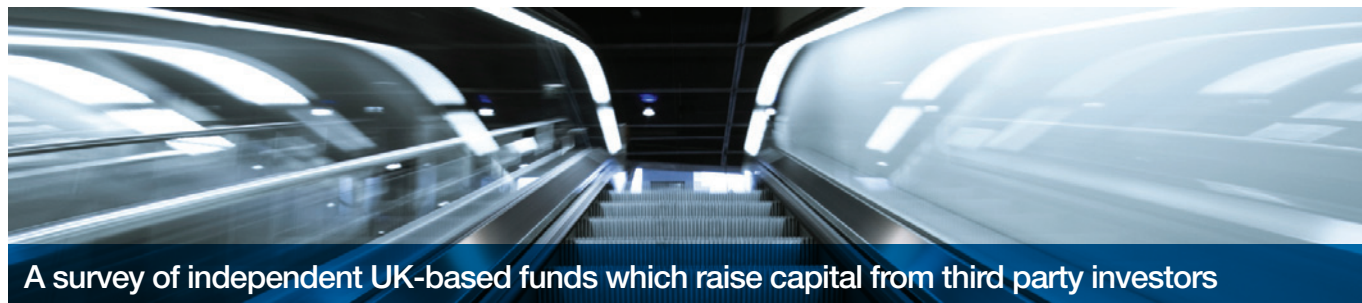


BVCA Private Equity and Venture Capital Performance Measurement Survey 2012



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

Introduction

The BVCA – The British Private Equity and Venture Capital Association – in conjunction with PwC and Capital Dynamics is pleased to announce the summary analysis of the 2012 Performance Measurement Survey. The Survey demonstrates the performance of ‘independent’ UK private equity funds, i.e., funds raised from external investors for venture capital and private equity investment, but excludes listed private equity investment companies (LPE). These were formerly known in the Survey as quoted private equity investment trusts (PEITs)* and venture capital trusts (VCTs).

The vast majority of BVCA member firms which manage funds eligible for this report responded to the survey. There are 510 UK managed funds included in this year’s dataset and we believe this makes it the most complete country specific survey on the performance of private equity and venture capital funds in the world.

Comparative statistics on UK pension funds, supplied by The WM Company (WM), have also been quoted, although care should be taken in comparing these with private equity results. The return quoted for private equity funds is the internal rate of return (IRR) to investors, net of costs, fees and charges. Returns for WM Pension Funds Assets and indices, however, are gross time-weighted returns, which are not directly comparable with IRRs.

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

Key Points

- Despite major and ongoing headwinds in terms of moribund domestic economic circumstances, continued peripheral euro zone weakness and volatile – although positive – financial markets, UK private equity funds delivered strong returns for their investors last year. The one year IRR in 2012 for all funds in the Survey was 11.5%. This compares to the return delivered by Total UK Pension Fund Assets** of 8.4% and the FTSE All-Share of 12.3% for the same period.
- Over long term timeframes, the industry continues to demonstrate robust outperformance when compared with other asset classes. Over the last decade, the performance is noteworthy, with annual returns (15.0% IRR) outstripping the return delivered by Pension Fund Assets (8.3%) and the All-Share (8.8%). Looking more closely at the last five years, where the global financial crisis has really taken hold, UK private equity funds generated an annual return of 6.0%, outpacing the 2.5% generated to investors in the All-Share and the 3.8% returned to holders of Pension Fund Assets.
- Private equity funds continue to display an unparalleled level of stability and persistence of return. On average, over the last decade or so, since inception private equity fund performance has centred around the fifteen per cent mark, and this year’s return of 13.9%, although marginally down on last year’s corresponding value, remains broadly in line with this trend.
- Largely consistent with wider developments in the UK private equity market, small and mid-sized MBO focused funds continue to deliver solid returns to their investors. This is evident on both the since-inception and 10 year time frames with IRRs consistently in excess of 15%. Venture funds, post-2002, returned IRRs of 3.6% on a since-inception basis to investors in 2012, and this is both a further indication of their potential to generate robust returns and a reflection of the pivotal role they play in supporting entrepreneurship and innovation.
- As of December 2012, the best returning fund vintages following the Dot-Com bubble originated from the years 2002 and 2004 as measured on the since-inception metric with IRRs of 25.5% and 25% per annum, respectively. This provides a fund performance dimension to the body of evidence which makes the case to investors that committing to the asset class is worthwhile, especially so in an economic recovery as good if not great returns can be delivered from such funds.

	2012 (% p.a.)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)
Total UK Private Equity	11.5	10.2	6.0	15.0
Total Pension Fund Assets	8.4	8.2	3.8	8.3
FTSE All-Share	12.3	7.5	2.5	8.8

* Listed private equity investment companies (LPE) are shown as a separate category for comparison purposes, although not included in the main analysis of independent funds.

** As shown in the WM All Funds Universe.

Current Year and Longer Term Returns – IRR (% p.a.)

