

# Private Equity Spotlight

September 2007 / Volume 3 - Issue 9

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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 & Funds in Market.

## Feature Article

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**Private Equity Real Estate Still Booming** but increased competition is set to make fundraising conditions considerably harder in 2008. We examine the reasons behind the industry's continued growth, with forecasts and predictions for the coming year.

## Performance Spotlight

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**How Good Are Your Benchmarks?** Benchmarks are vital for a range of purposes, including strategic asset allocation, tactical investment decisions, and competitive comparisons. How can you be sure the benchmarks you use are as accurate as possible?

## Fundraising

page 08

This month's Fundraising Spotlight examines the latest data for buyout and venture funds, and also takes an in-depth look at mezzanine fundraising.

No. of Funds on Road	US	Europe	ROW	Total
Venture	226	99	104	429
Buyout	137	55	27	219
Fund of Funds	83	57	10	150
Real Estate	138	58	16	212
Mezzanine	22	11	3	36
Other	69	22	34	161
Total	675	302	194	1171

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Fleet House, 8-12 New Bridge Street, London. EC4V 6AL

Tel: +44 (0)207 822 8500 w: [www.preqin.com](http://www.preqin.com)

## Investor Spotlight

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### Know Your Investors

This month we examine how the typical make up of investors in closed funds varies with size and type. We show how effectively targeting the right investors is essential in order to raise a fund as successfully and efficiently as possible. Featuring information from the recently upgraded Investor Intelligence database.



## Investor News

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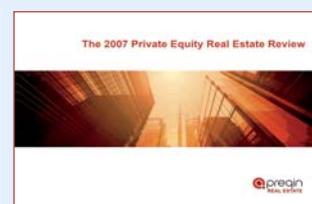
All the latest news on investors in private equity:

- TRS has issued an RFP
- Lexington Partners preparing biggest secondary fund
- Harvard Management Company experiences high returns
- Régime de retraite de l'Université du Québec reviewing its alternative asset investment policy
- Kensington Capital Partners announces secondary purchase of fund

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The 2007 Real Estate Review

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# Feature Article: Private Equity Real Estate Still Booming

The growth experienced by the private equity real estate industry over recent years is unparalleled in the history of the asset class. From a niche sector in the overall private equity universe, real estate funds have now grown in stature, and are currently second only to buyout funds in terms of capital raised.

2006 proved to be a record breaking year for real estate fundraising, with a total of 116 funds achieving final closes, raising an aggregate \$72bn in commitments. This record looks set to be beaten again however, as by August 2007 a total of \$50bn had already been raised over the first eight months of the year.

Investor appetite for the asset class has been the driving force behind this growth, as existing investors increase their allocations, and new investors continue to make their maiden investments. The average allocation to real estate amongst current investors is 4.6%, with the average target allocation to real estate a significant 1.1% higher at 5.7%.

It is clear that there is potential for even greater growth over the coming years; in fact a survey undertaken in the course of gathering data for the Real Estate Review indicates that an overwhelming 78% of investors plan to increase their allocations

to private equity real estate in the medium to long term. Managers raising new vehicles will also be encouraged by figures indicating that 72% of existing investors are currently short of their target allocations, with only 3% unlikely to invest over the next two years.

The forces driving this growth in investor appetite are clear: strong, steady performance. Median IRRs of private equity real estate funds have been excellent, varying between 8% and 12% for funds of vintages 1996-1999 and between 16% and 26% for funds of vintages 2000 to 2004. These returns are amongst the best in the industry, with median performance consistently exceeding the Preqin All Private Equity Benchmark, also beating the buyout performance for funds of all but two vintage years since 1998.

Fig. 1: Investors' Current Portfolio Situation

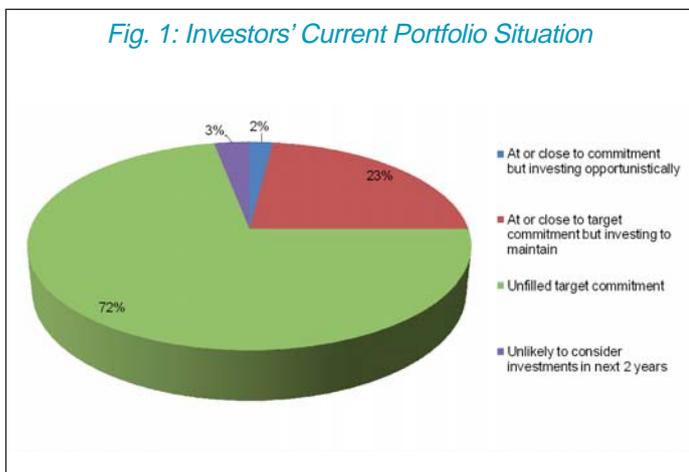
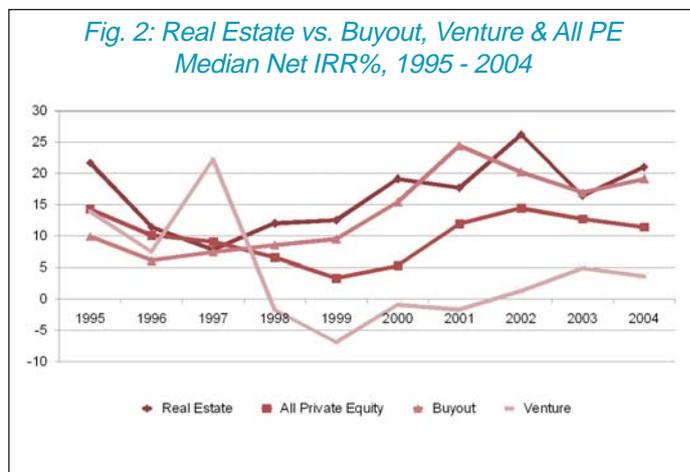


Fig. 2: Real Estate vs. Buyout, Venture & All PE Median Net IRR%, 1995 - 2004



**“... These returns are amongst the best in the industry, with median performance consistently exceeding the Preqin All Private Equity Benchmark, also beating the buyout performance for funds of all but two vintage years since 1998...”**

The dispersion of individual fund performance is characterised by a relatively small standard deviation around the median, meaning that although real estate funds are unlikely to produce the incredible returns that the top performing venture and buyout have, real estate funds are relatively unlikely to provide negative returns to their investors. Only 5% of real estate funds raised over the past twenty years have produced negative IRRs, comparing favourably with venture (39%) and buyout (17%).

