INDUSTRY VIEWS

BVCA Private Equity and Venture Capital Performance Measurement Survey 2005

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

*connectedthinking

PRICEWATERHOUSECOOPERS

Foreword

I am pleased to introduce this twelfth annual BVCA Private Equity and Venture Capital Performance Measurement Survey, produced in conjunction with PricewaterhouseCoopers and Capital Dynamics. The survey is comprehensive and covers all ‘independent’ UK private equity funds, ie funds raised from external investors for investment at the venture capital (early stage and development) and private equity (MBO) stages, but excluding private equity investment trusts (PEITs) and venture capital trusts (VCTs).

Once again, 100% of BVCA member firms, which manage independent UK-based funds, responded to the survey. This is a tribute to our members’ commitment to open reporting. I believe this makes the BVCA’s survey the most complete country specific survey on the performance of private equity funds in the world.

As the private equity industry matures, there is significant interest in this asset class, and the demand for more comprehensive research increases. We therefore strive to improve the report each year by including more data and clarification of the analysis.

The 2004 report included, for the first time, fund multiples as well as IRRs. Also added was a new ‘pan-European funds’ subcategory made up of funds that invest, or intend to invest, in more than two European countries. This reflects the increased presence of UK private equity firms in continental Europe.

This year's report includes further enhancements. To reflect changes in the market, 1996 vintage funds onwards have been reclassified into four new investment stage categories: Venture, Small MBO (including development capital), Mid MBO and Large MBO. Pre-1996 vintage funds remain in the previous stage categories, ie Early Stage, Development, Mid MBO, Large MBO and Generalist. The four new categories have made it possible to produce breakdowns by investment stage and vintage year for 1996 vintage funds onwards.

We have also added a section on ‘frequently asked questions’, which we hope will increase readers’ understanding of the data within the report.

For 2005, I am delighted that we can once again report that private equity funds outperformed the Total UK Pension Funds Assets and the FTSE 100 and FTSE All-Share indices over the medium to long term. This strong performance by private equity funds has been mostly fuelled by buy-out funds and the pan-European funds in particular. Returns for venture and technology funds are still heavily influenced by the weight of funds raised in 1999/2000, the height of the internet / dot.com era. However, overall performance of these funds continues to gradually improve.

I would like to take this opportunity to thank the members of the BVCA whose prompt and full responses to our request for the information allowed us to compile this important piece of research. Thanks also to those at PricewaterhouseCoopers, Capital Dynamics and the BVCA responsible for bringing the report together and to Professor Eli Talmor of the London Business School for writing the introduction.

Rod Selkirk
BVCA Chairman
July 2006

The BVCA is the industry body for the UK private equity and venture capital industry. Our membership of over 360 firms represents the overwhelming number of UK-based private equity and venture capital providers and their advisers. The BVCA has over 23 years of experience representing the industry, which currently accounts for 51% of the whole of the European market, to government, the European Commission and Parliament, the media, regulatory and other statutory bodies at home, across Europe and around the world. We promote the industry to entrepreneurs and investors, as well as providing services and best practice standards to our members.

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Introduction

By Professor Eli Talmor, Academic Director, Private Equity Institute, London Business School

Once again, UK private equity funds, as measured by the 2005 Performance Measurement Survey show a significant outperformance of both the FTSE Indices over the medium to long term and of total UK Pension Funds Assets in 2005 over the three, five and ten-year periods. Tracking private equity performance is not a trivial econometric exercise, though. The measurement issues are challenging, for example, the ‘J-curve phenomenon’ is a particular issue when examining early-stage funds; however, these concerns are largely mitigated for funds that reach maturity. What is particularly clear and raises confidence in the validity of these results is that the industry performance figures are reasonably robust across subcategories and time frames: there appears to be no excessive sensitivity to the particular measurement specification used.

More detailed examination of the subcategories reveals that, in addition to the strong performance by post-96 vintage MBO and pan-European funds, the ‘green shoots of recovery’ in Venture and Technology funds now seem to be appearing despite some residual impact from the weight of funds raised in 1999/2000 and the subsequent bursting of the dot.com bubble. While it’s too early to say whether there’s a persistent trend, I can testify to what I will describe as a ‘guarded optimism’ as I talk to various colleagues in tech and venture. They talk of a definite improvement in deal flow and one BVCA member, at the recent conference here at London Business School, spoke of ‘huge room for growth: you just have to be prepared to look under every rock in every corner to seek out the opportunities...’.

But what’s going on underneath the headline numbers and what lies ahead of us? What impact will a change to the political and regulatory environment have? Will value be created in the same ways and from the same sectors in the future? Let me try and tie together some of these questions. On the regulatory side, the sector is likely to receive increasing scrutiny in the UK in the coming months and years. A clue appeared in the Financial Services Authority’s Financial Risk Outlook for 2006, which featured private equity several times, especially in relation to the effect that its continued growth relative to the public market may have on the efficiency of the overall capital markets and whether the leverage and illiquidity inherent in its structures may increase the risks to financial stability.

Why am I highlighting this in particular? After all, there’s nothing wrong with proportionate regulation. Well, because in theory, I argue that the governance frameworks in private equity are its chief source of value creation. Let me elaborate. Received wisdom has it that private equity investors extract returns in three possible ways, but these are largely inconsistent with the accepted academic paradigms. Multiple arbitrage flies in the face of the theories of market efficiency and profiting from de-leveraging runs counter to theories of capital structure. The third source of superior return, through operational improvement and superior governance structures, is also difficult to rationalize. Why is it necessary to sell a company to a new owner to achieve value creation? And why are current owners willing to leave so much money on the table, rather than resort to a similar turnaround process as carried out by private equity practitioners to achieve superior returns? In academic terms, this violates the fundamental tenet of separation of ownership from control. While it might be difficult to square with basic principles, it seems to work well. A new culture has been nurtured that gives the sector a great ability to attract those who have the mindset and capabilities for pursuing business opportunities: both innovations and operational improvements. In short, it provides a ‘new and improved’ model for running companies. Ownership and control are concentrated in the hands of a few active investors. The focus is on exit and achieving results within a relatively short-term horizon. The size of the board is small which allows ‘workshop’ style, no-nonsense type meetings. There is a culture and propensity to tolerate higher leverage and more flexibility. Furthermore, management interests are aligned through high-powered compensation and incentive schemes that are linked to timely results. This revolutionized model of corporate governance appears to be so powerful and superior that there are now

> ‘Public scrutiny of the private equity industry will continue to intensify in line with its growth...’

concerns being expressed that private equity may crowd out the public stock market altogether…hence the regulators’ interest. I can list many reasons why this extreme scenario will not happen, but there is little doubt that public scrutiny of the private equity industry will continue to intensify in line with its growth. Despite increasing attempts to enforce transparency and facilitate shareholder activism, the alignment of interests in publicly-traded companies is quite poor. Against this backdrop, corporate governance in private equity-owned companies has been a breath of fresh air. Regulators should take note of this and consider the impact that over- or inappropriate regulation may have on the innovative technology start-ups or the performance of our pension funds and the views of overseas investors on the UK as an attractive place for their money.

Practitioners have a role to play too. The underlying focus of the sector seems to be to identify business opportunities in an environment where the playing field is given, granted. It is time to switch that mindset by assuming a more significant level of leadership. This should be possible for a sector that has attracted such an impressive pool of talent and that continues to demonstrate its creativity, innovative management practices and resourcefulness.

I am not arguing for private equity to abandon the very principles that enable it to create value but for it to seek its growth opportunities in ways that make valuable external contributions. This will however involve the creation of new types of partnership, new networks of influence and the development of the collaborative capabilities that will enable it to share its ‘best practices’ in funding innovation, catalysing change and executing turnaround. This would be the most proper response to the occasional complaint that the industry is overly self-focused and would also generate new and fruitful frontiers to explore. I’m put in mind of a previous introductory commentary on this report ‘the learners will inherit the earth’… An industry that continues to adapt, change and find creative solutions can only continue to grow, can’t it?

Highlights

- The 2005 results show that UK private equity has continued to outperform Total UK Pension Funds Assets (as shown in the WM All Funds Universe) and the FTSE 100 and FTSE All-Share over the medium to long term. This strong performance by private equity funds has been mostly fuelled by buy-out funds and the pan-European funds in particular.

- Net returns per annum to investors in UK private equity funds raised between 1980 and 2005 measured to the end of December 2005 were:

  Three Years = 21.1% pa
  Five Years = 11.9% pa
  Ten Years = 16.4% pa.

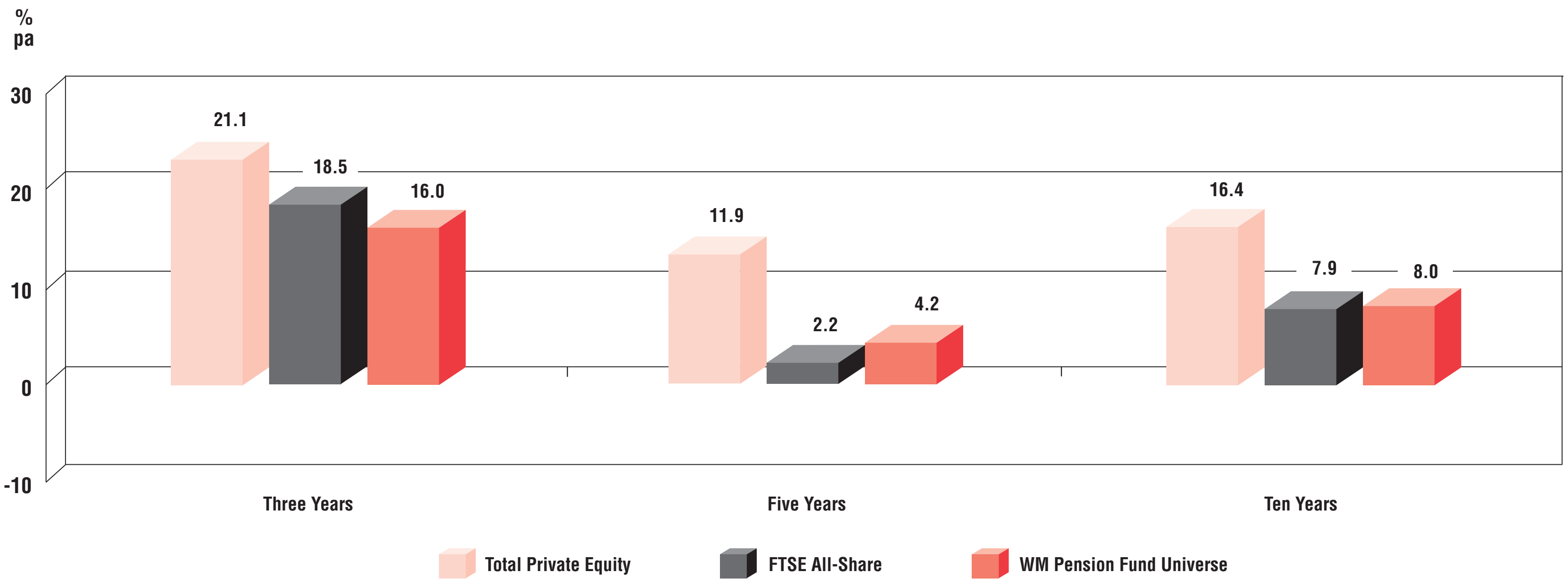
- UK private equity funds significantly outperformed Total UK Pension Funds Assets in 2005, as shown in the WM All Funds Universe, in 2005 and over three, five and ten-year periods.

- UK private equity also outperformed the FTSE 100 and the FTSE All-Share indices over three, five and ten years, and outperformed all other principal FTSE indices over five and ten years.

- 2005 returns were better than those achieved in 2004 over three, five and ten years. The 2004 returns to 31 December 2004 were:

  Three Years = 11.5% pa
  Five Years = 9.4% pa
  Ten Years = 14.8% pa.

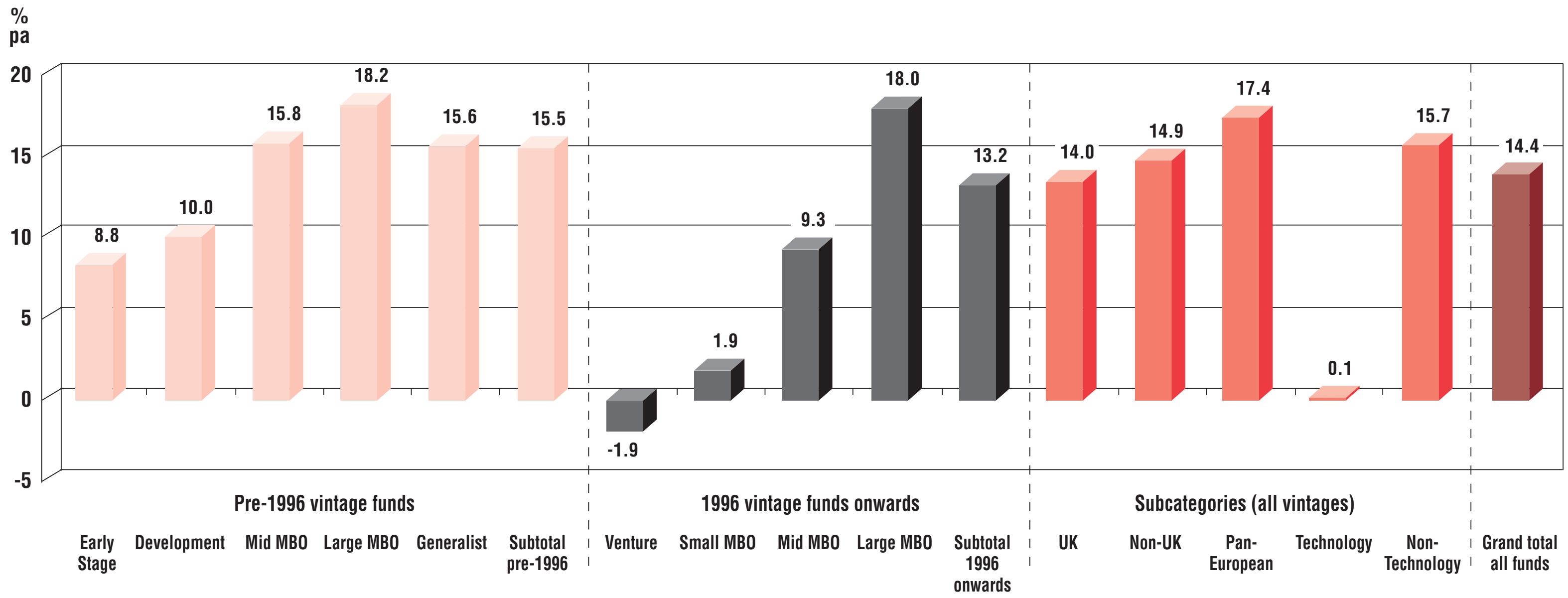
Summary of UK Private Equity Performance versus Principal Comparators



Note: Current year returns for 2005 are shown in Appendix V.

- Large MBO funds for pre-1996 and 1996 onwards were the best performing category of funds since inception to 31 December 2005 at 18.2% pa and 18.0% pa, respectively, followed by Mid MBO funds pre-1996 and 1996 onwards at 15.8% pa and 9.3% pa, respectively. Early Stage funds performed least well of the pre-1996 vintage funds since inception to 31 December 2005 at 8.8% pa and Venture funds performed least well of the 1996 vintage funds onwards at -1.9% pa.
- The overall long-term net return to investors since inception now stands at 14.4% pa on funds raised between 1980 and 2001, measured to 31 December 2005. This is a marked improvement on the 13.0% pa since inception return at 2004.

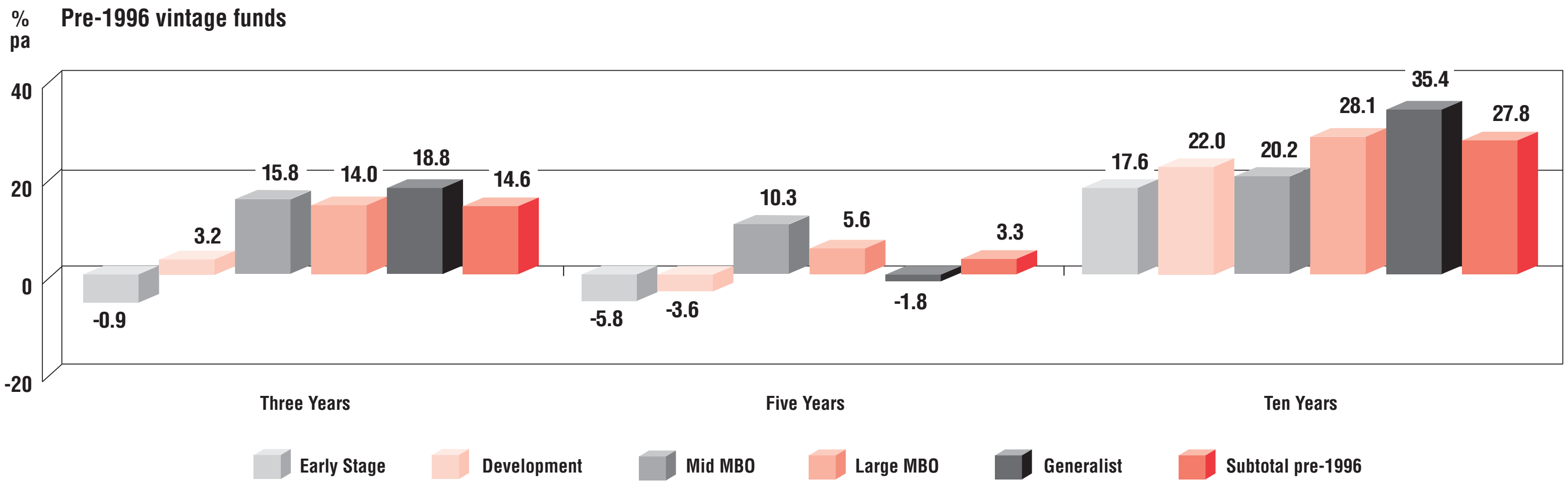
Since Inception Performance by Investment Stage and Subcategories to December 2005

