Private Equity Spotlight

June 2009 / Volume 5 - Issue 6

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Welcome to the latest edition of Private Equity Spotlight, the monthly newsletter from Preqin, providing insights into private equity performance, investors and fundraising. Private Equity Spotlight combines information from our online products Performance Analyst, Investor Intelligence, Fund Manager Profiles & Funds in Market. This month's issue contains details from our latest publication, The 2009 Preqin Fund Terms Advisor.

Private Equity Fund Terms Special

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Feature Article:
Private Equity Fund Terms and Conditions

The private equity market has experienced a dramatic and well-documented shift between 2008 and 2009, with the changing conditions fundamentally altering LPs' attitudes towards their existing private equity investments and the new opportunities available to them in the fundraising market.

Falling valuations across investment portfolios outside private equity has left some investors over-allocated to the asset class, with many turning to the secondary market in order to reduce their exposure. Others are also considering entering the secondary market in order to reduce exposure to funds for which they will not be able to afford future capital call-ups. For other LPs, the capital available for new investments is significantly reduced in comparison with previous years and earlier estimations. There has also been talk of consolidation within portfolios, with investors seeking to cut down on the number of partnerships they are dealing with in order to reduce administrative burden.

The institutions that do have capital to deploy are faced with a near-record number of fund managers to choose from, with over 1,600 new funds on the road in mid 2009 seeking over $800 billion between them. The congested fundraising conditions – a hangover from the bumper fundraising days of 2006 to late 2008 when many of these funds launched – have shifted the supply and demand balance firmly towards the supply side, with institutional investors wielding more power than ever before when it comes to the negotiation and consideration of fund terms and conditions.

Fig. A:

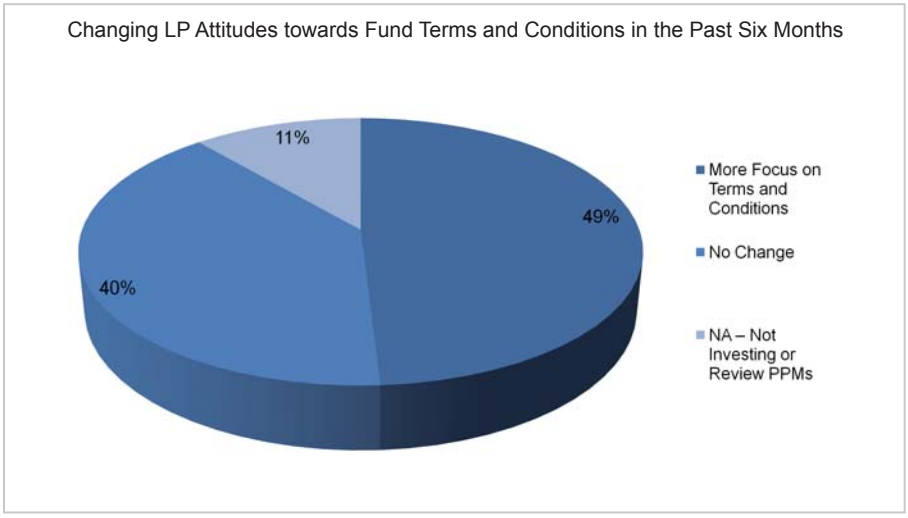


Fig. B:

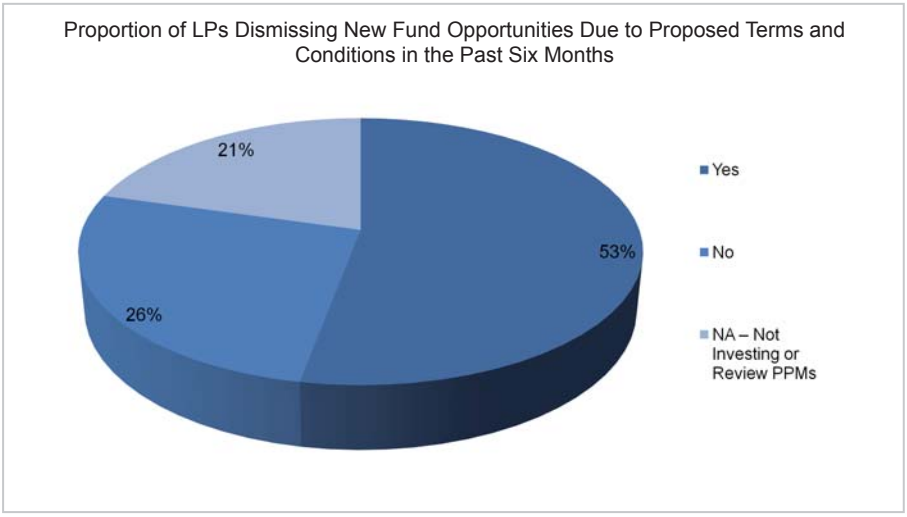


Fig. A reveals the results of Preqin's survey of 50 leading institutions' attitudes towards terms and conditions carried out in April and May of 2009. The evidence is clear: market conditions have led LPs to become far more sensitive towards fund terms and

> *... the result is that investors are not afraid to turn down fund opportunities based on terms and conditions ...*

conditions. A total of 49% of LPs state that terms and conditions have become more important over the past six months, with 40% reporting no change and the remaining 11% currently neither investing nor reviewing PPMs. The result is that investors are not afraid to turn down fund opportunities based on terms and conditions that do not effectively and appropriately align their interests with those of the GP. As Fig. B shows, 53% of investors have dismissed fund opportunities due to the proposed terms and conditions in the past six months.

GPs React

Already there is evidence that GPs are reacting to the changing market conditions. Fig. C displays the trends of management fee rates for buyout funds split into three different size groupings. The most striking feature to note here is the very large drop in the mean management fee for the most recent funds of size $1 billion and over. In comparison to 2008 vintage funds, there has been a drop in the average management fee of more than 25 basis points for funds currently in the market and those of a 2009 vintage. Additionally, the management fee of the average buyout fund less than $500 million in size has fallen below 2% for the first time, and has converged with the average fee of a $500-999 million fund.

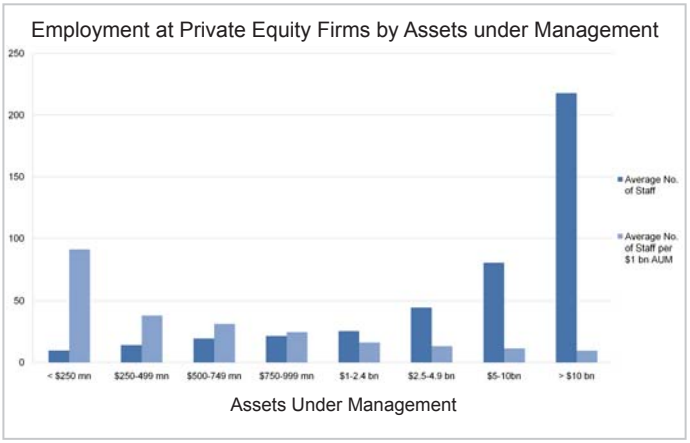
The particularly noticeable drop in management fees for the largest funds reflects that this end of the market has been especially badly hit as credit for leveraged deals has dried up and concerns regarding companies subject to recent mega buyouts continue. LPs are beginning to see an opportunity to realign the balance of interests between themselves and GPs with lower management fees and perhaps place more emphasis on carried interest.

With the increasing average size of buyout funds over the past few years, there have been concerns about the alignment of interests and about profits being driven by management fees rather than performance-related fees. There are clearly economies of scale that GPs can benefit from as fund sizes increase, since the increase in resources required to manage more capital is not linearly proportional to the increase in fund sizes. Fig. D shows this by displaying the average number of staff employed at a private equity firm per $1 billion in assets under management of the firm. (Total assets were used since more information is available on the total number of employees at each firm than on the number of employees working on each specific fund.) As one would expect, this figure decreases steadily as the total assets of the firm increases, going from an average of 91.7 employees per $1 billion for firms that manage less than $250 million to 9.4 for firms that manage more than $10 billion.