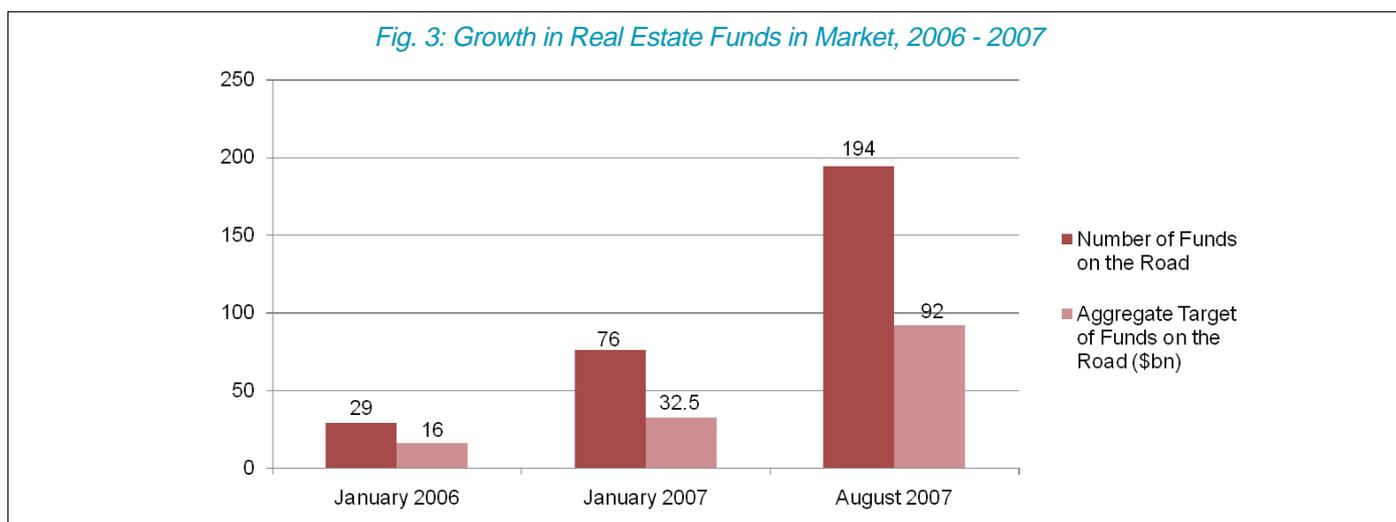
With such a strong track record driving ever increasing investor enthusiasm for real estate funds, the future for the industry is certainly looking good. Fund managers have responded to the high demand, and there are currently more vehicles on the road than at any other point in the history of the asset class. Quarterly fundraising has been steadily increasing, and with such an excellent stock of new vehicles on the road, and with investor appetite at a high level, we predict that 2007 will be another record breaking year.

In terms of aggregate capital commitments, we predict that \$75 - \$85 billion will be raised by 90 - 100 funds at year end for

2007, and with an increased level of funds in the market, and with average fund sizes continuing to grow, we expect 2008 to match if not exceed the total raised in 2007. We predict a further \$80 - \$100 billion to be raised over the course of 2008 from a similar number of vehicles, with mega-sized funds accounting for a significant proportion of this total.

However, although overall strong fundraising levels are set to continue, conditions for managers raising new vehicles are set to become more demanding in 2008 and beyond.

The private equity real estate industry has grown dramatically over the past three years, with strong and steady returns leading to high levels of investor appetite and demand for new vehicles. Real estate managers have been able to raise new vehicles at a frenetic pace - In January 2006 the aggregate target of funds on the road was \$16 billion, but over the course of the year a total of \$72 billion was raised. With so much demand for new vehicles fund managers were able to gather commitments in record time, and the stock of new vehicles on the road, although healthy, was relatively low in comparison with the huge levels of capital being raised.



# Feature Article: Private Equity Real Estate Still Booming

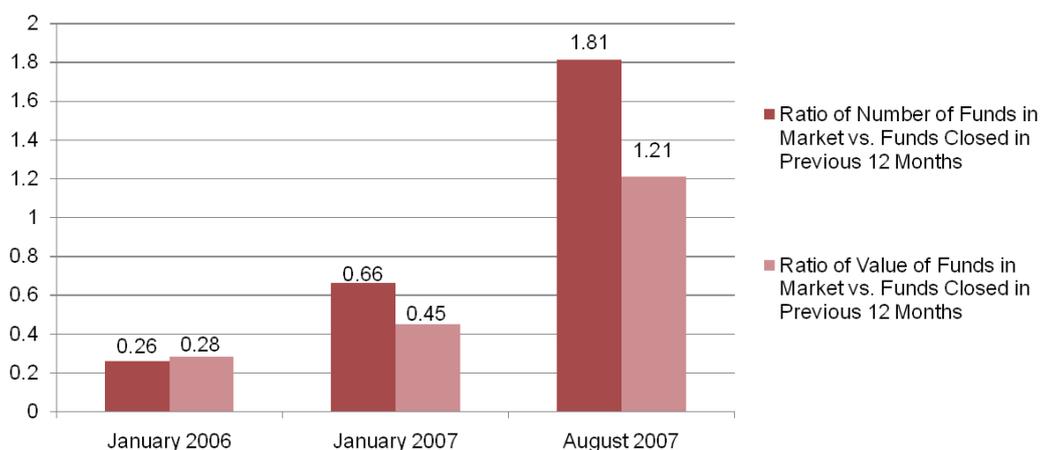
First time fund managers, who have traditionally found fundraising to be a demanding process have enjoyed great success, with 28% of funds closed in the period 2006 - August 2007 being raised by newly established firms. When this is compared with the figure of 13% for the private equity industry as a whole, it becomes clear just how buoyant the real estate fundraising market has been. Managers of all sizes and levels of experience have been able to raise capital in an environment where the reasonably low stock of funds on the road has ensured that all managers have been able to make themselves heard, enabling them to achieve, if not exceed, their targeted fundraising.