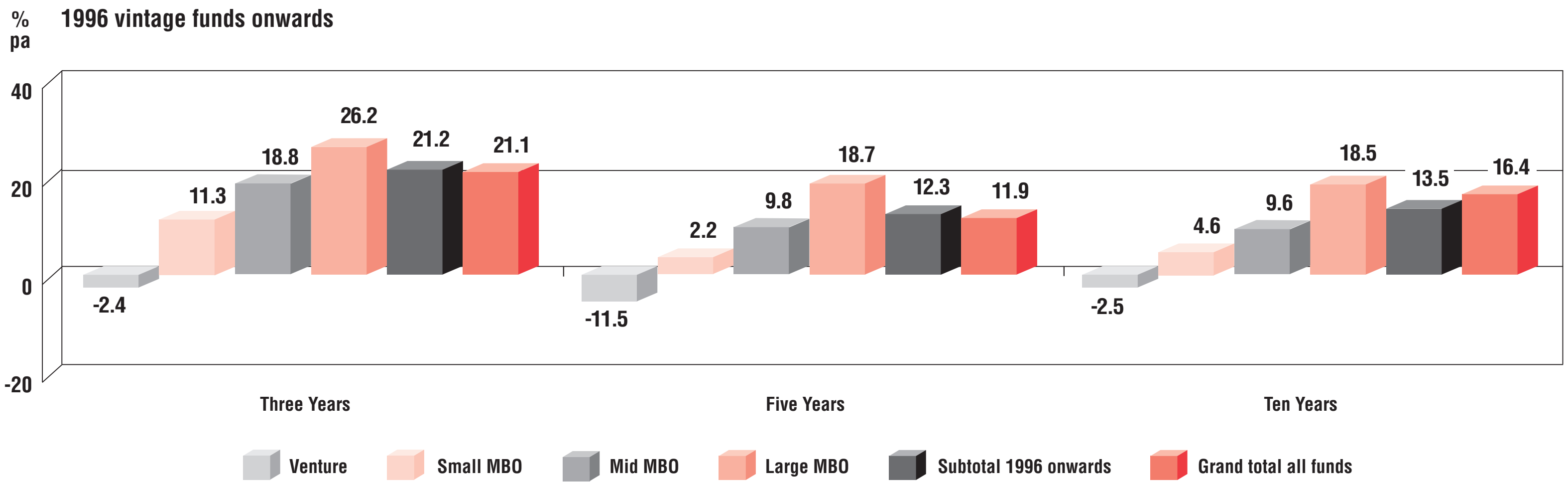


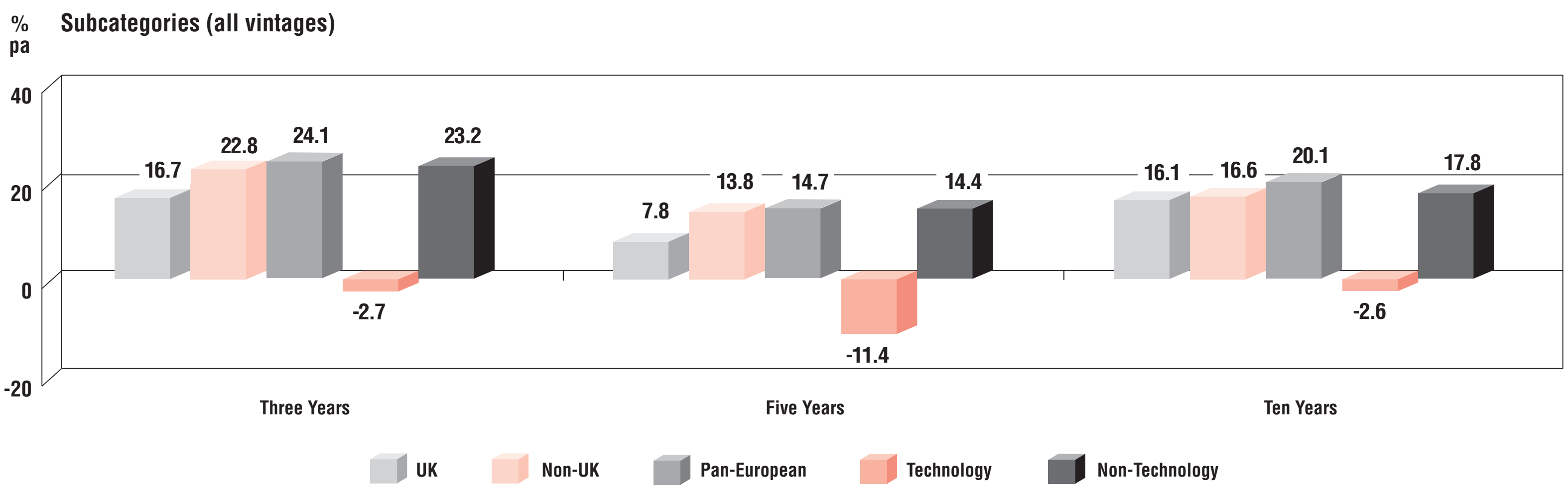
Highlights

- For pre-1996 vintage funds, Generalist funds were the best performing category of funds in 2005 over three years, achieving 18.8% pa, which was better than the FTSE 100 and the FTSE All-Share indices over three years. Mid MBO funds showed the strongest performance over five years at 10.3% pa, better than all the FTSE indices, and Generalist funds were the best performing category over ten years at 35.4% pa, outperforming all FTSE indices.
- For 1996 vintages onwards, Large MBO funds were the best performing funds over three, five and ten years, achieving 26.2% pa over three years, 18.7% pa over five years and 18.5% pa over ten years and outperforming the FTSE 100 and FTSE All-Share indices over three years and all FTSE indices over five and ten years.
- On average the three, five and ten-year returns for Venture funds (1996 vintages onwards) and Technology funds (all vintages) remain negative, largely because they are still heavily influenced by the weight of funds raised in 1999/2000, the height of the internet / dot.com era. Overall, performance of these funds continues to gradually improve. Pre-1996 vintage Early Stage funds, whilst negative over three and five years, now show a positive return of 17.6% pa over ten years.

Summary of Performance by Investment Stage and Subcategories



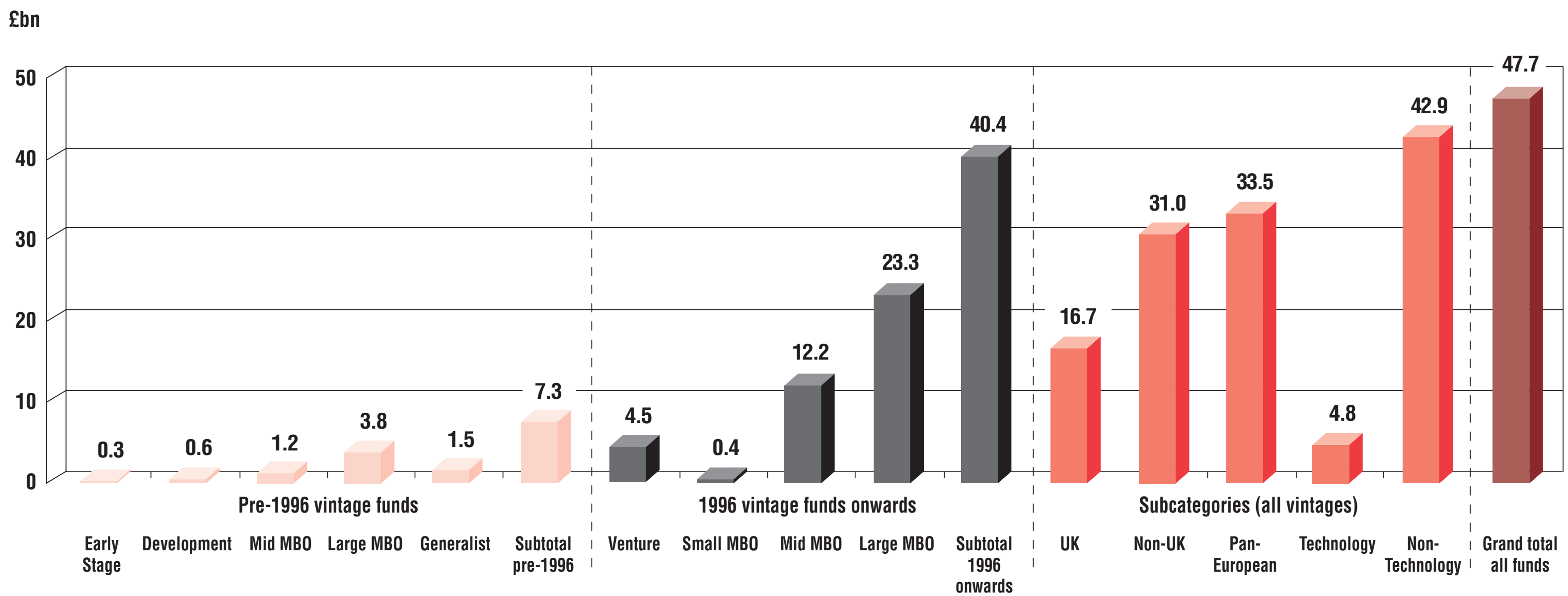




- Funds investing outside the technology sector performed much better than technology funds over three (23.2% pa), five (14.4% pa) and ten-year (17.8% pa) periods.

- The total capital raised by participating funds raised between 1980 and 2001 reached £47,670 million at the end of 2005. Of the £43,264 million paid into these funds, essentially 100% has been returned to investors and 51% is still retained within the portfolios.

Capital Raised by Investment Stage and Subcategories – December 2005



The UK Private Equity Industry

The private equity industry in the UK has grown rapidly from the mid 1980s and is second only in importance globally to the USA. The UK private equity industry continues to be the largest and most developed in Europe, accounting for over half of total European private equity investment in 2005.

UK private equity is now a well-established asset class, consistently demonstrating superior returns over the medium and long term compared to the principal comparator indices. Whilst there is now a focus on the very large, multi-billion pound buy-out funds, the industry's continued development has also been helped by an improving entrepreneurial spirit in the UK (one of the positive outcomes of the internet and dot.com 'bubble'), a relatively strong economy and an improving environment with regard to government incentives and taxation.

The term 'private equity' is used throughout this report to describe the industry as a whole, encompassing both management buy-out and buy-in activity and 'venture capital' (the seed to expansion stages of investment).

This report reveals that private equity continued to outperform the Total UK Pension Funds Assets and the FTSE 100 and FTSE All-Share stock market indices over the medium to long term (ie for the three, five and ten-year periods). However, as in the years since 2000 (the internet / dot.com era), it was the Large MBO funds and the Non-Technology focused funds that were the best performers – a reversal of the situation in 2000 where Early Stage and Technology funds were the best performers.

There was a substantial increase in overall UK funds raised in 2005 from £3.3 billion in 2004 to £27.3 billion (as shown in the BVCA's Report on Investment Activity 2005 – data collated and analysed by PricewaterhouseCoopers). UK pension funds continued to make a significant contribution to the private equity marketplace with funds raised from the UK pension funds amounting to £1.5 billion, 5% of total funds raised. This recognises that the industry does offer superior returns and that private equity is now an accepted asset class. Nevertheless, overseas pension funds invested almost five times more into UK private equity funds than the UK pension funds.

Private Equity Characteristics

As an asset class, private equity differs in nature from other asset classes. Typically private equity fund investments show less correlation to quoted equity markets and are relatively illiquid, particularly in the early years.

Private equity is a long-term investment, which, in the first few years, will normally show a drop in net asset value (NAV) before showing any significant uplift. This is often the effect of management fees and start-up costs. A further factor affecting private equity investments includes the writing down in value of troubled or failed investments which tends to occur in the first few years.

UK private equity offers institutional investors the opportunity to further diversify their assets with the possibility of strong investment returns. It does, however, have a different nature to quoted equity and it is crucial that an institutional investor considers the appropriateness of private equity to its particular fund objectives. The life cycle of a private equity fund investment is typically ten years or more. An investor will receive distributions of capital during the life of the investment. There is also now a substantial secondary market for private equity holdings, which provides the opportunity for investors to exit a private equity holding by selling it to another investor during the lifetime of the holding.

Methods of Measurement

The report measures performance in two ways: by 'since inception' and 'medium to long term' (over three, five and ten years).

Since Inception

This is the most meaningful way in which to measure private equity performance. It measures from the actual start of a fund (ie from the fund's first draw down) up to a particular point in time. This therefore most closely reflects the return an investor would achieve if they invested at the start of the fund.

‘The UK private equity industry continues to be the largest and most developed in Europe, accounting for over half of total European private equity investment in 2005...’

Medium to Long Term

Medium to long-term figures are included in the report in order that investors can compare private equity returns with those of other asset classes, which is not possible with the ‘since inception’ numbers. It is not, however, the most appropriate way to measure private equity returns.

The returns quoted in the Medium to Long-Term figures cover all activity of funds in the survey over the measured period to 31 December 2005 – it is not limited to those funds which were in existence at the start of the measured period (eg the ten-year return covers all activity of all funds over the period 1 January 1996 to 31 December 2005 regardless of whether the funds had been in existence for the whole of the measured period).

Reclassification of Investment Stages for 1996 Vintage Funds Onwards

To reflect changes in the market, which from the mid 1990s have seen the predominance of larger funds, a ‘restart’ in the venture marketplace and the growing recognition of private equity as a separate asset class, 1996 vintage funds onwards have been reclassified into four new investment stage categories this year: Venture, Small MBO (including development capital), Mid MBO and Large MBO. Pre-1996 vintage funds remain in the previous stage categories, ie Early Stage, Development, Mid MBO, Large MBO and Generalist. This is reflected in the tables accordingly. Please see Glossary of Terms for definitions. Comparative figures are not available, other than for the subcategories of UK and Non-UK, Pan-European and Technology and Non-Technology which apply to all vintages.

Pan-European Funds

From 2004 onwards an extra subcategory has been included which is dedicated to Pan-European UK-based funds. These funds invest, or intend to invest, in more than two European countries.

Fund Multiples

As part of on-going enhancements to the survey, we are reporting fund multiples as well as IRRs. The multiples shown are: the total amount distributed to investors as a percentage of paid-in capital (DPI); and the total amount distributed plus the residual value attributable to investors as a percentage of paid-in capital (TVPI).

Current Year Returns

Current year (or one-year) returns for 2005 can be found in Appendix V. However, it should be noted that the one-year figure is extremely volatile and inappropriate as a realistic measure of private equity performance since it is not possible to invest in a private equity fund for just one year. They can however be used as an indication of how well the UK private equity industry performed in that one year.

Returns by Investment Stage – IRR and Multiple

Note: The principal comparators are shown in Appendix III.

Summary and Overview

UK private equity returns for 2005 were much better than those achieved in 2004 over three, five and ten years. The funds outperformed the FTSE 100 and the FTSE All-Share indices over three, five and ten years, and outperformed all other principal FTSE indices over five and ten years.

Comparative statistics on UK pension funds, supplied by The WM Company (WM), have also been quoted (see Appendix III), 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 to investors, net of costs and fees. Returns for the WM Pension Fund Universe and indices, however, are gross time-weighted returns.

UK private equity significantly outperformed the Total UK Pension Funds Assets, as shown in the WM All Funds Universe, over three, five and ten-year periods.

1996 vintage funds onwards have been reclassified into four new investment stage categories. Pre-1996 vintage funds remain in the previous stage categories.

Since Inception (IRR)

The overall long-term net return to investors since inception now stands at 14.4% pa on funds raised between 1980 and 2001 measured to 31 December 2005. This is a marked improvement on the 13.0% pa since inception return to 31 December 2004.

Pre-1996 vintage funds
Large MBO funds enjoyed an 18.2% pa return, followed by Mid MBO funds at 15.8% pa and Generalist funds at 15.6% pa. Development funds achieved a 10.0% pa return and Early Stage achieved an 8.8% pa return.

1996 vintage funds onwards
Large MBO funds were by far the best performing funds achieving an 18.0% pa return. Mid MBO funds followed at 9.3% pa with Small MBO funds at 1.9% pa. Venture funds achieved a -1.9% pa return.

Subcategories (all vintages)
UK focused funds achieved a 14.0% pa return (2004: 13.6% pa), compared with Non-UK funds at 14.9% pa (2004: 11.8% pa). Pan-European funds achieved a 17.4% pa return (2004: 14.0% pa). Technology funds achieved a 0.1% pa return since inception (2004: 0.9% pa), compared with Non-Technology funds of 15.7% pa (2004: 14.2% pa).

Since Inception Return – IRR (% pa) Investment Stage and Subcategories

	Number of Funds	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01	To Dec '00
Pre-1996 vintage funds							
Early Stage	22	8.8	8.9	8.9	9.0	9.1	9.3
Development	37	10.0	10.0	10.0	10.1	10.1	10.4
Mid MBO	33	15.8	15.9	15.9	15.9	16.0	16.1
Large MBO	26	18.2	18.1	18.1	18.2	18.1	18.7
Generalist	38	15.6	15.5	15.6	15.6	15.8	16.1
Subtotal pre-1996	*156*	*15.5*	*15.5*	*15.5*	*15.5*	*15.5*	*15.9*
1996 vintage funds onwards							
Venture	50	-1.9	-2.4	8.7	29.7	42.0	86.7
Small MBO	14	1.9	0.3	3.2	1.3	2.6	-14.2
Mid MBO	60	9.3	5.9	4.3	3.6	8.0	17.6
Large MBO	17	18.0	13.9	14.3	16.5	30.6	25.2
Subtotal 1996 onwards	*141*	*13.2*	*9.4*	*9.7*	*11.7*	*19.8*	*25.9*
Grand total all funds	**297**	**14.4**	**13.0**	**13.6**	**14.6**	**16.2**	**16.4**
Subcategories (all vintages)							
UK	225	14.0	13.6	14.1	14.5	15.4	16.2
Non-UK	72	14.9	11.8	12.6	15.1	18.7	17.5
Pan-European	67	17.4	14.0	14.9	16.9	20.9	20.4
Technology	83	0.1	0.9	7.4	10.7	12.1	12.8
Non-Technology	214	15.7	14.2	14.5	15.3	17.0	17.3

Returns by Investment Stage – IRR and Multiple

Since Inception Return to Dec 2005 – Multiple to Paid-in Capital (%) Investment Stage and Subcategories

	Number of Funds	Distributions Multiple (DPI)	Total Value Multiple (TVPI)
Pre-1996 vintage funds			
Early Stage	22	165	172
Development	37	166	169
Mid MBO	33	174	178
Large MBO	26	191	192
Generalist	38	219	227
Subtotal pre-1996	*156*	*191*	*194*
1996 vintage funds onwards			
Venture	50	48	96
Small MBO	14	63	107
Mid MBO	60	79	134
Large MBO	17	90	157
Subtotal 1996 onwards	*141*	*82*	*143*
Grand total all funds	**297**	**100**	**151**
Subcategories (all vintages)			
UK	225	129	159
Non-UK	72	83	147
Pan-European	67	95	156
Technology	83	56	100
Non-Technology	214	104	157

Fund Multiple – Since Inception

The multiples shown are: the total amount distributed to investors as a percentage of paid-in capital (DPI); and the total amount distributed plus the residual value attributable to investors as a percentage of paid-in capital (TVPI).

The total DPI for all funds since inception to 31 December 2005 was 100% and the total TVPI was 151%.

DPI

For pre-1996 vintage funds, Generalist funds had the highest DPI at 219%, followed by Large MBOs at 191%. For 1996 vintage funds onwards, Large MBOs had the highest DPI at 90%, followed by Mid MBOs at 79%. UK funds achieved 129% DPI compared to Non-UK funds at 83%. Pan-European funds had a DPI of 95%. Technology funds achieved 56% DPI compared to Non-Technology funds at 104%.

TVPI

For pre-1996 vintage funds, Generalist funds had the highest TVPI at 227%, followed by Large MBOs at 192%. For 1996 vintage funds onwards, Large MBOs had the highest TVPI at 157%, followed by Mid MBOs at 134%. UK funds achieved 159% TVPI compared to Non-UK funds at 147%. Pan-European funds had a TVPI of 156%. Technology funds achieved 100% TVPI compared to Non-Technology funds at 157%.

