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A private equity vintage to remember; Six years on from the financial crash, how well have the boom-time private equity funds of 2006 and 2007 done?

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It is more than six years since Lehman's bankruptcy put an end to the boom years for private equity. The years leading up to the collapse were record-breaking both in terms of the total money raised by buyout firms for European deals and the money they spent.

The heady prices paid for portfolio companies using high levels of debt led many to predict a terrible performance for private equity investments from the time.

But how well did private equity actually fare?

Overall, the data shows that it has been quite a hangover for some. The performance of private equity compared with the public markets has been poor. If an investor had put $100 into large and mid-cap European stocks at the start of 2006 it would now have a tidy $160, according to MSCI. Whereas putting money into a median 2006 vintage Europe-focused buyout fund would leave an investor holding $129, according to Preqin.

But it's by no means all doom and gloom for private equity as those averages hide a wide range of performance. Financial News research on the performance of the biggest Europe-focused funds that were raised in 2006 and 2007 shows that some funds have fared well. These performance figures are critical to firms because they determine whether an investor will give them new money for deals and ultimately whether they survive.

Doughty Hansen topped the list with a 1.5 times multiple for its 2007 fund, which should help in its current fundraising for a €2 billion fund. Cinven generated a multiple of 1.4 times for its 2006 fund. Investors in the buyout firm were clearly happy with its boom-time performance, pledging a fresh €5 billion for deals for the firm's successor fund in 2013 and making it one of the most successful fundraisings since the financial crisis.

Permira's 2006 fund and the Carlyle Group's 2007 European fund also performed strongly, delivering around a 1.4 times multiple for investors. Permira's robust performance is particularly striking given the early difficulties the fund had, with writedowns of several struggling portfolio companies and a €1.4 billion cut to the fund size in 2008. Those early difficulties were one reason that it took the firm three years to raise its successor fund, which closed at €5.3 billion in June.

Healthy returns from EQT Partners, CVC Capital Partners and Equistone Partners Europe meant that all those firms have been successful in raising subsequent funds for European deals.

At the other end of the scale are Terra Firma, Charterhouse Capital Partners and 3i Group, which all delivered below-average returns for investors, according to benchmarks from Preqin. That has fed through to difficulties in fundraising – Terra Firma and 3i have all yet to raise a successor to their boom-time funds. London-based Charterhouse is the exception to that – its 2006 fund has just about managed to return its investors' original money but the firm still raised €4 billion for its last fund in March 2009.

It is worth bearing in mind that when a fund spent its money has a big impact on performance, according to Oliver Gottschalg, a professor at HEC Paris who researches private equity performance. “A fundamental challenge if you are looking at the troubled vintages is that you have huge differences based on when these guys actually deployed the capital. That alone has a dramatic shift on the returns,” he said.

For instance, Charterhouse was quick off the blocks, putting about two thirds of its 2006 fund’s money to work before October 2007, with a consequent knock on the fund’s performance. And many firms, such as 3i, are some way off exiting all the businesses in their funds, so may be hoping that future exits will bump up returns.

Doughty Hanson 2007 Value: 1.5-times cost A fine vintage Size: €3 billion

This fund had delivered an impressive internal rate of return of 10% as of March. Notable deals included the £935 million sale of cinema chain Vue last year, doubling the firm’s initial investment, and the sale of Spanish bus company Avanza last year.

Various sources as at March 2014

Cinven 2006 Value: 1.4-times cost Effervescently sparkling Size: €6.5 billion

Cinven managed to buck the trend with its 2006 fund. Standout deals included the three-times return the firm made from the listing of Dutch cable firm Ziggo in 2012 and its three times return from the float of Partnership Assurance in 2013. Investors were clearly happy, pledging a fresh €5 billion for the firm’s successor fund in 2013.