However, there is evidence that the fundraising environment is beginning to change. Whereas in the past the level of funds on the

road has represented only a few months of fund closes in terms of aggregate fund value, there is now a much greater level of competition in the market. The aggregate target value of the 194 funds in market currently stands at \$92 billion, representing just over one year's worth of fund closes. This is still a manageable level, but does indicate that that managers may find it more difficult to gain the attention of investors in a more competitive market.

The appetite for new funds is still high, but with an increased number of firms vying for investor's attention and commitments, careful targeting of LPs and an effective marketing campaign will become more important than ever in 2008 and beyond.

*Fig. 4: Ratio of Funds in Market vs. No. Funds Closed Previous 12 Months, 2006 - 2007*



*The data and analysis in this month's feature article is taken from the 2007 Private Equity Real Estate Review. Released in September, this year's Review is bigger and better than ever, featuring detailed analysis and data for all aspects of the private equity real estate industry, with information on fundraising, fund terms and conditions, performance and investors.*

*For more information please visit: [realestate.preqin.com/RER](http://realestate.preqin.com/RER)*

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The 2007 Private Equity Real Estate Review is the leading source of information on the private equity real estate industry, and is an essential purchase for all real estate professionals.

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# Performance Spotlight: How Good Are Your Benchmarks?

**User requirements:** performance benchmarks are widely used by private equity professionals on both sides of the table, for a range of purposes, including strategic asset allocation, tactical investment decisions, and competitive comparisons. The usefulness of the benchmarks used depends upon a number of factors, principally the following:

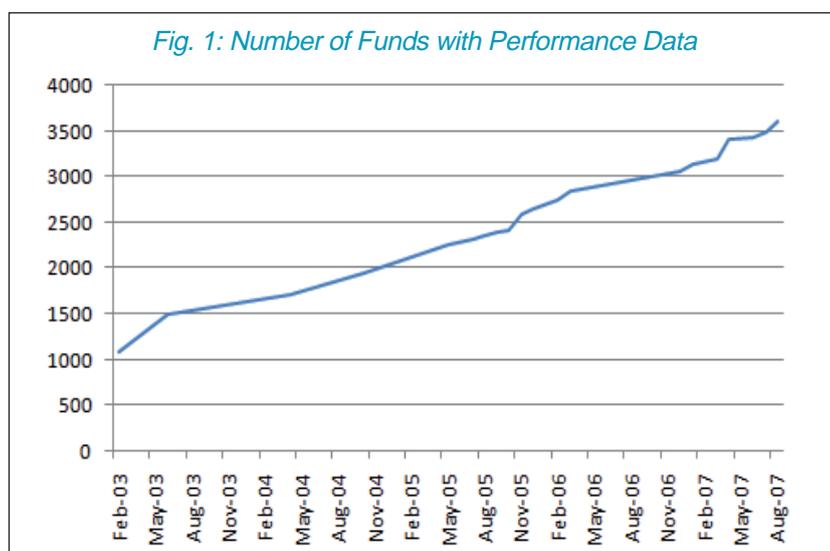
- **Coverage:** how many funds are included in the benchmark? Does it give good coverage of the total fund universe?
- **Sample:** is the benchmark based upon an unbiased sample of funds, so that it gives a fair representation of the performance of the asset class as a whole? Or, is it biased in some way – i.e. is it likely to over- or under-state the true performance of the universe of fund investment opportunities?
- **Transparency:** a benchmark is fine, as far as it goes, but often asks as many questions as it answers. Can you drill down to see the actual composition of the benchmark? Can you select a peer group of funds that are truly comparable in terms of size,

location, and investment focus? Can you see the performance of individual named funds?

**Performance Analyst Database:** how does Preqin's online database of net fund returns stack up against these key user requirements? Coverage has grown rapidly: when the service was launched in March 2003 we had performance data for 1,086 funds, and as of August 2007 the tally has risen to 3,614 funds. Not only is this by far the largest collection of funds for any private equity service of this nature, but the total is also continuing to increase rapidly as further public and proprietary data sources become available to us.

How big a sample does this represent of the total investable universe of private equity funds? Opinions vary on the total size of the universe, but our records suggest that there have been a total of just over 8,000 private equity funds of all types worldwide since 1982, when our records start (NB this includes only funds that are now fully closed – i.e. it excludes a further 1,167 new funds that are currently on the road being raised.) In

other words, Performance Analyst now has returns data for 45% of all private equity funds over the past 25 years. However, this understates the actual coverage of the database. We generally tend to have returns data for more of the larger funds, so that our coverage as a percentage of the value of the investable universe – surely the most relevant measure for LPs and GPs alike – is significantly higher. Fig. 2 shows our coverage of the universe of US and European private equity funds, confirming that we now have net returns data for approximately 75% by value of all US



# Performance Spotlight: How Good Are Your Benchmarks?

private equity funds, and around 60% by value of all European private equity funds (which is now increasing rapidly.)

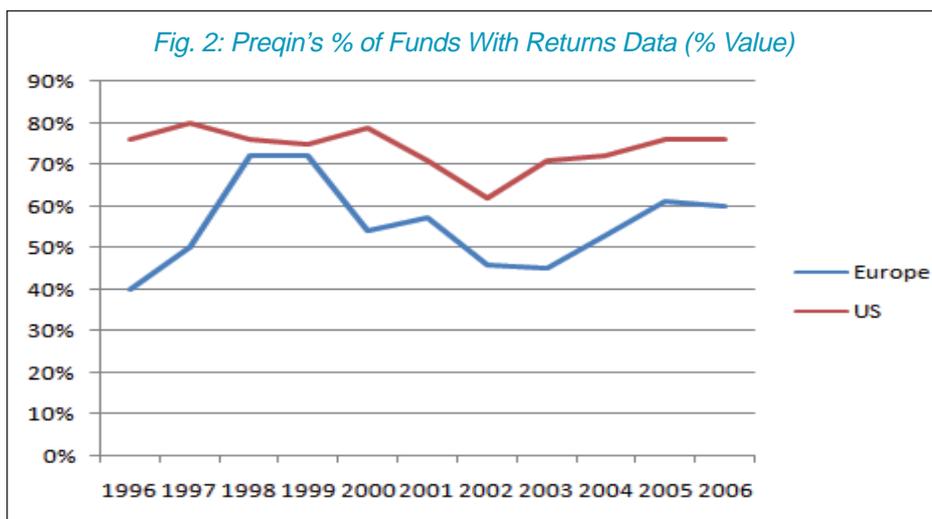
Not only is the coverage of funds high and growing, it is also unique in the absence of any bias. Our primary data source remains the portfolios of public pension plans, meaning that when we get data from a pension plan we get the entire portfolio of funds – the good, the bad, and the ugly – with no selection bias towards either the better funds or the worse ones. With such a high percentage of the universe of all funds now covered, and no selection bias in the sample, Performance Analyst's benchmarks surely provide the most reliable guide to the performance of the asset class.

