Fundraising Trends in 2014 - Steve Standbridge, Partner, Capstone Partners

Last year, Capstone noted that increasing levels of distributions were likely to result in increased commitments from investors in 2013. Is this something you have observed?

Yes, although a higher level of distributions is only one of several reasons for increased commitments to private equity funds. It has been a common refrain among LPs that their distributions have been exceeding drawdowns, so for those LPs wanting to maintain or increase current allocation levels, they will have to step up their commitment activity.

Other reasons for increased commitment levels include (i) the strong performance of the public markets resulting in a bit of a reverse denominator effect, (ii) the return of many LPs, including endowments, that had been very cautious and sitting on the sidelines, and (iii) a need for institutional investors in general to find good absolute returns in a low yield environment.

Investors have been somewhat cautious towards private equity in recent years. Do you think investors are now regaining confidence in the asset class?

I think it varies by investor, but overall we are seeing increased activity. As I said before, there are some investors, in particular the foundations and endowments, that had been out of the market but seem to be quite active again. I do not think they ever really lost confidence in the asset class, but were more focused on closely managing unfunded commitments in an effort not to repeat the liquidity concerns they had in the financial crisis. We are also seeing funds of funds having more success raising capital again, which is reflective of a broader group of investors recommitting to private equity.

Preqin has seen the investor universe evolve over recent years, not only growing in size and diversity, but becoming more dynamic and proactive. Has this changed the way fund managers, investors and placement agents interact?

There is no question that we have seen more diverse sources of capital move into the market, which is great for the private equity asset class. We have seen the growth in sources of capital impact fundraising in several ways. First, it has become very competitive for LPs to get into the best funds. While we have always had active dialogues with our LP relationships, we find them more often proactively calling us and asking about our forward pipeline or what we are seeing in the market. These LPs are then trying to build relationships with the best GPs well in advance of their next capital raise. LPs that wait for funds to come to them are missing some of the best opportunities.

A second impact is that GPs can be more efficient in their capital raises if they think strategically about who to approach and when. LPs that have been around and have mature portfolios are going to be more interested in niche or sector specific strategies, while LPs with relatively new programs are going to be more aggressive in trying to fill their core portfolios. There are also some LPs that will invest in first time or emerging managers and others that either will not, because they deem them riskier, or cannot, because of policy. The point is that a GP can save a lot of time by thinking about how their strategy fits into the diverse LP market before trying to blanket LPs with their PPMs. An agent can be a valuable resource during this process.

Which strategies do you think LPs will be committing capital to in the year ahead?

I think we will see a continuation of what we have seen in 2013. The middle market and lower middle market continue to be in favor globally; however, I suspect some of the mega funds will be returning to market and although people do not talk about them as much, they will draw a significant amount of capital. We continue to see interest in control-oriented distressed and special situations managers. I think LPs realize that with a slow growth economy there will continue to be opportunities to find troubled companies or spin-outs from large corporations looking to reallocate resources. Real asset strategies will continue to draw attention as well. The energy sector will attract capital although I think LPs are being more cautious for fear that too much capital has been raised. We have also seen quite a bit of interest in metals and mining funds, particularly those with a special situations angle. In the US, we are finally seeing LPs starting to re-look at Europe after five years of skepticism. Lastly, I think LPs will continue to look at credit opportunities for their broader portfolios as they have struggled to generate sufficient returns out of their traditional fixed income portfolios.

With over 2,000 funds now on the road competing for capital, what would you suggest fund managers do to stand out from the crowd to attract investor capital?

Managers need to build relationships with LPs and be smart about the timing of a fundraise. In this highly competitive market, you do not want to be fundraising because your investment period has run out and you have to be in market. Once you launch a fundraise, you have only one chance with an LP to make a positive impression. GPs need to make sure their portfolio is in good shape, they have returned sufficient capital to LPs from prior funds, and they have visibility towards a pipeline of deals that may go into the new fund; it often helps to actually have a deal closed into the fund you are raising. It is also important to make sure you have a good sense of the support of your existing investors before a broad launch as that will be an early question from prospective LPs.

GPs are realizing fundraising is becoming a full-time job in terms of staying in touch with both existing and prospective LPs. That does not just mean starting a pre-marketing campaign three months before a launch, it involves building

relationships from the day you finish raising your prior fund. As I said before, it is also important to be strategic and thoughtful about who you are going to contact and when. Sending out 300-400 PPMs to LPs and then trying to follow-up with every one of them does not work. A GP needs to focus on a limited number of groups that will invest in an early close and then broaden the raise once there is some momentum. Lastly, a GP can offer co-investments or preferred terms to try to entice an investor into a large commitment or early close.

We have seen increased appetite among LPs for co-investments. Do you think this will continue in the year ahead?

Yes, the number of LPs indicating an interest for co-investments has increased significantly in the last five years and I do not see that trend reversing absent another financial correction. LPs are being more aggressive in asking for co-investments and in many cases are including language indicating a desire for co-investments in their side letters. GPs are reluctant to make promises to specific LPs, as there is still a wide disparity among LPs in their ability to react to and execute on co-investments. That said, GPs recognize that providing co-investments is a great way to build deeper LP relationships and in many ways can be an enticement to get them to commit to a fund.

Have you noticed changes in the fund terms and conditions offered by fund managers over the past year?

Again, I think there will be a continuation of the same themes we heard last year with alignment of interests as the primary theme among LPs. As has always been the case, managers that are in high demand can still be more aggressive on terms while new and/or emerging managers will likely be subject to terms that reflect all of the ILPA provisions.

Transaction fee splits, carry waterfall calculations, and hard caps continue to be the most sensitive terms. One change we have seen is that high demand buyout funds have, in some cases, been able to get premium carry. In these cases, the higher carry has not kicked in until the LP has received a return well above their hurdle rates. In other words, there remains an alignment of interest as the GP does not get premium carry until the LP has received outsized returns.

