Private Equity Spotlight

preqin
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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, Secondary Market Monitor and Deals Analyst.

Fund Terms and Conditions Special Issue

What would you like to see in Private Equity Spotlight? Email us at: spotlight@preqin.com

You can now download all the data in this month's Spotlight in Excel.

London:
Scotia House, 33 Finsbury Square, London, EC2A 1BB
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+1 212 808 3008

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Private Equity Fund Terms: Shift in the Balance of Negotiating Power

The private equity fundraising market has suffered a significant fall in the number and aggregate value of funds successfully raised since the onset of the global economic downturn. Investors have become a lot more cautious about making commitments to funds than in previous years and are paying much stricter attention to the proposed terms and conditions of the vehicles they consider investing in. This scrutiny is being applied not only to the main characteristics of the terms and conditions, such as the management fee or the carried interest, but also the less headline terms, such as the basis for the distribution of fund proceeds and the level of rebate against the management fee of transaction and other fees charged to portfolio companies.

Although there are encouraging signs that the fundraising market is beginning to pick up again, there has undoubtedly been a shift in the balance of negotiating power towards LPs, which has precipitated shifts in certain areas of fund terms and conditions. Using data taken from our newly released publication, the 2010 Preqin Fund Terms Advisor, this month's feature article examines some of the key trends in this important area.

Fig. 1, taken from Preqin's recent survey of leading placement agents, shows their rating of certain fund terms and conditions according to how pressing they have found them to be to LPs in 2010. While management fees still rank relatively highly, with an average score of 3.7 out of 5, placement agents felt that the most important issue to LPs is how distributions are made by the fund (i.e. on a 'deal-by-deal' basis or 'whole fund' basis), with an average score of 4.2.

LPs have not had much success in shifting terms relating to distribution of proceeds, which could be part of the reason why carry emerges as the number one issue. Fig. 2 shows the proportion of North American funds with 'deal-by-deal', 'whole fund', or other structures in place for distributing fund profits, split by the vintage year of the fund. (Funds focusing on other regions were excluded as the 'deal-by-deal' structure is most common in North America.) It actually reveals that a higher proportion of vintage 2009 and 2010 funds (including those still fundraising and yet to begin investing as of Q2 2010) have 'deal-by-deal' distribution structures than vintage 2007 and 2008 funds, at a time when perhaps it might be expected that LPs would be putting pressure on GPs to employ a whole fund structure.

Many other areas of terms and conditions have moved in favour of LPs as a result of the tough fundraising climate. As part of Preqin's recent survey of 50 leading institutional investors, respondents were asked to name areas in which they had seen changes in the last 12 months. As Fig. 3 shows, the most cited response was management fees, with 59% of LP respondents stating that they had seen movement in this area within the last year. While this is a strong indication that management fees have fallen for recent funds, another part of the LP survey indicated that the majority of LPs still felt that management fees were an area where the alignment of interests between the LP and the GP could be improved further.

The data Preqin has collected from the latest private equity fund PPMs shows the extent to which management fees have shifted.

Fig. 1:

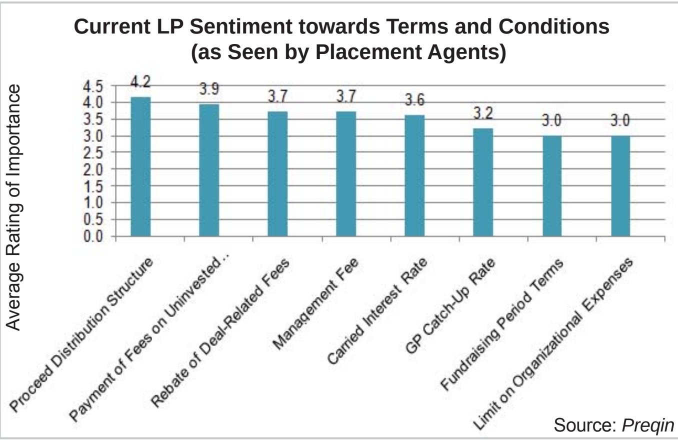


Fig. 2:

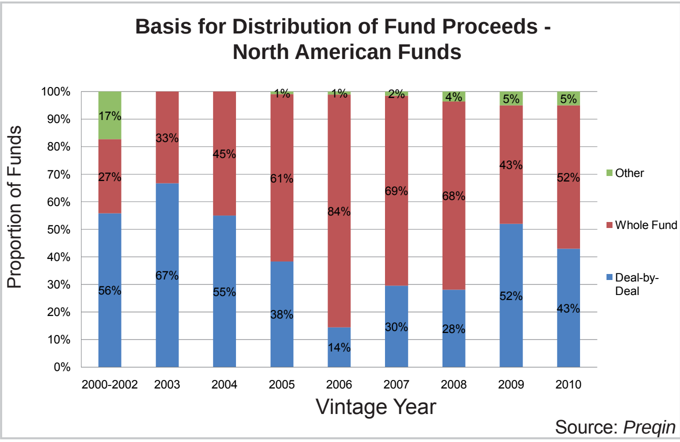


Fig. 3:

