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The face of the private equity world is changing as the world "deleverages," a polite term meaning that we all find new and creative ways to operate with radically lower levels of debt—or without it at all. As a result of these changes and the lack of a robust IPO market, our regular operations, be it in the buy-out or venture capital areas, have had to change. In the VC world, one of the great academic questions has always been how much of the profit generated appears to be driven by a robust and enthusiastic public market for new issues. For the buy-out funds, the question has been how much of the return generated is simply due to aggressive use of leverage. In this issue we look at answers to these questions and the latest ways private equity firms are adjusting to the conditions of today. In addition, we revisit two topics of evergreen interest, an in-depth review of "deal terms" as well as two articles from lands far away yet of interest to many of us, India and Egypt.

We start with one of the most overlooked areas in the world of private equity, even though the term "private equity" puts us on notice that we are immediately burdened with a significant limitation. That is, of course, the essential illiquidity of our investments. Most crises, and indeed, the one we are working through right now, are driven by rapacious changes in valuation driven by illiquidity. Liquidity is a major force in any valuation that is exceptionally hard to model due to the inherent volatility that accompanies all of our investments. How many factors have to fall into just the right position to turn an illiquid asset into one that has external value? This list is extensive, with many items solidly out of our control, even on the best day.

Mark Anson tackles the essential challenge of "dis-entangling" liquidity risk and the premium that accrues with it from returns on the underlying asset, such as real estate. He creates a proxy by measuring serial correlation across time periods as a measure of the extent of randomness in the prices for various asset classes over time. As you might expect, currency markets show virtually no serial correlation, large-cap stocks just a bit, but the picture changes with convertible bonds and real estate. He finds the illiquidity premiums estimated for private equity to be quite large. We all think about these factors as we value our investments, and Mark Anson gives us plenty to consider with this review.

How much of the returns we generate are due to the use of leverage versus the positive operational changes we introduce or the gains in value accrued to our companies by increased multiples awarded by public markets? This is one of the essential questions we consider, as we move forward in an era of lesser leverage. Achleitner, Braun, Engel, Figge, and Tappeiner present a dataset of 206 realized transactions that track value creation throughout Europe in the period 1991–2005. The authors separate returns into those caused by leverage, EBITDA (or free cash flow), growth, and multiple effects. Take a guess at the effect debt has on returns prior to looking at this article—their findings may surprise you.

Given the dramatic changes in the industry caused by the financial meltdown, many firms are looking at their management structures and others are looking at deal structures. Adam Moses details how deals can now include earn-outs and seller financing to lessen the amount of third-party debt required. Some deals are even set with all-equity purchases. Will wonders never cease? Read all about it here.

Do you ever find yourself bewildered with the legal terms we all encounter in our various agreements? Don't feel bad, at times you almost need to be a lawyer to understand it all. Most essential is the language, for if you can understand the terms, much of the rest is common sense. Chertok and Braendel have prepared a "cooks tour" of deal language. No doubt you know some of this, but this in-depth explanation can help round out your knowledge.

We conclude this issue with two articles highlighting venture capital and private equity in two specific foreign markets. In the first article, which focuses on Egypt, Abeer Hassan takes the position that governments around the globe are beginning to believe that economic growth can be significantly enhanced by support from private investors who inject capital directly into businesses. Of course, those investors also play critical roles in both the selection of which businesses to fund and the development of the businesses as they grow. This story of the growth of the PE industry in Egypt is a valuable window into the way governments are beginning to awaken to the role of private investment in a nation's economic growth.

Our final article is the report of a round-table event in India that highlights the state of the Indian private equity business. Thillai Rajan moderates these discussions centered around the various levers of value creation, the role of capital markets, the history of the PE/VC industry in India, and a look at the future. India is currently one of the world's most dynamic growth economies and holds great promise for future development. These discussions take you into the heart of the issues as seen by those in-country.

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