Have you witnessed any significant changes from fund managers in the way they market their funds due to recent regulatory changes, particularly the JOBS Act?

No, and we really do not expect to see many changes in the near term. There has been a lot written about the JOBS Act, but if you are a private equity fund with the ability to raise capital from institutional investors, that will be a better route. GPs prefer investors that are sophisticated and understand private equity. They also want there to be no question that when they call capital, the LP will be able to provide funds. We saw in each of the last two recessions that individual LPs may not be as reliable in meeting capital calls after major market corrections. I also think that GPs will find that the process required for verifying qualified investors will prove to be too onerous and potentially create a liability if there are issues with the fund.

One other area where there still continues to be some confusion is around AIFMD. The new/prospective regulations did not seem to have an impact this year because more leeway was granted to groups that had been in market prior to late July. As we move into 2014, I am hoping there will be more clarity, as it would be a shame if non-European managers were limited in their ability to market to European investors.

What trends do you expect to see in 2014 generally?

Our expectation is that assuming no major meltdowns around the world, we will continue to see allocations increase. We are still well short of 2007 and 2008 allocation levels.

One trend I see continuing is the proliferation of more spin-out groups/ first time funds. As the market has improved, it seems as though some of the younger partners within established groups have been willing to take the risk of getting started on their own. LPs have been supportive of these groups if there is an attributable track record and a good story around the team.

As mentioned previously, I remain cautiously optimistic there will be more interest from North American investors looking to invest in Europe. A lot of North American investors were bearish on Europe given the macro economic outlook. While the euro economy is not booming, it seems to have attained a level of stability in which the LPs are getting more comfortable

What is your outlook for the private equity industry in 2014 and beyond?

I am obviously biased, but I have a very positive outlook for the private equity industry. The industry will face both economic and regulatory challenges, but I think it has shown its resiliency through some pretty dark economic times. I do worry that the credit markets seem to be overheating again and just hope that GPs will remember some of the lessons they learned during the financial crisis.

Thank you for your time.

Capstone Partners

Founded in 2001, Capstone Partners is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms from around the world. Its experienced team of 25 professionals, working from offices in North America, Europe and Asia, is well placed to assist investment firms in the international development of their investor base and complete successful fund raisings in a timely and efficient basis across different cycles.

www.csplp.com

The 2014 Preqin Global Private Equity Report Contents

Data Source:

The **2014 Preqin Global Private Equity Report** contains the most up-to-date data available at the time of going to print. For the very latest statistics and information on fundraising, institutional investors, fund managers and performance, or to arrange a walkthrough of Preqin's online services, please visit:

www.preqin.com/privateequity

Datapack for the 2014 Preqin Global Private Equity Report

The data behind all of the charts featured in the Report is available to purchase in Excel format. It also includes ready-made charts that can be used for presentations, marketing materials and company reports.

To purchase the datapack, please visit:

www.preqin.com/gper

Private Equity in 2014: The Year Ahead

- Ignatius Fogarty, Preqin

2013 has seen the highest aggregate amount of capital raised by private equity firms since 2008, with 873 funds reaching a final close and raising an aggregate $454bn. In recent years, there has been a prevailing sense that the private equity industry has been hampered by economic uncertainty and resultant investor caution, which has led to a sluggish fundraising environment. Fundraising has evidently improved in 2013; can 2014 carry on the same track?

Performance

Over the longer term, private equity has performed well, as demonstrated by the PrEQIn Private Equity Quarterly Index, shown on page 55, and horizon IRRs over 10 years, shown on page 56, with private equity outperforming public markets over the longer term. Investors appear to be pleased with the performance of their private equity investment portfolios. In our December 2013 survey, 77% of investors indicated that they were satisfied with the performance of their private equity portfolios, and a further 13% of investors stated that their returns had exceeded their expectations.

Deals and Exits

2013 saw a record number of private equity-backed buyout exits, with 1,348 such exits valued at $303bn witnessed. This has resulted in a higher level of distributions, and the improving liquidity for investors has increased their capacity for making new commitments to private equity funds. 2013 also saw a record year for venture capital exits, with 798 recorded throughout the year, the highest number of exits in the period since 2007. There has also been an increase in deal activity, with 2013 seeing 5,979 venture capital deals valued at $46bn and 2,836 buyout deals valued at $274bn. However, there is a concern over the imbalance of the venture capital environment. As deals outweigh exits considerably, how many of these investments will exit and return capital to their investors?

With the improvements seen in private equity fundraising levels, which have led to new injections of capital into the industry, there are positive signs for the number of completed deals in the private equity industry, with fund managers seeking to deploy the capital raised in 2013.

Investor Appetite

Overall, investor appetite for private equity in 2014 remains high. In Preqin's recent survey, 71% of investors that we spoke to indicated that they would be making a commitment to a private equity fund in 2014. However, investors are becoming more cautious about how industry regulation will affect their investment portfolios, with 26% of investors stating that this is the area that they are most concerned with at present.

There has been a sense that investor preferences have also been evolving and becoming more risk averse. Enthusiasm for emerging markets is on the wane and this is reflected in fundraising figures. 2013 saw a decline of 37% in the aggregate capital raised for Asia-focused fundraising compared to 2012 and an almost 50% decrease in the capital raised for other regions outside of North America and Europe. Conversely, North America- and Europe-focused fundraising has increased between 2012 and 2013. This is likely to continue in 2014, with investors indicating a decrease in appetite for emerging markets in our December survey. Investors are also showing a reduced appetite for first-time funds, with 56% of investors stating that they would not invest in first-time funds at all.

