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Press release

Just published:

The 2010 HEC-Dow Jones Private Equity Performance Ranking

In association with Preqin and sponsored by PERECS PE Fund Due Diligence Services

Jouy-en-Josas, 10 December 2010

For the second consecutive year, **HEC Paris Professor Oliver Gottschalg** has just published his one-of-a-kind ranking for the Private Equity sector, drawing on a long-running academic study into the industry's performance.

The ranking lists the Top 20 PE firms in terms of aggregate performance rates between 1997 and 2006. With this ranking, Professor Gottschalg answers the question: "*Which firm(s) generated the best performance for their investors over the past years?*"

The Private Equity industry is notorious for being opaque and access to any data is chronically difficult. In particular, little is known about the performance and competitive behavior of the key PE Firms. While performance rankings exists for many other areas (the best 'business school', the best 'place to work', the best 'stock market analyst' etc), nothing worth that name exists in PE.

Until recently, the only available rankings for Private Equity were based on size alone, which has very limited meaning. Since 2009, HEC Paris and Dow Jones have joined forces to publish regular rankings of PE Firms based on their historic performance and expected future competitiveness respectively.

"*The ranking draws on a comprehensive set of data on PE fund performance provided by Preqin Ltd and uses a novel and unique methodology to calculate the aggregate performance of a PE firm based on difference performance measures for all the funds managed by this firm.*
The method is able to aggregate performance across vintage years and considers relative and absolute returns. In total, we analyzed performance data from 317 PE firms and the 598 funds they raised between 1997 and 2006 with an aggregate equity volume of $714bn." says Professor Gottschalg.

Oliver Gottschalg is associate professor of Strategy and Business Policy at HEC Paris. He serves as academic co-director of the TRIUM Global Executive MBA, coordinator of the Entrepreneurship Track in the HEC MBA program and Director of the HEC Buyout Research Program. He teaches courses on strategy, entrepreneurship, business plan design and management buyouts. His current research focuses on the strategic logic and the performance determinants of private equity investments.

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Founded in 1881, HEC has a permanent faculty of 110 professors, 4000 students on its campus (40% of whom are foreign) and over 8500 managers and executives trained in the executive education programs each year.
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The 2010 HEC-DowJones Private Equity Performance Ranking

In association with preqin

- Sponsored by PERACS PE Fund Due Diligence Services –

For Release Monday, 06 December 2010

Executive Summary

The 2010 HEC-DowJones Private Equity Performance Ranking lists the world's Top PE firms in terms of aggregate performance based on all funds raised between 1997 and 2006. This ranking answers the question: "Which firm(s) generated the best performance for their investors over the past years?" The ranking draws on a comprehensive set of data on PE fund performance provided by Preqin Ltd and uses a novel and unique methodology to calculate the aggregate performance of a PE firm based on difference performance measures for all the funds managed by this firm. The method is able to aggregate performance across vintage years and considers relative and absolute returns. In total, we analyzed performance data from 317 PE firms and the 598 funds they raised between 1997 and 2006 with an aggregate equity volume of $714bn.

The Ranking

2010 Rank	Firm	Aggregate Performance Score
1	Leonard Green & Partners	3,33
2	Astorg Partners	3,00
3	Waterland	2,27
4	Hellman & Friedman	2,11
5	Lincolnshire Management	2,02
6	Nordic Capital	1,68
7	BC Partners	1,25
8	Permira	1,17
9	TowerBrook Capital Partners	1,16
10	AXA Private Equity	1,08
11	Friedman Fleischer & Lowe	1,07
12	Sterling Group	1,00
13	Barclays Private Equity	0,86
14	Onex Corporation	0,85
15	Gilde Buy Out Partners	0,85
16	LGV	0,85
17	Altor Equity Partners	0,81
18	Blum Capital Partners	0,79
19	Berkshire Partners	0,77
20	Charlesbank Capital Partners	0,76

Introduction

The Private Equity industry is notorious for being opaque and access to any data is chronically difficult. In particular, little is know about the performance and competitive behaviour of the key PE Firms. While performance rankings exists for many other areas (the best 'business school', the best 'place to work', the best 'stock market analyst' etc), nothing worth that name exists in PE. Until recently, the only available rankings for Private Equity were based on on size alone, which has very limited meaning. Since 2009, HEC Paris and DowJones have joined forces to publish regular rankings of PE Firms based on their historic performance and expected future competitiveness respectively.

Simply Speaking, what does the performance ranking mean?

This ranking answers the question: "Which firm(s) generated the best performance for their investors over the past years?" It draws on performance information from all buyout funds managed by a given PE Firm and aggregates their performance based on a novel and proprietary methodology (see below) into one overall performance score.

What are the data sources behind the rankings?

To obtain a most accurate picture of the universe of PE Firms and their investments, we drew on a variety of available databases and performed a number of cross-checks of the information used in this study. To ensure consistency and comparability of the data, we used Preqin as the primary database for fund performance information and Thomson VentureXpert (VX) as the complementary database for investment and fundraising activity. These databases have been widely used by academics, practitioners and as sources of industry-standard benchmark statistics and are generally considered to be the most reliable sources of information available.

While HEC has access to additional proprietary information on the activity and performance of PE Firms (HEC Buyout Database), this data is anonymous and cannot be used for this study.