Transparency: a good benchmark is an invaluable guide, but it can only take you so far. What specific funds are included

for each vintage year, fund type and location? How would the results change if we focused instead on funds with a more specific investment strategy? Or size range? Or location? And how have individual funds and firms performed?

These questions and more can only be answered by having a fully-transparent database, where you can drill down to see the composition of the benchmark and the performance of individual funds and firms. Performance Analyst is totally unique in this regard – the only service that can show you transparent fund-by-fund returns to help you make the best comparisons. And the best investment decisions.

Please contact us now to arrange a no-obligations trial of Performance Analyst to see what it can do for you.



**For more information on the Performance Analyst database, and to register for a free trial, please visit :**

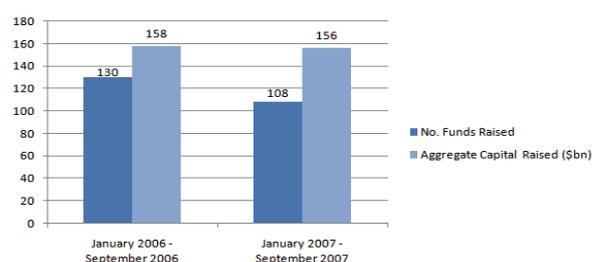
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# Fundraising Spotlight: Buyout

## BUYOUT FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	138	55	28	221
Total Target Value (\$bn)	155	64	15	234
Average Target Size (\$mn)	1,121	1,165	551	1,060

## FINAL CLOSES BAROMETER



## BUYOUT FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
KKR Fund 2006	Kohlberg Kravis Roberts	16,625 USD	US
Apollo Investment Fund VII	Apollo Management	15,000 USD	US
Carlyle Partners V	Carlyle Group	15,000 USD	US
Apax Europe VII	Apax Partners	10,000 EUR	UK
PAI Europe V	PAI Partners	10,000 EUR	France
KKR European Fund III	Kohlberg Kravis Roberts	8,000 EUR	US
Silver Lake Partners III	Silver Lake	8,000 USD	US
Thomas H Lee VI	Thomas H Lee Partners	8,000 USD	US
CVC Capital Asia Pacific III	CVC Capital Partners	6,000 USD	UK
Bridgepoint Euro IV	Bridgepoint	4,000 EUR	UK

## RECENTLY CLOSED BUYOUT FUNDS

### Goode Consumer Fund I:

**Manager:** Goode Partners

**Target Size (mn):** 150 USD

**Final Close (mn):** 225 USD (Aug-2007)

**Geographic Focus:** US

**Industry Focus:** Consumer Products, Retail, Restaurants, Marketing

**Placement Agent:** Champlain Advisors

**Sample Investors:** New Mexico Educational Retirement Board

### SPG Partners:

**Manager:** SPG Partners

**Target Size (mn):** 500 USD

**Final Close (mn):** 620 USD (Sept-2007)

**Geographic Focus:** US

**Industry Focus:** Any

**Placement Agent:** Merrill Lynch

**Lawyer:** Weil Gotshal & Manges

### Carlyle Europe Partners III:

**Manager:** Carlyle Group

**Target Size (mn):** 5,000 EUR

**Final Close (mn):** 5,300 EUR (Sept-2007)

**Geographic Focus:** Europe

**Industry Focus:** Telecoms, Healthcare, Industrial, Transportation, Manufacturing, Media, Chemicals & Materials, Energy, Defence, Aerospace, Business Services

**Sample Investors:** AP-Fonden 2, CalPERS, Equitrust, Golding Capital Partners, König & Cie, New York State TRS, Pennsylvania PSERS, Philadelphia Board of Pensions & Retirement

### Trident Fund IV:

**Manager:** Stone Point Capital

**Target Size (mn):** 1,750 USD

**Final Close (mn):** 2,250 USD (Sept-2007)

**Geographic Focus:** US

**Industry Focus:** Financial Services

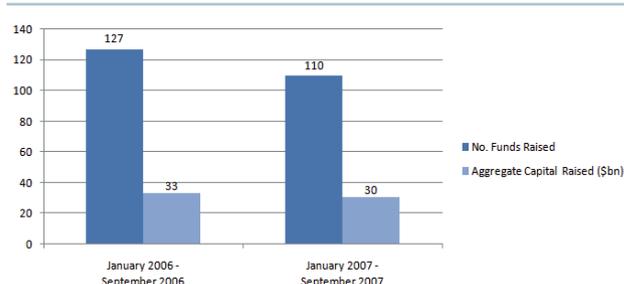
**Sample Investors:** HarbourVest Partners

# Fundraising Spotlight: Venture

## VENTURE FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	226	99	104	429
Total Target Value (\$bn)	46	24	14	84
Average Target Size (\$mn)	203	242	135	196

## FINAL CLOSES BAROMETER



## VENTURE FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
Cyrt Investments TMT Fund	Cyrt Investments	1,500 EUR	Netherlands
Pine Brook Road Partners I	Pine Brook Road Partners	2,000 USD	US
Technology Crossover Ventures VII	Technology Crossover Ventures	2,000 USD	US
Bertelsmann	Bertelsmann Capital Ventures	1,000 EUR	Germany
VantagePoint Venture Partners V	VantagePoint Venture Partners	1,250 USD	US
Patenterprise Energy Fund I	Patenterprise	1,000 CHF	Switzerland
NorgesInvestor IV	NorgesInvestor	600 EUR	Norway
Carlyle Venture Partners III	Carlyle Group	700 USD	US
Virgin Green Fund	Virgin Fuels	400 EUR	UK
Vertex India China Pre-IPO Equity Fund	Vertex Venture Holdings	500 USD	Singapore