Average Fund Sizes

This year has seen an increase in the average size of funds being raised by GPs. What we have seen in 2013 is a concentration within the private equity industry, whereby LPs are investing more of their capital with managers that have extensive track records, and are therefore, by nature, raising much larger funds. First-time managers only accounted for 7% of capital raised; we are increasingly seeing investors invest more capital but with fewer managers. Despite LPs indicating that they largely have a preference for mid-market buyout funds, funds of a size equivalent to $1.5bn or more accounted for 58% of all private equity capital raised. Mega funds have been particularly prominent in 2013 and that year saw Apollo Global Management close its mega buyout vehicle, Apollo Investment Fund VIII, which successfully surpassed its original fundraising target of $12bn. After an interim close in July, Apollo Investment Fund VIII held a final close on $18.4bn in December 2013, including $17.5bn in LP commitments, making it the larget private equity fund raised since the onset of the financial crisis in 2008.

Outlook

While it is clear that there is substantial investor appetite for private equity, we are seeing an increasingly competitive market. There are over 2,080 funds currently on the road, and though the amount of aggregate capital being targeted has decreased from 2012 to 2013, the market is still very crowded, with a significant number of fund managers competing for attention.

Investors are being very selective in their commitments, taking more control and becoming more risk averse; there is clear evidence of a decline in interest for emerging fund managers as well as first-time funds. The supply of private equity funds outweighs the demand, as investors look to commit to established private equity fund managers in more mature economies.

Although it is likely that 2014 will see another increase in aggregate capital raised for private equity funds, if the fundraising market continues on its current path, less established fund managers will find it difficult to raise capital and may be forced to abandon their funds. Yes, there is a sense of recovery in the private equity market, but it is questionable if the industry can attract sufficient capital for the number of funds on the road.

Assets under Management and Dry Powder

Since the beginning of the millennium, the private equity industry's assets under management* (AUM), defined as the uncalled capital commitments (dry powder) plus the unrealized value of portfolio assets, have continued to increase year on year. With the unrealized portfolio value increasing steadily each year, and dry powder remaining around the $1tn mark, private equity assets under management have attained the highest figure to date at just under $3.5tn as of 30 June 2013.

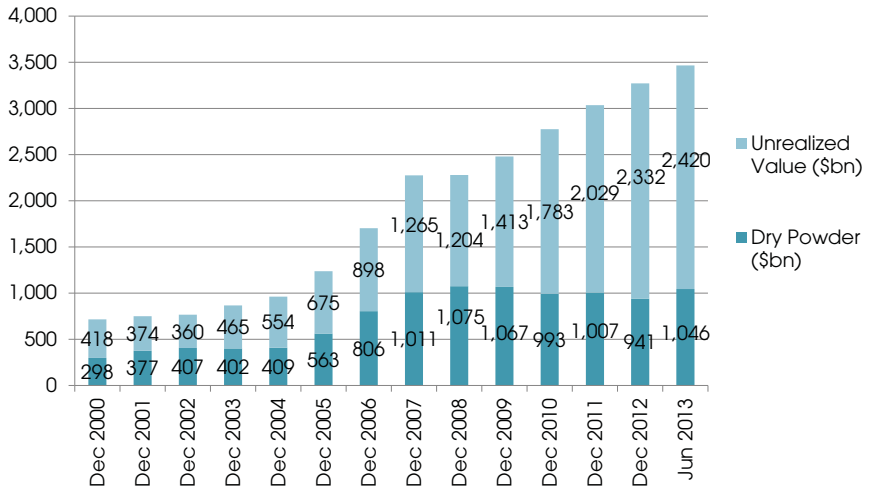
Continued Growth in Assets under Management

Fig. 3.1 shows the private equity industry's assets under management from December 2000 to June 2013. From the start of the time period shown, assets under management grew gradually between 2000 and 2004. This was then followed by a boom period that saw substantial increases in both dry powder and unrealized value from 2004 to 2007 as a result of the high levels of deals and fundraising activity in the pre-crisis period.

However, the boom period was followed by a flattening out of assets under management as the financial crisis hit. The crisis resulted in a sharp decline of exit activity as illustrated by the lower levels of distributions between 2008 and 2010 as shown in Fig. 3.2. However during this time, fund managers continued to call capital, albeit at lower amounts compared to 2007. These continued capital calls, in addition to slightly improved fundraising and lower exit activity, resulted in further increases in the assets under management from 2009, in spite of write-downs in portfolio valuations caused by the financial crisis.

The slow exit environment between 2008 and 2010 resulted in increases in the unrealized portfolio value each year, and with lower exit levels, investors had less capital returned from their private equity portfolios to commit to new funds, leading to a far more competitive fundraising environment. This increase in unrealized

Fig. 3.1: All Private Equity Assets Under Management, 2000 - 2013



Source: Preqin Fund Manager Profiles and Preqin Performance Analyst

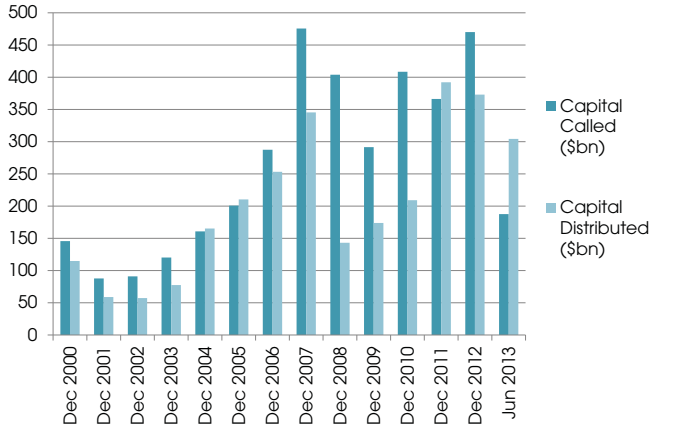
Data Source:

Preqin tracks in-depth data on the global private equity market. Access detailed profiles of over 7,400 private equity fund managers, including estimated dry powder, performance track records, funds raised historically and those currently open for investment.