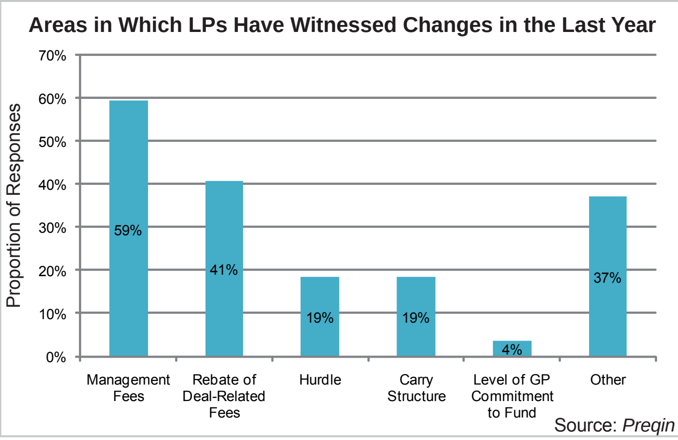


Fig. 4:

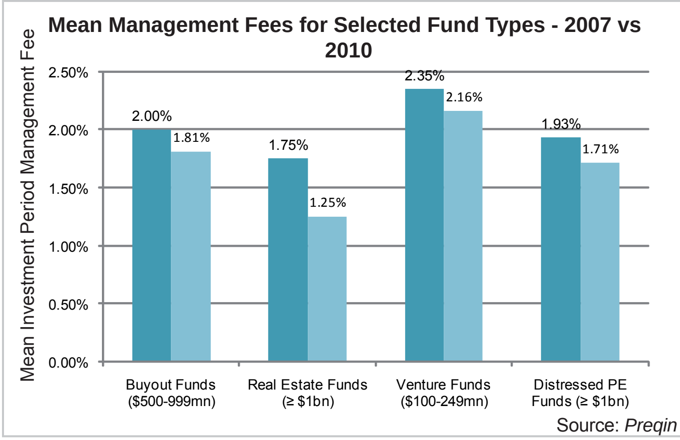


Fig. 4 compares the mean vintage 2007 fund management fee for selected fund types with the mean vintage 2010 fund (including those still fundraising and yet to begin investing as of Q2 2010). All four of the groups of funds selected here have registered falls in the average management fee from those raising capital before the economic downturn took hold to those that have been raising capital recently or are still in the fundraising market as of Q2 2010. Particularly striking is the 50 basis point decline in the average management fee for real estate funds of $1 billion or more in size. This trend is reflected across many groups of funds; for example, buyout funds of $1 billion or more in size registered an even larger decline than buyout funds in the $500-999 million size range shown here.

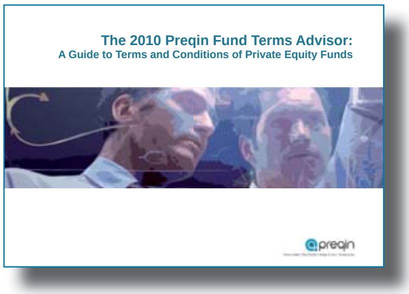
Although there are early signs that the private equity fundraising market is beginning to improve, conditions look set to remain extremely competitive. As a result LPs will continue to wield influence when negotiating fund terms. Additionally, with increased investor interest in the range of fund terms, it is more important than ever to ensure that all proposed fund terms, not just the headline management fee and carried interest rates, are aligned with the latest industry standards.

Sam Meakin

2010 Preqin Fund Terms Advisor: Order Form

The Fund Terms Advisor is a vital tool for all fund formation lawyers and for private equity firms and placement agents involved with the fund formation process. It also contains valuable intelligence for all those investing in private equity, and for those advising LPs. Key features include:

- Actual terms and conditions data for over 1,400 funds, including management fees and mechanisms for reduction after the investment period, carry, carry distribution methods, hurdles, preferred return, fee rebates, no-fault divorce clause, GP commitments, investment period.
- Benchmark terms and conditions data for funds of all different types: buyout, venture, real estate, distressed, mezzanine, fund of funds, secondaries and more…
- Results of our LP and placement agent surveys - the most comprehensive studies of current opinions on fund terms and conditions ever conducted.
- Data and analysis on the actual fees and costs incurred by LPs, with listings showing costs for 1,200 named vehicles.
- Full access to our updated Fund Terms Advisor Online product, which enables you to model the real economic impact of fund terms and conditions, and download detailed fund terms for further analysis.
- Comprehensive analysis on all aspects of private equity fund terms and conditions including how conditions have changed over time and what variations exist amongst funds of different type, size and region.
- Listings for 100 leading law firms involved in the fund formation process, including contact details and sample previous assignments.