## RECENTLY CLOSED VENTURE FUNDS

### Third Rock Ventures:

**Manager:** Third Rock Ventures  
**Target Size (mn):** 300 USD  
**Final Close (mn):** 378 USD (Sept-2007)  
**Geographic Focus:** US  
**Industry Focus:** Healthcare, Life Sciences

### Expansion Capital - Clean Technology Fund II:

**Manager:** Expansion Capital Partners  
**Target Size (mn):** 50 USD  
**First Close (mn):** 21 USD (Feb-2005)  
**Second Close (mn):** 55 USD (Aug-2006)  
**Final Close (mn):** 100 USD (Sept-2007)  
**Geographic Focus:** Canada, US  
**Industry Focus:** Transportation, Manufacturing, Chemicals & Materials, Energy, Utilities, Clean Technology  
**Placement Agent:** JP Morgan Cazenove  
**Sample Investors:** Merck Family Fund, Piper Jaffray Ventures

### Globespan Capital Partners V:

**Manager:** Globespan Capital Partners  
**Target Size (mn):** 400 USD  
**Final Close (mn):** 380 USD (Sept-2007)  
**Geographic Focus:** Japan, US  
**Industry Focus:** Communications, IT, Software, Internet  
**Sample Investors:** Buckeye Venture Partners, Haverhill Retirement System, Massachusetts PRIM Board, Portfolio Advisors, West Midlands Pension Fund

### Nogales Investors Fund II:

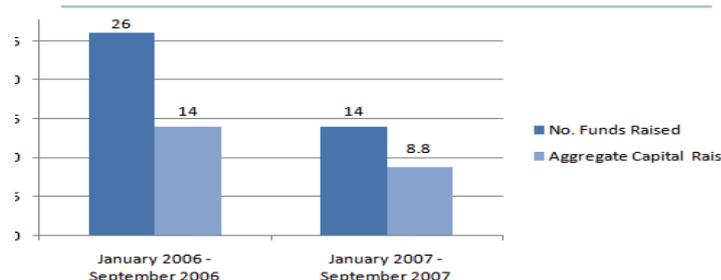
**Manager:** Nogales Investors  
**Target Size (mn):** 200 USD  
**First Close (mn):** 90 USD (Apr-2005)  
**Final Close (mn):** 245 USD (Sept-2007)  
**Geographic Focus:** US  
**Industry Focus:** Retail, Consumer Services, Manufacturing  
**Sample Investors:** LACERS

# Fundraising Spotlight: Mezzanine

## MEZZANINE FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	23	11	3	37
Total Target Value (\$bn)	26	2	0.3	29
Average Target Size (\$mn)	1,147	188	93	777

## FINAL CLOSES BAROMETER



## MEZZANINE FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
GS Mezzanine Partners V	Goldman Sachs Private Equity Group	20,000 USD	US
TCW Energy Fund XIV	TCW Group	2,000 USD	US
ComVest Investment Partners III	ComVest Investment Partners	400 USD	US
Fifth Street Mezzanine Partners III	Fifth Street Capital	400 USD	US
Capzanine II	Capzanine	250 EUR	France
CapitalSouth Partners Fund III	CapitalSouth Partners	300 USD	US
Darby Asia Mezzanine Fund II	Darby Overseas Investments	300 USD	US
Darby Latin America Mezzanine Fund II	Darby Overseas Investments	300 USD	US
Indus Structured Finance Fund	Indus Capital Partners	300 USD	US
Accession Mezzanine Capital II	Mezzanine Management UK	200 EUR	UK

## RECENTLY CLOSED MEZZANINE FUNDS

### Darby Converging Europe Mezzanine Fund:

**Manager:** Darby Overseas Investments  
**Target Size (mn):** 250 EUR  
**Final Close (mn):** 225 EUR (Jun-2007)  
**Geographic Focus:** East Europe, Central Europe  
**Industry Focus:** Any  
**Sample Investors:** CalPERS

### BIA Digital Partners II:

**Manager:** BIA Digital Partners  
**Target Size (mn):** 150 USD  
**First Close (mn):** 27 USD (Dec-2005)  
**Second Close (mn):** 105 USD (Nov-2006)  
**Final Close (mn):** 195 USD (Jul-2007)  
**Geographic Focus:** US  
**Industry Focus:** Telecoms, Media, Information Services, Entertainment, Business Services  
**Placement Agent:** Ariane Capital Partners  
**Lawyer:** Hogan & Hartson  
**Sample Investors:** AXA Private Equity, Lincoln National Life Insurance Company, U.S. Bancorp

### Vantage Capital Mezzanine:

**Manager:** Vantage Capital  
**Target Size (mn):** 600 ZAR  
**First Close (mn):** 310 ZAR (Aug-2006)  
**Final Close (mn):** 603 ZAR (Jun-2007)  
**Geographic Focus:** South Africa  
**Industry Focus:** Any  
**Lawyer:** Webber Wentzel Bowens  
**Sample Investors:** CDC Enterprises FP Gestion, DEG Invest, Development Finance Institution, Eskom Pension and Provident Fund, Metropolitan Asset Managers, PIC, Sanlam Capital Markets

### Indigo Capital V:

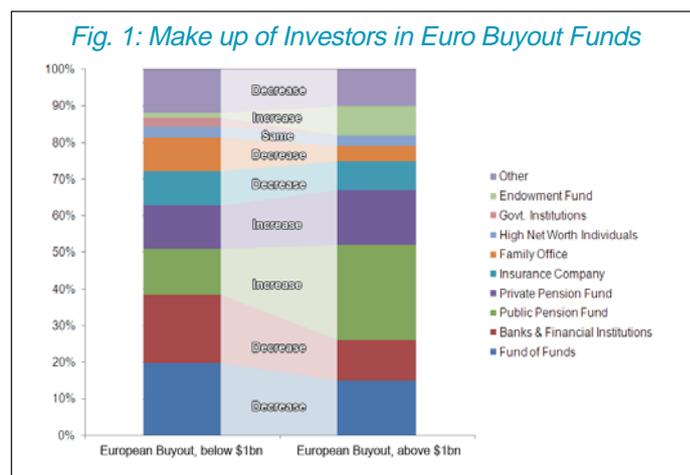
**Manager:** Indigo Capital  
**Target Size (mn):** 500 EUR  
**Final Close (mn):** 550 EUR (Jun-2007)  
**Geographic Focus:** France, Germany, UK  
**Industry Focus:** Any  
**Lawyer:** Macfarlanes  
**Sample Investors:** Adams Street Partners, Bank of Scotland, Finnish LGPI, HarbourVest Partners, LGT Capital Partners, Pathway Capital Management, SCM, Tapiola General Mutual Insurance Company