For more information, please visit:

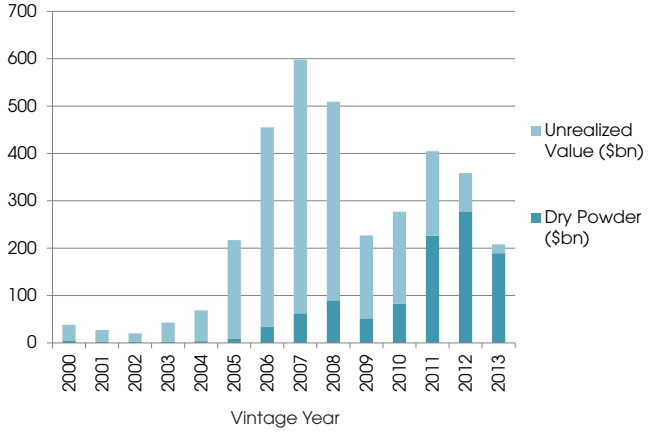
www.preqin.com/fmp

Fig. 3.2: All Private Equity Annual Amount Called-Up and Distributed, 2000 - 2013



Source: Preqin Fund Manager Profiles and Preqin Performance Analyst

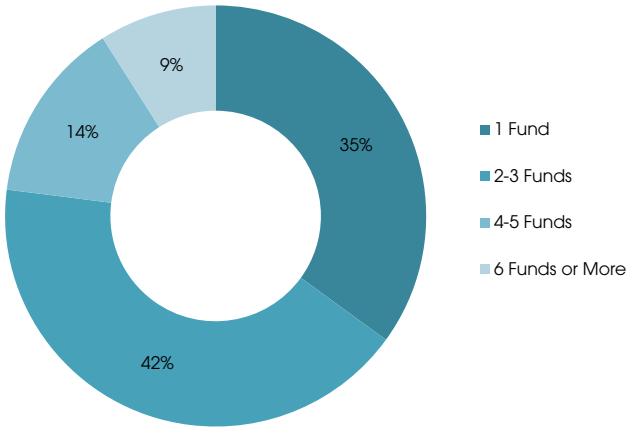
Fig. 3.3: All Private Equity Assets under Management by Vintage Year as of June 2013



Source: Preqin Fund Manager Profiles and Preqin Performance Analyst

Buyout GPs
Key Stats and Facts

Fig. 5.15: Breakdown of Buyout Firms by Number of Funds Raised



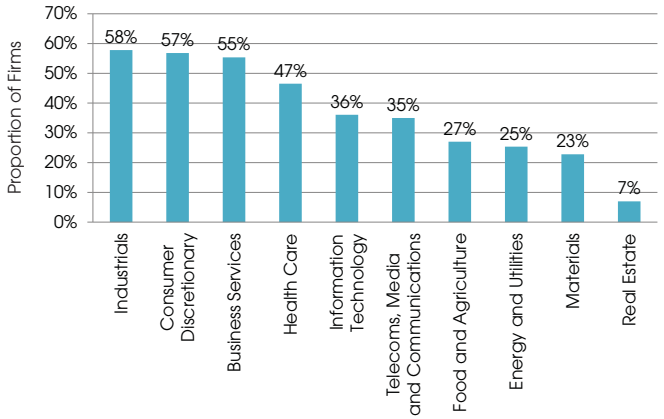
Source: Preqin Fund Manager Profiles

Fig. 5.16: Number of Firms Actively Managing Buyout Funds by Country

GP Headquarters	No. of Firms
US	477
UK	89
France	48
Australia	25
Germany	24
Japan	23
Canada	22
Italy	22
Spain	17
South Korea	16

Source: Preqin Fund Manager Profiles

Fig. 5.17: Buyout Firms' Industry Preferences for Underlying Investments



Source: Preqin Fund Manager Profiles

Data Source:

Preqin's **Fund Manager Profiles** has extensive profiles for over 2,400 firms worldwide that target buyout opportunities, with key investment preferences and criteria, as well as up-to-date contact information.

Combine with **Performance Analyst** to view detailed performance data for over 1,500 buyout funds globally, **Buyout Deals Analyst** to see details of over 33,000 buyout deals announced globally, and **Funds in Market** to see information on all 3,200 buyout funds raised historically.

For more information, or to register for a demonstration, please visit:

www.preqin.com/privateequity

Fig. 5.18: 10 Largest Buyout Funds Raised, All Time

Fund	Firm	Year Closed	Fund Size (bn)	GP Location
Blackstone Capital Partners V	Blackstone Group	2006	21.7 USD	US
GS Capital Partners VI	Goldman Sachs Merchant Banking Division	2007	20.3 USD	US
TPG Partners VI	TPG	2008	18.9 USD	US
Apollo Investment Fund VIII	Apollo Global Management	2013	18.4 USD	US
Apax Europe VII	Apax Partners	2008	11.2 EUR	UK
KKR Fund 2006	Kohlberg Kravis Roberts	2007	17.6 USD	US
Blackstone Capital Partners VI	Blackstone Group	2010	16.2 USD	US
TPG Partners V	TPG	2006	15.4 USD	US
Apollo Investment Fund VII	Apollo Global Management	2008	14.7 USD	US
CVC European Equity Partners V	CVC Capital Partners	2009	10.8 EUR	UK