Source: Washington State Investment Board

Carlyle Europe Partners 2007 Value: 1.4-times cost Full-bodied returns Size: €5.3 billion

Carlyle’s biggest Europe fund has delivered a 9.2% internal rate of return – the amount made per year on investments – helped by the £1 billion listing of Italian company Moncler last year, making a 5.7 times return. Three sales during the buoyant exit market over the past year have also helped increase the value of the fund by 47%.

Source: Calpers at March 2014

Equistone Partners Europe Fund 2007 Value: 1.4-times cost A solid vintage Size: €2.4 billion

The strongest performing mid-market fund on the list. The most notable exit was its €1 billion sale of travel payment group Global Blue to Silver Lake Partners and Partners Group in 2012, while the sales of Hydrasun to Investcorp last year and Allied Glass to Close Brothers Private Equity, both generated a 2.5-times return.

Source: **Palico** at March 2014

EQT 2006 Value: 1.4-times cost A hearty Nordic number Size: €4.25 billion

Already valued at 1.4-times cost, this fund still has about nine businesses left to sell, according to EQT’s website. The fund – primarily invested in the Nordics and Germany – included the €2.3 billion buyout of German academic publisher Springer Science + Business Media in 2009, which was sold to BC Partners last year for about €3.1 billion.

Source: **Palico** at December 2013

Permira 2006 Value: 1.4-times cost Rewarding aftertaste Size: €9.6 billion

After a difficult start, Permira's fund has delivered an 8.6% IRR. Its investments in fashion brand Hugo Boss and Macau casino operator Galaxy Entertainment Group were valued well below par following the crisis but Hugo Boss is now valued at roughly two-times cost and Galaxy generated a 2.8-times return when it was sold in 2012.

Source: Washington State Investment Board at March 2014

CVC European Equity Partners 2007 (Tandem fund) Value: 1.3-times cost A decent aperitif Size: €4.1 billion

Acting as a top-up vehicle to CVC's fourth and fifth European funds, which were raised in 2005 and 2008 respectively, this fund delivered a healthy internal rate of return of 7.3% for its investors partly because the fund's investments were spread over several years rather than just the boom period.

Source: Calpers at March 2014

3i Europe Partners 2006 Value: 1.1-times cost Possible fruity notes Size: €5 billion

With a portfolio of about 25 mid-sized companies when the financial crisis struck, 3i's fund was dependent on strong performance across the board, which never quite materialised. Its valuation has improved from 0.8-times cost in 2012 though, and it still has several companies to exit, such as lingerie retailer Agent Provocateur.

Source: **Palico** at March 2014

Charterhouse Capital 2006 Value: At cost A disappointing vintage Size: €4 billion

Despite Charterhouse's prestigious reputation, this fund delivered an IRR of 1% as at June 2014. It invested about €2.6 billion in the lead-up to the credit crunch and housed deals including a €164 million investment in February 2007 in Drive Assist, which went into administration last year, and Vivarte, in which it lost its €551 million investment last year.

Multiple sources

Terra Firma Capital Partners 2007 Value: 0.65-times cost EMI leaves bitter aftertaste Size: €5.4 billion

Terra Firma's investment in music company EMI Group lost it £1.75 billion when debtor Citigroup seized the company in 2011. It made such a dent in its returns that the firm now provides investors with IRR excluding the deal. The fund has had a few bright spots though – it doubled its money when it sold Phoenix Natural Gas.

Source: Oregon Public Employees Retirement Fund at June 2014

• Methodology

Financial News compiled a list of the 10 largest Europe-focused buyout funds that were raised in 2006 and 2007 from data provider Preqin. We then collected performance data on those funds from US public pension funds and private equity marketplace **Palico**, which collects aggregate data from pension funds through freedom of information requests. Those funds have been ranked by the multiple they have achieved for investors. There are a few caveats. The numbers come from different sources, some of which may ask for different information from funds or crunch the numbers in slightly different ways and report in different currencies. Some funds may also still have assets in their portfolio to sell, so their performance might change.

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