Given the challenging fundraising environment, some GPs have responded to the suggestion that larger private equity funds could be run on lower percentage management fees

Fig. C:

Fig. D:



Feature Article: Private Equity Fund Terms and Conditions

by using sliding scale fees, where the management fee decreases on a pro rata proportion of an LP's commitment if the total fund size exceeds a certain amount. While there were many examples of this structure before 2000, subsequently there have been fewer. However, there have been a number of recent examples, and this type of fee structure may continue to increase in popularity again as GPs look to raise capital in a very competitive environment.

Looking to the Future

With fundraising conditions set to remain competitive, LPs will continue to wield considerable power when negotiating partnership agreements, and will continue to walk away from funds with badly aligned terms and conditions. Investors will also be looking carefully at other areas within their limited partnership agreements, such as their rights in the event of dissatisfaction with the managing partners, their say in the running of the fund, and the proportion of transaction fees, directors' fees and other similar charges levied on underlying companies that will be returned to them. Ensuring that proposed terms and conditions meet with the latest industry standards is a more vital consideration for private equity firms than at any other point in the industry's history.

It is worth mentioning that during Preqin's conversations with investors there were a significant number of respondents stating that they would be concerned if management fees for certain fund types were to be lowered, as they see this capital as essential for the good running of the funds in question. Attitudes towards terms and conditions vary considerably between funds of different type and size, while there is also evidence to suggest that many LPs are happy to pay more for funds that have historically performed the best. Clearly the consideration of terms and conditions is complex, and is dependent upon a number of different factors. To this end, we have produced the 2009 Fund Terms Advisor to be as far reaching and informative as possible, covering all possible different aspects of limited partnership agreements across as many different fund types, sizes and vintage years as possible.

The 2009 Preqin Fund Terms Advisor

In order to analyse the latest trends and statistics for private equity fund terms and conditions, Preqin goes to extraordinary lengths in order to collect as much accurate raw data as possible. Preqin analysts have completed questionnaires directly with hundreds of fund managers over the past four editions of this industry standard publication, and have worked with placement agents and fund of funds managers across

Feature Article: Private Equity Fund Terms and Conditions

the world, gaining access to as many PPMs as possible for all different fund types, geographies and sizes across all recent vintage years. This year has been no exception, with the 2009 Preqin Fund Terms Advisor now displaying analysis based on terms and conditions data for 1,189 separate funds. All major fund types are represented, with analysis and listings data for buyout, venture, real estate, fund of funds, distressed debt, secondaries, mezzanine, expansion, infrastructure and natural resources all covered.

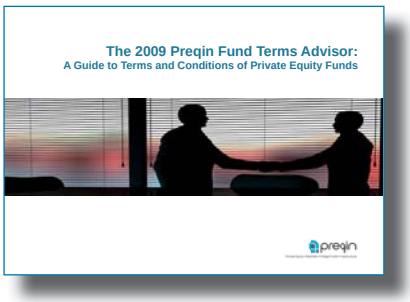
Listings for these funds (with identities disguised) can be found in the publication, and also on our Fund Terms Online module, which is available to all book purchasers. This data can be downloaded to Excel for further analysis, with other powerful features of this online module including the ability to map the real economic effects of proposed terms and conditions with our online Fund Terms Calculator.

Other key features of this year's Advisor include listings for 997 additional named funds showing the net costs incurred by LPs for each vintage year (unlike the detailed listings of fund terms sourced from PPMs and interviews with fund managers, this summary information on total costs is sourced through the Freedom of Information Act. For the first time we will also be including listings for all law firms active in private equity fund formation, including sample past assignments and contact details. This information is also available in the online module.

Tim Friedman

2009 Preqin Fund Terms Advisor: Order Form

With analysis based on the actual terms and conditions of 1,200 private equity funds, the 2009 Preqin Fund Terms Advisor is the most comprehensive guide to private equity terms and conditions ever produced, and is a vital guide for both investors and anyone involved in the fund formation process.



- Comprehensive analysis on all aspects of private equity fund terms and conditions examining how conditions have changed over time, and what variations exist amongst funds of different type and size, changes in fees after the credit crunch, plus much more.
- Actual listings of key terms and conditions for 1,200 vehicles with all key metrics included, plus listings showing net costs incurred by LPs for 1,000 further funds.
- Access to Fund Terms Online to assess economic impact of actual proposed terms
- Results of LP Survey, benchmark terms for all different fund types, plus more...
- Listings for over 100 law firms involved in the fund formation process, including contact details and sample previous assignments.

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Performance Spotlight: Dec 31st Valuations – The Emerging Picture

Right up until the middle of 2008, private equity (meaning buyout, venture, mezzanine, distressed etc.) had a tremendous long-term record of out-performing other asset classes. Whichever way you looked at the analysis – bottom-up from individual fund returns, or top-down from the asset class performance of major pension funds and endowments – the answer was the same: private equity had out-performed other asset classes and been a significant driver of institutions' returns. (Please refer to Preqin's 2009 Global Private Equity Review for further details.)

Looking ahead, there is also widespread optimism that the private equity investments that will be made over the coming few years (once the deals return) will generate excellent returns – repeating the well-observed pattern of great returns from investments made during the exit from recessions.

There has always been one problem, however: December 31st 2008. How bad would the FASB 157 portfolio company and hence fund revaluations be? Would private equity give up all of its previous out-performance? Where would the pain be greatest? Perhaps unsurprisingly, the media has encouraged a pessimistic frame of mind. Commentary focused on the well-documented train wrecks from which private equity was, of course, not exempt. Add in the logic of many investments made near the peak of the market, coupled with high leverage, and the expectations were suitably depressed.

At Preqin we have always taken this pessimism with a generous pinch of salt: sure, December 31st would be ugly, but probably not nearly as bad as many people feared. There would be disasters in individual companies and funds, but private equity as an asset class would probably prove to be much more resilient than many observers expected.

December 31st FASB 157 valuations are now coming through in greater volumes from public pension plan investors in private equity funds, and a picture is emerging. At the time of writing, we have valuations and returns figures for 361 separate funds, spread across a range of strategies, sizes and vintage years, so we can start to answer the key question of how private equity has been affected.

The starting point is the public markets comparison, and Fig. 1 below shows the S&P 500, MSCI All World ex US, MSCI Europe and MSCI Emerging Markets indices over one, three and five years to December 31st 2008. The S&P 500 was down 37% in 2008, while the international indices fared even worse.

Fig. 2 shows how private equity fund valuations changed over the same period, December 31st 2007 to December 31st 2008. The All Private Equity average showed a decline of 17% over the year, and there was a wide range in terms of how different fund strategies were impacted – from an average 11% decline for venture funds through to predictably worse declines for buyout and real estate - 22% decline and 34% decline respectively.

The most critical aspect of private equity investing is the importance of manager and fund selection, and the December 31st figures bear this out yet again: the range in valuation declines across funds was very wide. As Fig. 3 shows, 49% of funds had valuation declines in the range

Fig. 1:

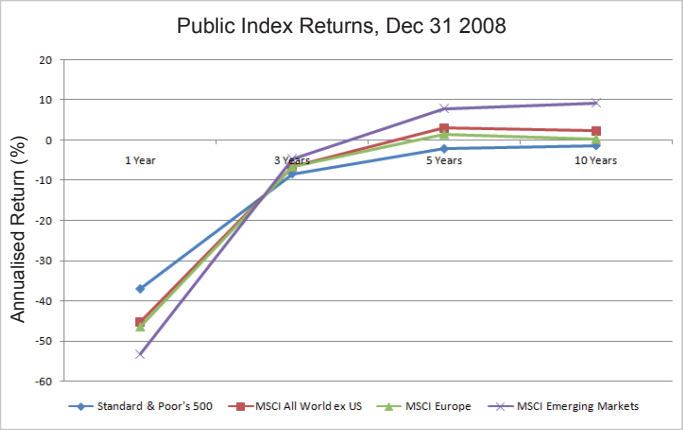
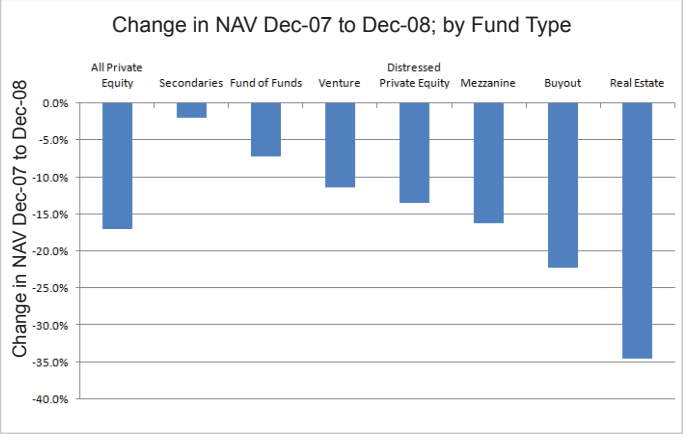


Fig. 2:



Performance Spotlight: Dec 31st Valuations – The Emerging Picture

of negative 10% to negative 40% during the year, but significant proportions of funds saw significantly worse – or better – performance. 14% of funds saw valuations decline by worse than 40% over the year – in other words, similar to the S&P 500's decline. Conversely, 19% of funds saw valuations decline by less than negative 10%; while a remarkable 19% of funds actually saw valuations increase during 2008 (the figures have obviously been adjusted to account for cash calls and distributions).