Source: Preqin Funds in Market

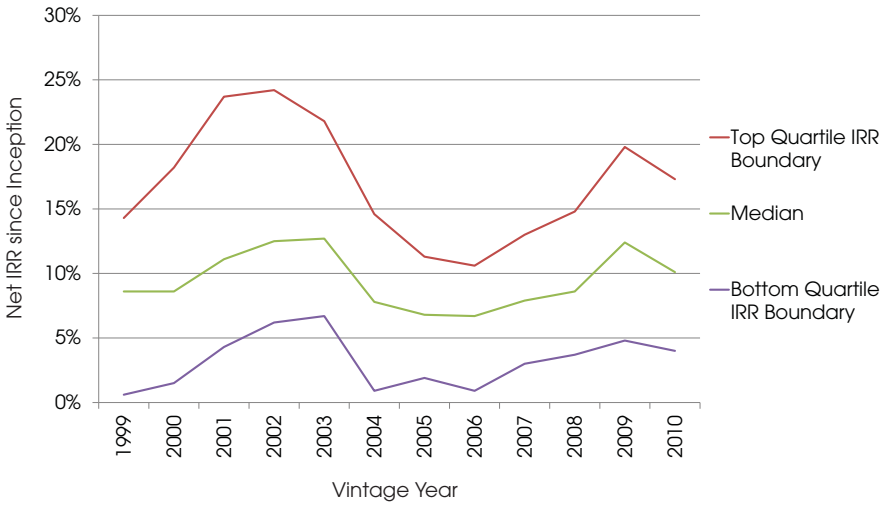
Performance Overview

The private equity industry has been in a state of healthy recovery since the financial crisis, with indications of performance rebounding. Within fund performance however, there is a spread between the performance of individual funds, with a large gulf between returns generated by the best and worst performing funds. For fund managers, performance data is important to discover how their funds relate to their peers and to gain an insight into the performance of the asset class as a whole and compared to individual investment strategies. For investors, comprehensive performance data is vital in order to assess fund selection and effectively balance asset allocations.

Preqin provides net-to-LP performance data for over 6,600 private equity funds and offers a variety of metrics in order to assist all private equity professionals with their investment activity, and this high level of coverage enables us to offer access to the largest and most comprehensive database of private equity performance in the world.

Performance Analyst offers a wide range of performance metrics to subscribers and the following analysis aims to give an indication of the variety of insights which can be gained through analysis of Preqin's performance data.

Fig. 6.1: All Private Equity - Median Net IRRs and Quartile Boundaries by Vintage Year as of 30 June 2013



Source: Preqin Performance Analyst

The most well-known and widely used fund performance metric is the IRR, a money-weighted return which takes into account the timing of fund managers' investment decisions. Fig. 6.1 shows the median net IRRs for the whole private equity industry, along with the top and bottom quartile boundaries as of 30 June 2013.

The graph highlights that the difference between top quartile funds (any fund with an IRR above the top line) and bottom

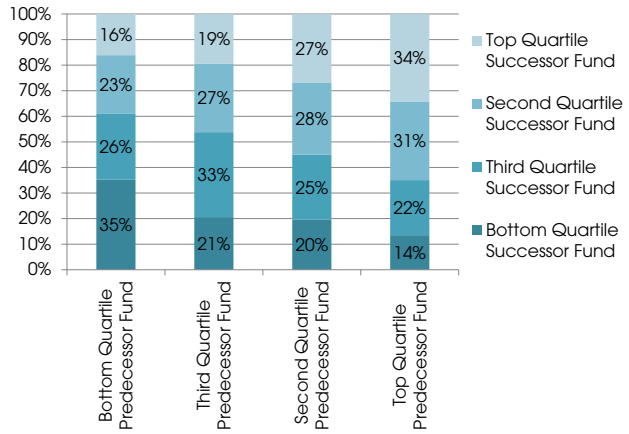
Data Source:

Preqin's **Performance Analyst** is the industry's most extensive source of net-to-LP private equity fund performance, with full metrics for over 6,600 named vehicles.

For more information, please visit:

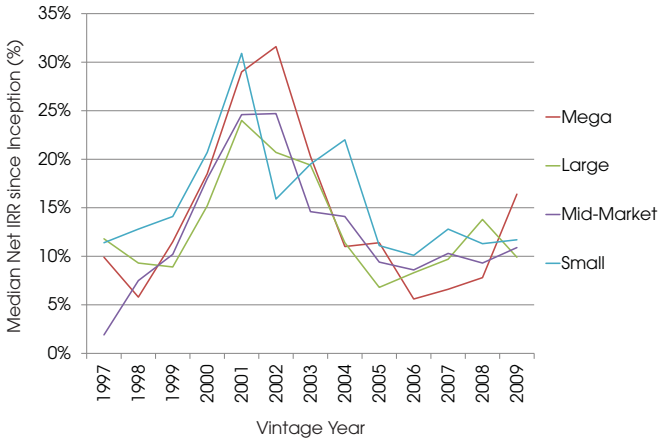
www.preqin.com/pa

Fig. 6.2: All Private Equity - Relationship between Predecessor and Successor Fund Quartiles



Source: Preqin Performance Analyst

Fig. 6.3: Buyout Funds by Size* - Median Net IRRs by Vintage Year



Source: Preqin Performance Analyst

**Buyout Fund Size Ranges:*
Vintage 1992-1996: Small Buyout ≤ $200mn, Mid-Market Buyout $201mn-$500mn, Large Buyout > $500mn
Vintage 1997-2004: Small Buyout ≤ $300mn, Mid-Market Buyout $301mn-$750mn, Large Buyout $751mn-$2bn, Mega Buyout > $2bn
Vintage 2005-2014: Small Buyout ≤ $500mn, Mid-Market Buyout $501mn-$1.5bn, Large Buyout $1.6bn-$4.5bn, Mega Buyout > $4.5bn

Private Equity Benchmarks

Data Source:

Preqin provides free access to our industry-leading performance benchmarks, which are calculated using performance returns for over 6,600 funds from Preqin's **Performance Analyst** online service on our **Resesarch Center Premium**.

