

BVCA Private Equity and Venture Capital Performance Measurement Survey 2009

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 2009 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).

All BVCA member firms, which manage funds eligible for this report, responded to the survey. There are now 470 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

- Despite a challenging year for UK private equity in 2009, returns continue to display notable stability over the long term. The annual IRR per annum on a since-inception basis from December 2001 has ranged from a low of 13% to a high of 17.3%, with a 15.9% overall long-term net return to investors to 31 December 2009**. The long term nature of the asset class determines that value is built over a period of time.
- Investors who were able to commit to private equity during testing economic periods in the past have achieved superior returns on their investment. This is demonstrated by the since-inception returns generated by funds raised during the previous downturns and recovery periods, in particular between 1991 and 1995, and 2000 and 2004.
- Over the medium to longer term, UK private equity continues to outperform other asset classes. The ten-year IRR for all funds stands at 13.1% against 3.1% for Total UK Pension Funds Assets*** and 1.6% for the FTSE all-share over the same ten year period.

	10 years (% p.a.)	5 years (% p.a.)	3 years (% p.a.)
Total UK Private Equity	13.1	17.3	4.4
Total Pension Funds Assets	3.1	6.2	0.6
FTSE All-Share	1.6	6.5	-1.3

- In the short term, the severe economic recession resulted in a year of low activity for the industry, as reflected by a significantly lower amount of capital calls and distributions. Valuations, however, held up due to a combination of recovering comparable valuation multiples and the industry's focus on providing active support to existing portfolio investments in order to create and protect value in a challenging environment.

* 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 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	2009
Pre-1996 vintage funds*	153	22.2	38.9	74.9	-32.2
1996 vintage funds onwards					
Venture	107	-4.8	-0.8	-2.3	-8.7
<i>pre-2002 vintage funds</i>	43	-7.3	-3.2	-7.4	-18.1
<i>2002 vintage funds onwards</i>	64	n/a	2.3	3.0	-1.2
Small MBO	35	18.3	85.1	16.0	28.1
Mid MBO	131	13.2	24.5	11.2	-3.6
Large MBO	44	15.0	15.9	2.8	2.9
<i>Subtotal 1996 onwards</i>	317	12.8	17.2	4.3	1.2
Grand total all funds	470	13.1	17.3	4.4	1.1

Subcategories (all vintages)

UK	329	8.8	15.6	3.1	-7.7
Non-UK	141	14.9	17.6	4.6	2.3
Pan-European	135	15.3	18.4	4.7	1.1
Technology	120	-2.9	-0.6	-2.2	-9.8
Non-Technology	350	14.2	18.6	4.7	1.7
Investment Trusts**	21	-1.3	-2.4	-12.7	-25.6

*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	Ten years	Five years	Three years	2009
1980-84	13	-28.9	n/a	n/a	n/a
1985-89	68	25.5	5.0	7.5	4.7
1990	13	-7.9	47.8	20.2	-86.7
1991	14	-20.6	n/a	-17.9	n/a
1992	7	29.0	31.4	n/a	n/a
1993	10	6.7	99.0	-58.9	-95.5
1994	19	42.8	1.3	-9.8	-4.2
1995	9	17.1	61.8	n/a	1.0
1996	13	14.1	63.1	117.6	8.4
1997	24	7.7	25.2	41.3	-32.9
1998	16	15.4	29.4	43.0	3.9
1999	24	8.7	23.0	-4.0	-12.5
2000	26	n/a	31.4	13.3	18.6
2001	30	n/a	43.4	18.4	5.6
2002	19	n/a	29.2	16.6	3.5
2003	18	n/a	22.7	10.4	-39.2
2004	9	n/a	36.3	58.2	-10.6
2005	23	n/a	n/a	5.6	17.7
2006	40	n/a	n/a	-12.9	-11.6
2007	38	n/a	n/a	n/a	6.2
2008	20	n/a	n/a	n/a	-9.3
2009	17	n/a	n/a	n/a	n/a
Total	470	13.1	17.3	4.4	1.1

Since Inception Return - IRR (% pa)