Buyout funds have been hit hard, and form a significant share of most LPs' portfolios, so further analysis is warranted here. Logic suggests that the most recent vintages – with high entry valuations and generally more leverage – would be hardest hit, and this is indeed the case, as is shown in Fig. 4. Size also matters, with mid-market funds relying on generally less leverage than the mega funds, and also having seen entry valuations increase less in the run-up to the market crash. In fact, this is where the biggest differences appear, as shown in Fig. 5: buyout funds of $7bn and above saw average valuation declines of 35%, while the smallest buyout funds of below $500mn saw more modest average declines of 8% to December 31st 2008.

In summary, private equity has actually fared reasonably well during 2008 – an average valuation decline of 17% is severe enough, but it compares very favourably with the S&P's loss of 37%. Sadly, the analysis confirms that, as expected, the pain has been greatest in the most exposed parts of the market – recent large buyout funds and real estate funds.

Fig. 3:

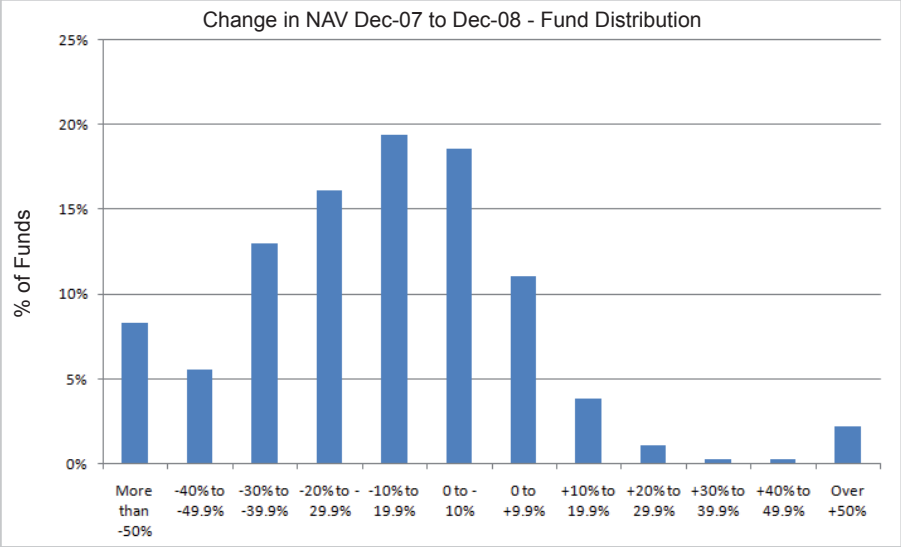


Fig. 4:

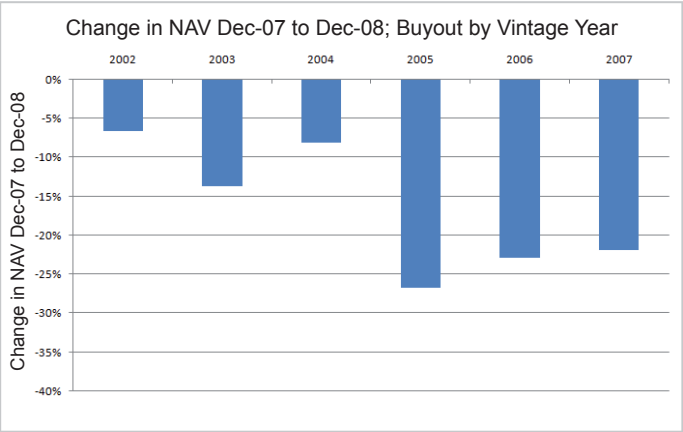
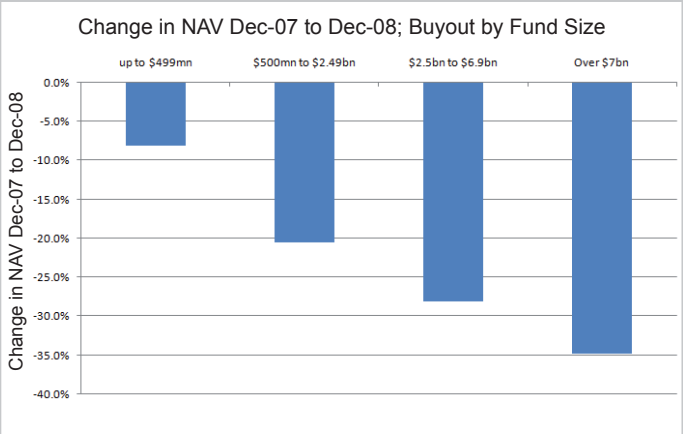


Fig. 5:



Performance Spotlight: Dec 31st Valuations – The Emerging Picture

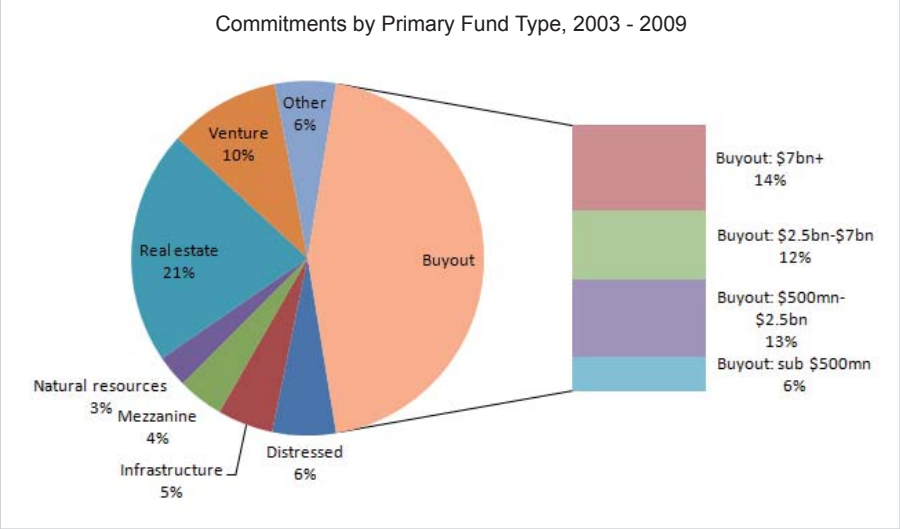
Private equity funds of all types received total commitments of $2.25 trillion globally over the period 2003 to date (counting only primary funds, i.e. excluding fund of funds and secondaries), with real estate funds accounting for 21% of this, and mega buyout funds making up 14%. Sensible LPs will have portfolios diversified across fund type, size and vintage, so the declines that they will have experienced are likely to be close to the 17% average described above.

It is probably still too early to call the bottom of the recession, recent encouraging economic indicators notwithstanding. However, we are probably at least closer to the end than to the beginning, and the evidence on private equity returns is becoming clearer: private equity has not escaped unscathed by any means, but it has still outperformed other asset classes, and is now poised to perform well in absolute terms over the coming years. The model is intact.

Mark O'Hare

Much of the data used in this research has been taken from Preqin's Performance Analyst database. Please contact us if you would like further information on this, or to arrange a trial access to see how you can benefit from the database. In addition, Preqin's Performance Benchmarks are now available free of charge.