How have the evaluated PE Firms been selected?

We gathered data, as of October 25, 2010, on the universe of PE firms on which Preqin provides performance data, i.e. 317 PE firms and the 598 buyout funds they raised between 1997 and 2006 with an aggregate equity volume of $714bn. From this starting sample, we selected all those PE firms that met the following objective criteria:

- At least 2 funds with raised in 1997 to 2006 period for which full performance information is available;
- At least $500m raised in this time;
- At least 10 observation years (i.e. the sum of the 'age' of all funds as of today);
- No known fund raised from 1997 to 2006 on which performance information is incomplete.

Why these selection criteria?

It is our intension to limit the analysis to PE Firms that are of relevant scale in terms of their activities. (I.e. minimum capital under management). Also, we want to make sure that we do not report any 'one-hit-wonders', hence the requirement to have at least 2 funds with full performance information and 10 'observation years'. We do not consider funds raised after 2006, as their performance is still too unreliable to be judged at this point. Finally, we exclude firm that according to our database raised funds between 97 and 06 but have no performance data available for these funds, as otherwise the performance for these firms could be unreliable.

How large and representative is your sample of PE Firms?

The 98 firms that passed the criteria raised 273 funds between 1997 and 2006 with total equity of $411bn. This corresponds to over 50% of the starting sample in terms of equity.

How has the aggregate past performance been assessed?

Private Equity is an asset class that makes it particularly challenging to assess the aggregate performance of a given PE Firm. Performance is typically recorded at the fund-level (and not for the entire PE Firm). Furthermore, three factors make the aggregation of performance to the firm-level challenging:

1. Alternative, complementary performance measures are used to assess performance (e.g. IRR vs. Return Multiple), so that it is not trivial to know what measure to look at.
2. People disagree whether firms should be assessed according to their absolute performance or based on the performance relative to a performance benchmark.
3. Private Equity Firms typically manage a number of limited-life funds raised at different vintage years simultaneously and the so-called J-Curve phenomenon makes it difficult to say, whether a 4-year-old fund with a 15% IRR is better or worse than a 7-year-old fund with a 20% IRR.

In a project sponsored by advisory firm Peracs Due Diligence Services, Prof. Oliver Gottschalg from HEC School of Management, has developed a proprietary methodology[1] that makes it

[1] US and International Patents Pending

possible to comprehensively assess the aggregate performance of all funds managed by a Private Equity Firm. The basis for this assessment is the performance of each fund, measured in terms of three complementary performance measures: IRR, DPI (cash-only return multiple) and TVPI (a return multiple that considers accounting values of ongoing investments). We assess performance in each measure both as absolute values and measured against the corresponding performance benchmark, leading to 2*3=6 performance indicators.

These six indicators are then combined for multiple funds based on a proprietary statistical method that considers the empirically-derived historical reliability of performance measured at a given ‘fund age’ as weights. The intuition for this method is as follows: We determined empirically the reliability of performance of funds that are 2, 3, 4… years old. Our sample included detailed data on the evolution of the performance of 492 actual buyout funds over time. Imagine, the performance of a 3-year-old fund predicts its final performance with 35% accuracy, while the performance of a 5-year-old fund predicts its final performance with 70% accuracy. We would then give twice as much weight to performance data of 5-year-old funds than to the performance data of 3-year-old funds in the aggregation. Finally, we combine all six performance measures to a single performance score[2] using a standard statistical method called ‘Principal Component Analysis’. This makes it possible to compare the overall value creation ability of Private Equity Firms across all their funds.

How to Interpret the ‘Aggregate Performance Score’?

The aggregate performance score is neither an IRR-type annual return measure nor a money multiple. It can only be interpreted relative to the average aggregate performance score of all firms we analyzed: An aggregate performance score of 1 means that a given PE Firm has an aggregate performance that is one ‘standard deviation’ above the average performance, which would position it typically at the 85% percentile, i.e. 85% of all firms would have a lower aggregate performance. Also, an aggregate performance score of 2 means that performance is twice as high as for an aggregate performance score of 1. A PE Firm with the average performance has (by design) an aggregate performance score of 0.

How sensitive are the results to the valuation of unrealized investments?

The valuation of unrealized investments has only a small impact on the rankings. First, we only consider funds that are at least four years old. Second, according to our methodology young (with relatively more unrealized investments) funds carry less weight in the performance aggregation than older funds, as we consider that the performance of younger funds is inherently less precise. Finally, two of our six individual performance measures (DPI) consider cash-on-cash performance only and ignores valuations of unrealized investments.

What does the ranking not capture?

The Performance Ranking is backward-looking by definition. It cannot capture recent changes in the strategy, the core team or the fund/deal size of a PE Firm. As such, it may not capture all elements of the current competitiveness of a given PE Firm.

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[2] The extracted factor has an Eigenvalue of 5.1 and captures 86% of the total variance of all 6 performance measures.

LIMITATIONS

The confidential nature of the PE industry makes it impossible to compose a 100% accurate database on private equity and we cannot exclude the possibility of biases in our results due to missing or inaccurate information. However, we rely on the same data sources typically used to compose industry-standard statistics of PE activity and we consider our data by far the 'best available' for this kind of analysis.

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