For more information, please visit: www.preqin.com/rcp

Fund Type: Buyout
Geographic Focus: All Regions
Benchmark Type: Median
As At: 30 June 2013

Vintage	No. Funds	Median Fund			Multiple Quartiles (X)			IRR Quartiles (%)			IRR Max/Min (%)	
		Called (%)	Dist (%) DPI	Value (%) RVPI	Q1	Median	Q3	Q1	Median	Q3	Max	Min
2013	22	8.5	0.0	80.4	0.99	0.83	0.35	n/m	n/m	n/m	n/m	n/m
2012	42	17.1	0.0	94.8	1.12	1.00	0.83	n/m	n/m	n/m	n/m	n/m
2011	47	35.0	0.0	91.5	1.16	1.00	0.87	n/a	n/a	n/a	n/a	n/a
2010	43	53.3	2.7	104.3	1.29	1.13	1.04	19.7	9.0	4.2	42.5	-33.0
2009	33	71.3	17.0	102.6	1.46	1.23	1.08	19.1	11.5	6.6	88.5	-7.0
2008	81	82.5	25.9	97.8	1.55	1.25	1.13	18.8	10.7	4.9	40.0	-30.2
2007	95	90.4	33.3	88.7	1.51	1.35	1.14	15.9	10.1	5.6	43.0	-20.7
2006	84	93.6	61.7	78.4	1.59	1.39	1.21	13.4	8.4	4.3	28.0	-17.7
2005	78	97.3	86.9	62.4	1.69	1.48	1.22	16.3	10.2	5.8	68.0	-6.5
2004	36	97.3	138.6	48.2	2.28	1.86	1.61	29.0	17.0	9.8	79.9	-14.8
2003	36	99.9	134.8	36.1	2.54	1.79	1.37	34.9	18.0	10.3	57.0	-49.9
2002	24	97.2	171.4	13.3	2.25	1.86	1.42	31.6	20.7	13.1	52.1	-1.3
2001	29	98.0	194.0	7.2	2.79	2.10	1.77	40.3	29.1	13.8	94.0	-7.6
2000	63	97.5	175.1	7.8	2.34	1.87	1.54	26.2	17.8	11.3	34.6	-11.7
1999	39	98.5	159.1	1.2	2.04	1.71	1.35	17.4	12.5	6.4	35.6	-23.7
1998	52	99.7	149.8	0.0	1.90	1.54	1.25	17.8	9.3	3.1	31.9	-100.0
1997	46	100.0	149.9	0.0	2.11	1.50	1.06	15.2	8.1	1.4	84.0	-21.6
1996	26	99.4	147.7	0.0	2.18	1.48	0.90	21.3	10.4	0.2	147.4	-19.6
1995	24	100.0	164.7	0.0	2.30	1.67	1.08	28.7	12.7	1.5	59.9	-19.9
1994	31	100.0	188.9	0.0	2.26	1.89	1.51	34.9	17.9	10.9	58.0	-4.7
1993	18	100.0	215.1	0.0	3.26	2.15	1.24	30.2	19.1	7.7	58.0	0.8
1992	14	100.0	183.1	0.0	2.66	1.84	0.86	36.1	20.2	-6.1	41.4	-49.9
1991	8	100.0	246.9	0.0	3.04	2.47	2.04	42.5	25.4	23.5	54.7	-0.5
1990	13	99.9	191.9	0.0	2.45	1.92	1.38	25.0	18.2	7.9	72.0	2.4

Source: Preqin Performance Analyst

Fund Type: Buyout by Fund Size
Geographic Focus: All Regions
Benchmark Type: Median

Vintage	Mega Buyout				Large Buyout				Mid-Market Buyout				Small Buyout			
	Median Fund		Weighted Fund		Median Fund		Weighted Fund		Median Fund		Weighted Fund		Median Fund		Weighted Fund	
	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)
2013	n/a	n/m	n/a	n/m	n/a	n/m	n/a	n/m	n/a	n/m	n/a	n/m	n/a	n/m	n/a	n/m
2012	0.98	n/m	0.95	n/m	1.00	n/m	1.00	n/m	0.99	n/m	0.83	n/m	0.91	n/m	0.94	n/m
2011	1.04	n/m	1.09	n/m	1.05	n/m	1.07	n/m	1.00	n/m	1.04	n/m	0.90	n/m	0.90	n/m
2010	n/a	n/a	n/a	n/a	1.07	4.5	1.09	5.1	1.11	9.6	1.13	8.6	1.07	8.3	1.04	7.9
2009	n/a	n/a	n/a	n/a	1.19	9.9	1.21	8.9	1.15	10.9	1.23	9.0	1.20	11.7	1.31	14.7
2008	1.18	7.8	1.32	11.5	1.40	13.8	1.36	13.3	1.25	9.3	1.23	10.9	1.33	11.3	1.21	11.1
2007	1.20	6.6	1.22	6.2	1.35	9.7	1.33	9.5	1.36	10.3	1.37	10.8	1.33	12.8	0.95	9.5
2006	1.31	5.6	1.24	3.7	1.38	8.3	1.31	7.1	1.36	8.6	1.36	7.3	1.38	10.1	1.43	11.2
2005	1.75	11.4	1.73	11.7	1.33	6.8	1.39	9.9	1.38	9.4	1.45	11.5	1.52	11.1	2.02	21.7
2004	1.62	11.0	1.79	15.7	1.65	11.4	1.67	9.3	1.89	14.1	1.36	8.8	2.06	22.0	1.53	8.3
2003	1.87	20.3	2.04	24.0	1.96	19.4	2.07	20.9	1.54	14.6	2.07	16.7	1.76	19.5	1.77	15.0
2002	1.77	31.6	1.86	27.1	2.04	20.7	1.98	22.3	2.06	24.7	1.86	22.1	1.80	15.9	2.12	28.7
2001	2.37	29.0	2.48	32.7	1.93	24.0	2.07	25.4	1.97	24.6	2.15	26.0	2.30	30.9	1.71	17.8
2000	2.08	18.5	1.99	17.9	1.76	15.2	1.76	13.7	2.00	18.0	1.93	17.5	2.06	20.7	2.07	26.3
1999	1.73	11.5	1.63	8.5	1.56	8.9	1.40	5.5	1.92	10.2	1.92	11.5	1.70	14.1	1.22	4.6
1998	1.45	5.8	1.40	4.8	1.37	9.3	1.25	1.4	1.46	7.5	1.52	4.1	1.68	12.8	1.75	11.2
1997	1.70	9.9	1.49	5.9	1.72	11.8	1.78	18.0	1.12	1.9	1.15	2.5	1.62	11.4	1.42	8.4

