	16.0
1994	20	34.3	34.3	34.3	34.4	34.4	34.3	34.3	34.9	36.9
1995	9	23.1	23.1	22.2	21.9	21.9	21.8	22.8	25.7	32.1
1996	14	19.1	18.7	18.7	18.6	18.5	19.0	20.1	22.0	26.3
1997	24	15.3	15.6	14.7	14.9	14.3	14.3	13.7	17.6	n/a
1998	16	12.9	12.5	12.2	10.8	10.6	9.3	6.3	n/a	n/a
1999	27	8.0	15.8	8.8	6.2	1.5	-2.0	n/a	n/a	n/a
2000	29	14.1	16.7	14.9	8.7	4.8	n/a	n/a	n/a	n/a
2001	29	27.4	29.1	28.3	23.4	n/a	n/a	n/a	n/a	n/a
2002	20	27.0	30.8	26.6	27.7*	n/a	n/a	n/a	n/a	n/a
2003	20	25.4	32.1	23.4*	22.2*	n/a	n/a	n/a	n/a	n/a
2004	7	41.3	41.1*	25.8*	-5.8*	n/a	n/a	n/a	n/a	n/a
Total	340	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2	16.4
2005	23	4.2	19.4	24.0	-8.0	n/a	n/a	n/a	n/a	n/a
2006	39	-12.7	7.2	100.6	n/a	n/a	n/a	n/a	n/a	n/a
2007	37	4.1	24.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2008	19	-2.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Subtotal 2005-2008</i>	<i>118</i>	<i>-2.1</i>	<i>18.2</i>	<i>27.9</i>	<i>20.7</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>

* The 'total' for the period to Dec 07 excludes 41.1 figure as the total is calculated up to the year 2003

* The 'total' for the relevant period excludes the figures noted as the total is calculated up to 4 years before the year of investigation

Principal Comparators' Return (% pa)

UK Pension Funds (WM All Funds Universe)

	Ten years	Five years	Three years	2008
UK Equities	1.4	3.4	-5.0	-29.6
Overseas Equities	3.3	5.7	-2.4	-22.5
UK Bonds	4.7	4.4	1.8	1.9
Overseas Bonds	5.7	6.7	5.7	17.0
Index-Linked	5.7	6.7	5.3	5.0
Cash	5.4	5.3	5.4	3.1
Alternatives	8.7	11.9	8.9	1.4
Property	7.7	5.0	-3.7	-22.7
Total Assets	3.7	5.5	-0.7	-17.2

FTSE Indices				
FTSE All-Share	1.2	3.5	-4.8	-29.9
FTSE 100	0.3	3.4	-4.2	-28.3
FTSE 250	5.6	4.7	-7.7	-38.1
FTSE SmallCap	1.4	-3.3	-15.4	-43.8
techMARK All-Share*	n/a	3.2	-3.5	-20.5
FTSE World (ex-UK)	4.0	5.5	-1.2	-18.5
FTSE Europe (ex-UK)	3.2	8.3	1.9	-24.0

Inflation Indices				
Retail Price Index	2.6	3.0	3.1	0.9
Average Earnings	4.0	4.0	3.6	3.3

Source: The WM Company Annual Review of UK Pension Funds 2008 - all comparator figures with the exception of techMARK.

N.B. 'Alternatives' was formerly known as 'Other'.

*Calculated using indices supplied by The London Stock Exchange which exclude dividends. No ten-year figure as index only started in 1999.



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