‘UK private equity has continued to outperform the major comparators over the medium to long term...’

Three Years (IRR)

The total return to investors over three years was 21.1% pa (compared with 11.5% pa for 2004), outperforming major comparators such as the WM total pension fund return of 16.0% pa and the FTSE 100 and FTSE All-Share indices which had returns of 16.6% pa and 18.5% pa, respectively.

Pre-1996 vintage funds
Generalist funds showed the best returns at 18.8% pa, outperforming the WM total pension fund return and the FTSE 100 and FTSE All-Share indices.

Mid MBO and Large MBO funds achieved returns of 15.8% pa and 14.0% pa, respectively. However, these did not perform as well as the principal comparators. Development funds returned 3.2% pa and Early Stage -0.9% pa.

1996 vintage funds onwards
Large MBOs were the best performing funds of the 1996 vintage funds onwards, achieving a 26.2% pa return. These were followed by the Mid MBO funds which returned 18.8% pa. Both Large MBO and Mid MBO funds outperformed the FTSE 100 and FTSE All-Share comparator indices. Small MBO funds achieved an 11.3% pa return and Venture funds returned -2.4% pa, which were both behind the principal comparators.

Subcategories (all vintages)
UK funds returned 16.7% pa over three years (2004: 6.7% pa), compared with Non-UK funds at 22.8% pa (2004: 13.8% pa). Pan-European funds achieved a 24.1% pa return (2004: 15.3% pa). Non-Technology funds returned 23.2% pa (2004: 14.0% pa). These subcategories outperformed the FTSE 100 and FTSE All-Share indices, with the exception of UK funds which fell behind the FTSE All-Share index. However, Technology funds achieved -2.7% pa return over three years (2004: -13.0% pa), which although an improvement on 2004 was very significantly behind the comparator indices and the techMARK All-Share index of 30.2% pa.

Five Years (IRR)

The total return to investors over five years was 11.9% pa (compared with 9.4% pa for 2004), significantly outperforming the WM total pension fund return of 4.2% pa and the FTSE 100 and FTSE All-Share indices which had returns of 1.2% pa and 2.2% pa, respectively.

Pre-1996 vintage funds
Mid MBO and Large MBO funds showed the best returns at 10.3% pa and 5.6% pa, respectively. These categories outperformed the WM total pension fund return and the FTSE indices, with the exception of the Large MBO funds which did not perform as well as the FTSE 250 index of 9.2% pa.

1996 vintage funds onwards
Large MBO funds were the best performing category at 18.7% pa over five years. Mid-MBO funds followed at 9.8% pa. These categories outperformed all the principal comparators other than Property over five years. Small MBO funds achieved 2.2% pa, the same as the FTSE All-Share index and better than the FTSE 100 index of 1.2% pa.

Venture funds returned -11.5% pa over five years, somewhat less than the principal comparator indices.

Subcategories (all vintages)
UK funds achieved a 7.8% pa return over five years (2004: 5.0% pa), compared with Non-UK funds at 13.8% pa (2004: 12.1% pa). Pan-European funds achieved a 14.7% pa return (2004: 14.0% pa). Non-Technology funds returned 14.4% pa (2004: 11.1% pa). These subcategories outperformed the WM total pension fund return and the FTSE 100 and FTSE All-Share indices. However, the Technology funds achieved -11.4% pa return over five years (2004: -9.6% pa), significantly behind the comparator indices, but only just behind the techMARK All-Share index of -11.0% pa.

Returns by Investment Stage – IRR and Multiple

Medium to Long-Term Return – IRR (% pa) Investment Stage and Subcategories

	Number of Funds	Three Years	Five Years	Ten Years
Pre-1996 vintage funds				
Early Stage	22	-0.9	-5.8	17.6
Development	37	3.2	-3.6	22.0
Mid MBO	33	15.8	10.3	20.2
Large MBO	26	14.0	5.6	28.1
Generalist	38	18.8	-1.8	35.4
Subtotal pre-1996	*156*	*14.6*	*3.3*	*27.8*
1996 vintage funds onwards				
Venture	77	-2.4	-11.5	-2.5
Small MBO	19	11.3	2.2	4.6
Mid MBO	85	18.8	9.8	9.6
Large MBO	25	26.2	18.7	18.5
Subtotal 1996 onwards	*206*	*21.2*	*12.3*	*13.5*
Grand total all funds	**362**	**21.1**	**11.9**	**16.4**
Subcategories (all vintages)				
UK	267	16.7	7.8	16.1
Non-UK	95	22.8	13.8	16.6
Pan-European	89	24.1	14.7	20.1
Technology	97	-2.7	-11.4	-2.6
Non-Technology	265	23.2	14.4	17.8
Investment Trusts*	22	10.9	-0.2	9.1

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

Ten Years (IRR)

The total return to investors over ten years was 16.4% pa (compared with 14.8% pa for the prior year), significantly outperforming all the major comparators including the WM total pension fund return of 8.0% pa and the FTSE 100 and FTSE All-Share indices which had returns of 7.5% pa and 7.9% pa, respectively.

Pre-1996 vintage funds

Generalist and Large MBO funds had the highest returns over the ten-year period at 35.4% pa and 28.1% pa, respectively, followed by Development and Mid MBO funds at 22.0% pa and 20.2% pa, respectively. Early Stage funds achieved a 17.6% pa return. All of these categories outperformed all the major comparators including the WM total pension fund return and the FTSE 100 and FTSE All-Share indices.

1996 vintage funds onwards

Large MBO funds had the highest returns over the ten-year period at 18.5% pa, significantly ahead of Mid MBO funds at 9.6% pa. Both the Large and Mid MBO categories outperformed the FTSE 100 and FTSE All-Share indices. Small MBO funds achieved 4.6% pa and Venture funds achieved -2.5% pa, both behind the principal indices.

Subcategories (all vintages)

UK funds achieved a 16.1% pa return over ten years (2004: 16.5% pa), compared with Non-UK funds at 16.6% pa (2004: 13.4% pa). Pan-European funds achieved a 20.1% pa return (2004: 15.5% pa). Non-Technology funds achieved a 17.8% pa return over ten years (2004: 16.1% pa). These subcategories outperformed all of the comparators. However, the Technology funds achieved -2.6% pa (2004: -4.3% pa), significantly behind the comparator indices.

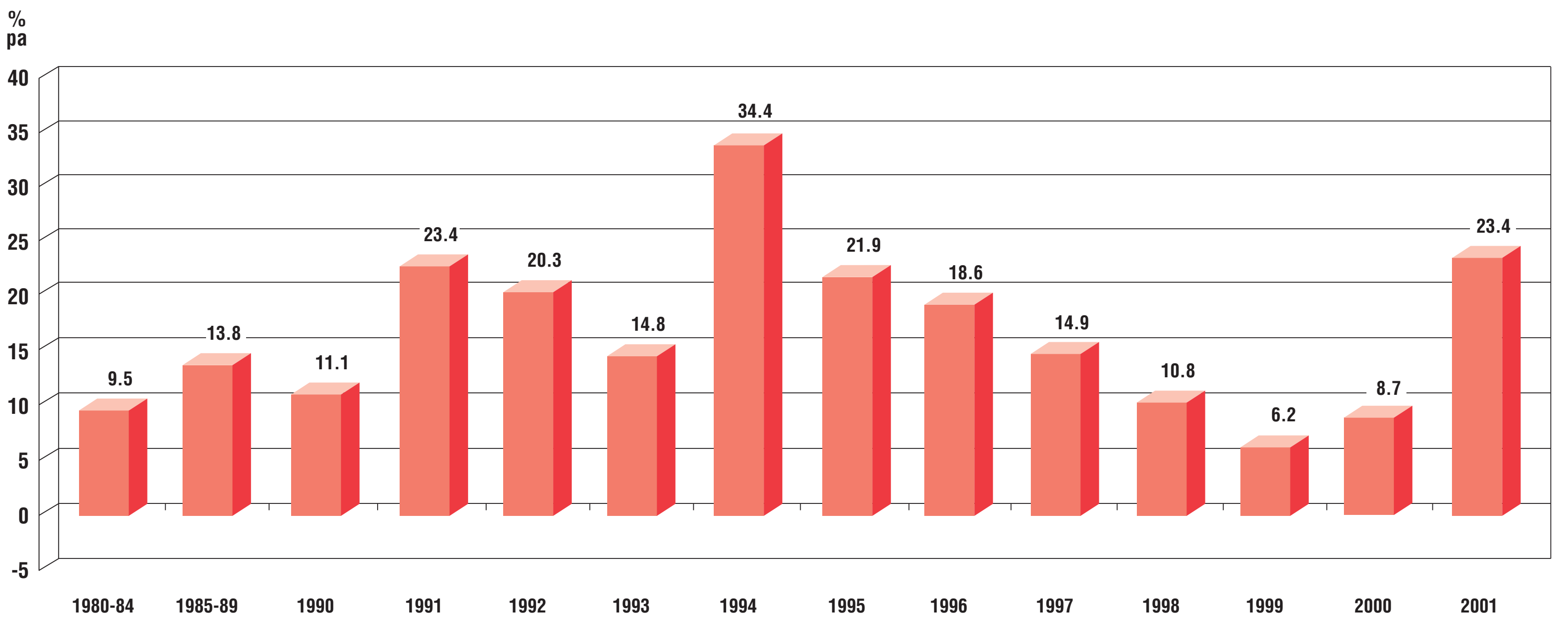
Returns by Vintage Year – IRR and Multiple

Note: The principal comparators are shown in Appendix III.

Summary and Overview

Vintage year returns reflect economic cycles, the stage of a fund's life and the type of funds raised in any one year. For example, if a high number of Venture and Small MBO funds were raised in the more recent vintages, they are likely to have a higher proportion of unrealised assets and show lower returns at this time.

Since Inception Return by Vintage Year to December 2005



Returns by Vintage Year – IRR and Multiple

Since Inception Return – IRR (% pa) Vintage Year

	Number of Funds	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
1985-89	68	13.8	13.8	13.8	13.8	13.8	13.8
1990	14	11.1	11.1	11.1	11.6	11.5	11.8
1991	14	23.4	23.3	23.3	23.3	23.3	23.7
1992	7	20.3	20.3	20.2	20.1	20.0	19.7
1993	10	14.8	14.0	14.6	14.6	14.6	16.0
1994	20	34.4	34.4	34.3	34.3	34.9	36.9
1995	10	21.9	21.9	21.8	22.8	25.7	32.1
1996	15	18.6	18.5	19.0	20.1	22.0	26.3
1997	25	14.9	14.3	14.3	13.7	17.6	n/a
1998	16	10.8	10.6	9.3	6.3	n/a	n/a
1999	27	6.2	1.5	-2.0	n/a	n/a	n/a
2000	28	8.7	4.8	n/a	n/a	n/a	n/a
2001	30	23.4	n/a	n/a	n/a	n/a	n/a
Total	**297**	**14.4**	**13.0**	**13.6**	**14.6**	**16.2**	**16.4**
2002	19	27.7	n/a	n/a	n/a	n/a	n/a
2003	19	22.2	n/a	n/a	n/a	n/a	n/a
2004	7	-5.8	n/a	n/a	n/a	n/a	n/a
2005	20	-8.0	n/a	n/a	n/a	n/a	n/a
Subtotal 2002-2005	*65*	*20.7*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*

Since Inception (IRR)

As in previous years, 1994 funds continued to show the best performance with returns of 34.4% pa, outperforming all the principal comparators, whilst, with the exception of the most recent vintages of 2004 and 2005 which have yet to establish their track records, 1999 funds have the lowest returns at 6.2% pa, followed by 2000 funds with returns of 8.7% pa.

Since Inception Return to Dec 2005 – Multiple to Paid-in Capital (%) Vintage Year

	Number of Funds	Distributions Multiple (DPI)	Total Value Multiple (TVPI)
1980-84	13	206	206
1985-89	68	184	185
1990	14	153	154
1991	14	186	186
1992	7	193	193
1993	10	168	184
1994	20	261	266
1995	10	166	175
1996	15	178	186
1997	25	131	161
1998	16	123	151
1999	27	66	124
2000	28	54	124
2001	30	60	148
Total	**297**	**100**	**151**

Fund Multiple – Since Inception

The multiples shown are: the total amount distributed to investors as a percentage of paid-in capital (DPI); and the total amount distributed plus the residual value attributable to investors as a percentage of paid-in capital (TVPI).

1994 vintage funds achieved the highest DPI at 261% and the highest TVPI at 266%.

‘Vintage year returns reflect economic cycles, the stage of a fund’s life and the type of funds raised in any one year...’

Returns by Vintage Year – IRR and Multiple

Medium to Long-Term Return – IRR (% pa) Vintage Year

	Number of Funds	Three Years	Five Years	Ten Years
1980-84	13	n/a	-64.6	38.5
1985-89	68	10.7	6.0	34.2
1990	14	-39.7	-22.7	9.3
1991	14	83.3	-8.2	26.7
1992	7	39.9	17.9	27.9
1993	10	17.9	4.6	17.4
1994	20	42.3	24.1	41.4
1995	10	-1.0	-14.3	23.4
1996	15	11.4	2.9	n/a
1997	25	19.2	5.7	n/a
1998	16	20.0	12.0	n/a
1999	27	17.0	7.3	n/a
2000	28	14.2	9.2	n/a
2001	30	29.9	n/a	n/a
2002	19	31.2	n/a	n/a
2003	19	n/a	n/a	n/a
2004	7	n/a	n/a	n/a
2005	20	n/a	n/a	n/a
Total	**362**	**21.1**	**11.9**	**16.4**

Three Years (IRR)

1991 overtook 1994 as the best performing vintage returning 83.3% pa, whilst 1990 showed the lowest performance at -39.7% pa. The 1991, 1992, 1994, and 2002 vintages outperformed all the principal comparators, while 1997, 1998 and 2001 vintages outperformed the WM total pension fund return of 16.0% pa and the FTSE All-Share and FTSE 100 indices of 18.5% pa and 16.6% pa, respectively.

The 1990 and 1995 vintages performed considerably less well than the principal comparators.

Five Years (IRR)

1994 funds had the strongest performance over five years, returning 24.1% pa. Eight of the thirteen vintages analysed outperformed the WM total pension fund return of 4.2% pa and FTSE 100 and FTSE All-Share indices. Of the two worst performing vintages, 1980-84 funds returned -64.6% pa and 1990 funds returned -22.7% pa, both significantly lower than the principal comparators.

Ten Years (IRR)

Of the funds over ten years old, 1994 and 1992 were the top performing years with returns of 41.4% pa and 27.9% pa, respectively. All vintages, with the exception of 1990, outperformed the major comparators over ten years.

Returns by Vintage Year (1996 Onwards) and Investment Stage – IRR and Multiple

Since Inception Return to December 2005 – IRR (%) Vintage Year and Investment Stage

	Small/Mid MBO		Mid/Large MBO		Venture	
	No of funds	IRR (% pa)	No of funds	IRR (% pa)	No of funds	IRR (% pa)
1996	12	11.9	11	17.6	1	n/a
1997	12	6.3	12	14.5	11	21.9
1998	11	3.8	12	11.0	1	n/a
1999	12	6.3	14	7.6	12	-6.9
2000	14	13.3	12	13.7	12	-11.0
2001	13	18.9	16	25.3	13	-5.5
Total	**74**	**9.1**	**77**	**14.6**	**50**	**-1.9**

Since Inception (IRR)

Of the 1996 onwards vintage funds, 2001 Mid to Large MBO funds showed the strongest performance in terms of IRR, returning 25.3% pa. 1997 Venture funds returned 21.9% pa.

Fund Multiple – Since Inception

Mid to Large MBO funds also showed the best returns by Multiple albeit that the strongest performance was for 1996 vintage funds for both DPI and TVPI.

Since Inception Return to December 2005 – Multiple to Paid-in Capital (%) Vintage Year and Investment Stage

	Small/Mid MBO			Mid/Large MBO			Venture		
	No of funds	Distributions (DPI)	Total Value (TVPI)	No of funds	Distributions (DPI)	Total Value (TVPI)	No of funds	Distributions (DPI)	Total Value (TVPI)
1996	12	142	155	11	178	184	1	n/a	n/a
1997	12	108	130	12	131	163	11	139	160
1998	11	82	118	12	124	153	1	n/a	n/a
1999	12	80	123	14	70	130	12	29	74
2000	14	58	136	12	64	138	12	21	71
2001	13	51	142	16	63	151	13	11	89
Total	**74**	**78**	**133**	**77**	**86**	**149**	**50**	**48**	**96**

Returns by Vintage Year (1996 Onwards) and Investment Stage – IRR and Multiple

Medium to Long-Term Return – IRR (%) Vintage Year and Investment Stage

	Small/Mid MBO			Mid/Large MBO			Venture		
	No of funds	3 years	5 years	No of funds	3 years	5 years	No of funds	3 years	5 years
1996	12	13.1	4.5	11	15.5	8.2	1	n/a	n/a
1997	12	24.1	5.9	12	22.2	9.9	11	3.0	-13.7
1998	11	4.6	1.2	12	20.7	12.7	1	n/a	n/a
1999	12	17.9	8.1	14	18.2	9.9	12	3.4	-12.1
2000	14	20.8	14.0	12	17.8	14.2	12	-3.5	-10.9
2001	13	24.0	n/a	16	31.7	n/a	13	-1.3	n/a
2002	5	22.1	n/a	6	38.2	n/a	13	-5.5	n/a
2003	10	n/a	n/a	9	n/a	n/a	8	n/a	n/a
2004	5	n/a	n/a	5	n/a	n/a	1	n/a	n/a
2005	10	n/a	n/a	13	n/a	n/a	5	n/a	n/a
Total	**104**	**18.6**	**9.6**	**110**	**23.6**	**15.4**	**77**	**-2.4**	**-11.5**

Note: 10-year returns are not shown for '1996 Vintage Funds onwards' as no funds in this category had been in existence for a full 10-year period.

Three and Five Years (IRR)

For 1996 onward vintage funds only three and five-year returns can be calculated. For all stages, three-year IRRs are stronger than those for five years, with 2002 Mid to Large MBO vintage funds showing the highest three-year return of 38.2%.

Range of Returns (IRR and Multiple) Since Inception

The range of returns that follow are for returns ‘since inception’. This is the most meaningful time period over which to measure private equity performance. It measures from the actual start of a fund (ie from the fund’s first draw down) up to a particular point of time (in this case, to 31 December 2005). The range of returns (IRR) for three, five and ten years can be found in Appendix IV.

This year we are again reporting ranges of returns of fund multiples as well as IRRs in the following tables. The multiple is shown as a percentage of paid-in capital distributed to investors, known as the distributions multiple or DPI, and also total value (distributed + residual value), known as the total value multiple or TVPI.