Source: Preqin Performance Analyst

Definition used for Mega, Large, Mid-Market, Small Buyout:	Small	Mid-Market	Large	Mega
Vintage 1992-1996	≤ $200mn	$201-500mn	> $501mn	-
Vintage 1997-2004	≤ $300mn	$301-750mn	$751mn-$2bn	> $2bn
Vintage 2005-2013	≤ $500mn	$501mn-$1.5bn	$1.6-4.5bn	> $4.5bn

Investor Appetite for Private Equity in 2014

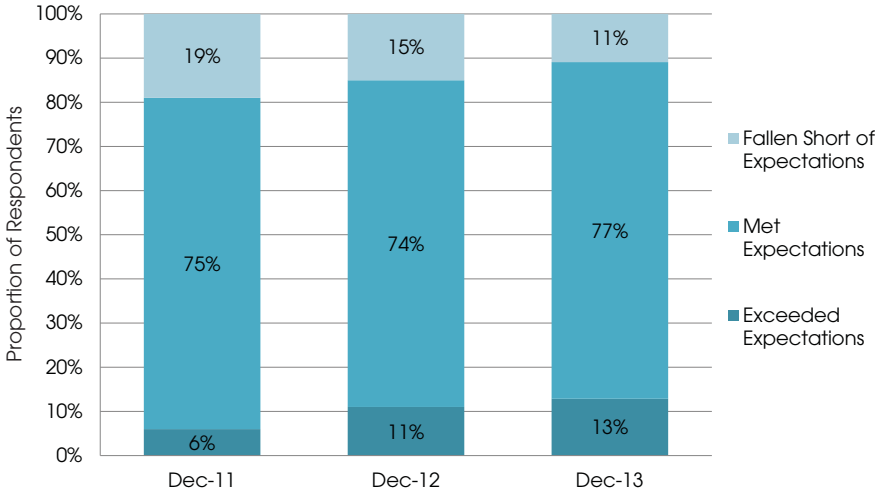
The private equity market is experiencing a resurgence; despite 2013 seeing a decrease in the number of funds raised, there was a significant 19% increase in aggregate capital committed to funds closed that year compared to 2012. In 2013, 873 funds reached a final close, raising $454bn, compared to 1,035 funds raising $381bn in 2012, demonstrating strong investor appetite for the asset class over the last 12 months. However, the growth in average fund size, at $572mn for funds closed in 2013 compared to $405mn in 2012, means that investors are focusing more of their investment on larger funds.

In December 2013, we spoke with 100 LPs globally in order to determine their current attitude towards private equity and their future investment plans, in order to get an idea of the strength of investor appetite for the asset class in 2014. Seventy percent of investors made commitments to private equity funds in 2013, compared to 60% of investors in 2012. Our conversations have shown that investor appetite for private equity will remain strong over the next year.

Investor Sentiment towards Private Equity

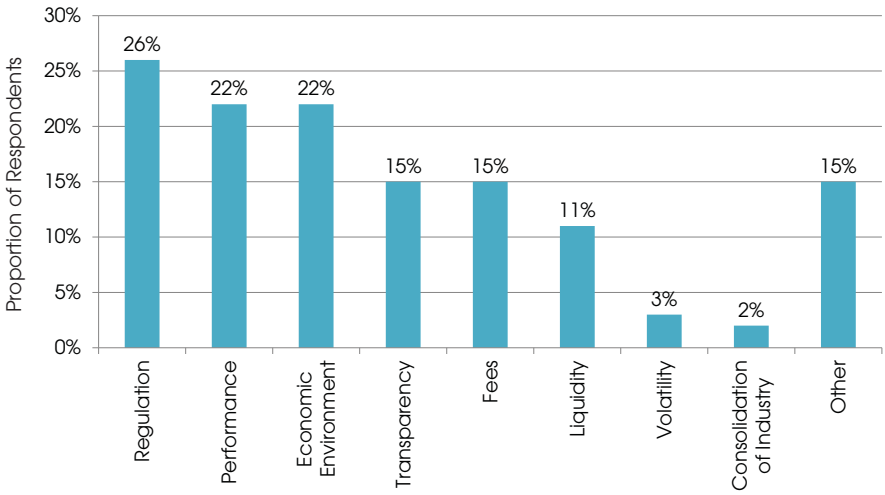
The proportion of investors that felt their private equity fund investments had either met or exceeded their expectations has continued to increase in recent years, as shown by Fig. 7.10. Over three-quarters (77%) of investors felt that their investments had lived up to their expectations, a slight increase compared with 74% of investors in December 2012. Thirteen percent of investors felt their investments had exceeded their expectations, twice the proportion seen in December 2011 that shared this view.

Fig. 7.10: Proportion of Investors that Feel Their Private Equity Fund Investments Have Lived up to Expectations, 2011 - 2013



Source: Preqin Investor Interviews, December 2013

Fig. 7.11: Biggest Challenges Facing Investors Seeking to Operate an Effective Private Equity Program in 2014



Source: Preqin Investor Interviews, December 2013

Challenges Faced by LPs

As the private equity industry has come under increasing scrutiny since the global financial crisis, regulatory changes have been perceived as the biggest challenge facing LPs in 2014, as shown in Fig. 7.11. Over a quarter (26%) of investors in the asset class cited regulation as the main challenge for the year ahead, compared with only 15% in December 2012. However, it is interesting to note that only 13% of LPs' allocations have been, or

Data Source:

Preqin's Investor Intelligence features detailed profiles of over 5,200 active private equity investors worldwide. Profiles include in-depth information on current and target allocations, known fund commitments, typical investment sizes, fund type and geographic preferences, future investment plans and more.

