The AUSTRALIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION Limited

THOMSON REUTERS

Monday, 16 November 2009

[EMBARGO: NOT FOR PUBLICATION BEFORE 16 NOVEMBER 2009]

Australian Private Equity & Venture Capital Performance Measurement Report FY2009

Industry Returns

According to data compiled by Thomson Reuters in association with AVCAL, private equity and venture capital returns declined by 14% during the year to 30 June 2009 (Table 1).

Challenging global financial and economic conditions over this period resulted in this fall in short-term horizon returns.

However, the industry still outperformed the ASX/S&P 300 (Total Return) Index which fell by 20.3% over the same period. The industry's medium-to-long term performance remains steady, with three- and five-year horizon returns at +0.7% and +3.9% respectively.

Venture capital funds in general had a challenging year, returning -37.3% over a 1-year horizon as early stage companies were hit particularly hard by the global financial crisis. The rapid decline in exit opportunities over this period also made it difficult for venture capital funds to realise exit-ready investments.

Private equity funds – with investments in more mature companies and industries – fared somewhat better over this turbulent period, returning -11.6% over a 1-year horizon. Long term performance remained steady, with private equity recording positive pooled IRRs over the 3- to 20-year horizons.

Table 1: Horizon IRR results as of 30 June 2009

Stage	1 YR	3 YR	5 YR	10 YR	20 YR
Venture Capital	-37.3	-6.9	-1	-5.1	-5.1
Private Equity	-11.6	1.6	4.6	6.3	7.6
All Private Equity	-14.0	0.7	3.9	4.6	5.9

Table 2: Australian Private Equity Benchmarks - Cumulative Annualised IRR since inception. Overall results as of June 30, 2009. For funds formed 1985-2009

Stage	No. of funds	Avg	Pooled	Upper	Median	Lower	DPI	RVPI	TVPI
Venture Capital	35	-9.1	-5.1	1.0	-4.1	-15.2	0.27	0.54	0.81
Private Equity	108	3.6	7.7	10.5	3.1	-5.6	0.57	0.63	1.2
All Private Equity	143	0.5	6.0	8.8	1.4	-9.7	0.54	0.62	1.16

The net IRR since inception to 30 June 2009 for the industry was +6.0%. Of the 35 VC funds in the sample, this return was -5.1%, while it was +7.7% for the 108 private equity funds in the sample (Table 2).

Vintage Year Returns

The highest pooled average returns were by funds with from vintage years 2002 and 2004. The year 2002 was also a period of depressed market sentiment, demonstrating that funds invested during previous market downturns have since produced impressive returns for investors. 2004 vintage funds continued their strong performance, consistent with the results reported in 2008 and 2007.

Table 3: Australian Private Equity Benchmarks - Cumulative Annualized IRR since inception as of 30 June 2009, by Vintage Year. For funds formed 1985-2009

Year *	No.	Avg	Pooled	Upper Quartile	Median	Lower Quartile	DPI	RVPI	TVPI
1994	5	-7.6	3.6	6.8	-1.6	-2.9	1.10	0.10	1.20
1996	3	5.8	5.8	6.5	6.4	5.4	0.52	0.66	1.07
1997	7	10.5	9.2	12.5	4.7	-4.8	1.14	0.15	1.29
1998	11	1.6	6.9	17.2	8.4	-17.4	0.70	0.52	1.23
1999	12	5.1	7.7	14.4	5.1	-5.4	0.99	0.34	1.34
2000	15	-9.6	2.3	2.2	-1.8	-19.5	0.70	0.38	1.08
2001	16	5.8	7.7	9	1.1	-2.6	0.67	0.62	1.29
2002	10	-2	10.8	14.7	-11.9	-19.7	0.85	0.45	1.30
2003	4	-13.5	-13.6	9.2	-12.1	-36.3	0.03	0.54	0.57
2004	10	11.4	11.8	25.2	7.9	3.1	0.43	0.87	1.30
2005	14	0.5	4.5	3.9	-0.1	-5.7	0.20	0.90	1.09
2006	14	-3.5	-9.9	8.3	-1.3	-12.3	0.02	0.79	0.81
2007	9	-15.3	-9.3	0.2	-6.6	-21.8	0.02	0.88	0.9

Notes:
1. Vintage years with a sample size of less than 3 funds are not reported here.
2. Vintage year is defined as the year of first reported drawdown by the fund.

Table 4: Horizon IRR results as of 30 June 2009, by Vintage Year.
For funds formed 1985-2009

Year	1 YR	3 YR	5 YR	10 YR	20 YR
1994	N/A	0	1.4	-0.3	3.6
1996	N/A	0.8	-0.3	2.5	5.8
1997	-41.0	-20.6	-14.8	13	9.2
1998	-13.7	1.6	11.2	7.1	6.9
1999	N/A	9.9	13.4	8.1	7.7
2000	-3.9	2.8	11.3	2.3	2.3
2001	10.4	1.9	4.1	7.5	7.5
2002	-33.3	16	13.6	10.8	10.8
2003	N/A	-2.8	-13	-13.9	-13.9
2004	-7.9	2.1	11.8	11.8	11.8
2005	-14	6.7	4.5	4.5	4.5
2006	-22.9	-9.8	-9.9	-9.9	-9.9
2007	-10.1	-9.3	-9.3	-9.3	-9.3

Notes:
1. Vintage years with a sample size of less than 3 funds are not reported here.
2. Vintage year is defined as the year of first reported drawdown by the fund.

It should be noted that although returns information for all vintage years available is presented for comparison purposes, the annualised IRRs for more recent funds — which will have more investee companies still in their portfolios — will not fully reflect realised gains from successful future exits, unlike funds from older vintage years.

Terminology

Term	Definition
Average IRR	The arithmetic average IRR for a sample is the sum of the IRRs for the individual funds in the sample divided by the number of funds in the sample.
Internal Rate of Return: IRR	The IRR is the interim net return earned by investors (Limited Partners) from the fund over a stated period. The IRR is calculated as an annualised effective compounded rate of return using cash flows to and from investors, together with the residual value as a terminal cash flow to investors. The IRR is therefore net of all fees and carried interest. The rates of return analysed throughout the Thomson Financial private equity products are annualised returns unless otherwise stated.
Cumulative IRR	Cumulative annualised returns since fund inception
Horizon IRR	The Horizon IRR allows for an indication of performance trends in the industry. It uses the fund's net asset value at the beginning of the period as an initial cash outflow and the residual value at the end of the period as the terminal cash flow. The IRR is calculated using those values plus any cash actually received into or paid by the fund from or to investors in the defined time period (i.e. horizon).
Lower quartile	The point at which 75% of all returns in a group are greater and 25% are lower.
Pooled IRR	A pooled IRR is a return figure calculated for the entire sample. In other words, instead of using the cash flows of the funds to calculate IRRs for each fund, the sample (and all of the accompanying cash flows) is treated as one fund and one IRR is calculated for it.
Realisation ratios: DPI, RVPI, TVPI	DPI: Distribution to Paid-In ratio. The DPI measures the ratio of distributions to the limited partners compared to the amount of capital contributed by the limited partners. RVPI: Residual Value to Paid-In ratio. The RVPI measures the net asset value of the funds (unrealized gains), compared to the amount of capital contributed by the limited partners. TVPI: Total Value to Paid-In ratio. The TVPI is the DPI and RVPI added together. All numbers reported are pooled averages.
Upper quartile	The point at which 25% of all returns in a group are greater and 75% are lower.
Vintage year	The year of the first reported drawdown by the fund.