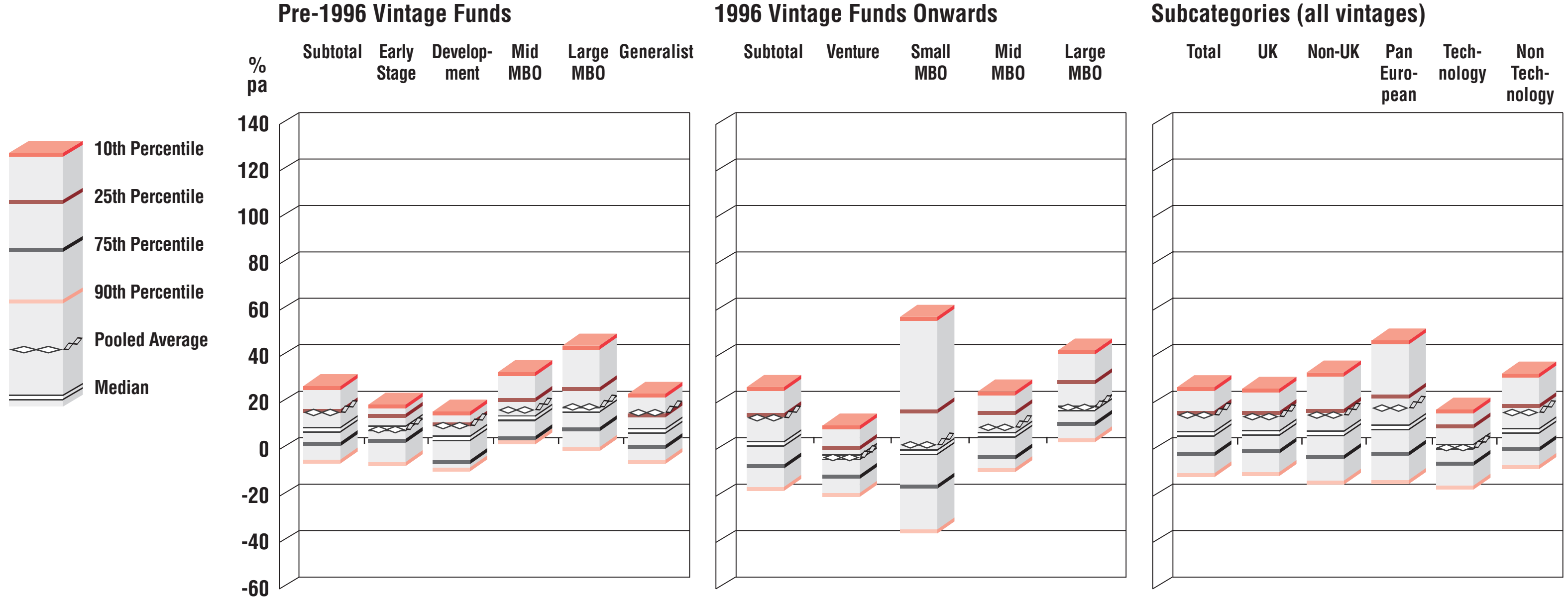
The top decile and bottom decile are excluded from the range to produce a standard deviation which excludes exceptionals. This is known as the ‘inter-decile’ range.

Where there are less than ten funds in a sample, the 10th and 90th percentile are denoted ‘n/a’ in the following tables.

‘Total returns (inter-decile) ranged from 26.5% to -12.1% pa since inception...’

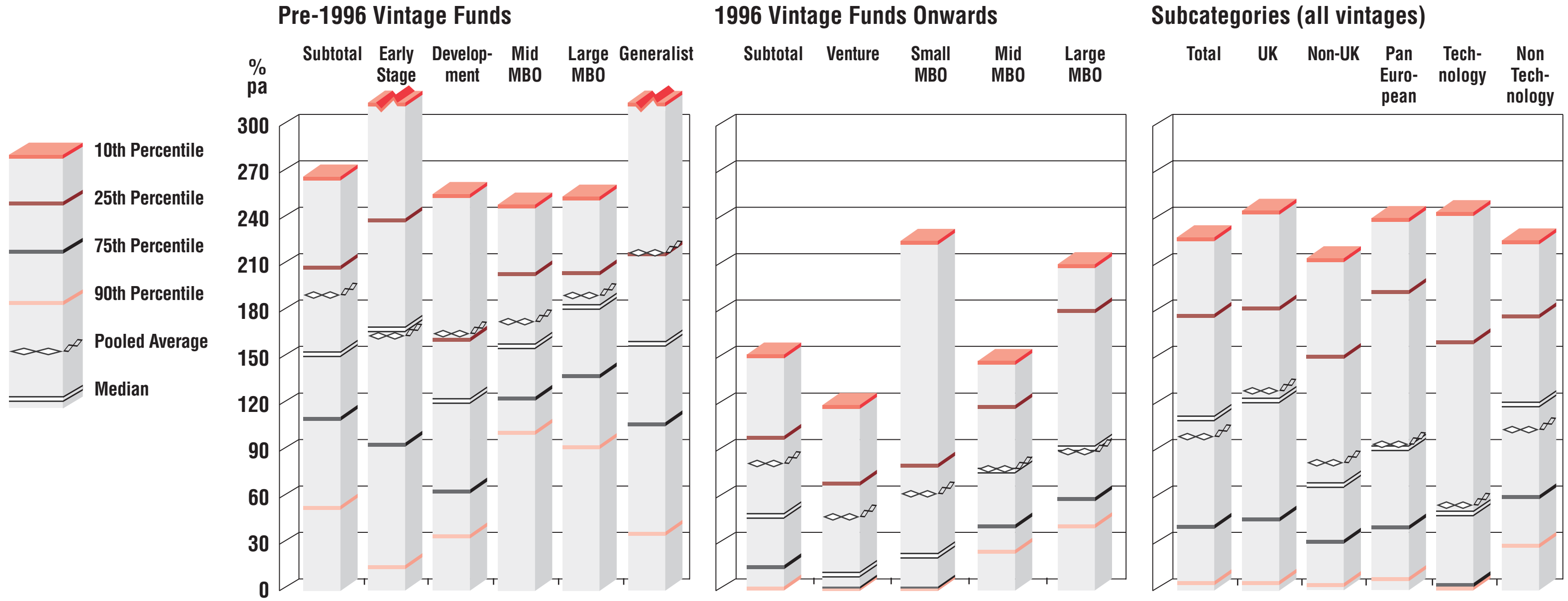
Range of Returns (IRR and Multiple) Since Inception – Investment Stage and Subcategories

Range of Returns – IRR (%) by Investment Stage and Subcategories Since Inception to December 2005



	Pre-1996 Subtotal	Pre-1996 Early Stage	Pre-1996 Develop-ment	Pre-1996 Mid MBO	Pre-1996 Large MBO	Pre-1996 Generalist	1996+ Subtotal	1996+ Venture	1996+ Small MBO	1996+ Mid MBO	1996+ Large MBO	Total	UK	Non-UK	Pan Euro-pean	Tech-nology	Non Tech-nology
No. of Funds	156	22	37	33	26	38	141	50	14	60	17	297	225	72	67	83	214
Pooled Average	15.5	8.8	10.0	15.8	18.2	15.6	13.2	-1.9	1.9	9.3	18.0	14.4	14.0	14.9	17.4	0.1	15.7
10th Percentile	26.6	19.8	16.3	33.2	44.5	24.0	26.8	10.1	57.2	25.3	42.4	26.5	26.1	33.1	46.7	16.9	32.4
25th Percentile	17.1	15.4	11.9	22.0	26.3	15.9	15.6	0.7	17.0	16.4	29.4	16.4	16.3	17.3	23.7	10.6	19.9
Median	9.6	9.2	4.9	14.4	18.0	8.7	3.2	-4.8	-2.5	7.2	18.2	7.9	7.9	7.8	10.1	1.4	8.9
75th Percentile	2.7	4.9	-4.3	5.6	9.4	1.9	-8.3	-12.6	-16.8	-4.3	11.8	-3.1	-1.9	-4.8	-2.8	-9.6	0.3
90th Percentile	-6.0	-7.4	-9.3	2.0	-0.1	-4.0	-18.0	-20.2	-36.1	-9.9	2.8	-12.1	-11.4	-17.1	-15.2	-17.7	-8.3
Inter-decile Range	32.6	27.2	25.6	31.2	44.6	28.0	44.8	30.3	93.3	35.2	39.6	38.6	37.5	50.2	61.9	34.6	40.7
Range of Returns	*111.5*	*43.2*	*59.9*	*47.6*	*64.7*	*111.5*	*133.0*	*100.1*	*110.5*	*87.3*	*78.7*	*133.0*	*131.2*	*109.6*	*102.0*	*100.1*	*117.9*

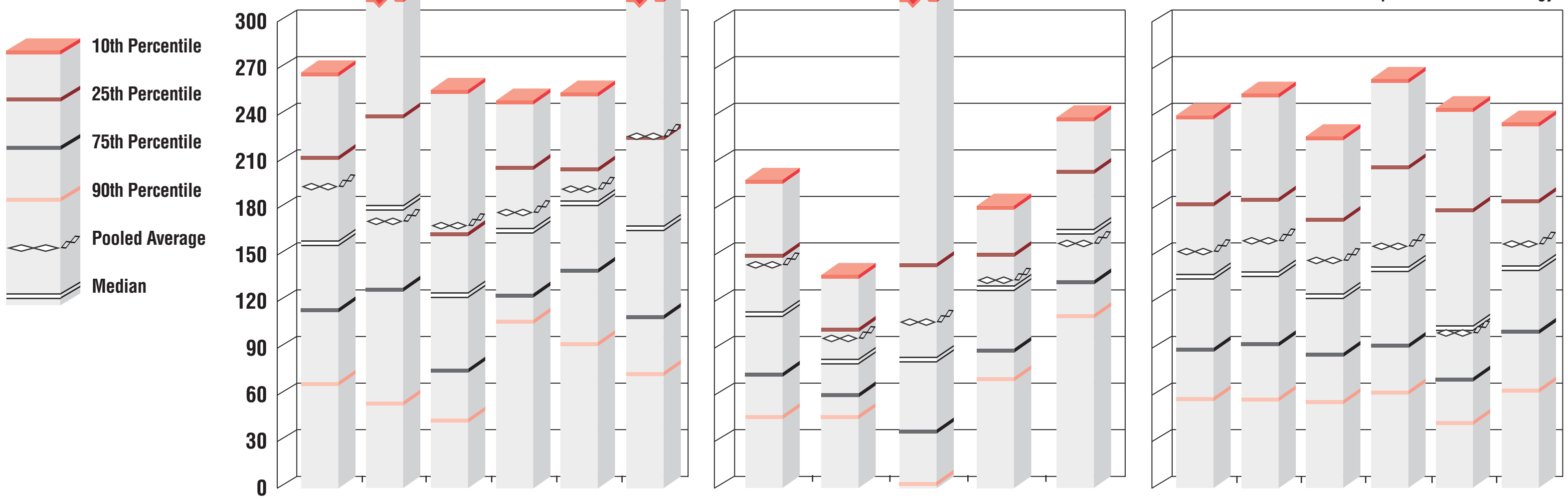
Range of Returns – Multiple (%) by Investment Stage and Subcategories Distributions (DPI) Since Inception to December 2005



	Pre-1996 Subtotal	Early Stage	Develop-ment	Mid MBO	Large MBO	Generalist	1996 Onwards Subtotal	Venture	Small MBO	Mid MBO	Large MBO	Total	UK	Non-UK	Pan Euro-pean	Tech-nology	Non Tech-nology
No. of Funds	156	22	37	33	26	38	141	50	14	60	17	297	225	72	67	83	214
Pooled Average	191	165	166	174	191	219	82	48	63	79	90	100	129	83	95	56	104
10th Percentile	268	339	257	250	255	306	153	120	226	149	211	229	246	215	241	245	227
25th Percentile	210	240	163	206	207	219	100	38	67	120	182	179	184	152	194	162	179
Median	155	171	125	160	185	161	50	12	24	79	93	113	125	70	94	51	121
75th Percentile	112	96	65	125	140	109	15	0	0	43	60	43	47	33	42	5	61
90th Percentile	55	17	36	103	94	38	0	0	0	27	43	6	6	5	9	0	30
Inter-decile Range	213	322	221	147	161	268	153	120	226	122	168	223	240	210	232	245	197
Range of Returns	*511*	*511*	*498*	*265*	*400*	*472*	*265*	*198*	*229*	*265*	*198*	*511*	*511*	*456*	*488*	*511*	*488*

Range of Returns (IRR and Multiple) Since Inception – Investment Stage and Subcategories

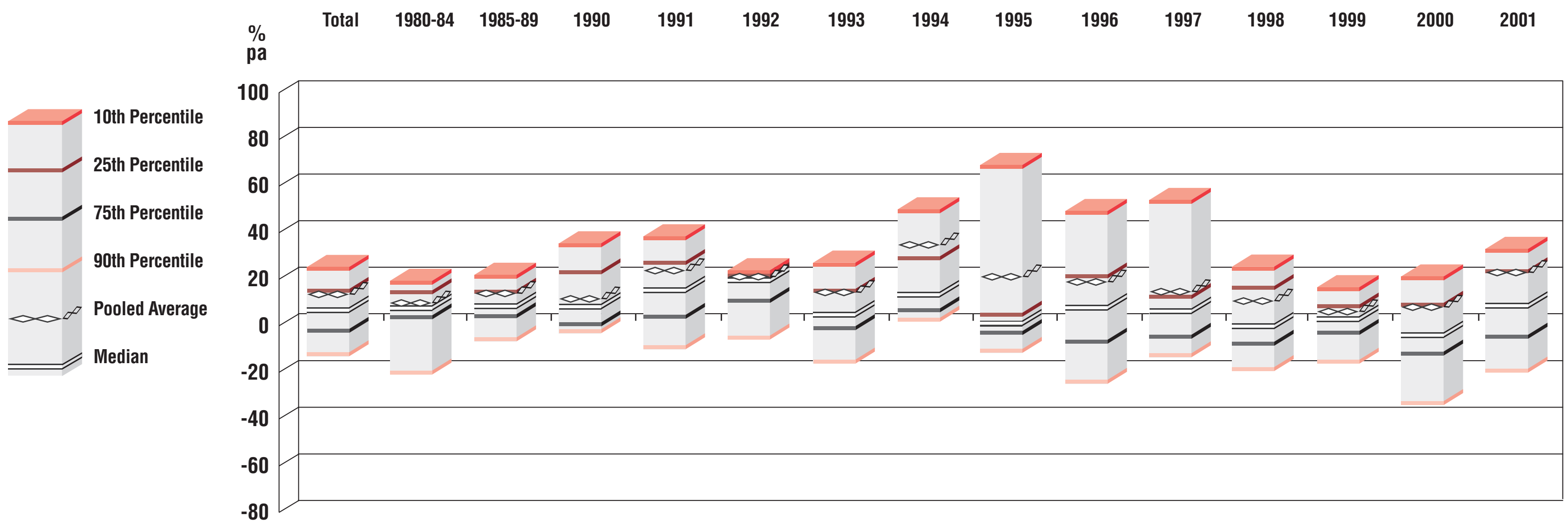
Range of Returns – Multiple (%) by Investment Stage and Subcategories Total Value (TVPI) Since Inception to December 2005



	Pre-1996 Vintage Funds						1996 Vintage Funds Onwards					Subcategories (all vintages)					
	Subtotal	Early Stage	Develop-ment	Mid MBO	Large MBO	Generalist	Subtotal	Venture	Small MBO	Mid MBO	Large MBO	Total	UK	Non-UK	Pan Euro-pean	Tech-nology	Non Tech-nology
No. of Funds	156	22	37	33	26	38	141	50	14	60	17	297	225	72	67	83	214
Pooled Average	194	172	169	178	192	227	143	96	107	134	157	151	159	147	156	100	157
10th Percentile	268	339	258	250	255	306	199	138	369	182	239	240	254	225	263	245	236
25th Percentile	214	240	165	208	207	227	150	103	145	151	205	184	187	174	208	180	186
Median	160	181	126	167	185	169	113	83	84	130	166	137	140	124	143	105	143
75th Percentile	116	127	77	125	141	111	74	61	38	90	134	90	94	87	93	71	102
90th Percentile	69	56	45	109	95	75	47	40	4	72	112	59	59	57	63	43	64
Inter-decile Range	199	283	213	141	160	231	152	98	365	110	127	181	195	168	200	202	172
Range of Returns	*501*	*501*	*492*	*265*	*393*	*474*	*472*	*212*	*472*	*266*	*171*	*510*	*510*	*442*	*455*	*501*	*489*

Range of Returns (IRR and Multiple) Since Inception – Vintage Year

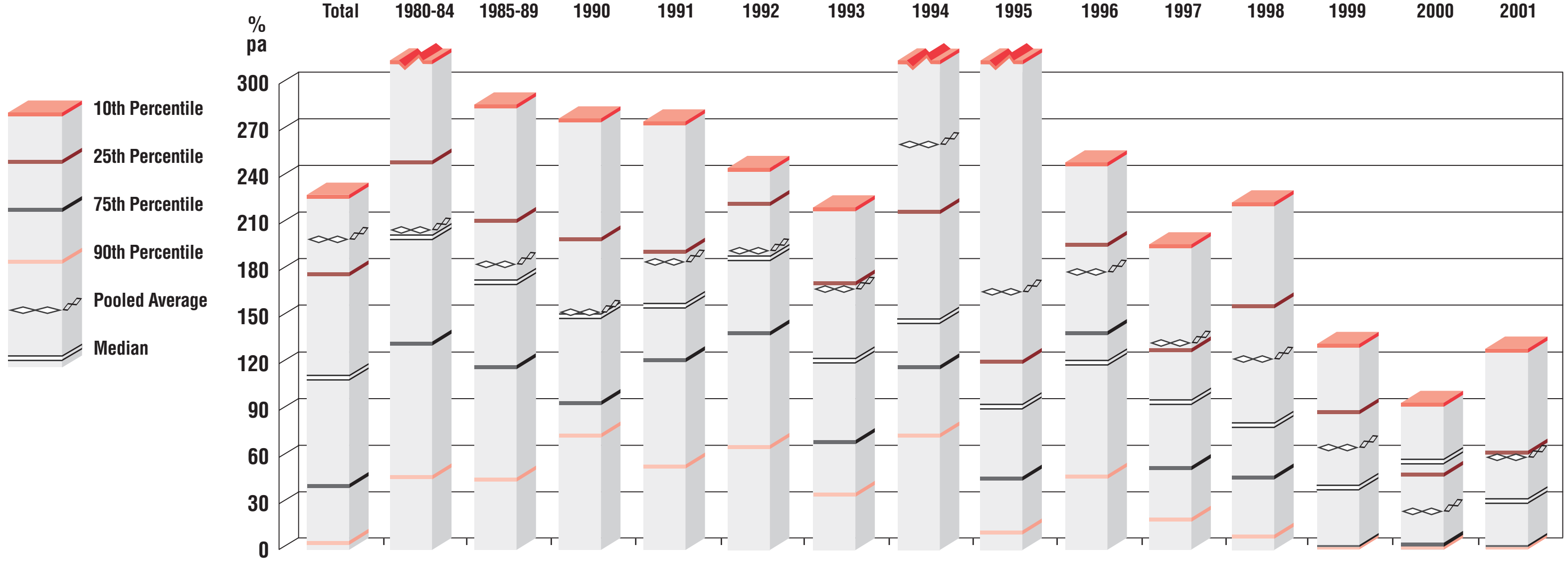
Range of Returns – IRR (%) by Vintage Year Since Inception to December 2005