For more information, or to arrange a demonstration, please visit: www.preqin.com/ii

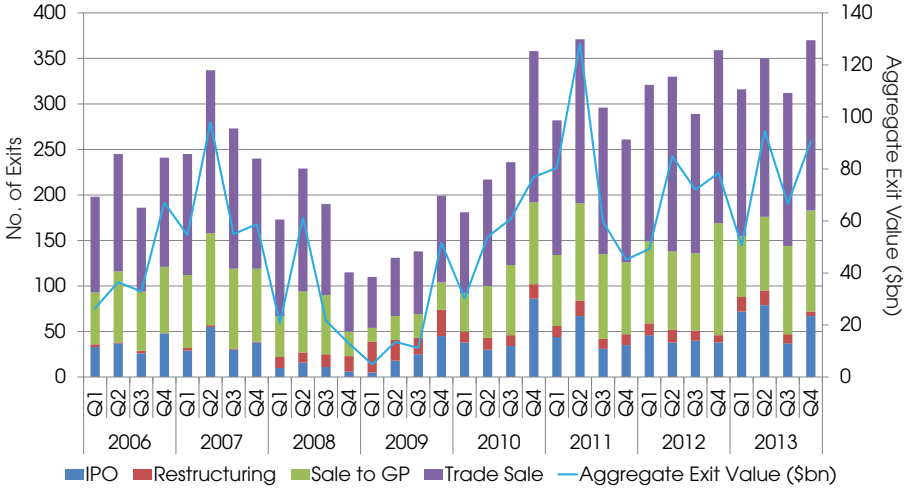
Global Buyout Exit Overview

In 2013, 1,348 private equity-backed exits valued at $303bn were witnessed, as shown in Fig. 10.5. This is the highest annual number of exits in the period from 2006 to present, and the second highest aggregate exit value in the same time period, only surpassed by 2011, when 1,210 exits were valued at $313bn. In addition, Preqin's data shows that the average exit size was up from $500mn in 2012 to $504mn in 2013.

However, there has been a drop in the number of exits at the higher end of the size range. Seventy-seven exits fell into the large-cap value band (defined as those valued at $1bn or more) in 2013, whereas there were 84 exits in this size range in 2012. The number of exits in 2013 was buoyed by an upsurge in the number of IPOs and follow-on offerings, particularly in H1, due to a renewed confidence in the performance of global public markets.

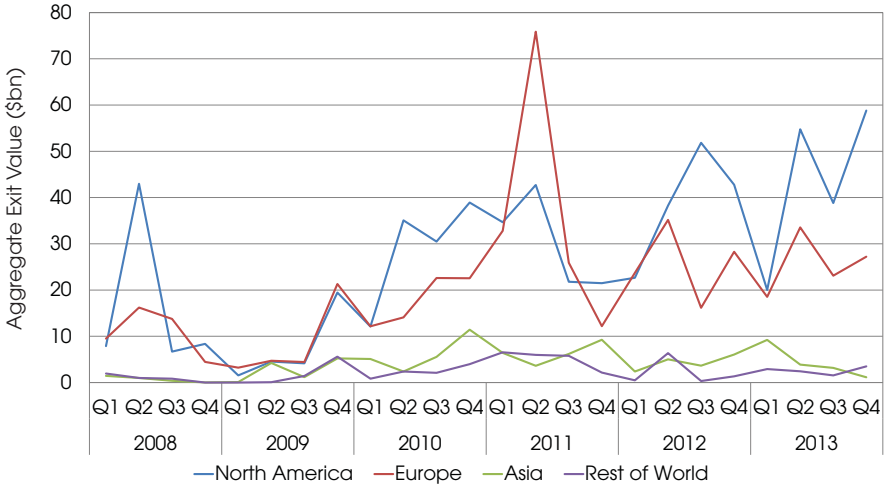
Q2 2013 witnessed the highest quarterly aggregate exit value in 2013 at $95bn from 350 private equity-backed exits, which also exceeded any quarterly aggregate exit value in 2012. This quarter included the two largest exits of the year, with the sale of two companies within the healthcare sector: the $8.7bn sale of Bausch & Lomb by Warburg Pincus and Welsh, Carson, Anderson & Stowe to Valeant Pharmaceuticals, and the $8.5bn sale of Warner Chilcott by Bain Capital, CCMP Capital Advisors, GCM Customised Fund Investment Group, JPMorgan Partners and Thomas H. Lee Partners to Actavis Group.

Fig. 10.5: Private Equity-Backed Exits by Type, Q1 2006 - Q4 2013



Source: Preqin Buyout Deals Analyst

Fig. 10.6: Aggregate Value of Private Equity-Backed Exits by Region, Q1 2008 - Q4 2013



Source: Preqin Buyout Deals Analyst

Private Equity-Backed Exits by Region

North America continued to be the most prominent region for private equity-backed exits in 2013, with the region accounting for half of the number of exits and the majority (56%) of aggregate exit value globally, as shown in Fig. 10.6. The annual number and aggregate value of exits in the region had steadily climbed over the period from 2009 to 2012, with the number of exits decreasing by 5% from 2012 to 2013. However, the aggregate exit value increased from $156bn in 2012 to $172bn in 2013 and represents the highest annual aggregate value of private equity-backed exits in

Data Source:

Preqin's **Buyout Deals Analyst** provides detailed data on over 7,200 potential forthcoming exits. Search for possible upcoming exits specifically by industry, location, entry deal size, and entry investment type and view which sectors may present more exit flow in the coming months. **Buyout Deals Analyst** features detailed profiles for over 33,000 private equity-backed buyout deals globally.

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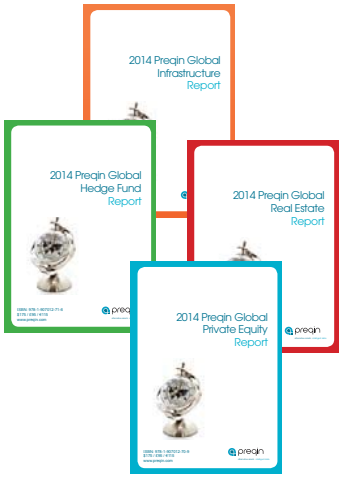

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