Fig. 6:



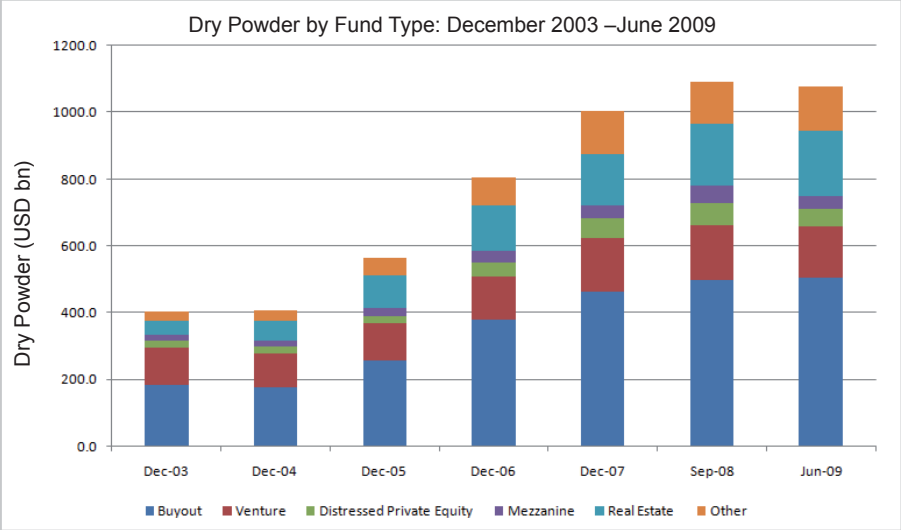
Fund Manager Spotlight: Dry Powder

Every month Preqin examines private equity fund managers to gain some insights into the nature of the industry in different areas and geographies. This month we examine dry powder available across the private equity industry by fund type and across geographic regions.

All information for Fund Manager Profile Spotlight is taken from our Fund Manager Profiles database – the industry-leading product for information on private equity firms worldwide. The product currently features listings for over 4,600 firms, with contact details for over 15,000 top level contacts, and includes such features as league tables by funds raised in the last 10 years and dry powder available. For more information and to register for a free trial, please visit our product page at www.preqin.com/fmp

The amount of dry powder available across the private equity industry remains at a similar level in comparison to recent years, with an estimated $1.1 trillion in dry powder currently available across all private equity fund types. This June 2009 figure mirrors the $1.1 trillion available across private equity in September 2008, and is a slight increase on the $1 trillion in dry powder at the disposal of private equity fund managers in December 2007. The current levels of dry powder available represent a 33% increase in comparison to December 2006, and close to double the amount available in December 2005, a clear indication of the increase in capital in recent years that private equity fund managers have at their disposal to invest.

Fig. 1:



There is currently an estimated $507.3 billion in buyout dry powder available, a slight increase from the $499.1 billion in September 2008, and an increase of 10% in comparison to the $462.2 billion in December 2007. In order to assess the amount of buyout dry powder currently available, it is interesting to note that $50.6 billion

Fig. 2:

Dry Powder by Fund Type: December 2003 –June 2009

Date	Buyout	Venture	Distressed Private Equity	Mezzanine	Real Estate	Other
Dec-03	186.3	109.4	20.8	18.9	40.7	30.1
Dec-04	177.9	102.8	18.6	18.9	57.5	34.2
Dec-05	258.8	111.9	20.1	23.1	100.0	50.1
Dec-06	379.7	130.5	40.3	36.3	134.6	84.7
Dec-07	462.2	161.1	59.8	38.7	152.8	130.3
Sep-08	499.1	162.6	68.8	50.4	185.0	127.1
Jun-09	507.3	153.1	49.6	40.5	194.1	134.6

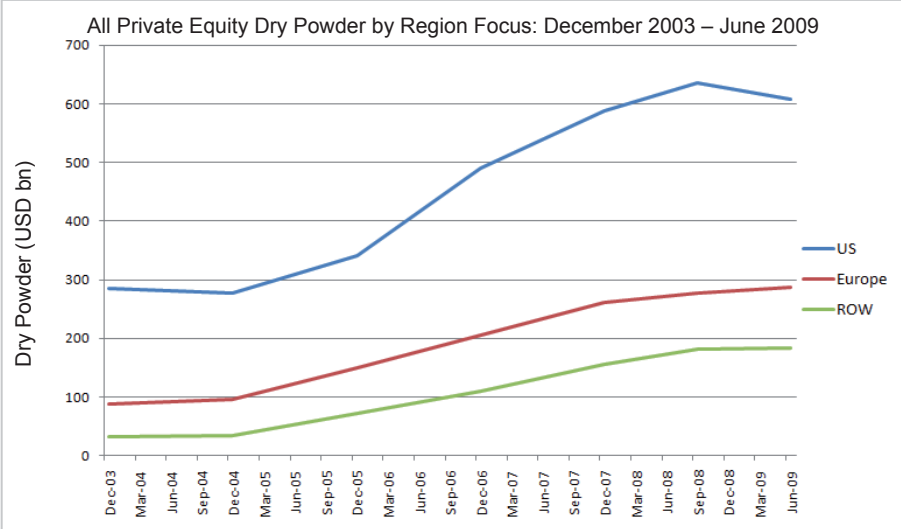
Fund Manager Spotlight: Dry Powder

has been raised globally by buyout funds this year to date, a significant decrease from the $117 billion raised by buyout funds during the same period in 2008. However, despite buyout fundraising falling by 56% globally during this period, deal activity has also plummeted, has led to the levels of buyout dry powder available to fund managers remaining relatively constant in relation to the year before.

Distressed private equity dry powder levels have decreased significantly in comparison to last year, with $49.6 billion in current distressed private equity dry powder representing a 28% decrease in relation to the $68.8 billion available in September 2008, and a 17% decrease in comparison to the $59.8 billion available in December 2007. Distressed private equity fundraising has slowed down dramatically in comparison to last year, with distressed funds having raised $840 million in commitments to date this year, a 96% decrease from the $23 billion raised during the same period in 2008. This difference is primarily due to the absence of mega sized distressed private equity funds being raised this year, whereas 2008 witnessed a number of very large distressed funds raised in anticipation of a wave of opportunities due to the global financial crisis. This near standstill in distressed fundraising during the year to date explains the large drop in distressed private equity dry powder currently available to fund managers.

In addition, the amount of mezzanine dry powder available has also fallen significantly, with $40.5 billion currently available, representing a 20% drop from the $50.4 billion available in

Fig. 3:



September 2008. This decrease in dry powder can also be clarified by looking at the fundraising levels of mezzanine funds, with the $1.1 billion raised by mezzanine funds closing this year to date representing a 95% decrease in capital commitments compared to last year, when $20.4 billion in aggregate commitments was garnered by mezzanine funds.

Venture funds have also witnessed a decrease in dry powder currently available in comparison to 2008, albeit a much smaller drop, with the $153.1 billion in venture capital dry powder representing a 5% decrease in comparison to the $162.6 available in September 2008. In addition, there has been a 5% increase in real estate dry powder in this time period, with $194 billion currently available, an increase from the $185 billion reported in September 2008. Similarly, dry powder in all other remaining types of private equity funds has risen 6%, with $134.6 billion in dry powder in June 2009 in comparison to $127.1 billion in September 2008. These other types of funds include natural resources, balanced and infrastructure funds; however, this does not include fund of funds or secondaries funds, as it would lead to double-counting the capital available in the market.

The US has traditionally been the dominant region in the private equity industry, and historic dry powder levels reiterate this trend, as US-focused dry powder amounts have historically been larger than the amount of dry powder available to invest in Europe or Asia and Rest of World. There is currently $608 billion in dry powder available to invest in the US, representing just over half of the total dry powder available globally. This is followed by $286 billion in European focused dry powder currently at fund managers' disposal, and $184 billion in dry powder currently available in Asia and Rest of World.

Fund Manager Spotlight: Dry Powder

These figures represent 27% and 17% respectively, of the total amount of dry powder available globally. Dry powder amounts have risen steadily across all regions since 2003, levelling off in recent years and remaining relatively constant across all regions between 2008 and present. Whereas dry powder amounts have likely risen in past years due to the increase in fundraising levels seen across private equity between 2003 and 2007, the recent high levels of dry powder available are also due to the global financial crisis creating a difficult market for private equity firms to invest in, forcing dry powder levels to remain constant, despite the reduction of fundraising levels in recent times.