	Total	1980-84	1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
No. of Funds	297	13	68	14	14	7	10	20	10	15	25	16	27	28	30
Pooled Average	14.4	9.5	13.8	11.1	23.4	20.3	14.8	34.4	21.9	18.6	14.9	10.8	6.2	8.7	23.4
10th Percentile	26.5	19.9	21.9	35.2	38.2	23.9	27.2	50.7	69.9	49.1	54.1	25.8	16.9	20.6	33.3
25th Percentile	16.4	14.8	15.7	23.9	27.8	22.0	15.3	29.4	5.2	22.1	14.4	15.6	9.5	9.7	24.0
Median	7.9	8.1	8.8	8.9	16.8	20.2	5.3	13.4	1.4	9.5	6.4	-1.5	4.1	-5.4	9.0
75th Percentile	-3.1	4.1	4.2	0.2	4.6	11.0	-1.9	6.9	-4.2	-6.7	-4.7	-8.4	-4.2	-12.6	-5.6
90th Percentile	-12.1	-21.1	-7.0	-3.7	-10.4	-5.6	-16.2	2.2	-10.9	-24.7	-13.6	-19.9	-17.3	-34.5	-20.0
Inter-decile Range	38.6	41.0	28.9	38.9	48.6	29.5	43.4	48.5	80.8	73.8	67.7	45.7	34.2	55.1	53.3
Range of Returns	*133.0*	*56.8*	*57.9*	*41.9*	*52.6*	*29.5*	*45.1*	*57.1*	*87.8*	*83.6*	*98.0*	*67.6*	*56.0*	*94.1*	*92.9*

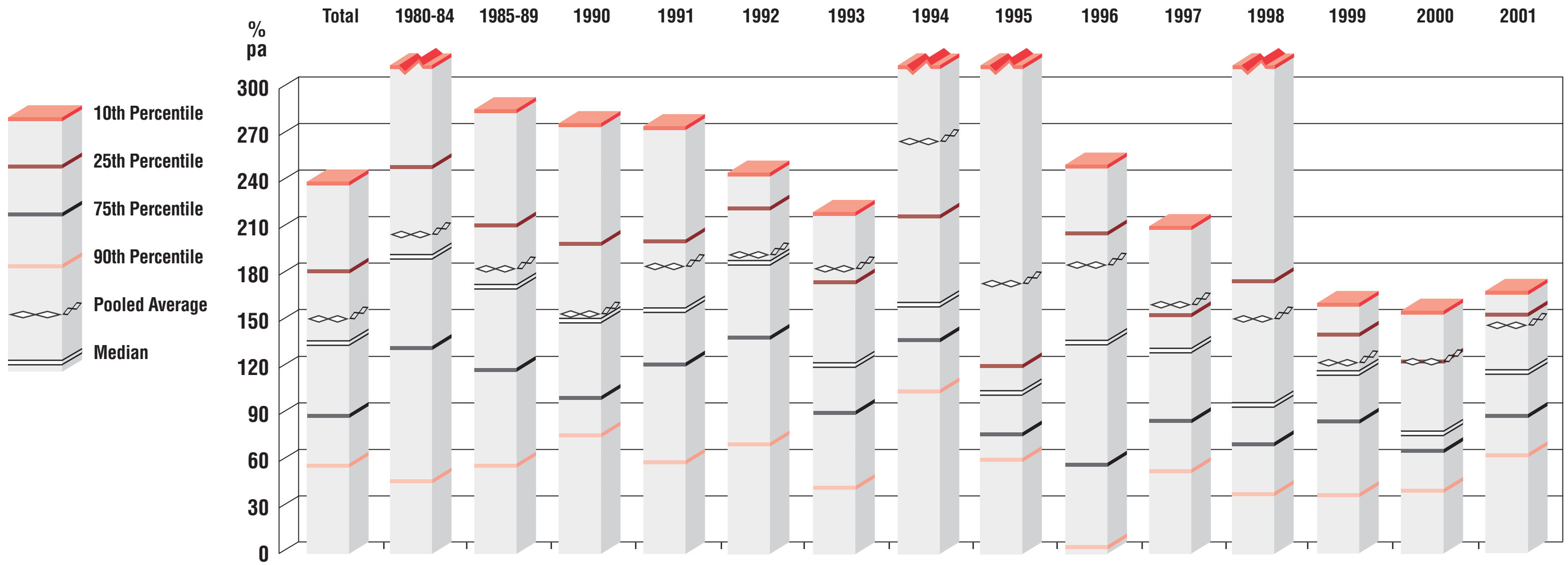
Range of Returns (IRR and Multiple) Since Inception – Vintage Year

Range of Returns – Multiple (%) by Vintage Year
Distributions (DPI)
Since Inception to December 2005



	Total	1980-84	1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
No. of Funds	297	13	68	14	14	7	10	20	10	15	25	16	27	28	30
Pooled Average	100	206	184	153	186	193	168	261	166	178	131	123	66	54	60
10th Percentile	229	441	287	278	276	246	221	307	454	250	197	224	131	95	130
25th Percentile	179	251	213	201	203	224	173	219	122	198	130	158	90	50	64
Median	113	193	174	152	159	189	123	149	94	122	97	82	42	25	33
75th Percentile	43	134	119	96	124	140	71	119	47	48	54	48	3	5	1
90th Percentile	6	48	46	75	55	68	35	75	13	1	21	10	0	0	0
Inter-decile Range	223	393	241	203	221	178	186	232	441	249	176	214	131	95	130
Range of Returns	511	492	511	228	273	178	190	428	478	265	229	220	193	129	150

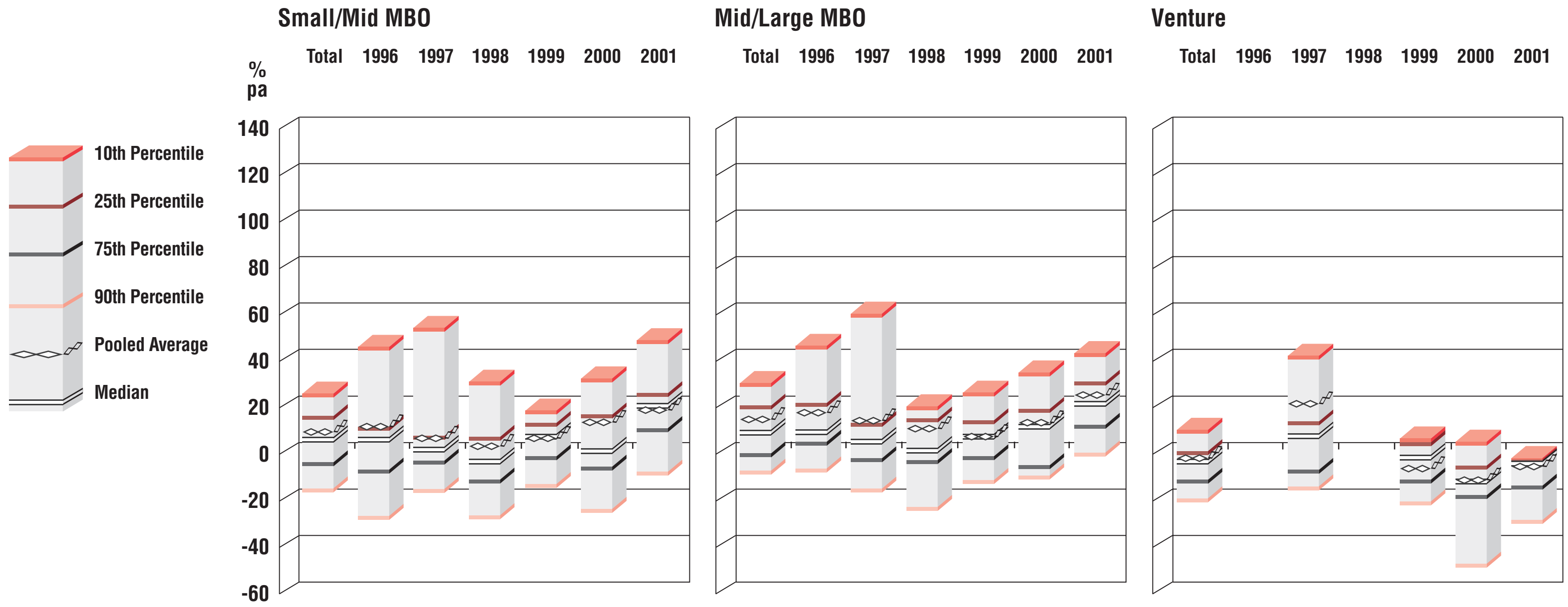
Range of Returns – Multiple (%) by Vintage Year
Total Value (TVPI)
Since Inception to December 2005



	Total	1980-84	1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
No. of Funds	297	13	68	14	14	7	10	20	10	15	25	16	27	28	30
Pooled Average	151	206	185	154	186	193	184	266	175	186	161	151	124	124	148
10th Percentile	240	441	287	279	276	246	231	315	456	251	211	304	162	157	169
25th Percentile	184	251	215	201	203	224	176	219	122	208	155	178	143	125	155
Median	137	193	177	152	159	189	123	162	105	138	131	98	119	79	119
75th Percentile	90	134	120	102	124	140	92	139	78	59	77	72	86	68	90
90th Percentile	59	48	59	78	60	72	44	107	62	5	54	40	39	30	65
Inter-decile Range	181	393	228	201	216	174	187	208	394	246	157	264	123	127	104
Range of Returns	*510*	*492*	*501*	*226*	*267*	*174*	*191*	*382*	*429*	*280*	*221*	*456*	*235*	*221*	*269*

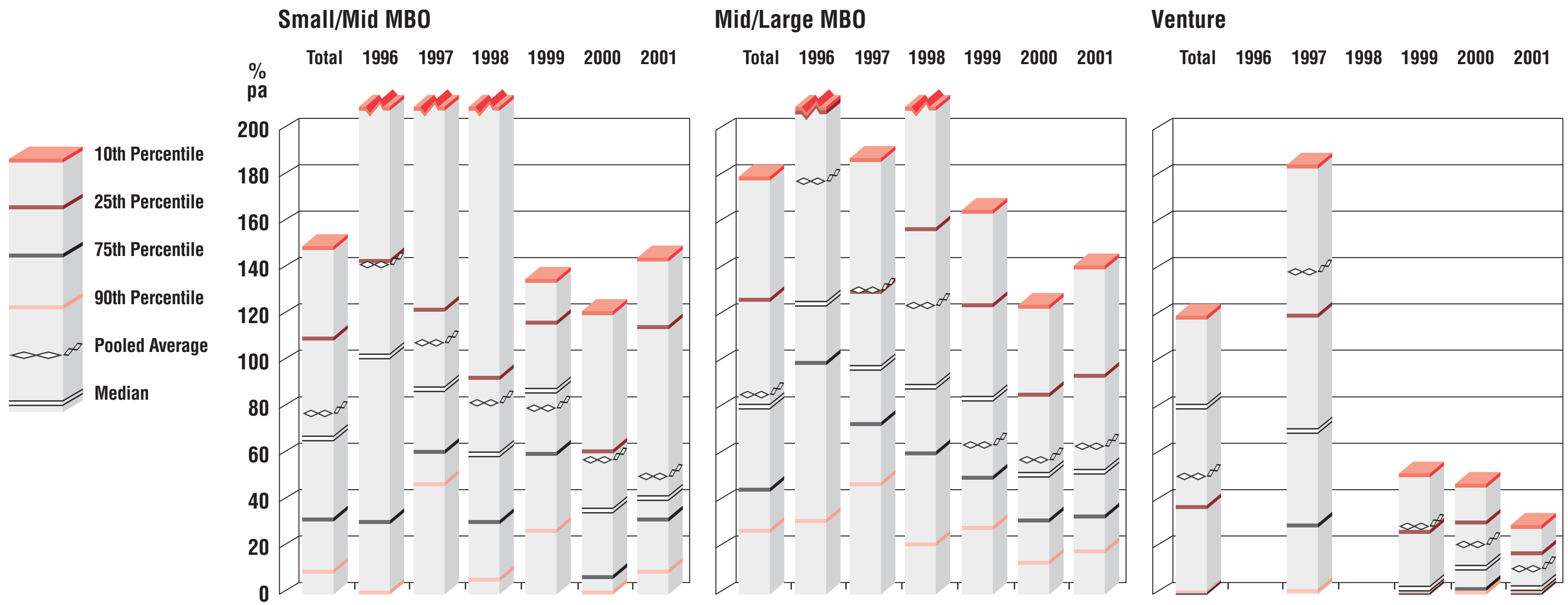
Range of Returns (IRR and Multiple) Since Inception – Investment Stage (1996 Onwards) and Vintage Year

Range of Returns – IRR (%) by Investment Stage and Vintage Year Since Inception to December 2005



	Small/Mid MBO Total	1996	1997	1998	1999	2000	2001	Mid/Large MBO Total	1996	1997	1998	1999	2000	2001	Venture Total	1996	1997	1998	1999	2000	2001
No. of Funds	74	12	12	11	12	14	13	77	11	12	12	14	12	16	50	1	11	1	12	12	13
Pooled Average	9.1	11.9	6.3	3.8	6.3	13.3	18.9	14.6	17.6	14.5	11.0	7.6	13.7	25.3	-1.9	n/a	21.9	n/a	-6.9	-11.0	-5.5
10th Percentile	26.2	46.2	54.2	33.4	19.0	32.4	48.8	32.3	46.6	60.3	20.6	26.4	35.2	43.4	10.1	n/a	42.6	n/a	6.9	5.3	-1.3
25th Percentile	16.3	11.4	7.7	7.2	13.4	17.1	26.1	20.2	22.0	13.2	15.6	14.1	19.5	30.9	0.7	n/a	13.8	n/a	5.0	-6.7	-2.8
Median	7.1	7.1	3.0	-4.3	8.3	2.6	22.0	10.0	10.4	6.1	2.4	8.1	12.2	22.3	-4.8	n/a	8.4	n/a	-2.9	-12.6	-4.8
75th Percentile	-5.2	-8.3	-4.7	-12.9	-2.6	-7.6	13.0	-1.5	5.7	-3.6	-4.3	-2.6	-6.5	14.1	-12.6	n/a	-9.2	n/a	-12.5	-19.2	-15.1
90th Percentile	-16.1	-28.4	-16.2	-28.0	-14.6	-25.3	-9.4	-8.8	-7.9	-16.2	-24.5	-13.1	-10.7	-0.8	-20.2	n/a	-15.7	n/a	-22.1	-48.4	-30.2
Inter-decile Range	42.3	74.6	70.4	61.4	33.6	57.7	58.2	41.1	54.5	76.5	45.1	39.5	45.9	44.2	30.3	n/a	58.3	n/a	29.0	53.7	28.9
Range of Returns	*110.5*	*83.6*	*90.6*	*67.6*	*37.2*	*79.0*	*77.0*	*109.6*	*61.0*	*98.0*	*52.5*	*49.3*	*50.5*	*77.0*	*100.1*	*n/a*	*59.6*	*n/a*	*30.8*	*63.4*	*35.6*

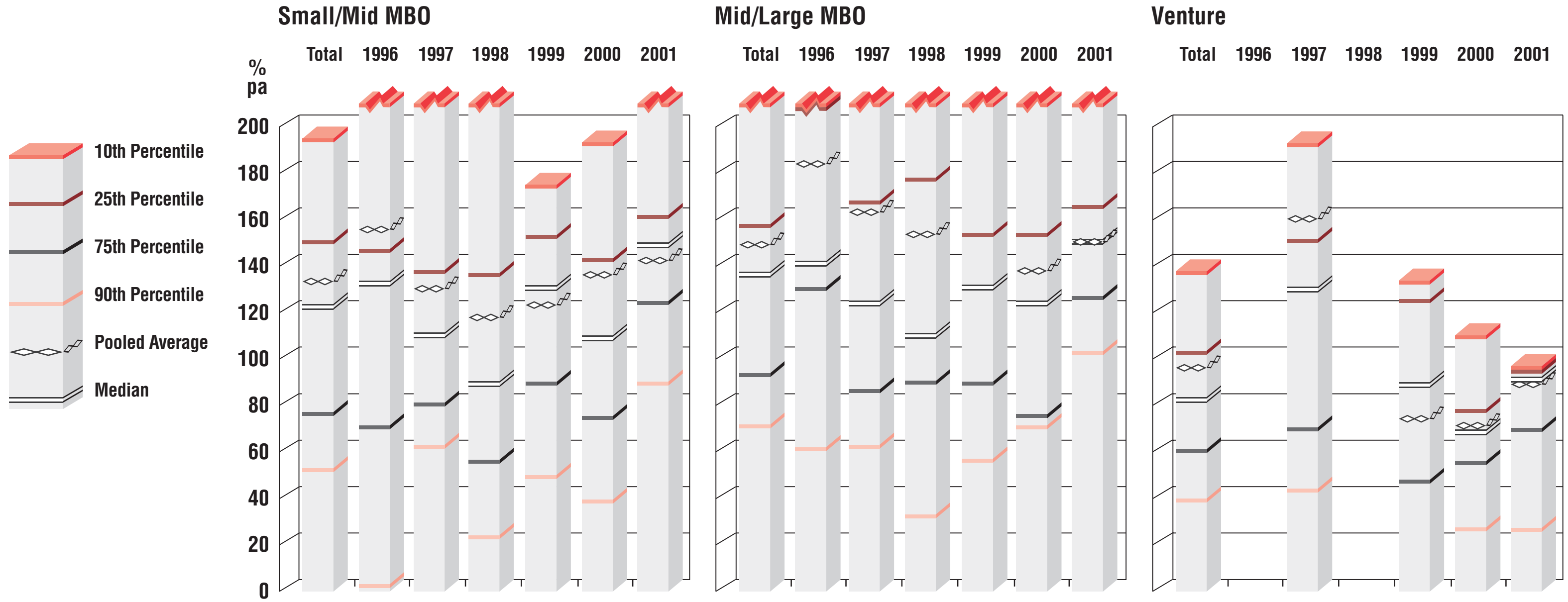
Range of Returns – Multiple (%) by Investment Stage and Vintage Year Distributions (DPI) Since Inception to December 2005



	Small/Mid MBO							Mid/Large MBO							Venture						
	Total	1996	1997	1998	1999	2000	2001	Total	1996	1997	1998	1999	2000	2001	Total	1996	1997	1998	1999	2000	2001
No. of Funds	74	12	12	11	12	14	13	77	11	12	12	14	12	16	50	1	11	1	12	12	13
Pooled Average	78	142	108	82	80	58	51	86	178	131	124	70	64	63	48	n/a	139	n/a	29	21	11
10th Percentile	150	247	206	225	136	122	145	180	260	188	213	166	125	142	120	n/a	185	n/a	52	47	30
25th Percentile	111	144	123	94	118	62	116	128	203	131	158	125	86	95	38	n/a	121	n/a	27	31	18
Median	68	103	89	61	89	37	42	81	126	99	90	85	52	54	12	n/a	71	n/a	1	12	2
75th Percentile	33	32	62	32	61	9	33	46	100	74	61	51	32	34	0	n/a	31	n/a	0	2	0
90th Percentile	9	0	48	7	28	0	11	28	35	48	22	29	15	19	0	n/a	1	n/a	0	0	0
Inter-decile Range	141	247	158	218	108	122	134	152	225	140	191	137	110	123	120	n/a	184	n/a	52	47	30
Range of Returns	*265*	*265*	*186*	*220*	*111*	*129*	*150*	265	239	160	213	165	117	150	198	n/a	194	n/a	58	50	32

Range of Returns (IRR and Multiple) Since Inception – Investment Stage (1996 Onwards) and Vintage Year

Range of Returns – Multiple (%) by Investment Stage and Vintage Year Total Value (TVPI) Since Inception to December 2005



	Small/Mid MBO Total	1996	1997	1998	1999	2000	2001	Mid/Large MBO Total	1996	1997	1998	1999	2000	2001	Venture Total	1996	1997	1998	1999	2000	2001
No. of Funds	74	12	12	11	12	14	13	77	11	12	12	14	12	16	50	1	11	1	12	12	13
Pooled Average	133	155	130	118	123	136	142	149	184	163	153	130	138	151	96	n/a	160	n/a	74	71	89
10th Percentile	195	259	238	425	175	193	239	210	272	215	223	226	207	206	138	n/a	193	n/a	134	110	97
25th Percentile	151	148	138	137	153	143	162	158	208	168	178	154	154	166	103	n/a	151	n/a	125	78	95
Median	124	133	111	90	131	110	150	137	142	125	111	131	125	152	83	n/a	131	n/a	90	69	92
75th Percentile	77	51	81	56	90	75	125	94	131	85	90	90	76	127	61	n/a	70	n/a	48	51	70
90th Percentile	53	3	63	24	50	39	90	72	62	63	33	57	71	104	40	n/a	44	n/a	36	27	27
Inter-decile Range	142	256	175	401	125	154	149	138	210	152	190	169	136	102	98	n/a	149	n/a	98	83	70
Range of Returns	*472*	*280*	*206*	*456*	*144*	*221*	*211*	*266*	*222*	*161*	*215*	*230*	*157*	*211*	*212*	*n/a*	*159*	*n/a*	*101*	*92*	*83*

Capital Raised and Realised

Paid-In Capital – by Investment Stage

The total capital raised by participating funds between 1980 and 2001 reached £47,670 million at the end of 2005. Of the £43,264 million paid into these funds, essentially 100% has been returned to investors and 51% is still retained within the portfolios.