Investment Stage and Subcategories

	No of funds	2012	Three years	Five years	Ten years
Pre-1996 vintage funds*	153	-3.0	-1.6	-3.9	19.9
1996 vintage funds onwards					
Venture	117	-2.7	3.6	1.0	0.1
<i>pre-2002 vintage funds</i>	43	-22.5	-1.2	-5.2	-3.4
<i>2002 vintage funds onwards</i>	55	2.5	5.2	4.3	3.2
Small MBO	49	9.6	12.8	12.2	24.1
Mid MBO	143	10.1	9.6	6.2	16.9
Large MBO	48	12.7	10.7	6.1	15.7
<i>Subtotal 1996 onwards</i>	357	11.5	10.2	6.0	15.0
Grand total all funds	510	11.5	10.2	6.0	15.0
Subcategories (all vintages)					
UK	353	8.5	10.2	4.0	13.2
Non-UK	157	11.8	10.2	6.3	15.4
Pan-European	149	11.5	9.9	5.8	16.0
Technology	131	-1.9	3.5	1.2	0.1
Non-Technology	379	12.0	10.5	6.2	16.0
Listed Private Equity**	21	4.0	9.1	-3.1	6.1

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

**Annualised weighted average total net asset value return, calculated by Morningstar, www.morningstar.com

Vintage Year

	No of funds	2012	Three years	Five years	Ten years
1980-84	13	n/a	n/a	n/a	n/a
1985-89	68	0.0	-1.2	0.9	6.4
1990	13	n/a	-95.9	-11.5	-10.9
1991	14	n/a	n/a	n/a	81.2
1992	7	n/a	n/a	n/a	39.4
1993	10	-3.5	0.0	-1.1	21.7
1994	19	-12.0	0.9	-8.1	37.1
1995	9	n/a	2.6	-25.4	18.5
1996	13	33.3	-23.7	115.1	18.3
1997	24	-15.2	11.8	-19.5	19.0
1998	16	-17.1	9.1	56.9	24.1
1999	24	-14.5	-2.2	-2.9	18.1
2000	26	7.9	11.8	7.9	21.3
2001	30	-10.6	-7.6	-0.9	29.3
2002	19	1.4	11.0	1.3	27.1
2003	18	1.1	7.8	5.0	n/a
2004	10	7.1	18.9	13.2	n/a
2005	26	25.8	11.7	7.7	n/a
2006	36	11.8	13.5	3.8	n/a
2007	37	4.7	9.2	7.5	n/a
2008	22	7.4	9.5	n/a	n/a
2009	20	21.6	3.6	n/a	n/a
2010	13	1.1	n/a	n/a	n/a
2011	14	110.9	n/a	n/a	n/a
2012	9	n/a	n/a	n/a	n/a
Total	510	11.5	10.2	6.0	15.0

Since Inception Return – IRR (% p.a.)

Investment Stage and Subcategories

	No of funds	To Dec '12	To Dec '11	To Dec '10	To Dec '09	To Dec '08	To Dec '07	To Dec '06	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01
Pre-1996 vintage funds													
Early Stage	24	9.2	9.2	9.2	9.2	9.2	9.2	9.3	8.8	8.9	8.9	9.0	9.1
Development	35	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.0	10.0	10.0	10.1	10.1
Mid MBO	33	15.8	15.8	15.8	15.7	15.8	15.8	15.8	15.8	15.9	15.9	15.9	16.0
Large MBO	26	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.1	18.1	18.2	18.1
Generalist	35	15.8	15.8	15.8	15.8	15.8	15.8	15.6	15.6	15.5	15.6	15.6	15.8
<i>Subtotal pre-1996</i>	<i>153</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>	<i>15.5</i>
1996 vintage funds onwards													
Venture	98	0.4	0.9	-0.3	-2.2	-1.8	-1.6	-0.6	-1.9	-2.4	8.7	29.7	42.0
<i>pre-2002 vintage funds</i>	43	-2.6	-1.3	-1.6	-3.1	-2.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>2002 vintage funds onwards</i>	55	3.6	4.0	2.2	0.2	1.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Small MBO*	32	16.0	15.3	17.9	17.3	6.5	7.3	3.2	1.9	0.3	3.2	1.3	2.6
Mid MBO	126	12.3	12.5	13.2	14.0	14.9	14.9	13.2	9.3	5.9	4.3	3.6	8.0
Large MBO	45	14.7	15.4	17.8	19.2	21.5	23.7	21.0	18.0	13.9	14.3	16.5	30.6
<i>Subtotal 1996 onwards</i>	<i>301</i>	<i>13.1</i>	<i>13.6</i>	<i>15.2</i>	<i>16.1</i>	<i>17.2</i>	<i>18.9</i>	<i>16.4</i>	<i>13.2</i>	<i>9.4</i>	<i>9.7</i>	<i>11.7</i>	<i>19.8</i>
Grand total all funds	454	13.9	14.3	15.3	15.9	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2
Subcategories (all vintages)													
UK	318	13.5	13.6	13.9	14.1	14.6	14.6	14.4	14.0	13.6	14.1	14.5	15.4
Non-UK	136	14.2	14.7	16.6	17.7	18.5	20.2	17.9	14.9	11.8	12.6	15.1	18.7
Pan-European	130	15.6	16.3	18.0	19.3	20.3	21.6	19.7	17.4	14.0	14.9	16.9	20.9
Technology	115	1.1	1.5	0.6	-0.9	-0.6	-0.1	1.0	0.1	0.9	7.4	10.7	12.1
Non-Technology	339	14.9	15.3	16.4	17.0	17.8	18.7	17.3	15.7	14.2	14.5	15.3	17.0

*There was a change in the Small MBO sample in 2009. The since-inception returns of Small MBO as of Dec 2009, Dec 2010, Dec 2011 and Dec 2012 are therefore not strictly comparable with the relevant returns as of the previous year ends.