Manuel Carvalho &
Etienne Paresys

New to Fund Manager Profiles - Dry Powder: View historical dry powder across the private equity industry for all private equity fund types and geographic regions. This feature includes in-depth analysis and a comprehensive breakdown of dry powder available historically across buyout, venture, mezzanine, distressed private equity and other fund types.

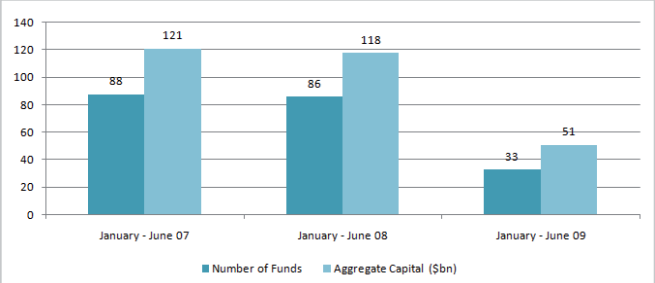
Please visit www.preqin.com for more information and to register for a free trial of our products.

Fundraising Spotlight: Buyout

Buyout Funds on the Road

Funds on the Road	US	Europe	ROW	Total
No. Funds	139	62	60	261
Aggregate Target Size ($bn)	145	34	36	215
Average Size ($mn)	1,040	544	608	823

Final Closes Barometer



Buyout Funds on the Road

Fund	Manager	Size (mn)	GP Location
Blackstone Capital Partners VI	Blackstone Group	15,000 USD	US
Hellman & Friedman VII	Hellman & Friedman	10,000 USD	US
KKR Fund 2009	Kohlberg Kravis Roberts	8,000 USD	US
Candover 2008	Candover Partners	5,000 EUR	UK
Madison Dearborn Capital Partners VI	Madison Dearborn Partners	7,500 USD	US
Clayton Dubilier & Rice VIII	Clayton Dubilier & Rice	6,000 USD	US
Morgan Stanley Capital Partners V	Morgan Stanley Private Equity	6,000 USD	US
Oak Hill Capital Partners III	Oak Hill Capital Partners	4,500 USD	US
Abraaj Buyout Fund III	Abraaj Capital	4,000 USD	United Arab Emirates
Onex Partners III	Onex Corporation	4,000 USD	US

Recently Closed Buyout Funds

Welsh Carson Anderson & Stowe XI

Manager: Welsh, Carson, Anderson & Stowe
Target Size (mn): 3,500 USD
Closings (mn): 1st Close: 2,500 USD (Jun-08), Final Close: 3,700 USD (May-09)
Geographic Focus: North America
Industry Focus: Healthcare, Information Services, Business Services
Placement Agents: Not Used
Lawyer: Ropes & Gray
Sample Investors: CalPERS, California State Teachers' Retirement System, CPP Investment Board, New York State Teachers' Retirement System, New Jersey State Investment Council

2008 Riverside Capital Appreciation Fund V

Manager: Riverside Company
Target Size (mn): 900 USD
Closings (mn): 1st Close: 270 USD (Apr-08), 2nd Close: 550 USD (Jun-08), 3rd Close: 900 USD (Dec-08), Final Close: 1,170 USD (Jun-09)
Geographic Focus: North America
Law Firm: Jones Day
Sample Investors: Maryland State Retirement and Pension System, UniSuper, Ohio Police and Fire Pension Fund, Philadelphia Board of Pensions & Retirement, Conversus Asset Management

Lindsay Goldberg - Fund III

Manager: Lindsay Goldberg
Target Size (mn): 4,000 USD
Closings (mn): Final Close: 4,700 USD (May-2009)
Geographic Focus: North America and West Europe
Placement Agents: Credit Suisse Private Fund Group, Park Hill Group
Law Firm: Weil Gotshal & Manges
Sample Investors: CalPERS, New York State Common Retirement Fund, Florida State Board of Administration, CPP Investment Board, Teacher Retirement System of Texas

AnaCap Financial Partners Fund II

Manager: AnaCap Financial Partners
Target Size (mn): 600 EUR
Closings (mn): Final Close: 575 EUR (Jun-09)
Geographic Focus: Europe
Industry Focus: Financial Services
Sample Investors: New Jersey State Investment Council

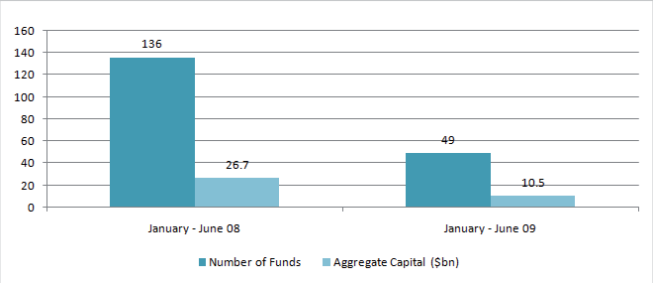
Raffaela Mirai

Fundraising Spotlight: Venture

Venture Funds on the Road

Funds on the Road	US	Europe	ROW	Total
No. Funds	226	110	144	480
Aggregate Target Size ($bn)	47	20	26	93
Average Size($mn)	207	178	184	193

Final Closes Barometer



Venture Funds on the Road

Fund	Manager	Type	Size (mn)	GP Location
Cyrte Investments TMT Fund	Cyrte Investments	Venture (General)	3,000.0 EUR	Netherlands
Invention Investment Fund II	Intellectual Ventures	Early Stage: Seed	2,500.0 USD	US
New Enterprise Associates XIII	New Enterprise Associates	Early Stage	2,500.0 USD	US
China-Singapore Hi-tech Industrial Investment Fund	China-Singapore Suzhou Industrial Park	Venture (General)	1,330.0 USD	China
Riverwood Capital I	Riverwood Capital	Venture (General)	1,250.0 USD	US
Carlyle Asia Growth Partners IV	Carlyle Group	Expansion	1,000.0 USD	US
DIC/First Eastern Investment China Dubai Capital	First Eastern Investment	Expansion	1,000.0 USD	Hong Kong
ECP Africa Fund III	Emerging Capital Partners	Expansion	1,000.0 USD	US
Hudson Clean Energy Partners	Hudson Clean Energy Partners	Expansion	1,000.0 USD	US
Khosla Ventures Expansion Fund	Khosla Ventures	Expansion	1,000.0 USD	US

Recently Closed Venture Funds

Energy Ventures II - Annex Fund
Manager: Energy Ventures
Fund Type: Venture (General)
Closings (mn): Final Close: 85 EUR (Jun-2009)
Geographic Focus: Denmark, Netherlands, Norway
Industry Focus: Technology
Placement Agents: Lazard Private Fund Advisor Group
Sample Investors: KLP, Gjensidige Forsikring, Argentum Fondsinvesteringer

Trinity Ventures X
Manager: Trinity Ventures
Fund Type: Early Stage
Target Size (mn): 300 USD
Closings (mn): Final Close: 200 USD (May-2009)
Geographic Focus: US
Industry Focus: Consumer Services, Software, Business Services, Clean Technology, Network
Sample Investors: San Francisco City & County Employees' Retirement System

New Atlantic Venture Fund III
Manager: New Atlantic Ventures
Fund Type: Early Stage
Target Size (mn): 115 USD
Closings (mn): Final Close: 115 USD (Apr-2009)
Geographic Focus: US
Industry Focus: Technology, IT, Internet
Placement Agents: Prevail Capital
Law Firm: Manatt Phelps & Phillips
Sample Investors: Arizona State Retirement System, BlackRock Alternative Advisors, Adveq Group

Charles River XIV
Manager: Charles River Ventures
Fund Type: Early Stage
Closings (mn): Final Close: 320 USD (Mar-2009)
Geographic Focus: US
Industry Focus: Technology
Sample Investors: Spur Capital Partners