The tables right and on page 34 show the ratios of distributions made to paid-in capital, the residual value of the funds to paid-in capital and the total value created to paid-in capital. It should be noted that, in most cases, capital was paid into these funds over a period of some years.

Pre-1996 vintage funds

Generalist funds show the highest total value (distributions plus residual value) as a percentage of paid-in capital at 227%. Of the £1,506 million paid into these funds, 219% has been returned to investors and 8% is still retained within the portfolios. The Large MBO funds follow with total value as a percentage of paid-in capital of 192%.

1996 vintage funds onwards

Large MBO funds show the highest total value as a percentage of paid-in capital at 157%. Of the £21,045 million paid into these funds, 90% has been returned to investors and 67% is still retained within the portfolios. The Mid MBO funds follow with total value as a percentage of paid-in capital of 134%.

By Investment Stage and Subcategories to Year End December 2005

	Number of Funds	Capital Raised (£m)	Paid-in Capital (£m)	Distributions (£m)	%	Residual Value (£m)	%	Total Value (£m)	%
Pre-1996 vintage funds									
Early Stage	22	281	278	460	165	18	7	478	172
Development	37	553	548	906	166	18	3	924	169
Mid MBO	33	1,209	1,174	2,044	174	43	4	2,087	178
Large MBO	26	3,751	3,605	6,869	191	47	1	6,916	192
Generalist	38	1,515	1,506	3,300	219	121	8	3,421	227
Subtotal pre-1996	*156*	*7,309*	*7,111*	*13,579*	*191*	*247*	*3*	*13,826*	*194*
1996 vintage funds onwards									
Venture	50	4,543	3,726	1,782	48	1,776	48	3,558	96
Small MBO	14	355	260	164	63	116	44	280	107
Mid MBO	60	12,177	11,122	8,752	79	6,136	55	14,888	134
Large MBO	17	23,286	21,045	18,858	90	14,080	67	32,938	157
Subtotal 1996 onwards	*141*	*40,361*	*36,153*	*29,556*	*82*	*22,108*	*61*	*51,664*	*143*
Grand total all funds	**297**	**47,670**	**43,264**	**43,135**	**100**	**22,355**	**51**	**65,490**	**151**
Subcategories (all vintages)									
UK	225	16,692	15,452	19,925	129	4,599	30	24,524	159
Non-UK	72	30,978	27,812	23,210	83	17,756	64	40,966	147
Pan-European	67	33,474	30,175	28,735	95	18,435	61	47,170	156
Technology	83	4,811	3,991	2,229	56	1,770	44	3,999	100
Non-Technology	214	42,859	39,273	40,906	104	20,585	53	61,491	157

Capital Raised and Realised

UK funds have the highest percentage total value of paid-in capital at 159%, followed by Non-Technology funds with 157%.

Paid-in Capital – by Vintage Year

Capital raised in 1994 shows the strongest total value currently at 266% of paid-in capital. Of the £1,378 million paid into the funds in that vintage year, 261% has already been returned to investors and 5% remains in the funds' portfolios. This was followed by 1980-84 vintage funds with a total value percentage of 206%.

By Vintage Year to Year End December 2005

	Number of Funds	Capital Raised (£m)	Paid-in Capital (£m)	Distributions (£m)	%	Residual Value (£m)	%	Total Value (£m)	%
1980-84	13	165	165	338	206	0	0	338	206
1985-89	68	2,481	2,473	4,536	184	33	1	4,569	185
1990	14	1,307	1,306	2,000	153	12	1	2,012	154
1991	14	351	341	636	186	-	-	636	186
1992	7	217	211	407	193	-	-	407	193
1993	10	368	365	613	168	58	16	671	184
1994	20	1,539	1,378	3,600	261	70	5	3,670	266
1995	10	881	872	1,448	166	74	9	1,522	175
1996	15	1,609	1,565	2,780	178	129	8	2,909	186
1997	25	4,345	4,080	5,329	131	1,225	30	6,554	161
1998	16	5,582	5,109	6,301	123	1,438	28	7,739	151
1999	27	5,537	5,396	3,574	66	3,137	58	6,711	124
2000	28	8,542	7,646	4,167	54	5,325	70	9,492	124
2001	30	14,746	12,357	7,406	60	10,854	88	18,260	148
Total	**297**	**47,670**	**43,264**	**43,135**	**100**	**22,355**	**51**	**65,490**	**151**

'The total capital raised by mature funds reached £47,670m at the end of 2005...'

Appendix I – Methodology

The Survey – Introduction

The BVCA Performance Measurement Survey for the year ended 31 December 2005 was carried out by PricewaterhouseCoopers in conjunction with Capital Dynamics and the BVCA. The survey highlights the performance of ‘independent’ UK private equity funds – funds raised from external investors for investment into businesses at the venture capital (early stage and development) and private equity (MBO) stages (and managed from the manager’s UK office), but excluding investments made from the fund manager’s own balance sheet. It also excludes private equity investment trusts (PEITs) and venture capital trusts (VCTs), although PEITs are shown as a separate category.

This is the twelfth annual set of performance results that the BVCA has published.

Methodology

The survey utilises a questionnaire sent to BVCA UK member funds that raise money from institutional investors (the ‘independents’) by the PricewaterhouseCoopers International Survey Unit (ISU).

Those firms which responded to the survey for 2005 represented 100% of funds managed by BVCA member firms that raise money from institutional investors. The survey incorporates the results of 362 private equity funds – the most comprehensive to date. We therefore believe that it is the most complete country specific survey on the performance of private equity funds in the world.

Capital Dynamics was responsible for verifying the data with the private equity funds, where appropriate, correcting the data on verification and returning the corrected questionnaires to the ISU for data inputting.

The BVCA managed and assisted with the project, from the gathering of data through to editing the final report.

The results of the survey have been analysed both by investment stage and by vintage year. Further analysis has been included to consider the performance of UK and Non-UK funds and also to review the overall performance of Technology funds. As previously stated, we also show the returns from PEITs as an entirely separate category.

To reflect changes in the market, 1996 funds onwards have been reclassified into four new investment stage categories this year: Venture, Small MBO (including development capital), Mid MBO and Large MBO. Pre-1996 vintage funds remain in the previous stage categories, ie Early Stage, Development, Mid MBO, Large MBO and Generalist. This is reflected in the tables accordingly.

UK private equity returns are compared in the report with the FTSE 100 and FTSE All-Share indices, data supplied by The WM Company (WM) on UK pension funds and various other indices. Comparative statistics on UK pension funds, supplied by 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 to investors, net of costs and fees. Returns for WM Pension Fund Universes and indices, however, are gross time-weighted returns.

Eligibility Criteria

The survey shows the aggregate returns produced between 1980 and 2005 by independent private equity funds managed by UK private equity firms which are members of the BVCA. Non-UK and Technology focused funds are included. VCTs and funds not open to external investors have been excluded from the survey. Although quoted PEITs are excluded from the main analysis, they are shown as an entirely separate category for comparison purposes.

Appendix I – Methodology

The BVCA represents the vast majority of private equity and venture capital in the UK. Full members, such as those included in this survey, are UK private equity firms which manage private equity funds from the UK. Funds managed by former members of the BVCA have been included where information has been available, but these are few and most are no longer active in the private equity industry. Firms that have never been members of the BVCA are not included.

Calculation of Return

The returns are derived from cash flows and valuations of funds at the relevant period year-ends and the calculation of the change between them on a per annum (pa) basis.

The measurement of performance in this survey is the internal rate of return (IRR), a widely used measure of performance and comparable with similar studies of private equity fund returns in the USA and Europe which is both time- and money-weighted. The return represents the ‘net’ return to investors after costs and fees. Provision is made for performance fees that would have been payable if the valuation had been realised at the balance sheet date. Returns for WM pension fund universes and indices, supplied by WM, are gross time-weighted returns (TWR).

The IRR is used as the appropriate performance measure for venture capital and private equity due to the high level of discretion of the manager in determining cash flows to and from the investor and the difficulty in determining portfolio valuations at the date of these cash flows. TWR calculations require frequent and easily obtained revaluations and assume a low level of manager discretion in the timing of cash flows. The Association for Investment Management and Research (AIMR) supports the use of the IRR as the most appropriate measure of private equity and venture capital performance.

Private Equity Investment Trusts

The performance of the quoted PEITs has been calculated by Fundamental Data (www.funddata.com).

Valuations

The survey is based on cash flows and valuations supplied by each participating fund. PricewaterhouseCoopers has stipulated that these be based on the International Private Equity and Venture Capital Valuation Guidelines, produced by the BVCA, EVCA and AFIC (the French national association) and which were introduced in March 2005.

However, as noted at the beginning of this report under ‘Disclaimer’, PricewaterhouseCoopers has not independently checked the valuation data, nor confirmed that the International Private Equity and Venture Capital Valuation Guidelines have been adhered to. 70% of the funds surveyed contain unrealised investments, which are usually stated at cost or third party valuation, and which give a return which is an interim measure of performance.

Confidentiality

The data for this survey was provided by BVCA members on the basis that no data relating to any individual member or fund would be seen by any other member, including those on the BVCA Investor Relations Committee, or by any other person or organisation other than PricewaterhouseCoopers or Capital Dynamics (unless members specified otherwise) other than in the anonymous and aggregate form in which it is published.

Appendix II – Glossary of Terms

Capital Raised (or 'funds raised')

Capital committed by investors (capital they have agreed to subscribe). This will not usually all be paid in at one time.

Inception/Since Inception

The period from a fund's first draw down up to a particular point in time, ie 31 December. Funds measured thus are at least four years old.

Investment Stage	General Fund Investment Investment Profile
Pre-1996 vintage funds	
'Early Stage'	Invests in companies in the seed (concept), start-up (within three years of a company's establishment) and early stages of development.
'Development'	Invests in expansion stage companies, ie established companies which raise private equity to make acquisitions, fund working capital, buy new plant, etc and small management buy-outs and buy-ins (MBOs) with less than £10 million of equity invested.
'Mid MBO'	Invests in management buy-outs and buy-ins with £10 million to £100 million of equity invested.
'Large MBO'	Invests in management buy-outs and buy-ins with more than £100 million of equity invested.
'Generalist'	Invests in companies at a variety of stages of development.
1996 vintage funds onwards*	
'Venture'	Invests in companies in the seed (concept), start-up (within three years of a company's establishment) and early stages of development.
'Small MBO'	Invests in small management buy-outs and buy-ins (MBOs) with less than £10 million of equity invested. This category also includes development capital for expansion stage companies, ie established companies which raise private equity to make acquisitions, fund working capital, buy new plant, etc.
'Mid MBO'	Invests in management buy-outs and buy-ins with £10 million to £100 million of equity invested.
'Large MBO'	Invests in management buy-outs and buy-ins with more than £100 million of equity invested.

* Please see 'Reclassification of Investment Stages for Vintage 1996 Funds Onwards' on page 11.

Appendix II – Glossary of Terms

Subcategories – all vintages

'Technology'	Invests primarily (at least 60% of the fund) in technology companies.
'Non-UK'	Invests primarily (at least 60% of the fund) in companies outside the UK.
'Pan-European'	Invests in more than two European countries.

IRR – see Return

n/a

Due to the small number of private equity funds in some periods and the need for confidentiality, some ranges have been marked as n/a (not applicable).

Multiple

The distributed multiple (DPI) is the total amount distributed to investors as a percentage of paid-in capital.

The total value multiple (TVPI) is the total amount distributed plus the residual value attributable to investors as a percentage of paid-in capital.

Net and Gross Returns

All private equity returns quoted are the net returns to investors, after all costs and fees. Returns for The WM All Funds Universe and indices, shown as 'Principal Comparators', however, are gross time-weighted returns.

Paid-in Capital

Capital which has actually been paid into the fund by investors.

Percentile Ranking

Percentile rankings indicate the position occupied by a portfolio return in a particular universe. A ranking of the nth percentile means that n% of funds achieved a return greater than or equal to that fund's return. See also Range of Returns.

Principal Comparators

The principal comparators are the FTSE UK Equity and FTSE World and Europe (ex-UK) Indices and the UK Equity, Overseas Equity and total assets returns of the WM All Funds Universe. The figures are detailed in Appendix III of this report.

Range of Returns: Quartiles/Deciles/ Percentiles

The 'range of returns' represents the results of a universe of portfolios constructed for the purposes of comparing performance. Within each range, a portfolio's results are defined in terms of a percentile ranking. Ranges can be subdivided by quartiles, deciles and percentiles. The range between the 10th and 90th percentile is known as the 'inter-decile' range.

Top Decile 10th percentile	10% of the funds have an equal or higher return than this value.
Upper Quartile 25th percentile	25% of the funds have an equal or higher return than this value.
Median 50th percentile	The return of the funds in the middle of the ranking.
Lower Quartile 75th percentile	75% of the funds have an equal or higher return than this value.
Bottom Decile 90th percentile	90% of the funds have an equal or higher return than this value.
Pooled Average	IRR or return for the total sample of funds being analysed.

Return

The annualized internal rate of return (IRR) achieved over a period of time based upon the portfolio cash flows and valuations. The cash flows used in the calculations are the total actual fund cash flows and the returns are therefore time-weighted and money-weighted. This type of calculation is often referred to as 'time line basis' (see also Methodology 'Calculation of Return' on page 36).

Total Return

Aggregate of all cash flows.

Universe

A group of similar portfolios assembled to provide a benchmark against which the performance of an individual portfolio may be compared. Any such universe should comprise portfolios with similar investments and objectives, the same domicile and tax status.

Valuations

This refers to the assessed value of the unrealised part of the portfolio which is assumed to be realised at 31 December 2005 in the return calculation. This assessment is carried out in accordance with the International Private Equity and Venture Capital Valuation Guidelines, developed by the BVCA, EVCA and AFIC (the French national association) which were published in March 2005.

Vintage Year

Year of fund's first closing, ie the year in which a fund has raised an initial sum of money with which to commence its investment programme.

WM All Funds Universe

The WM All Funds Universe is the largest available universe of UK Pension Funds. It represents some two-thirds of the UK defined benefit pension industry by value.

Weighted Average (principal comparators)

The aggregate returns of a number of like portfolios, the results of which are used for comparing performance. The weighted average for a number of portfolios is calculated by weighting each individual portfolio's return by the proportion (by the average value of investment over the period) of the combined total that it represents.

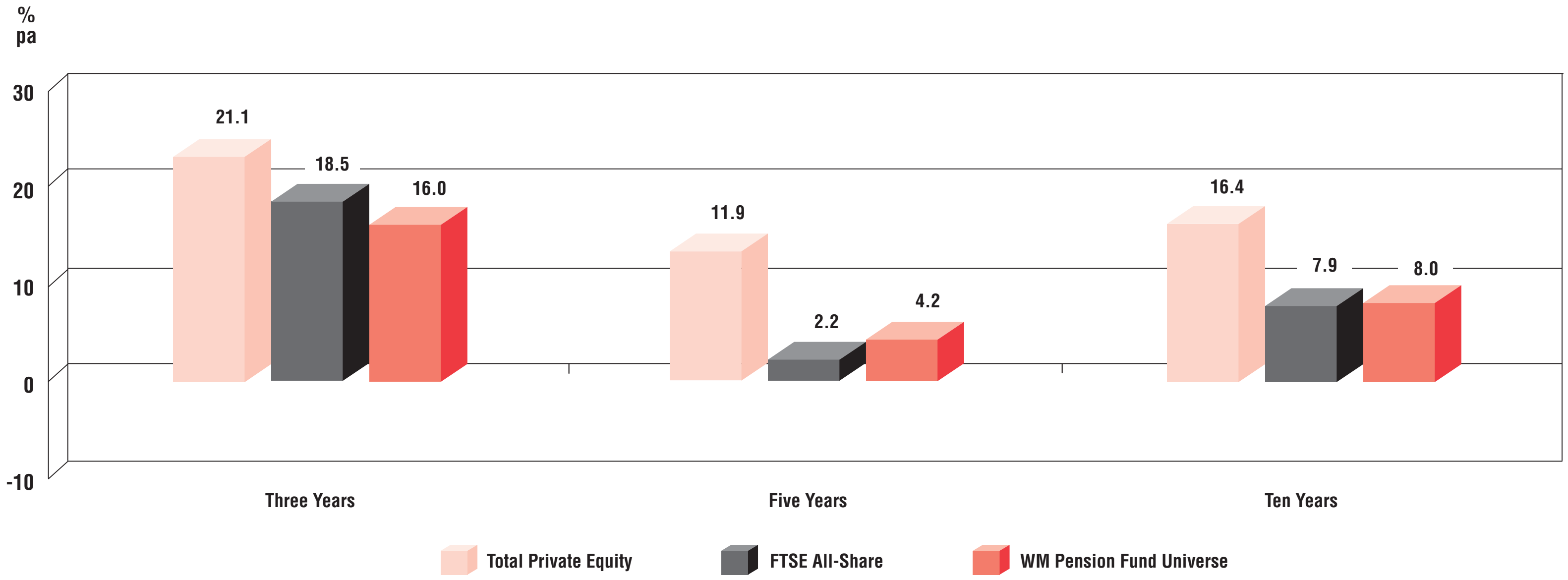
Appendix III – Principal Comparators and Asset Class Overview

‘Over three, five and ten years, UK private equity has on average outperformed total pension fund assets in 2005...’

