

BVCA Private Equity and Venture Capital Performance Measurement Survey 2010

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

Introduction

The BVCA – The British Private Equity and Venture Capital Association – in conjunction with PwC and Capital Dynamics is pleased to announce the summary of the 2010 Performance Measurement Survey, highlighting the performance of ‘independent’ UK private equity funds, i.e., 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).

The vast majority of BVCA member firms, which manage funds eligible for this report, responded to the survey. There are now 479 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, which are not directly comparable with IRRs.

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

Key Points

- After a difficult 2009, UK private equity rebounded strongly in 2010 producing strong returns for investors amid a weak domestic economic recovery. The annual IRR in 2010 for all funds covered by this survey was 18.6%. This compares favourably with the returns generated by Total UK Pension Fund Assets** (12.7%) and FTSE All-Share (14.5%) for the same period.
- Over the medium to longer term, the industry continued to outperform other asset classes. Over the past three years, one of the most challenging periods for the financial services industry, private equity produced an annual return of 6.7%, compared with 2.4% for Total UK Pension Fund Assets and 1.4% for FTSE All-Share. Over a ten-year period, this outperformance is more marked, with returns of 14.6% per annum for private equity, while Total UK Pension Fund Assets and FTSE All-Share generated 4.5% and 3.7%, respectively.
- On the since-inception basis, private equity returns have displayed a notable level of consistency over the past decade, with returns ranging from a low of 13% as of December 2004, to a high of 17.3% as of December 2007. This year’s since-inception return of 15.3% remains consistent with this overall trend.
- Venture capital funds experienced significant improvement in their performance over the past year, an encouraging sign as the sector plays a vital role in stimulating Europe’s economic growth. While many funds raised after the dotcom boom are still at an early stage, they are showing the potential to generate solid returns.
- 1994 and 2004 remain the best performing vintages as measured by since-inception IRRs, at 34.3% and 32.0% per annum, respectively. This demonstrates that committing to private equity during periods of economic recovery can generate strong returns.

	2010 (% p.a.)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)
Total UK Private Equity	18.6	6.7	16.3	14.6
Total Pension Funds Assets	12.7	2.4	4.9	4.5
FTSE All-Share	14.5	1.4	5.1	3.7

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

** As shown in the WM All Funds Universe.

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

Investment Stage and Subcategories

	No of funds	2010	Three years	Five years	Ten years
Pre-1996 vintage funds*	153	0.8	-4.2	38.1	6.2
1996 vintage funds onwards					
Venture	108	9.8	1.4	0.6	-2.5
<i>pre-2002 vintage funds</i>	43	12.1	-3.2	-2.8	-5.3
<i>2002 vintage funds onwards</i>	65	8.5	4.9	4.2	n/a
Small MBO	43	34.9	20.0	61.6	20.2
Mid MBO	131	14.6	5.5	19.8	13.5
Large MBO	44	19.8	7.1	16.3	17.4
<i>Subtotal 1996 onwards</i>	326	18.6	6.7	16.2	14.8
Grand total all funds	479	18.6	6.7	16.3	14.6

Subcategories (all vintages)

UK	334	14.3	0.9	11.5	9.0
Non-UK	145	19.1	7.4	17.0	16.3
Pan-European	140	18.0	6.6	16.9	16.5
Technology	122	9.8	1.5	0.7	-2.4
Non-Technology	357	19.0	6.9	17.3	15.8
Investment Trusts**	21	17.2	-14.1	-7.2	-3.5

*The time period returns for the pre-1996 vintage funds are shown only in their summary form and should be interpreted with special care. As the majority of these funds have either been wound up or retain only minimal residual values, a small number of positive exit events or write-offs can cause large swings in their short term returns. The weight of money in this group now has little impact on the returns of the total sample.