Raffaela Mirai

Fundraising Spotlight: Cleantech

Sample of Large Pure Cleantech Funds Raised in Recent Years

Fund Name	Firm Name	Fund Type	Year Raised	Final Close (mn)	Fund Focus
IEV Capital Renewable Energy	IEV Capital	Natural Resources	2007	USD 1,830	US
Climate Change Capital Carbon Fund II	Climate Change Capital	Balanced	2007	EUR 700	ROW
Climate Solutions Fund	Generation Investment Management	Venture (General)	2008	USD 683	Europe
Element Partners II	Element Partners	Venture	2009	USD 486	US
KPCB Green Growth Fund	Kleiner Perkins Caufield & Byers	Venture	2008	USD 500	US

Fig. 1:

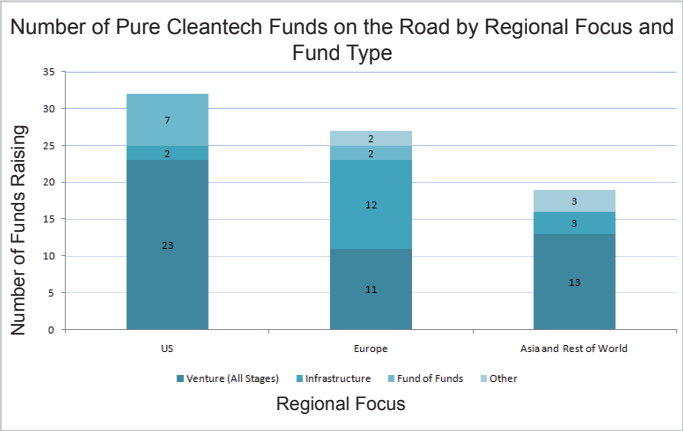


Fig. 2:

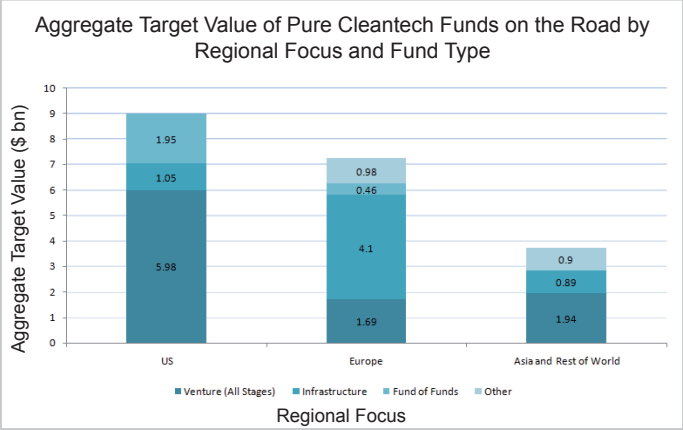
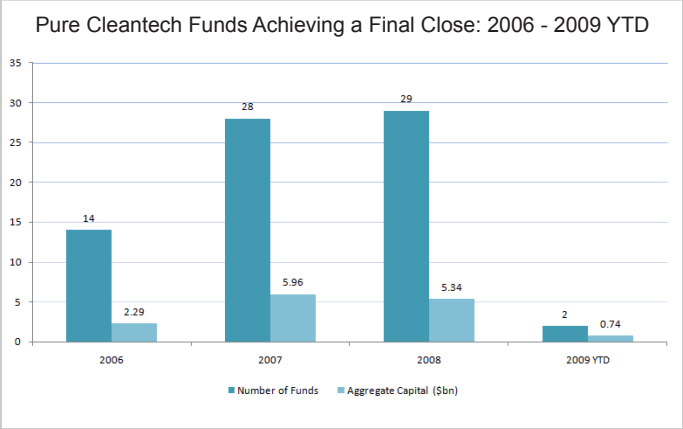


Fig. 3:



Raffaela Mirai

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- Listings for all funds raised historically, funds currently raising, performance metrics for over 50 funds, league tables for biggest firms.
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Investor Spotlight:
LP Interest in Secondary Sales and Purchases

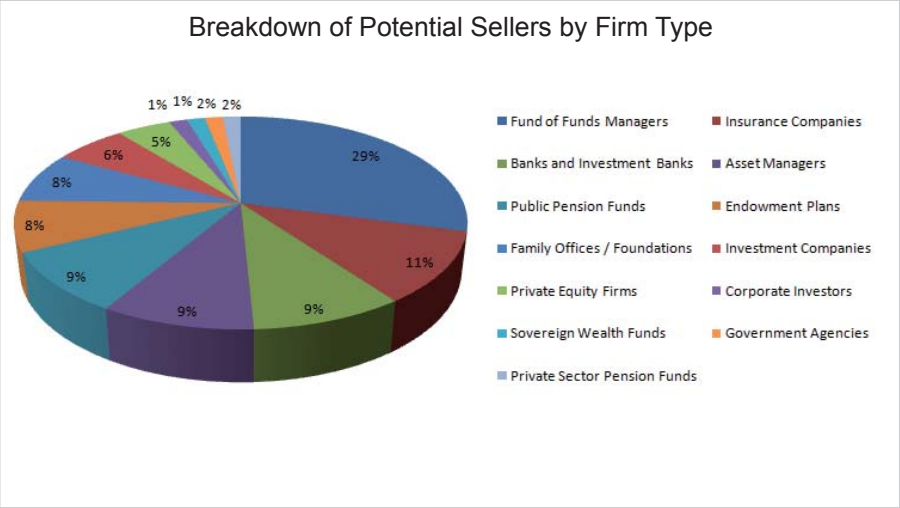
The secondary market has attracted a wealth of interest of late, with transaction volume reaching approximately $20 billion in 2008. The current economic climate and effects of the financial crisis have brought the market to the forefront of the private equity industry.

Despite a number of recent public transactions involving high profile endowments and listed fund of funds vehicles, the secondary market remains relatively secretive. It has therefore proved to be a challenge for buyers and sellers to identify one another.

Preqin has launched its Secondary Market Monitor (SMM) service in order to address this issue and provide much-needed information for LPs and advisors. Preqin's team of research analysts call investors in order to collect information regarding their likely secondary market activity, together with their preferences by fund type and region. With this data, a unique secondary market profile is created and regularly updated for each investor.

So, who are the potential buyers and sellers of secondary interests? At the time of print, the SMM includes profiles for 293 potential buyers of secondary market fund interests and this number is growing daily as Preqin's analysts continue their research. These buyers include detailed profiles for 145 primary and secondary fund of funds managers, but the remaining 51% of potential buyers are comprised entirely of institutional investors. Public pension funds make up the greatest proportion of potential buyers after primary and secondary fund of funds, forming a sizable 11% of the total number. Insurance companies (8%) and asset managers (6%) are additional examples of institutional investors that feature prominently as potential buyers on the service.

Fig. 1:



In addition to the extensive coverage of potential secondary market buyers, the service currently includes detailed profiles for 65 potential sellers of private equity fund interests, representing approximately 10% of the total number of institutions from which Preqin has collected secondary market data.

Primary fund of funds managers form 29% of the total number of potential sellers, while insurance companies (11%), public pension funds (9%) and asset managers (9%) complete the majority of potential sellers (Fig.1). Unsurprisingly, banks and investment banks feature significantly, representing 9% of the number of potential sellers, while family offices and foundations, and endowment plans each form 8%.

In terms of regional base, we have identified 38 potential sellers from Europe, representing 11% of the LPs in that region from which we have collected secondary market data. Of the North American LPs for which we hold secondary market data, 20 are considering selling private equity fund interests, representing 8% of the total from this region. The remaining seven potential sellers are based throughout the rest of the world and constitute 16% of the LPs outside Europe and North America from which we have gathered data regarding secondary market activity. Based on these figures and the total number of LPs listed on Preqin's Investor Intelligence database, we estimate there to be up to 450 significant sellers worldwide.

A major barrier to LPs selling is the collapse in secondary market prices. Sellers of fund interests are understandably unwilling to accept the large discounts to NAV currently being offered by the buyers. The price

Investor Spotlight:
LP Interest in Secondary Sales and Purchases

at which listed private equity funds trade provide a good proxy for tracking secondary market pricing. Fig. 2 charts the discounts and premium at which listed private equity has traded since 2004 and shows that the asset class is currently trading at discounts of between 30% and 65%.