UK private equity returns are compared in this report with the FTSE 100 and FTSE All-Share indices, data supplied by WM on UK pension funds and various other indices.

Care should be taken in comparing the comparative statistics on the UK pension funds with private equity returns. 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 fund universes and indices, however, are gross time-weighted returns (TWR).

Summary of UK Private Equity Performance versus Principal Comparators



Note: The current year returns for 2005 are shown in Appendix V.

Pension Fund Performance

The WM All Funds Universe is the largest available universe of UK pension funds. It represents some two-thirds of the UK defined benefit industry by value.

Principal Comparators' Return (% pa) UK Pension Funds (WM All Funds Universe)

	Three Years	Five Years	Ten Years
UK Equities	18.5	2.4	8.0
Overseas Equities	21.0	2.7	6.7
UK Bonds	6.9	6.9	8.5
Overseas Bonds	6.8	6.9	5.4
UK Index-Linked	8.2	6.4	8.1
Cash/Other	7.3	5.3	6.5
Property	16.7	13.3	12.8
Total Assets	**16.0**	**4.2**	**8.0**
Total UK Private Equity	**21.1**	**11.9**	**16.4**

Source: The WM Company Annual Review of UK Pension Funds 2005 – with the exception of UK Private Equity.

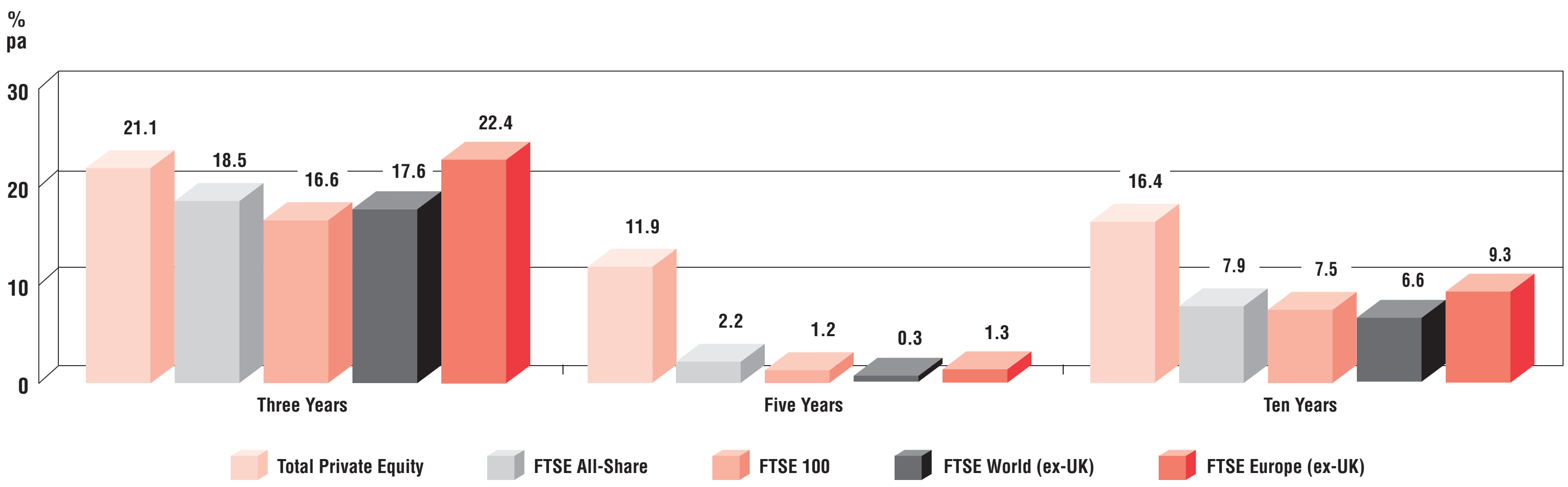
Appendix III – Principal Comparators and Asset Class Overview

UK Private Equity versus WM All Funds Universe

Over three, five and ten years, UK private equity has on average outperformed the pension fund total asset return to 31 December 2005. Private equity has also outperformed the pension fund UK Equities return and the Overseas Equities return over all time periods.

UK private equity has outperformed the pension fund bonds and monetary asset classes over three, five and ten years and the pension fund property asset class over three and ten years.

UK Private Equity versus Global Equity Indices



Index Performance

Looking at UK private equity versus index performance, UK private equity has outperformed all the FTSE indices over five and ten years and has outperformed the FTSE All-Share, FTSE 100 and FTSE World (ex-UK) over three years.

Principal Comparators' Return (% pa) UK Pension Funds (WM All Funds Universe)

	Three Years	Five Years	Ten Years
FTSE Indices			
FTSE All-Share	18.5	2.2	7.9
FTSE 100	16.6	1.2	7.5
FTSE 250	30.2	9.2	11.4
FTSE SmallCap	24.9	3.2	8.2
techMARK All-Share*	30.2	-11.0	n/a
FTSE World (ex-UK)	17.6	0.3	6.6
FTSE Europe (ex-UK)	22.4	1.3	9.3
Inflation Indices			
Retail Price Index	2.8	2.4	2.6
Average Earnings	4.1	3.7	4.3

Source: The WM Company Annual Review of UK Pension Funds 2005 – all comparator figures with the exception of techMARK.

*Calculated using indices supplied by The London Stock Exchange which exclude dividends.

Appendix IV – Range of Returns (IRR) – Medium to Long Term

This appendix shows the range of returns (IRRs) over the longer term – three, five and ten-year periods. The range of returns 'since inception' are the most appropriate measurement for private equity and these are shown on pages 23 to 32 of the main report.

It is important to note that the shorter the time period measured, the more volatile the returns are likely to be. The most probable cause of extreme numbers is the realisation of assets at prices which differ significantly from previous valuations. The more extreme numbers are likely to occur where the time period measured is short, or where funds in older vintages realise their last remaining assets from a small residual carrying value.

Put simply, an investment with an original cost of £1 might be valued at £0.50. If the investment subsequently failed, the loss of £0.50 of value would record as -100% over whatever time period was measured. If the investment had been sold at cost, say nine months later, the return in the period would be in excess of 150% on an annualised basis.

It should also be noted that the 'Pooled Average' return in the 'Total' column of the following tables is the return for all funds which were in existence at the beginning of the measurement period (eg the 'Pooled Average' return for funds over five years is calculated by measuring the aggregate performance of all funds that were in existence on 1 January 2001 for the (five-year) period 1 January 2001 to 31 December 2005). This differs from the Medium to Long-Term Return tables on pages 16, 20 and 22 which calculate the five-year returns of all funds in the survey at 31 December 2005, regardless of their vintage year. The same principle applies to the three and ten-year returns.

The top decile and bottom decile are excluded from the range to produce a standard deviation which excludes exceptionals. This is known as the 'inter-decile' range.

Where there are less than ten funds in a sample, the 10th and 90th percentile are denoted n/a in the following tables.

Appendix IV – Range of Returns (IRR) Medium to Long Term – Three Years

Range of Returns – IRR (% pa) by Investment Stage and Subcategories – Three Years

	Pre-1996 Vintage Funds						1996 Vintage Funds Onwards					Subcategories (all vintages)					
	Total	Early Stage	Develop-ment	Mid MBO	Large MBO	Generalist	Total	Venture	Small MBO	Mid MBO	Large MBO	Total	UK	Non-UK	Pan-European	Technology	Non-Technology
No. of Funds	156	22	37	33	26	38	160	63	14	65	18	316	237	79	72	89	227
Pooled Average	14.6	-0.9	3.2	15.8	14.0	18.8	21.6	-1.9	6.7	19.4	26.3	21.4	17.6	22.8	24.2	-2.4	23.6
10th Percentile	32.3	12.6	32.2	54.0	31.9	35.5	38.0	13.6	29.4	46.7	57.8	36.5	35.3	38.7	42.6	13.9	41.1
25th Percentile	1.9	0.0	9.8	1.5	2.7	8.4	23.9	1.5	21.7	29.4	41.3	18.4	13.1	23.8	24.3	0.8	23.4
Median	0.0	0.0	0.0	0.0	0.0	0.0	4.6	-6.2	2.9	20.6	24.1	0.0	0.0	7.5	13.7	0.0	0.0
75th Percentile	0.0	0.0	0.0	-1.9	-4.7	0.0	-8.9	-14.7	-7.2	0.5	13.2	-3.4	-3.6	-3.1	-0.7	-10.3	-2.1
90th Percentile	-19.3	-53.6	-17.9	-17.4	-38.8	-33.1	-18.1	-28.9	-25.1	-16.1	-2.7	-18.2	-18.3	-18.3	-18.2	-18.7	-17.7
Inter-decile Range	51.6	66.2	50.1	71.4	70.7	68.6	56.1	42.5	54.5	62.8	60.5	54.7	53.6	57.0	60.8	32.6	58.8
Range of Returns	*350.0*	*128.0*	*146.9*	*338.2*	*291.7*	*135.6*	*135.2*	*81.1*	*69.8*	*120.3*	*90.5*	*350.0*	*350.0*	*291.7*	*291.7*	*128.0*	*338.2*

Range of Returns – IRR (% pa) by Vintage Year – Three Years

	Total	1980-84	1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
No. of Funds	316	13	68	14	14	7	10	20	10	15	25	16	27	28	30	19
Pooled Average	21.4	n/a	10.7	-39.7	83.3	39.9	17.9	42.3	-1.0	11.4	19.2	20.0	17.0	14.2	29.9	31.2
10th Percentile	36.5	0.0	8.9	76.6	38.5	278.7	34.0	47.4	21.8	37.0	32.1	65.7	38.9	30.7	45.8	54.5
25th Percentile	18.4	0.0	0.0	55.1	14.4	45.6	11.5	20.8	2.0	24.3	23.5	30.3	24.0	20.1	28.1	13.9
Median	0.0	0.0	0.0	0.0	0.0	14.5	0.0	0.3	-17.3	0.1	1.7	-2.7	15.3	3.2	13.6	-6.5
75th Percentile	-3.4	0.0	0.0	-1.2	0.0	-36.6	-23.6	-8.7	-27.5	-7.4	-7.0	-10.4	0.2	-10.4	-2.1	-20.5
90th Percentile	-18.2	0.0	0.0	-42.8	-40.6	-50.6	-68.1	-36.0	-43.4	-11.6	-15.1	-24.2	-18.7	-31.0	-18.0	-36.4
Inter-decile Range	54.7	0.0	8.9	119.4	79.1	329.3	102.1	83.4	65.2	48.6	47.2	89.9	57.6	61.7	63.8	90.9
Range of Returns	*350.0*	*0.0*	*237.5*	*148.4*	*107.4*	*329.3*	*106.1*	*285.0*	*67.2*	*57.7*	*80.0*	*130.4*	*63.0*	*86.4*	*117.1*	*113.1*

Appendix IV – Range of Returns (IRR) Medium to Long Term – Five Years

Range of Returns – IRR (% pa) by Investment Stage and Subcategories – Five Years

	Pre-1996 Vintage Funds						1996 Vintage Funds Onwards					Subcategories (all vintages)					
	Total	Early Stage	Develop-ment	Mid MBO	Large MBO	Generalist	Total	Venture	Small MBO	Mid MBO	Large MBO	Total	UK	Non-UK	Pan-European	Technology	Non-Technology
No. of Funds	156	22	37	33	26	38	111	37	13	48	13	267	209	58	54	70	197
Pooled Average	3.3	-5.8	-3.6	10.3	5.6	-1.8	8.4	-12.8	-2.5	7.0	14.6	8.1	6.9	8.9	10.5	-12.7	10.7
10th Percentile	36.7	48.8	17.0	111.2	27.5	55.5	20.4	9.6	22.9	23.2	34.9	24.4	23.7	32.5	29.2	9.4	30.6
25th Percentile	5.6	1.9	1.1	19.7	7.9	3.3	12.0	-2.8	6.1	14.7	24.9	8.6	6.4	12.9	14.2	0.0	13.0
Median	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	-12.8	-2.6	2.7	14.4	0.0	0.0	0.0	0.0	-2.5	0.0
75th Percentile	-11.8	-9.2	-7.4	-4.2	-17.2	-15.2	-12.8	-20.9	-25.9	-5.1	6.3	-12.3	-12.1	-12.9	-14.3	-16.3	-10.1
90th Percentile	-29.8	-76.5	-31.0	-22.8	-45.9	-35.8	-30.0	-35.4	-72.8	-14.7	-4.9	-29.7	-26.9	-31.7	-24.8	-36.3	-25.6
Inter-decile Range	66.5	125.3	48.0	134.0	73.4	91.3	50.4	45.0	95.7	37.9	39.8	54.1	50.6	64.2	54.0	45.7	56.2
Range of Returns	*337.6*	*174.8*	*286.3*	*291.0*	*176.1*	*270.3*	*136.7*	*78.1*	*127.3*	*73.3*	*44.7*	*337.6*	*337.6*	*258.3*	*258.3*	*174.8*	*337.6*

Range of Returns – IRR (% pa) by Vintage Year – Five Years

	Total	1980-84	1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Funds	267	13	68	14	14	7	10	20	10	15	25	16	27	28
Pooled Average	8.1	-64.6	6.0	-22.7	-8.2	17.9	4.6	24.1	-14.3	2.9	5.7	12.0	7.3	9.2
10th Percentile	24.4	10.8	33.2	50.7	99.6	171.9	117.6	207.4	1.8	15.1	19.9	30.9	18.3	21.1
25th Percentile	8.6	0.0	0.0	3.7	20.0	132.0	6.8	21.6	-10.8	12.0	4.7	21.5	14.4	9.6
Median	0.0	0.0	0.0	-9.3	1.1	-8.9	-0.4	-0.6	-18.3	-0.1	-6.9	-7.1	6.5	-5.0
75th Percentile	-12.3	0.0	0.0	-25.4	-12.7	-51.6	-37.8	-8.1	-20.9	-5.1	-13.7	-16.5	-3.2	-12.8
90th Percentile	-29.7	-64.9	-17.4	-65.8	-59.0	-53.1	-75.7	-15.9	-29.4	-61.3	-27.5	-31.8	-17.3	-35.6
Inter-decile Range	54.1	75.7	50.6	116.5	158.6	225.0	193.3	223.3	31.2	76.4	47.4	62.7	35.6	56.7
Range of Returns	*337.6*	*111.8*	*238.2*	*178.3*	*200.5*	*225.0*	*206.8*	*316.6*	*32.1*	*112.6*	*77.9*	*63.9*	*74.1*	*102.9*

Appendix IV – Range of Returns (IRR) Medium to Long Term – Ten Years

Range of Returns – IRR (% pa) by Investment Stage and Subcategories – Ten Years

	Pre-1996 Vintage Funds						Subcategories (all vintages)					
	Total	Early Stage	Develop-ment	Mid MBO	Large MBO	Generalist	Total	UK	Non-UK	Pan-European	Technology	Non-Technology
No. of Funds	156	22	37	33	26	38	156	138	18	19	37	119
Pooled Average	27.8	17.6	22.0	20.2	28.1	35.4	27.8	27.1	29.3	39.0	20.0	28.5
10th Percentile	65.1	148.4	36.3	82.6	87.2	51.5	65.1	64.5	134.6	132.2	75.3	67.4
25th Percentile	37.4	47.8	26.3	48.0	56.8	33.5	37.4	37.2	40.6	57.8	32.5	38.7
Median	17.5	17.5	13.9	14.5	31.8	23.6	17.5	16.3	22.4	32.3	16.9	18.1
75th Percentile	2.5	8.4	-4.8	0.4	1.3	10.5	2.5	2.3	7.9	16.0	9.0	0.7
90th Percentile	-8.5	-12.6	-12.8	-4.6	-9.6	-4.5	-8.5	-9.2	-5.6	-2.4	-15.8	-7.8
Inter-decile Range	73.6	161.0	49.1	87.2	96.8	56.0	73.6	73.7	140.2	134.6	91.1	75.2
Range of Returns	*266.9*	*220.6*	*107.2*	*223.8*	*169.9*	*176.6*	*266.9*	*266.9*	*165.7*	*161.0*	*223.1*	*240.5*

Note: 10-year returns are not shown for '1996 Vintage Funds onwards' as no funds in this category had been in existence for a full 10-year period.

Range of Returns – IRR (% pa) by Vintage Year – Ten Years

	Total	1980-84	1985-89	1990	1991	1992	1993	1994	1995
No. of Funds	156	13	68	14	14	7	10	20	10
Pooled Average	27.8	38.5	34.2	9.3	26.7	27.9	17.4	41.4	23.4
10th Percentile	65.1	186.6	61.7	60.1	121.0	43.7	58.3	57.6	80.9
25th Percentile	37.4	128.7	40.9	29.4	52.7	31.8	19.0	23.7	5.4
Median	17.5	24.5	27.9	6.6	22.4	19.4	3.1	16.1	1.5
75th Percentile	2.5	16.1	9.0	-1.8	-3.4	3.0	-7.8	8.0	-4.2
90th Percentile	-8.5	-42.6	-10.6	-15.2	-12.8	-13.6	-16.7	-3.5	-10.8
Inter-decile Range	73.6	229.2	72.3	75.3	133.8	57.3	75.0	61.1	91.7
Range of Returns	*266.9*	*266.9*	*190.7*	*95.1*	*172.4*	*57.3*	*79.8*	*96.9*	*99.9*

Appendix V – Current Year Returns

The current year (or one-year) figure is extremely volatile and inappropriate as a realistic measure of private equity performance. It is not possible to invest in a private equity fund for just one year. Private equity is a long-term investment spanning the life of a fund. It does however provide an indication of how well the UK private equity industry performed in that one year.