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Order before Friday 25th June for a 33% pre-publication discount

2010 Preqin Fund Terms Advisor Order Form - Please complete and return via fax, email or post

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Performance Spotlight:
Performance as of Q4 2009

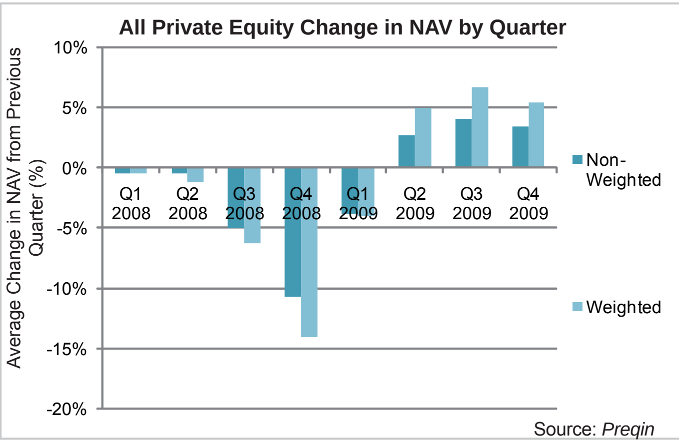
Data to Q4 2009 is now in, and is showing a continued recovery in fund performance, with net asset values increasing from Q3 2009 by 5.6% during the fourth quarter of 2009. NAVs increased by 13.5% over the course of 2009 compared to a decrease of 15.8% in 2008.

Looking at the change in net asset value between consecutive quarters in recent years shows that fund valuations registered almost no change in Q1 and Q2 2008, decreased steeply between Q3 2008 and Q1 2009, and started recovering in Q2 2009. The weighted quarterly change, which takes into account fund size, shows that the biggest quarter-on-quarter decline in net asset value came in Q4 2008, when it decreased by 14.0%. In the first quarter of 2009 the decrease in NAV continued but at a much slower rate. Fund valuations started to recover in the second quarter of 2009 and the largest NAV improvements happened in Q3 2009, with valuations increasing by 6.7%.

The discrepancy between the weighted and the non-weighted changes in NAV shows that larger funds have seen wider variations in their valuations. Larger funds were the most affected by the financial crisis but have since recovered faster.

The overall private equity horizon IRR for the one-year period to December 31st, 2009 stands at 13.8%, an improvement on the -9.2% posted at September 30th, 2009. All private equity strategies are now posting positive one-year returns as at Q4 2009. With a horizon IRR of 16.7%, buyout is posting the highest returns. Venture capital shows a one-year return of 5%, mezzanine 2.3% and funds of funds 0.2%.

Fig. 1:



Private equity three-year horizon IRRs are just above 0% for all fund types except mezzanine, which stands at 6.5%. Long-term returns remain strong, with private equity posting an annualized 17.5% over the five-year period. With a horizon IRR of 21.8%, buyout funds are posting the strongest returns over the five-year period.

Portfolio companies were significantly marked down in the second half of 2008 but fund valuations and private equity performance have improved steadily since the second quarter of 2009. Private equity performance has still not reached the level seen prior to the financial crisis but is on a strong path to recovery.

Etienne Paresys

Preqin's Performance Benchmark module is available free to industry professionals. To find out more about this service, or to sign up, please visit:

www.preqin.com/benchmarks

For more information on Performance Analyst, or to register for a demo, please visit:

www.preqin.com/pa

MARATHON of MARATHONS
ATHENS 2010

To celebrate the 2,500th anniversary of Pheidippides' run from Marathon to Athens, 250 members of the private equity and infrastructure communities are coming together to participate in the original marathon, aiming to raise €2,500,000 for children's charities including UNICEF, Impetus Trust and the Private Equity Foundation. Join them at the starting line on 31 October 2010.

Ewan McGregor says "what challenge to private equity and infrastructure professionals in 2010 could be more fulfilling?" To see his video message and register your interest visit the website at www.marathonofmarathons.org or call +44 (0) 20 7439 7191.