Many LPs face a challenge in knowing what their portfolio is actually worth and this is where the SMM can help. LPs can obtain a Preqin Price Indication (PPI) totally confidentially, and can also obtain a Third Party Price Indication (TPPI) if they are interested in selling and wish to receive indications from potential buyers and advisors, including leading secondary specialist NYPPEX, who guarantee to give a price indication on every portfolio submitted for TPPI. Best of all, this service is completely free of charge. Our objectives are to give LPs a realistic assessment of secondary market values so they can make strategic decisions on their portfolios. We also provide a confidential way for LPs to test the water with buyers and advisors, and place selling LPs in touch with potential buyers and advisors, thus providing them with deal flow.

The SMM has made an impressive start since its launch in mid-May, attracting a great deal of interest in the free pricing indications it offers to LPs. A total of 53 LPs have so far been approved to use the LP standard and premium SMM services, including several major LPs. The greatest proportion (53%) are large institutions, managing total assets of between USD 10 billion and USD 100 billion (Fig. 3). Furthermore, 17% of SMM users manage assets in excess of USD 100 billion. However, smaller investors have also shown an interest in the service, with those institutions managing up to USD 1 billion in assets representing 13% of the total number of SMM users. Furthermore, LPs of all types have shown an interest in the service. While the SMM user base is not dominated by any particular institutional type, public pension funds (19%), asset managers (15%) and

Fig. 2:

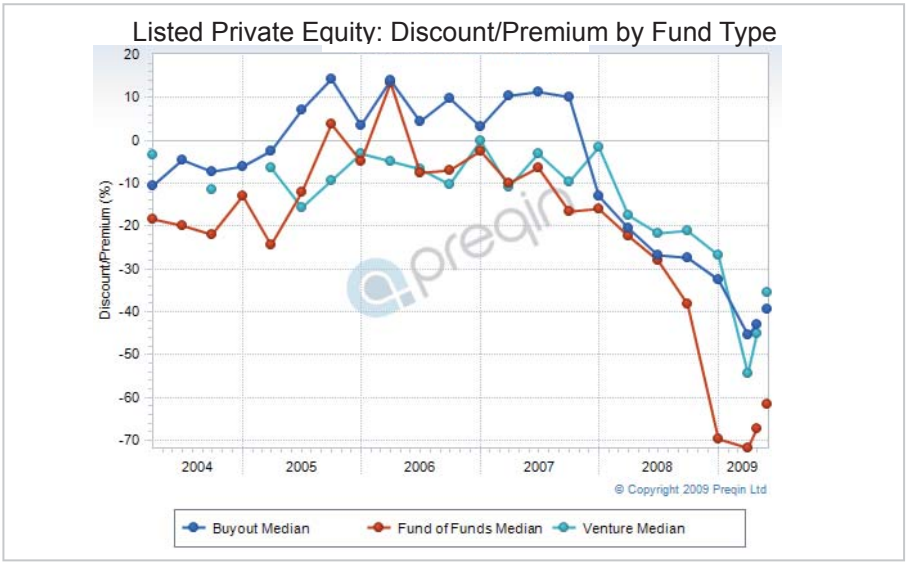
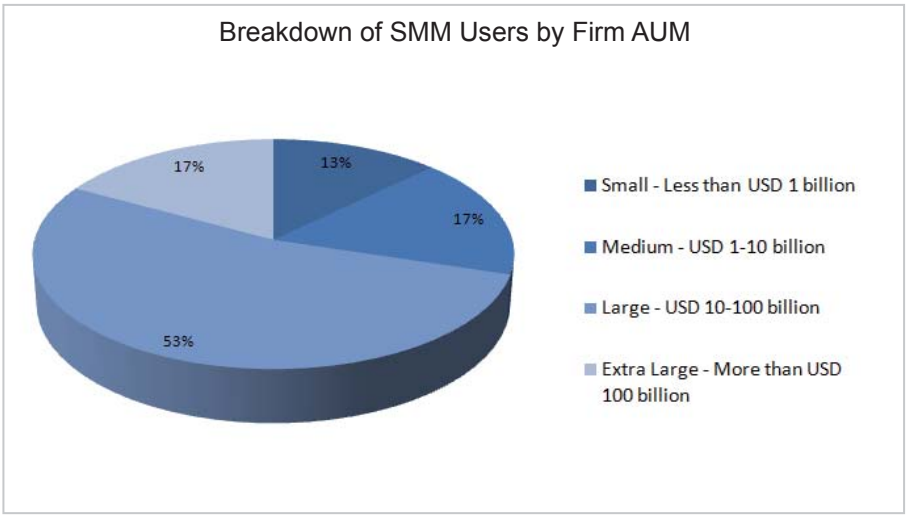


Fig. 3:



Investor Spotlight: LP Interest in Secondary Sales and Purchases

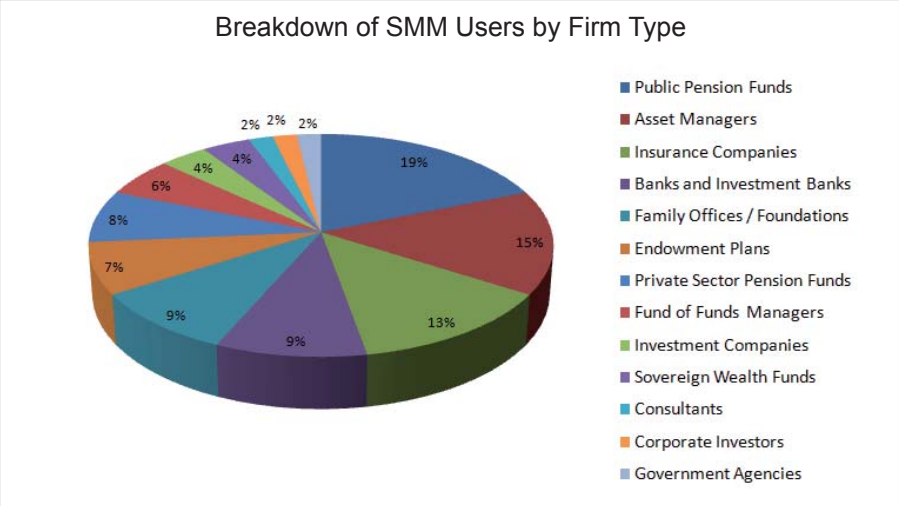
insurance companies (13%) feature prominently (Fig. 4).

The SMM appeals to an international audience and while the majority of initial interest has come from institutions based in North America (66%), 17% of SMM users are based in Europe, while the remaining 17% are based throughout the rest of the world.

The SMM seems set to become a key platform informing LPs on the secondary market, helping them to decide their strategy and connect with advisors and counterparties.

LPs are welcome to register for this free service. Please visit: www.preqin.com/secondaries.

Fig. 4:



Kerry Pogue

Conferences Spotlight: Forthcoming Events

Featured Conferences:

How to Benefit in 2009's Secondary Marketplace

Who the Sellers & Buyers Are, What They're Waiting for, & What Their Tipping Point Will Be

Date: July 23, 2009
Location: New York City
Sponsor: The Capital Roundtable

The Capital Roundtable is America's leading conference company for the middle-market private equity community, focusing on the "need-to-know" information needs of general and limited partners, and their teams. Our conferences are regularly praised as among the best-managed and best-attended in the alternative asset industry.

Information: www.capitalroundtable.com/masterclass/mc_2009-07-09

Investments in Microfinance

Date: 7-9 July, 2009
Location: Hilton Euston Hotel, London
Sponsor: Hanson Wade

This is your chance to examine the latest models and techniques being used to manage risk and leverage your investments. You'll examine key techniques being used by MFIs, Investors and Banks to ensure that investment returns are truly sustainable. You'll walk away with targeted investment strategies and portfolio management solutions.

Information: www.leadersinfs.com

SuperReturn Emerging Markets

Date: 29 June - 2 July 2009
Location: Intercontinental Hotel, Geneva

The private equity & venture capital conference covering the hottest emerging, converging and frontier markets such as Middle East, Africa, Russia, CEE & CIS, Latin America and Asia. Learn from and meet the top investors and managers in these new and exciting markets in one place. 100 international speakers, including 50 LP speakers.