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

Vintage Year

	No of funds	2010	Three years	Five years	Ten years
1980-84	13	n/a	n/a	n/a	-64.6
1985-89	68	0.0	2.6	5.1	5.7
1990	13	-7.1	11.6	82.4	-7.0
1991	14	0.0	-17.9	-11.2	-8.3
1992	7	n/a	n/a	n/a	17.8
1993	10	0.5	-1.2	44.5	8.0
1994	19	1.4	-12.0	-11.2	23.1
1995	9	30.8	-31.1	97.2	-3.8
1996	13	6.4	180.8	92.9	10.3
1997	24	32.5	-21.7	23.6	6.8
1998	16	13.3	76.5	58.4	14.8
1999	24	-39.6	-16.4	13.3	10.7
2000	26	9.1	6.5	33.2	17.1
2001	29	11.6	6.2	32.3	n/a
2002	19	37.4	4.3	26.4	n/a
2003	18	19.7	7.0	26.1	n/a
2004	9	32.4	21.3	42.9	n/a
2005	24	13.6	6.0	9.7	n/a
2006	37	27.4	4.9	n/a	n/a
2007	37	25.1	12.3	n/a	n/a
2008	21	13.5	n/a	n/a	n/a
2009	17	7.6	n/a	n/a	n/a
2010	12	n/a	n/a	n/a	n/a
Total	479	18.6	6.7	16.3	14.6

Since Inception Return – IRR (% pa)

Investment Stage and Subcategories

	No of funds	To Dec '10	To Dec '09	To Dec '08	To Dec '07	To Dec '06	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01
Pre-1996 vintage funds											
Early Stage	24	9.2	9.2	9.2	9.2	9.3	8.8	8.9	8.9	9.0	9.1
Development	35	10.2	10.2	10.2	10.2	10.2	10.0	10.0	10.0	10.1	10.1
Mid MBO	33	15.8	15.7	15.8	15.8	15.8	15.8	15.9	15.9	15.9	16.0
Large MBO	26	18.2	18.2	18.2	18.2	18.2	18.2	18.1	18.1	18.2	18.1
Generalist	35	15.8	15.8	15.8	15.8	15.6	15.6	15.5	15.6	15.6	15.8
<i>Subtotal pre-1996</i>	<i>153</i>	<i>15.6</i>	<i>15.6</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>
1996 vintage funds onwards											
Venture	82	-0.3	-2.2	-1.8	-1.6	-0.6	-1.9	-2.4	8.7	29.7	42.0
<i>pre-2002 vintage funds</i>	<i>43</i>	<i>-1.6</i>	<i>-3.1</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>2002 vintage funds onwards</i>	<i>39</i>	<i>2.2</i>	<i>0.2</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>
Small MBO*	24	17.9	17.3	6.5	7.3	3.2	1.9	0.3	3.2	1.3	2.6
Mid MBO	99	13.2	14.0	14.9	14.9	13.2	9.3	5.9	4.3	3.6	8.0
Large MBO	34	17.8	19.2	21.5	23.7	21.0	18.0	13.9	14.3	16.5	30.6
<i>Subtotal 1996 onwards</i>	<i>239</i>	<i>15.2</i>	<i>16.1</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>
Grand total all funds	392	15.3	15.9	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2

Subcategories (all vintages)

UK	281	13.9	14.1	14.6	14.6	14.4	14.0	13.6	14.1	14.5	15.4
Non-UK	111	16.6	17.7	18.5	20.2	17.9	14.9	11.8	12.6	15.1	18.7
Pan-European	103	18.0	19.3	20.3	21.6	19.7	17.4	14.0	14.9	16.9	20.9
Technology	102	0.6	-0.9	-0.6	-0.1	1.0	0.1	0.9	7.4	10.7	12.1
Non-Technology	290	16.4	17.0	17.8	18.7	17.3	15.7	14.2	14.5	15.3	17.0

*There was a change in the Small MBO sample in 2009. The since-inception returns of Small MBO as of Dec 2009 and as of Dec 2010 are therefore not strictly comparable with the relevant returns as of the previous year ends.