# Investor Spotlight: Know Your Investors

The number of private equity funds on the road seeking capital has continued to rise over the course of 2007, and there are currently 1171 funds on the road seeking capital, with an aggregate target of \$599bn. Investor appetite for new funds is still high, but with so many managers all competing for attention, it is vital that any fundraising effort is targeted to focus on the best prospects available in order for fund managers to be successful. It is important for managers to understand which types of investors are most likely to be interested in their fund, and then to identify the best investors of that type to approach in order to raise their fund as successfully as possible.

By examining the make-up of investors in funds closed since 2006, it is possible to discern different patterns of investment amongst funds of different type and size. As an example of this fig. 1 shows the average make-up of investors in European focused buyout funds above and below \$1 billion in size. It is interesting to note some sizeable changes in the make-up of investors in closed funds as the size of the funds in question increases.

Fund of fund managers are the most important source of capital for funds below \$1 billion in size, making up 20% of investors in



funds closed since 2006, and should clearly be at the top of the list of investors to target for all managers raising a smaller sized European buyout fund. But who are the best prospects amongst fund of funds managers?

A total of 89 fund of funds vehicles have closed since 2006 with a focus on Europe, and the details for these funds are available on Preqin's Funds in Market product. The largest ten funds closed in this period can be found in fig. 2. Not all fund of funds vehicles will have a focus on buyout funds, so it is important for

**Fig. 2: Largest 10 European Focused Fund of Funds Closed Since 2006**

Fund	Manager	Manager Country	Size (Mn)
HarbourVest International V	HarbourVest Partners	US	3,100 EUR
FPMEI	CDC Enterprises FP Gestion	France	1,000 EUR
European Strategic Partners 2006	Standard Life Investments	UK	900 EUR
APEP Dachfonds	Allianz Private Equity Partners	Germany	823 EUR
SVG Diamond III	SVG Advisers	UK	700 EUR
Crown European Buyout II	LGT Capital Partners	Switzerland	609 USD
Danske-Private Equity III	Danske Private Equity	Denmark	600 EUR
H21PEP III	Horizon21 Private Equity	Switzerland	564 EUR
SVG Diamond II	SVG Advisers	UK	500 EUR
Euro Choice III	LODH Private Equity	Switzerland	493 EUR

# Investor Spotlight: Know Your Investors

managers of European buyout funds to establish which firms are going to be most interested in their funds. Preqin has details of 157 sample fund investments made by fund of funds managers into European focused buyout funds over the past twelve months alone; there is no better way for fund managers to establish potential investor interest than to examine which investors have been recently investing in specific funds similar to their own.

Fig. 3 gives details for sample investments made by a selection of European fund of funds managers over the past twelve months into European buyout funds.

Further targets amongst fund of funds managers can be found through examining their investment preferences. The managers of the 89 funds closed since 2006 will be a priority, but in total there are 137 fund of funds managers that have stated a preference for European buyout funds. These firms can be identified through the new advanced search features on Preqin's Investor Intelligence database. The best prospects amongst these will depend on the investment preferences of the manager in question. Managers of first time funds will be interested to learn that a significant 87% of these fund of funds managers will consider investing with a first-time fund manager. The new Investor Intelligence product enables users to identify those investors who have previously invested in, or shown a preference for, first-time funds, enabling them to streamline their marketing, focusing their fundraising efforts only on those LPs most suited to their offering.

*Fig. 3: Sample Fund Investments, Euro Buyouts Past 12 Months*

Investor	Sample Investments
EIF	GED Sur, Isis IV, Litorina III, Mercapital III, SGAM Al Kantara, 7L Capital Partners Emerging Europe, ARGUS II, Dunedin II, Euroknights V, GEM Benelux, Ibersuizas II, Polish Enterprise VI
Partners Group	Activa II, Doughty Hanson V, 3i Europe V, Aksia III, EQT V, Inflexion 2006, Polish Enterprise VI, STAR II, Terra Firma III
Portfolio Advisors	Accent 2007, Apax Europe VII, Bridgepoint Euro IV, Doughty Hanson V, Graphite VII, Permira IV, RJD II, STAR II
Pantheon Ventures	Doughty Hanson V, Graphite VII, Mercapital III, Altor II, Atria III, Chequers XV, Hg Capital 5, Polish Enterprise VI
Access Capital Partners	ISIS IV, Litorina III, Mercapital III, Viewpoint II, 21 Centrale III, Chequers XV, Gresham IV, STAR II

Other search criteria such as specific country preference and industry preference, and through the examination of detailed investment plans giving specific details on other information such as typical bite size, enable managers to identify a list of the best potential targets for their fund. Please see page 14 for a sample of good fund of funds prospects for the manager of a first-time pan-European buyout fund manager raising a fund of target €500mn, with the reasoning behind their selection.

As fig. 1 demonstrates, different managers should be focusing their efforts upon different groups of investors in order to achieve maximum effectiveness of their fundraising process. The best prospects for managers of larger European focused buyout funds for example are public pension funds, which make up 26% of investors in funds of this type closed since 2006.

There are a total of 450 public pension funds currently investing in private equity worldwide, with 137 of these having previously invested in or shown a preference for European focused buyout funds. For European buyout funds closed over the past twelve months alone Preqin has details for a total of 61 sample investments made by these managers, and this is again an

# Investor Spotlight: Know Your Investors

excellent place to start. Fig. 4 shows sample fund investments made by a selection of public pension funds.