Information: www.icbi-events.com/srempreqwb

Capital Creation 2009

Date: 15-17 September 2009
Location: Le Meridien Beach Plaza, Monte Carlo, Monaco
Sponsor: WBR

Uncover the hard fact behind industry developments and trends the join the discussion to build a complete picture of key strategies for success in 2009. Meet over 270 LPs and GPs to find out what new strategies will ensure success in the post-recession world.

Information: www.wbresearch.com/capitalcreationeurope/home.aspx?cm_mmc=UK%20Affiliate-_-UK%20Listing-_-11718.003-_-Preqin

Conferences Spotlight: Forthcoming Events

Other Conferences:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Private Equity Tax Practices 2009	15 - 17 June 2009	Boston	IIR USA
Buyouts Chicago: Fundraising & Deal Financing	16 June 2009	Chicago	Buyouts Conferences
The 2009 New York Venture Summit	17 June 2009	New York	YoungStartup Ventures
CleanTech Innovation Marketplace	18 - 19 June 2009	Barcelona	International Business Forum
The PEI Africa Forum	18 - 19 June 2009	London	PEI Media
FundForum International 2009	22 - 25 June 2009	Monaco	ICBI
India PE Fund Forum 2009 – Navigating in Turbulent Times	23 June 2009	Mumbai	IVCJ
Limited Partners Summit 2009	23 - 24 June 2009	New York	Dow Jones Events
Investing in Distressed Debt	24 - 25 June 2009	London	IIR Events
Financing the Cleantech Vision	25 June 2009	Silicon Valley	Buyouts Conferences
SuperReturn Emerging Markets 2009	29 June - 1 July 2009	Geneva	ICBI
2009 Investment Forum for Endowments, Foundations and Pension Funds	July 2009 (date tbc)	Toronto	Argyle Executive Forum
Investments in Microfinance 2009	7 - 9 July 2009	London	Hanson Wade
The PEI Strategic Financial Management Conference	15 - 16 July 2009	New York	PEI Media
Secondary Markets	23 July 2009	New York	Capital Roundtable
2009 Investment Forum for Endowments, Foundations and Pension Funds	September 2009 (tbc)	New York	Argyle Executive Forum
Capital Creation 2009	15 - 17 September 2009	Monte Carlo	Worldwide Business Research
FundForum Latin America	15 - 17 September 2009	Sao Paulo	ICBI
Annual Institutional Investor Summit	15 September 2009	New York	iGlobal
Succeeding at Fundraising	16 September 2009	New York	Capital Roundtable
SuperReturn Asia	21 - 24 September 2009	Hong Kong	ICBI
9th MedTech Investing Europe Conference	28 - 29 September 2009	London	Campden Conferences
SuperReturn Middle East	11 - 14 October 2009	Dubai	ICBI
EVCA Venture Capital Forum	14 - 16 October 2009	Berlin	EVCA
Emerging Managers Summit South	15 - 16 October 2009	San Antonio	Opal Financial Group
European Alternative & Institutional Investing Summit	19 - 21 October 2009	Monte Carlo	Opal Financial Group
FundForum Middle East	19 - 22 October 2009	Bahrain	ICBI
European Leveraged Finance Conference	21 October 2009	London	SIFMA
Private Equity World Africa 2009	26 - 29 October 2009	Johannesburg	Terrapinn
The Emerging Markets Private Equity Forum 2009	3 - 4 November 2009	London	PEI Media
14th CEE Private Equity Forum	5 - 6 November 2009	London	C5
9th Annual Super Investor	17 - 20 November 2009	Paris	ICBI

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2008 Fund Terms Advisor	✓	✓	✓		$1,495 / £775 / €950		$180 / £95 / €115	
2008 Infrastructure Review			✓		$795 / £395 / €495		$180 / £95 / €115	
2008 PERE Fund of Funds Review		✓			$795 / £395 / €495		$180 / £95 / €115	
Sovereign Wealth Fund Review	✓	✓			$595 / £295 / €385		$90 / £45 / €60	
2009 Global Private Equity Review	✓				$195 / £95 / €125		$90 / £45 / €60	
2009 Real Estate Distressed & Debt Review		✓			$795 / £395 / €495		$180 / £95 / €115	
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Investor Spotlight: LP News

Parish Capital Advisors has appointed Joe Topley to head a newly created platform which will see the fund of funds manager become a more active buyer of secondary market private equity fund interests.
The USD 1.6 billion fund of funds manager has historically been an opportunistic buyer of private equity fund interests but hopes to become more active given the volume of available secondary market investment opportunities. Joe Topley previously worked as a senior investment executive at Greenpark Capital before heading a secondary market division at Nomura International.

Amanda Capital has sold limited partnership interests in two vintage 2007 private equity vehicles on the secondary market.
The Finnish fund of funds manager sold EUR 15 million of its EUR 20 million commitment to Amanda IV West, its own fund of funds vehicle, and its entire EUR 5 million commitment to MB Equity Fund IV, a Finnish buyout fund. The buyers of the fund interests were Finnish institutional investors. The sale reduced the fund of funds manager's future capital calls from EUR 53.4 million to EUR 35 million, and its over-commitment level from 215.3% to 165.8%.

Merrill Lynch has sold a portion of its stake in EVP III (Kreos Capital III).
Merrill Lynch was the sole investor with its commitment to the 2006 vintage venture debt fund, but agreed to sell 35% of its stake within 2-3 years of the fund's life in order to increase the size of EVP III's investor base. The sale of EUR 150 million of the original commitment was completed in Q1 2009 to a group of five investors led by Paul Capital Partners. The remaining four investors in the group comprised AIG Investments, HarbourVest Partners, Access Capital Partners and SVB Capital. Azla Advisors, the secondary market intermediary, carried out the transaction process, having conducted a bottom-up due diligence of the 75 operating companies in EVP III's portfolio, and created a structured transaction favourable to all parties.

Formuesforvaltning plans on investing in 5-10 vehicles over the next 12 months.
It expects to invest NOK 0.5–1 billion across these funds, and these investments are to be made mostly with its existing managers as well as a number of new managers. The NOK 26 billion pension fund is no longer investing in fund of funds vehicles, despite having done so in the past. It invests in a variety of fund types, inclusive of buyout, distressed debt, mezzanine and venture, although it only invests in venture vehicles that have a focus on the Nordic region.

Pensionskasse der UBS plans on investing an additional EUR 75-300 million in private equity over the next 12 months.
The Swiss pension fund is an active investor in the private equity asset class, and invests in a wide variety of fund types on a global basis.

Royal County of Berkshire Pension Scheme is increasing its allocation to private equity.
The GBP 1.1 billion scheme has decided to target a 10% allocation to the asset class, having previously aimed to assign 5% of its total assets to private equity. The extra capacity will primarily come from a decreased exposure to listed equities. Royal County of Berkshire Pension Scheme has a strong preference for fund of funds, as it favours gaining diversity across geographic regions and fund types, and has established relationships with managers such as Partners Group and Adams Street Partners. The pension scheme has identified a number of commitments it will look to make with both new and existing managers during the next 12 months.

Pantheon Ventures' subsidiary, the listed vehicle Pantheon International Participations (PIP), has entered into various agreements with institutional investors which will see the sale of a number of its fund interests.
The transactions will reduce PIP's unfunded commitments by 30%, from GBP 687 million to GBP 481 million. The secondary market offering had a net asset value as of March 2009 of GBP 121 million, but PIP only expects to receive proceeds of approximately GBP 46 million. The agreements are conditional upon receipt of consents for the transfer of the fund interests.

Los Angeles Fire and Police Pension System (LAFPP) has terminated its contract with Aldus Equity.
The USD 10 billion public pension fund has taken this course of action as a result of Aldus Equity's alleged involvement alongside one of its founding principals in the 'pay-to-play' scheme uncovered at New York State Common Retirement Fund. A decision has yet to be made on whether to expand the scope of LAFPP's other private equity consultant, StepStone Group, which is the pension fund's private equity special fund investments advisor. In February 2009, the pension fund announced intentions to slow its pace of investment in private equity, and planned to commit approximately USD 350 million to the asset class in the following 12 months.

Each month Spotlight provides a selection of the recent news on institutional investors in private equity. More news and updates are available online for Investor Intelligence subscribers. Contact us for more information - info@preqin.com