

Press Release



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Private Equity Allocations Will Hold Steady or Rise in Coming Years, According to New Research by BNY Mellon and Private Equity International

*PE market participants remain optimistic about the future of the asset class;
Asian private equity fund managers most bullish on the industry's future*

NEW YORK AND LONDON, May 17, 2010 – Nearly four out of five private equity investors, or limited partners, say their allocations to the asset class would remain at current levels or increase in the coming years, while most private equity firms, or general partners, were optimistic about their future, according to new research released today by BNY Mellon and Private Equity International.

The paper, entitled “*Private Equity Faces the Future: Candid Views from the Market*,” explores the changing relationships between limited partners (LPs) and general partners (GPs) and how this evolving dynamic will impact the market. While economic events of 2008-2009 tested assumptions about private equity performance as well as long-standing relations between LPs and GPs, research shows that private equity clearly remains an attractive asset class. Still, both sides are focused on negotiating ways to address the demands for more clarity on returns, more information about investments, and lower fees.

“While LPs want more private equity, they also want ‘better’ private equity, which means aligning their interests with GPs, as well as improved transparency and reporting,” said Brian Ruane, chief executive officer of BNY Mellon’s Alternative Investment Services group. “In turn, GPs need to adapt to this new environment, which started taking shape even before the credit crisis, by building a sophisticated infrastructure to service investors throughout the economic cycle.”

“Investors today are seeking much clearer evidence that private equity fund managers can create fundamental value in the companies they acquire and can deliver consistent returns in good or bad times,” said Tim Jenkinson, professor of finance at Oxford University’s Saïd Business School and director of the Oxford Private Equity Institute. “For GPs this means launching the next fund will pose a tougher challenge, but for those who can adapt and survive, the result is likely a stronger private equity sector overall.”

Key findings from the paper include:

Optimism Remains Intact

- 79% of LPs say their private equity allocations will hold steady or rise in the years ahead, but average commitment sizes have declined
- Asian GPs were the most bullish about the future of the private equity industry with a score of 4.29 (5 being most bullish and 1 being least bullish), followed by North America (3.83) and Europe (3.62)
- Asian LPs, many of them newer to the asset class, are enthusiastic about upcoming PE opportunities but concerned by tax challenges and often constrained by cautious board overseers. In turn, many North American and European GPs suggest they will head to Asia for the first time to raise funds.

Focus on Realignment of Interests

- LPs and GPs alike expect that management fees and transaction fees will be of highest priority in upcoming partnership term negotiations

- GPs are receiving more extensive requests for information about portfolio companies and the firms themselves. Most expect a fundamental change in the detail and frequency of investor reporting.

Assessing Regulatory Proposals

- Among many regulatory and tax proposals, GPs globally were very concerned about the potentially expensive and restrictive requirements of the proposed European Union Alternative Investment Fund Manager (AIFM) directive
- GPs at small- and medium-sized private equity firms tend to expect a greater and potentially more burdensome impact from proposed tax and regulatory changes than do GPs at the largest firms.

The BNY Mellon/PEI white paper was based on 102 detailed interviews conducted between December 2009 and March 2010 with GPs, LPs and other industry stakeholders. Participants ranged from small niche firms to some of the largest global investing institutions. Half of the respondents were based in North America, 29% in Europe, and 21% in Asia-Pacific. The total private equity capital commitments managed by responding GPs and LPs exceeded US\$425 billion.

To access a pdf of the full report, *Private Equity Faces the Future: Candid Views from the Market*, click on <http://www.bnymellon.com/alternativeinvestmentservices>.

PEI Media provides market intelligence across three asset classes: private equity, real estate and infrastructure. With offices in London, New York and Singapore, PEI Media is the most authoritative and global source of news, analysis and events for alternative investment professionals. The company publishes five digitally integrated magazines, manages what is probably the most extensive set of databases dedicated to alternative assets, runs 22 conferences around the world, publishes a library of 20 books and directories and has a fast-growing training business. The company, founded in 2001, is owned by management. In 2009 PEI Media won the prestigious Queen's Award for Enterprise.

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