Through a similar process as before it is possible to establish a list of top targets for a large European focused buyout fund based upon a large number of criteria, and through using the detailed investment plans available for these investors. Please

see page 14 for a sample of public pension fund prospects for the manager of a European buyout fund raising €1bn.

The analysis in this article is based upon data from Preqin's Investor Intelligence database. More information on Investor Intelligence and how its powerful new features can help you in your fundraising process can be found on page 15. Alternatively it may interest you to learn that Private Equity Intelligence offers a Fundraising Support service, where we use our expert knowledge of the fundraising market and our database of over 3,500 limited partners to identify the best possible prospects for your fund, even going so far as contacting this LPs on your behalf to assess their actual levels of interest. A typical engagement comprises:

- **Filtering the LP database:** using criteria tailored for your fund, we sift through our entire database of over 3,500 LPs to select those with the best fit for your new fund.
- **Expert Review:** our experienced analysts review all these LPs' profiles individually to select the very best target LPs for your fund, producing a target list of between 100 and 150 prospects, graded by their potential as prospective LPs for your fund.

Fig. 4: Sample Fund Investments, Euro Buyouts Past 12 Months

Investor	Sample Investments
California Public Employees' Retirement System (CalPERS)	Magnum Investments, CVC IV Tandem, Permira IV, Polish Enterprise VI
Finnish Local Government Pensions Institution	Intera I, Activa II, EQT V, Polish Enterprise VI
AP-Fonden 3	CreVal, Litorina III, Ferd II,
CPP Investment Board	Actera, Terra Firma III, Permira IV
ABP Investments	3i Europe V, Polish Enterprise VI

- **Target Qualification:** our analysts can then contact these target LPs to assess their actual current interest in your fund, and their desire to be contacted with further information. This is usually done without disclosing the identity of your fund, and the output is a list of between 20 and 50 target LPs with a confirmed active interest in your fund proposition, and who want to hear from you.

- **Continuing Support:** customers have access to our online Investor Intelligence service to check LPs' profiles during their fund-raising campaign. In addition, our researchers are available to check and confirm information on LPs, and if necessary to re-focus the target list in the light of feedback during your campaign. We will also pro-actively update you on latest developments as our researchers continue their regular program of LP contacts, ensuring that you are alerted to new opportunities as they arise.

Fund Raising Support is a powerful tool for your fund-raising program, complementing and leveraging your own resources and skills and maximizing your chances of success. For more information please contact Natasha Hartrup:

t: +44 (0)20 7822 8509 / e: [nhartrup@preqin.com](mailto:nhartrup@preqin.com)

# Investor Spotlight: Know Your Investors

**Fig. 5: Target Fund of Funds Managers for €500mn Euro Buyout Fund**

Target LP	Reasoning For Selection
Goldman Sachs Private Equity Group	GS PEG has invested in a number of buyout vehicles around the EUR 500 mn mark, recent commitments include Ferd Private Equity III (2006) and Mercapital Spanish Private Equity Fund III (2007). Also committed to last three funds raised by Graphite Capital Partners (UK Buyout house). Bite size good as has committed to other types of fund around the EUR 500 mn mark. GS PEG maintains an open-door policy with respect to potential investments and welcomes information concerning prospective private equity fund offerings. Is optimistic about the pe asset class and has money readily available to invest. GS PEG will also invest in first-time funds.
HarbourVest Partners	HarbourVest has a good bite size for a fund of EUR 500 mn, typically committing between USD 25-80 mn per fund. HarbourVest has a preference for buyouts: In early 2006, HarbourVest changed its international fund programme investment distribution, emphasising investments in buyout funds at the expense of venture funds. The programme now allocates about 85% of its vehicles to buyouts. Recent commitments to European funds around the EUR 500 mn mark include Quadriga Capital Private Equity Fund III focusing on mid-size companies in Germany, Austria, Switzerland and Sweden (2006 vintage).
Wilshire Private Markets Group	Wilshire Private Markets Group has invested in a number of funds around the EUR 500 mn mark including commitments to: TDR Capital's 2002 vintage fund focusing on Western Europe, and Investindustrial's third fund focusing on Italy and Europe. It has a good bite size, typically committing between USD 10 and 40 million per fund. Wilshire invests in first-time funds - most investments of this type have been spin-outs from the buyout area. It also has money readily available to invest: as of June 2007, WPMG was likely to commit to around 30 funds over the next 12 months, 10 of which will be European focused vehicles.
Standard Life Investments	Standard Life Investments predominantly targets buyout (and expansion) vehicles. Standard Life Investments will consider both country-specific and regional funds. Western Europe is Standard Life's main focus, with approximately 90% of its commitments made in the region. In Europe, it mainly invests in mid-market buyout funds. It has invested in a number of European buyouts around the EUR 500 mn mark including commitments to: Gresham IV Fund focused on the UK and Europe (2006), Graphite Capital Partners VI (2003) focused on the UK, and Italian Private Equity Fund IV (2003) focused on Italy. Standard Life also has a good bite size and will invest in first-time funds. It has money readily available to commit: In June 2007, European Strategic Partners 2006 (ESP 2006) reached a final close on EUR 900 million. A total of EUR 660 million will be invested in private equity funds, with a particular focus on Euro buyouts.
Pantheon Ventures	Recent commitments to European funds around the EUR 500 mn mark include: Exponent Private Equity Fund focusing on the UK and Europe (2004) and Mercapital Spanish Private Equity Fund III. A small proportion of capital is allocated to emerging managers. Is actively investing from the Pantheon Europe vehicles and has a good bite size, typically committing between USD 10-20 mn per fund.