Vintage Year

	No of funds	To Dec '10	To Dec '09	To Dec '08	To Dec '07	To Dec '06	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01
1980-84	13	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
1985-89	68	13.7	13.7	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8
1990	13	11.3	11.3	11.4	11.3	11.3	11.1	11.1	11.1	11.6	11.5
1991	14	23.4	23.4	23.4	23.4	23.4	23.4	23.3	23.3	23.3	23.3
1992	7	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.2	20.1	20.0
1993	10	15.2	15.0	15.2	15.3	15.3	14.8	14.0	14.6	14.6	14.6
1994	19	34.3	34.3	34.3	34.3	34.3	34.4	34.4	34.3	34.3	34.9
1995	9	23.1	23.1	23.1	23.1	22.2	21.9	21.9	21.8	22.8	25.7
1996	13	17.8	17.8	19.1	18.7	18.7	18.6	18.5	19.0	20.1	22.0
1997	24	15.0	15.1	15.3	15.6	14.7	14.9	14.3	14.3	13.7	17.6
1998	16	12.8	12.9	12.9	12.5	12.2	10.8	10.6	9.3	6.3	n/a
1999	24	8.6	8.0	8.0	15.8	8.8	6.2	1.5	-2.0	n/a	n/a
2000	26	16.6	16.2	14.1	16.7	14.9	8.7	4.8	n/a	n/a	n/a
2001	29	26.1	26.6	27.4	29.1	28.3	23.4	n/a	n/a	n/a	n/a
2002	19	26.1	25.5	27.0	30.8	26.6	27.7	n/a	n/a	n/a	n/a
2003	18	23.7	17.5	25.4	32.1	23.4	22.2	n/a	n/a	n/a	n/a
2004	9	32.0	34.1	41.3	41.1*	25.8	-5.8	n/a	n/a	n/a	n/a
2005	24	9.4	8.4	4.2	19.4	24.0	-8.0	n/a	n/a	n/a	n/a
2006	37	5.2	-11.8	-12.7	7.2	100.6	n/a	n/a	n/a	n/a	n/a
Total*	392	15.3	15.9	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2
2007	37	12.6	5.1	4.1	24.7	n/a	n/a	n/a	n/a	n/a	n/a
2008	21	5.8	-5.7	-2.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2009	17	8.7	15.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2010	12	140.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Subtotal 2007-2010</i>	<i>87</i>	<i>11.5</i>	<i>-6.3</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>

* Only funds which were at least four years old at the relevant year end are included for the computation of the 'Total' figures.

Principal Comparators' Return (% pa)

UK Pension Funds (WM All Funds Universe)

	2010	Three years	Five years	Ten years
UK Equities	15.2	1.5	5.0	3.7
Overseas Equities	16.6	3.5	5.8	4.2
UK Bonds	9.4	5.9	4.2	5.5
Overseas Bonds	13.6	12.4	7.5	7.2
Index-Linked	10.6	7.7	6.8	6.6
Cash	2.7	2.8	4.3	4.7
Alternatives	10.8	1.4	5.9	4.7
Property	13.4	-4.6	0.1	6.5
Total Assets	12.7	2.4	4.9	4.5
FTSE Indices				
FTSE All-Share	14.5	1.4	5.1	3.7
FTSE 100	12.6	0.9	4.8	2.9
FTSE 250	27.4	5.9	8.5	8.9
FTSE SmallCap	14.4	1.1	2.2	2.7
techMARK All-Share*	16.8	6.0	6.2	2.5
FTSE World (ex-UK)	17.2	4.8	6.4	3.4
FTSE Europe (ex-UK)	5.8	-1.2	6.1	3.7
Inflation Indices				
Retail Price Index	4.8	2.7	3.3	2.9
Average Earnings	1.1	1.4	2.9	3.3

Source: The WM Company Annual Review of UK Pension Funds 2010 - 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.



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