Investment Stage and Subcategories

	No of funds	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	9.3	8.8	8.9	8.9	9.0	9.1
Development	35	10.2	10.2	10.2	10.2	10.0	10.0	10.0	10.1	10.1
Mid MBO	33	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	18.1	18.1	18.2	18.1
Generalist	35	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>15.5</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	70	-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>-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>27</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*	18	17.3	6.5	7.3	3.2	1.9	0.3	3.2	1.3	2.6
Mid MBO	87	14.0	14.9	14.9	13.2	9.3	5.9	4.3	3.6	8.0
Large MBO	27	19.2	21.5	23.7	21.0	18.0	13.9	14.3	16.5	30.6
<i>Subtotal 1996 onwards</i>	<i>202</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	355	15.9	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2

Subcategories (all vintages)

UK	258	14.1	14.6	14.6	14.4	14.0	13.6	14.1	14.5	15.4
Non-UK	97	17.7	18.5	20.2	17.9	14.9	11.8	12.6	15.1	18.7
Pan-European	90	19.3	20.3	21.6	19.7	17.4	14.0	14.9	16.9	20.9
Technology	93	-0.9	-0.6	-0.1	1.0	0.1	0.9	7.4	10.7	12.1
Non-Technology	262	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 return of Small MBO as of Dec 09 is therefore not strictly comparable with the relevant returns as of the previous year ends.

Vintage Year

	No of funds	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
1985-89	68	13.7	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8
1990	13	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	23.3	23.3	23.3	23.3
1992	7	20.3	20.3	20.3	20.3	20.3	20.3	20.2	20.1	20.0
1993	10	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	34.4	34.4	34.3	34.3	34.9
1995	9	23.1	23.1	23.1	22.2	21.9	21.9	21.8	22.8	25.7
1996	13	17.8	19.1	18.7	18.7	18.6	18.5	19.0	20.1	22.0
1997	24	15.1	15.3	15.6	14.7	14.9	14.3	14.3	13.7	17.6
1998	16	12.9	12.9	12.5	12.2	10.8	10.6	9.3	6.3	n/a
1999	24	8.0	8.0	15.8	8.8	6.2	1.5	-2.0	n/a	n/a
2000	26	16.2	14.1	16.7	14.9	8.7	4.8	n/a	n/a	n/a
2001	30	26.6	27.4	29.1	28.3	23.4	n/a	n/a	n/a	n/a
2002	19	25.5	27.0	30.8	26.6	n/a	n/a	n/a	n/a	n/a
2003	18	17.5	25.4	32.1	n/a	n/a	n/a	n/a	n/a	n/a
2004	9	34.1	41.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2005	23	8.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total*	355	15.9	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2
2006	40	-11.8	-12.7	7.2	100.6	n/a	n/a	n/a	n/a	n/a
2007	38	5.1	4.1	24.7	n/a	n/a	n/a	n/a	n/a	n/a
2008	20	-5.7	-2.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2009	17	15.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Subtotal 2006-2009</i>	<i>115</i>	<i>-6.3</i>	<i>-2.1</i>	<i>18.2</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>

*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)

	Ten years	Five years	Three years	2009
UK Equities	1.8	6.2	-1.7	29.2
Overseas Equities	1.9	8.0	1.8	22.5
UK Bonds	5.5	4.2	3.8	6.6
Overseas Bonds	7.3	7.1	9.8	6.8
Index-Linked	7.4	6.5	7.0	7.6
Cash	5.2	4.8	4.3	2.7
Alternatives	6.6	7.9	2.8	-7.2
Property	6.2	1.3	-9.4	-0.8
Total Assets	3.1	6.2	0.6	15.1
FTSE Indices				
FTSE All-Share	1.6	6.5	-1.3	30.1
FTSE 100	0.9	6.2	-0.7	27.3
FTSE 250	6.7	9.0	-3.1	50.6
FTSE SmallCap	1.5	2.7	-8.2	54.3
techMARK All-Share*	-4.1	5.6	2.3	24.9
FTSE World (ex-UK)	1.6	7.8	3.0	20.6
FTSE Europe (ex-UK)	3.3	9.5	1.8	20.1
Inflation Indices				
Retail Price Index	2.7	2.8	2.4	2.4
Average Earnings	3.6	3.3	2.7	2.6

Source: The WM Company Annual Review of UK Pension Funds 2009 - 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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