Vintage Year

	No of funds	To Dec '12	To Dec '11	To Dec '10	To Dec '09	To Dec '08	To Dec '07	To Dec '06	To Dec '05	To Dec '04	To Dec '03	To Dec '02	To Dec '01
1980-84	13	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
1985-89	68	13.7	13.7	13.7	13.7	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8
1990	13	11.3	11.3	11.3	11.3	11.4	11.3	11.3	11.1	11.1	11.1	11.6	11.5
1991	14	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.3	23.3	23.3	23.3
1992	7	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.2	20.1	20.0
1993	10	15.1	15.1	15.2	15.0	15.2	15.3	15.3	14.8	14.0	14.6	14.6	14.6
1994	19	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.4	34.4	34.3	34.3	34.9
1995	9	23.1	23.1	23.1	23.1	23.1	23.1	22.2	21.9	21.9	21.8	22.8	25.7
1996	13	17.6	17.6	17.8	17.8	19.1	18.7	18.7	18.6	18.5	19.0	20.1	22.0
1997	24	15.0	15.0	15.0	15.1	15.3	15.6	14.7	14.9	14.3	14.3	13.7	17.6
1998	16	12.8	12.9	12.8	12.9	12.9	12.5	12.2	10.8	10.6	9.3	6.3	n/a
1999	24	9.4	9.7	8.6	8.0	8.0	15.8	8.8	6.2	1.5	-2.0	n/a	n/a
2000	26	16.6	16.6	16.6	16.2	14.1	16.7	14.9	8.7	4.8	n/a	n/a	n/a
2001	30	24.8	25.2	26.1	26.6	27.4	29.1	28.3	23.4	n/a	n/a	n/a	n/a
2002	19	25.5	26.1	26.1	25.5	27.0	30.8	26.6	27.7	n/a	n/a	n/a	n/a
2003	18	20.7	22.0	23.7	17.5	25.4	32.1	23.4	22.2	n/a	n/a	n/a	n/a
2004	10	25.0	26.4	32.0	34.1	41.3	41.1*	25.8	-5.8	n/a	n/a	n/a	n/a
2005	26	9.6	7.4	9.4	8.4	4.2	19.4	24.0	-8.0	n/a	n/a	n/a	n/a
2006	36	4.2	2.4	5.2	-11.8	-12.7	7.2	100.6	n/a	n/a	n/a	n/a	n/a
2007	37	7.9	8.9	12.6	5.1	4.1	24.7	n/a	n/a	n/a	n/a	n/a	n/a
2008	22	7.6	7.8	5.8	-5.7	-2.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total*	454	13.9	14.3	15.3	15.9	16.4	17.3	16.0	14.4	13.0	13.6	14.6	16.2
2009	20	4.0	-10.4	8.7	15.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2010	13	18.7	37.9	140.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2011	14	70.7	-36.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2012	9	-32.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Subtotal 2009-2012</i>	<i>56</i>	<i>12.4</i>	<i>6.0</i>	<i>11.5</i>	<i>-6.3</i>	<i>-2.1</i>	<i>18.2</i>	<i>27.9</i>	<i>20.7</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>

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

Principal Comparators' Return (% p.a.)

UK Pension Funds (WM All Funds Universe)

	2012	Three years	Five years	Ten years
UK Equities	13.0	7.9	2.7	8.8
Overseas Equities	12.5	6.3	2.7	9.3
UK Bonds	8.8	10.4	7.9	6.3
Overseas Bonds	7.0	9.7	10.5	7.3
Index-Linked	-1.2	10.8	9.0	8.0
Cash	2.5	2.4	2.6	4.1
Alternatives	5.9	6.9	2.8	7.2
Property	2.0	7.2	-1.1	5.7
Total Assets	8.4	8.2	3.8	8.3
FTSE Indices				
FTSE All-Share	12.3	7.5	2.5	8.8
FTSE 100	10.0	6.6	2.0	8.0
FTSE 250	26.1	13.0	6.1	14.3
FTSE SmallCap	27.8	10.1	2.9	9.3
techMARK All-Share*	12.1	10.7	6.7	11.2
FTSE World (ex-UK)	12.1	6.9	3.8	8.8
FTSE Europe (ex-UK)	17.8	2.0	-0.6	9.5
Inflation Indices				
Retail Price Index	3.1	4.2	3.2	3.3
Average Earnings	1.4	1.4	1.5	3.0

Source: The WM Company Annual Review of UK Pension Funds 2012 – all comparator figures with the exception of techMARK.

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

*Calculated using indices supplied by FTSE which exclude dividends.



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