Current Year Return (%) by Investment Stage and Subcategories

	Number of Funds	2005
Pre-1996 vintage funds		
Early Stage	22	6.0
Development	37	10.7
Mid MBO	33	0.0
Large MBO	26	57.6
Generalist	38	58.5
Subtotal pre-1996	*156*	*37.8*
1996 vintage funds onwards		
Venture	77	6.5
Small MBO	19	26.7
Mid MBO	85	31.7
Large MBO	25	44.9
Subtotal 1996 onwards	*206*	*37.2*
Grand total all funds	**362**	**37.2**
Subcategories (all vintages)		
UK	267	26.5
Non-UK	95	40.6
Pan-European	89	43.5
Technology	97	6.7
Non-Technology	265	40.1
Investment Trusts*	22	21.2

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

Current Year Return (%) by Vintage Year

	Number of Funds	2005
1980-84	13	n/a
1985-89	68	1.3
1990	14	7.8
1991	14	n/a
1992	7	33.7
1993	10	154.5
1994	20	20.2
1995	10	25.6
1996	15	39.2
1997	25	25.5
1998	16	10.7
1999	27	38.9
2000	28	24.3
2001	30	54.5
2002	19	39.4
2003	19	50.1
2004	7	-2.4
2005	20	n/a
Total	**362**	**37.2**

Principal Comparators' Return (%)
UK Pension Funds (WM All Funds Universe)

	2005
UK Equities	21.8
Overseas Equities	28.8
UK Bonds	9.4
Overseas Bonds	11.6
UK Index-Linked	9.3
Cash/Other	11.4
Property	20.4
Total Assets	**20.1**
FTSE Indices	
FTSE All-Share	22.0
FTSE 100	20.8
FTSE 250	30.2
FTSE SmallCap	22.4
techMARK All-Share*	19.7
FTSE World (ex-UK)	24.9
FTSE Europe (ex-UK)	24.1
Inflation Indices	
Retail Price Index	2.2
Average Earnings	4.1

Source: The WM Company Annual Review of UK Pension Funds 2005 – all comparator figures with the exception of techMARK.
*Calculated using indices supplied by The London Stock Exchange which exclude dividends.

Appendix VI – Worked Examples

Sample Carried Interest Calculation to Produce an Interim IRR

Fund Size – £20 million
Draw Down – £17 million (85%)
Distributed – £12.25 million

Residual Net Asset Value (NAV) at 31st December 2005 (before Carried Interest) – £12 million.

Distribution Priority:

i) 100% to Investors until commitments returned;
ii) 100% to Investors until a 'Preferred Return' of 10% pa compound is achieved;
iii) 100% to Manager until payments equal 25% of ii);
iv) 80% to Investors, 20% to the Manager thereafter.

An interim IRR is a 'snapshot' of performance to date. In calculating an interim IRR, the assumption used is that the fund is wound up at the NAV date (ie 31/12/2005) and that the residual value is distributed according to the above.

As the fund is not fully drawn down, one of two assumptions can be made; each of which has the same effect on the IRR calculation.

i) The £3 million not yet drawn down is cancelled and commitments correspondingly drop to £17 million;
or
ii) The £3 million is drawn down on 31/12/2005 and distributed simultaneously.

The example given below produces an interim IRR before carried interest of 12.9% and 10.7% pa after carried interest. The latter figure is the one used in the BVCA Performance Measurement Survey.

Sample Interim IRR Calculation for a Fund

Cash flow date	Amount (£)	Comment
1 Feb 01	-2,000,000	10% draw down from investors
10 Jun 01	-2,000,000	10% draw down from investors
25 Nov 01	-2,000,000	10% draw down from investors
3 Apr 02	-2,000,000	10% draw down from investors
9 Sep 02	-2,000,000	10% draw down from investors
12 Dec 02	-2,000,000	10% draw down from investors
5 May 03	-2,000,000	10% draw down from investors
15 Oct 03	1,500,000	Cash distribution to investors
11 Nov 03	-1,000,000	5% draw down from investors
29 Mar 04	2,500,000	Cash distribution to investors
27 Jun 04	1,000,000	Cash distribution to investors
18 Sep 04	-2,000,000	10% draw down from investors
29 Apr 05	3,000,000	Cash distribution to investors
12 Aug 05	1,500,000	Cash distribution to investors
15 Dec 05	2,750,000	Cash distribution to investors
31 Dec 05	12,000,000	Residual NAV

NB. All figures have been calculated using Microsoft Excel and the IRRs using the XIRR function in the same programme.

The NAV required to produce the preferred return to investors at 31/12/2005 is £10,101,810 in accordance with Distribution Priority ii) leaving an excess of £1,898,190 to be allocated between the Investors and the Manager.

At this point, the minimum gain attributable to Investors would be £5,351,810 (£10,101,810 + £12,250,000 - £17,000,000).

As investors would have received the preferred return (the fund being 'wound up' at this date), the Manager becomes entitled to an amount equivalent to 20% of this minimum gain from the excess of £1,898,190. The Manager is thus entitled to 25% of the minimum gain achieved (ie £1,337,953) in accordance with iii) plus 20% of the remaining excess of £560,327 (£1,898,190 - £1,337,952). The manager would now have received 20% of the gain ie 20% of (£5,351,810 + £1,337,953).

Of the £12,000,000 residual NAV, £11,439.763 has been allocated as follows:

£4,750,000	to the Investors to make draw downs equal to distributions (£17m - £12.25m) – i)
£5,351,810	to the Investors to produce the Preferred Return – ii)
£1,337,953	to the Manager to produce 20% of gains at the Preferred Return point – iii)
£11,439,763	

The residual £560,237 (£12,000,000 - £11,439,763) is to be allocated in accordance with condition iv):

£448,190	to the Investors
£112,047	to the Manager
£560,237	

In this way, the £12,000,000 residual NAV has been allocated as follows:

£10,550,000	to the Investors
£1,450,000	to the Manager
£12,000,000	

It will be noted that the Manager has received 20% of net gains (£1,450,000 being 20% of (£10,550,000 + 12,250,000 - £17,000,0000)). NB. If the residual NAV had been £11,300,000 condition iii) could not be fulfilled in its entirety and the interim IRR would be exactly 10% pa.

Appendix VII – List of Responding Managers

3i
Aberdeen Asset Managers Private Equity Division
Abingworth Management Ltd
ABN AMRO Capital Limited
Acacia Capital Partners (previously IDG Ventures Europe)
ACT Venture Capital Ltd
Advantage Capital Limited
Advent Venture Partners LLP
Albany Venture Managers Limited
Alchemy Partners LLP
Alliance Fund Managers Limited
Alta Berkeley
Amadeus Capital Partners Limited
Apax Partners
Atlas Venture LLP
August Equity Limited (previously Kleinwort Capital Limited)
Avlar BioVentures Limited
Bain Capital Ltd
Baird Capital Partners Europe
Bank of Scotland Equity
Barclays Private Equity Limited
BC Partners Limited
Beringea Ltd
Botts & Company Ltd
Bowmark Capital Limited
Bridgepoint
Bridges Community Ventures Limited
Cabot Square Capital Ltd
Cairnsford Associates Ltd
Candover Investments plc
Catapult Venture Managers Ltd
Charterhouse Capital Partners LLP
Cinven
Clarendon Fund Managers Limited
Close Brothers Private Equity LLP
Close Venture Management
Create Partners Ltd
Crescent Capital NI Limited
CVC Capital Partners Limited
Doughty Hanson & Co Ltd
Duke Street Capital
Dunedin Capital Partners Limited
ECI Partners LLP
Electra Partners Europe LLP
Electra Partners Limited
Enterprise Equity Fund Management (NI) Limited
Equity Ventures Ltd
Esprit Capital Partners LLP (merger of Cazenove Private Equity and Prelude Ventures)
ETCapital Ltd
European Acquisition Capital Limited
Exponent Private Equity LLP
Finance Wales Investments Limited
Frontiers Capital Limited
GMT Communications Partners III LLP
Graphite Capital Management LLP
Gresham LLP
Henderson Private Capital Ltd
Herald Investment Management Limited
Hermes Private Equity
HgCapital
Impax Asset Management Ltd
Industri Kapital Ltd
Inflexion Private Equity
Innvotec Limited
ISIS EP LLP
Kennet Venture Partners Ltd
Langholm Capital LLP
LDC
Legal & General Ventures Limited
London Ventures (Fund Managers) Ltd
Longbow Capital LLP
Ludgate Investments Limited
Lyceum Capital (previously West Private Equity Limited)
Manchester Technology Fund Ltd (The)
Matrix Private Equity Partners Limited
Merlin Biosciences Limited
Midven Limited
Montagu Private Equity
MTI
NEL Fund Management Group Ltd (previously Northern Enterprise Limited)
Northern Venture Managers Limited
Oxford Capital Partners
Palamon Capital Partners, LP
Parallel Private Equity Limited
Penta Capital Partners Ltd
Permira Advisers LLP
Phoenix Equity Partners
Piper Private Equity Limited
Platina Finance Limited
Pond Venture Partners Ltd
PPM Capital Limited
Primary Capital Ltd
Quester
RJD Partners Limited
Rutland Partners LLP
Scottish Equity Partners
Sigma Technology Management Ltd
Sovereign Capital Partners LLP
STAR Capital Partners
Strathdon Investments Plc
Summit Group Ltd (The)
SV Life Sciences Advisers LLP
Terra Firma Capital Partners Limited
Thompson Clive & Partners Limited
Top Technology Ventures Limited
TTP Venture Managers Ltd
UBS Capital*
Wales Fund Managers Limited
WHEB Ventures Ltd
WL Ventures Limited
WM Enterprise
YFM Private Equity Limited
YFM Venture Finance Ltd
Young Associates Limited

Notes

1. 114 managers (who were BVCA members at the time of the fieldwork) responded to the survey – a 100% response rate.
2. Many private equity firms manage more than one fund.
3. Those BVCA full members not listed above either do not raise third party funds, or do not manage their fund from the UK, and therefore are not eligible to be included in the report. Some will not be listed because they were not members at the time the data was collated.
4. A number of past BVCA members' funds remain within the dataset (see Methodology on page 35).
5. *UBS Capital is no longer a BVCA member, but kindly continues to provide data for the report.

Appendix VIII – Frequently Asked Questions

What is the purpose of the survey?

The survey aims to report the performance of the UK private equity industry and we believe it to be the most complete country specific survey on the performance of private equity funds in the world.

Who is included in the survey?

To be eligible for inclusion in the survey, the private equity firm must:

- be a BVCA full member*;
- raise money from third party investors;
- manage that money from the UK (although it may be invested elsewhere).

*Funds managed by former members of the BVCA have been included where information has been available, but these are few and most are no longer active within the UK private equity industry. Only past members that still have active funds and continue to provide data are listed as having responded to the survey.

The following are excluded:

- BVCA members investing from their own balance sheet.
- Quoted vehicles managed by BVCA members such as VCTs and private equity investment trusts (PEITs), although the latter are shown as a separate category.

These groups have been excluded because the purpose of the survey is to show institutional investors the kind of returns they might attain if they invested in UK-based private equity funds (which are often structured as limited partnerships). The returns of these 'independent' funds are calculated in a different way to quoted vehicles and therefore cannot be combined in the same sample. PEITs are, however, shown as a separate category in the report for comparison purposes.

Firms that only invest directly from their own balance sheet are excluded because they do not manage a fund into which an institutional investor would be able to invest. Also, the firms which invest from their own balance sheet will not be able to report data net of costs and fees as with the 'independent' funds.

Is the BVCA membership representative of the UK private equity industry?

The BVCA represents the vast majority of private equity and venture capital in the UK with around 180 full members – firms which provide private equity or venture capital funding to unquoted companies.

What is the response rate for the survey?

In total 114 BVCA members responded to the survey in 2005, representing 100% of firms that manage funds eligible to be included. Many firms manage more than one fund. In total, 362 funds were included.

The BVCA recognises the importance of producing the most comprehensive performance data possible and therefore it is a condition of BVCA membership that the data is provided.

Who produces the survey?

The survey is conducted by PricewaterhouseCoopers in conjunction with Capital Dynamics (formerly Westport Private Equity) and the BVCA.

How is data collected?

PricewaterhouseCoopers International Survey Unit in Belfast distributes a questionnaire to all eligible members, with a covering letter from the BVCA, requesting cash flow and valuation data for qualifying funds. The data is returned to PricewaterhouseCoopers for analysis by investment stage and vintage year, with verification, where appropriate, undertaken by Capital Dynamics.

The BVCA then produces a summary flyer in May, with the full report compiled by PricewaterhouseCoopers and the BVCA for publication in July.

Why have funds with vintages of 1996 onwards been reclassified?

This was done in order to reflect changes in the market. 1996 was chosen as the most appropriate point at which to do this as it was around this time that the market started to noticeably change with a large rise in the number of venture capital funds and significantly larger buy-out funds being raised.

The new categories and their size-bandings (ie size of equity investments) are as follows:

- Venture
- Small MBO* (< £10m)
- Mid MBO (£10m - £100m)
- Large MBO (> £100m)

*Includes development capital.

Does this allow for greater breakdown of the data?

Yes, reducing the number of categories makes it easier to break out vintage year data by stage category. From 1996 vintages onwards, vintage years are analysed by Venture, Small/Mid MBO and Mid/Large MBO stages. Due to some very small sample sizes, the MBO categories have had to be combined when comparing with Venture. This further breakdown of vintage year returns will be useful when benchmarking funds. It is hoped that this will make the survey of greater use to investors and practitioners alike.

How are the returns calculated?

The primary method for calculating returns is based on the annualised internal rate of return (IRRs) achieved over a period of time. This return is based upon the total actual fund cash flows and valuations of the funds at the relevant period ends and the calculation of the change between them on a per annum basis. The returns are therefore time and money-weighted (often referred to as 'time line basis').

The returns are based on fund valuations provided by the fund manager. How robust are these numbers?

70% of the funds surveyed contain unrealised investments. PricewaterhouseCoopers asks whether fund valuations have been based on the new International Private Equity and Venture Capital Valuation Guidelines and, if not, what valuation method has been used. However, PricewaterhouseCoopers has not independently confirmed that the international guidelines have been adhered to. It should be remembered that, as with other asset classes, a valuation provides an interim ‘snapshot’ of performance. The distributing nature of the vast majority of private equity funds means that when a fund has made its final distribution, a pure cash-on-cash return can be calculated.

What are the International Private Equity and Venture Capital Valuation Guidelines?

The International Valuation Guidelines were launched in March 2005 having been developed by Association Française des Investisseurs en Capital (AFIC), the British Venture Capital Association (BVCA) and the European Private Equity and Venture Capital Association (EVCA) and endorsed by 30 regional and national associations, including the ILPA in the USA. These replaced the previously widely used BVCA Valuation Guidelines. For more information, please visit www.privateequityvaluation.com.

Why is the Internal Rate of Return (IRR) used?

The IRR is the most appropriate measure of return due to the high level of discretion of the fund manager in determining cash flows to and from the investors and the difficulty in determining portfolio valuations at the date of each cash flow as would be required in order to calculate a time-weighted return. The CFA Institute (formerly AIMR – Association of Investment Management Research) supports the use of the IRR as the most appropriate measure of private equity and venture capital performance.

Can you compare IRRs to other returns from other asset classes?

Most other asset classes, including the WM pension fund universe and other comparative indices quoted in this report, are calculated as gross time-weighted returns (TWR) and so any comparison should be done with care. Such TWR calculations are not possible for private equity as they require frequent and easily obtainable revaluations and assume a low level of manager discretion in the timing of cash flows.

Is the IRR net or gross?

The private equity return represents the ‘net’ return to investors after costs and fees. Provision is made for performance fees which would have been payable if the residual valuation had been realised at the valuation date.

Returns for the WM Pension Funds Assets and FTSE indices, however, are gross time-weighted returns. Thus private equity returns are effectively understated in comparison.

Why is the net IRR used?

The net IRR is the most appropriate measure of return as this is the return which is generated to the investor. Whilst gross IRRs are important for measuring individual deals, the effects of costs and fees can significantly reduce the gross returns when a fund is examined as a whole.

Why are different types of net IRR reported?

'Since inception' returns are the most meaningful way to measure private equity performance. It measures from the actual start of the fund (ie from the first drawdown) up to a particular point in time. This therefore most closely reflects the return a primary investor would have achieved.

'Medium to long-term returns' (three, five and ten years) are reported in order that investors can compare with other asset classes which is not possible with the since inception numbers. These returns cover all activity in all funds in the survey over the measured period to 31 December – it is not limited to those funds which were in existence at the start of the measured period. (Note: these returns can be compared with the 'horizon' returns produced by EVCA.)

Current year (or one-year) returns are not included in the tables in the main body of the report, but can be found in Appendix V. This is because they are very volatile and inappropriate as a realistic measure of private equity performance. It is not possible to invest in a private equity fund for just one year. Private equity is a long-term investment spanning the life of a fund. They can, however, be used as an indication of how well the UK private equity industry performed in that one year.

Why is the complete data set 297 funds in some cases and 362 in others?

The since inception returns have a reduced data set compared to the medium/long-term returns because only funds over four years old are included in the former. The reason for this is that short-term IRRs can be very volatile and are not a reliable indicator of progress. After four years, the IRR has begun to settle down and is thus a more meaningful indicator of the direction of progress.

Why is the pooled average IRR so different from the median IRR in some populations?

The pooled average IRR is the return for the total sample of funds being analysed, whereas the median is the actual return of the middle-ranking fund in the sample. The pooled average is more affected by larger funds in the sample, whereas the median is size neutral.

Why are multiples also quoted?

The IRR is not the only important measure of performance for private equity and venture capital funds. Multiples are a useful additional measure which can be used in conjunction with IRRs when comparing the relative performance of funds. The multiple is shown in two ways:

- As a percentage of paid in capital distributed to investors (DPI).
- As a percentage of total value which includes capital distributed and residual value (TVPI).

What is the impact of currency on the returns?

All of the fund returns are calculated in pounds sterling. For those funds which are denominated in other currencies, each cash flow and valuation is converted to pounds sterling using the relevant exchange rate prevailing at the date of such cash flow or valuation. In this way, the return calculated will be closest to that of a sterling-based investor.

How transparent is the UK private equity industry?

The private equity industry is mindful of the need for appropriate levels of transparency given its high profile in the media and its importance to the wider success of the economy. It must be remembered, however, that private equity differs from public equity and that a degree of privacy is an important component of return generation. This survey was first commissioned by the BVCA in 1994 and demonstrated the desire and strategic vision of the BVCA to promote greater understanding of the industry and to encourage greater transparency with regard to performance. The continuous efforts to improve the survey, such as the further breakdown of vintage year performance, are also made with the desire for greater transparency in mind.

Disclaimer

The data within this report was collated and analysed by the PricewaterhouseCoopers International Survey Unit in Belfast. While PricewaterhouseCoopers, the BVCA and Capital Dynamics have made every effort to ensure the reliability of the data included in this report, they do not assume any responsibility for any inaccuracy in the data nor for the accuracy of the underlying amounts submitted by the participating private equity funds. The survey is based on valuations provided by each participating fund; PricewaterhouseCoopers has not independently checked the valuation data, nor confirmed that the International Private Equity and Venture Capital Valuation Guidelines have been adhered to.

The data used in the preparation of this report has been collated and analysed by PricewaterhouseCoopers International Survey Unit in Belfast but has not been independently verified, validated or audited by PricewaterhouseCoopers.

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