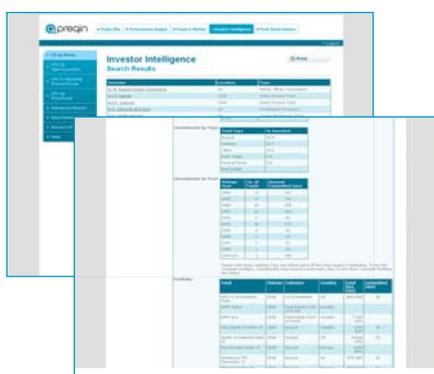
**Fig. 6: Target Public Pension Funds for \$1bn Euro Buyout Fund**

Target LP	Reasoning For Selection
MassPRIM	Clearly has a preference for US focused funds and fund managers, but has also made a number of commitments to UK managers mainly buyout managers and recently committed to Duke Street Capital VI, a UK, West Europe and France focused buyout fund which raised just under EUR 1 bn. Bite size is ok for a fund of EUR 1 bn, typical commitments range from USD 10-75 mn. MassPRIM also has an unfilled target allocation to private equity.
AP-Fonden 3	AP-Fonden 3 has invested in a number of European buyout funds around the EUR 1 bn mark - most recently committing to Vitruvian Investment Partnership I focusing on the UK and Europe (2007). Other similar funds to which AP3 has committed include Altor Equity Partners II (2006) and Electra European Fund (2000). Bite size is good - it typically invests USD 25-35 million per fund and will generally not commit less than USD 15 million as it believes too small an investment in a fund will not form a meaningful part of its portfolio.
West Midlands Pension Fund	West Midland's portfolio is weighted towards buyout funds and over half its pe allocation has been invested in European focused funds. It recently committed to Altor Equity Partners II (2006), a buyout focused on Scandinavia. Typical bite size is between GBP 10-20 mn. In July 2007, West Midlands Pension Fund increased its allocation to private equity from 5% to 7% of total assets as part of its decision to increase its exposure to alternative asset classes. In the next 12 months it is planning to invest GBP 130-160 million in 12-15 funds.
Skandia	Has invested in a number of European (mainly UK) buyout funds over recent years ranging from EUR 140 mn to EUR 2.2 bn in size, including Industri Kapital's 2004 fund (EUR 825 mn). It has a preference for buyouts and is looking to invest in funds outside the Nordic countries, namely elsewhere in Europe and in the US.
Varma Mutual Pension Insurance Company	Varma's portfolio is weighted towards buyout funds. It has invested in a number of European buyouts around the EUR 1 bn mark, including Altor Equity Partners II (2006), and in Industri Kapital's 2004 vintage fund, also invested in Alpha Private Equity Fund V (EUR 750 mn) focused on Austria, Belgium, France, Germany, Italy, Luxembourg, Netherlands and Switzerland (2006). Varma has money readily available to commit: as of May 2007, Varma planned to invest in 10 private equity funds totalling between EUR 500-900 million over the next 12 months.

# Product in Spotlight: Investor Intelligence

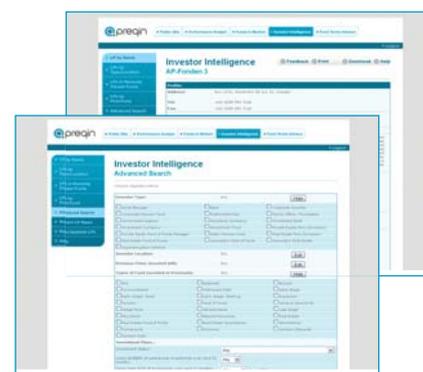
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# Investor Spotlight: News

**Co-operative Insurance Society's** new private equity investment brings it closer to its 2% target allocation to the asset class. CIS, which currently has 0.96% of its assets committed to private equity, has made a commitment to Rising Stars Growth Fund II, an early stage venture fund focusing only within the UK. Other investors in the fund include the **Greater Manchester Pension Fund** and **West Yorkshire Pension Fund**.

**Lexington Partners** is preparing to raise the biggest secondary fund to date after investing 75% of the committed capital from Lexington Capital Partners VI. Lexington is looking raise approximately USD 5 billion for Lexington Capital Partners VII which will aim to purchase stakes in US buyout, venture and mezzanine funds. At the same time, Lexington is also set to commence fundraising for a follow on fund to Lexington Middle Market Investors and is expecting to set a target of USD 1 billion for the vehicle. Its predecessor purchased secondary interests in small- and middle-market US buyout funds that were less than 50% invested at the purchase time.

The **Régime de retraite de l'Université du Québec**, the pension plan of the University of Quebec, is currently in the process of reviewing its alternative asset investment policy. The review could see the CAD 2.3 billion retirement system increase its target allocation to private equity substantially from 6% to 10% of total assets. The pension plan has a current commitment of approximately 5.4% to the asset class.

The USD 200 million **Ball State University Endowment** has increased its target allocation to private equity to 15% from 8% of assets. This increased target comes as part of an overall review of the alternative investments of the endowment by the investment committee. It has cut its exposure to hedge funds from a 19% allocation to 15% in order to fund the increased allocation to private equity. The endowment is an opportunistic investor in private equity and reviews all potential investments on a case by case basis. It has a 45% target allocation to alternatives and is advised by Hammond Associates.

Investors have increased their initial commitment to Blackstone Capital Partners V, helping it reach a record-breaking final close. Blackstone Group has raised USD 21.7 billion for its latest buyout fund following its decision to increase its initial target of USD 13.5 billion. Investors in this US-based global buyout fund, including **California Public Employees' Retirement System (CalPERS)**, **Kuwait Financial Centre S.A.K.** and **New York City Teachers' Retirement System**. Blackstone Group is considering a follow-on fund, Blackstone Capital Partners VI.

**Harvard Management Company** experiences high returns, thanks in part to its private equity investments. The endowment fund returned 23% for the fiscal year ending June 2007 lifting the market value of its assets a further USD 5.9 billion from 2006. This was led by private equity, real estate and gains in emerging market stocks. Harvard's endowment has had an average return of a smaller 18.4% over the past five years.

**Kensington Capital Partners** has announced the purchase of a secondary stake in Novacap II through Kensington Global Private Equity Fund. The interest held in Novacap II represents Kensington Global Private Equity Funds' eighth investment, having made commitments to four international and three Canadian funds in the last few months. The fund of funds will look to allocate upwards of 80% of the fund size to primary and secondary investments with no more than 20% allocated to purchasing direct interests in companies.

**Teacher Retirement System of Texas (TRS)** has issued an RFP for alternatives professionals. Following its decision to increase its allocation to alternatives in June 2007, TRS has issued an RFP for six to eleven senior investment professionals to implement the new plan. The USD 112 billion retirement system aims to reach an allocation of 30% of its assets to alternatives over the next three to five years. It is looking for an executive search firm to help fill the positions for managing hedge fund, real estate and private equity portfolios.

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