Mark O'Hare will be there carrying the flag for Preqin

Lending their support from the private equity and infrastructure communities as patrons are:

George Anson HarbourVest Partners • Leo de Bever Alberta Investment Management • David Blitzer Blackstone Group • Jeremy Coller Coller Capital • Sir David Cooksey chairman of UKFI and former chairman of the EVCA and the BVCA • Thierry Déau Meridiam Infrastructure • Javier Echarri EVCA • Todd Fisher Kohlberg Kravis Roberts • Peter Kulloi • Richard Laing Commonwealth Development Corporation (CDC Group) • Javier Loizaga Mercapital • Dwight Poler Bain Capital • Jonathan Russell 3i • Nikos Stathopoulos BC Partners • Oliver Stocken chairman of the MCC • Maarten Vervoort AlpInvest • Urs Wietlisbach Partners Group • David Wilton the International Finance Corporation and World Bank Pension Fund

As well as Ewan McGregor the event is supported by Eddie Izzard as a patron. Eddie ran 43 marathons in 51 days in 2009 and is a real inspiration.

NEVER RUN A MARATHON?

All are welcome and all will be able to particpate regardless of ability or experience.

Former Olympic athlete and European champion Bruce Tulloh will be helping non-runners to prepare. We also have an allocation of 50 places in the official walking marathon for non-runners.

ITINERARY FOR ATHENS

We will be staying at two of the best hotels in Athens, the Grande Bretagne Hotel and the NJV Athens Hotel. There will be drinks on arrival on Friday 29 October and a lunch on Saturday with the marathon registration and a short talk on the history of the marathon and Pheidippides. The marathon takes place on Sunday 31 October and in the evening there will be a Gala Dinner to celebrate the achievement of everyone taking part.

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Fund Manager Spotlight:
Buyout Funds Nearing the End of Their Investment Period with Dry Powder Remaining

Private equity buyout funds experienced the most successful period in their fundraising history between 2005 and 2008. Preqin's data shows that over USD 890 billion was raised by buyout funds during this time, and in 2007 alone USD 263 billion was raised by such funds. However, following the global financial crisis, the number of investments being made has fallen significantly. This means that there is now a significant amount of dry powder available to many buyout fund managers, certainly more than originally anticipated for a large proportion of firms.

Available Dry Powder

Buyout funds can begin investing after they have held a first close and Preqin's research shows that the median investment period for funds in the buyout sector is five years. Typically, the investment periods of private equity funds range between four and six years.

Fig. 1:

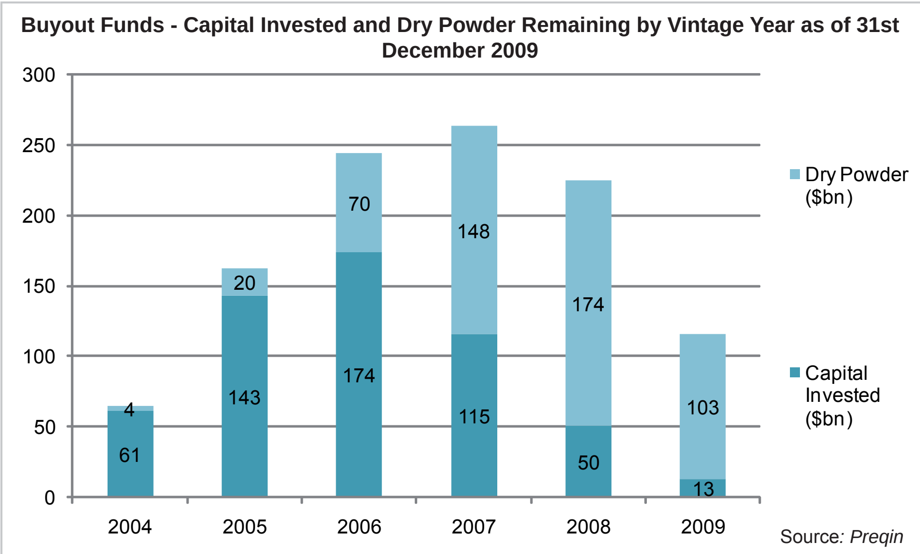


Fig. 1 shows the amount of capital that has been invested by GPs as of December 31st 2009 and the amount of capital yet to be called. Funds of 2004 vintage, most of which would have been at the end of their investment period by December 2009, still have USD 4 billion of dry powder available for investments. Many funds of 2005 vintage will be nearing the end of their investment period, and these funds collectively still have USD 20 billion in dry powder. Vintage 2007 funds are over halfway through the median investment period, but still have almost USD 150 billion in capital remaining to invest.

This suggests that it is going to become a more common occurrence for fund managers to seek to negotiate extensions on their investment periods with investors. A recent example of such a negotiation is BC European Cap VIII, a USD 5.9 billion mega buyout fund with a vintage of 2005, which recently won LP approval to extend its investment period to June 2011 from November 2010. The firm also had a two-year extension approved on the holding period of its EUR 4.3 billion seventh fund, BC European Cap VII, requested because it still has stakes in some unrealized investments that have gone public.

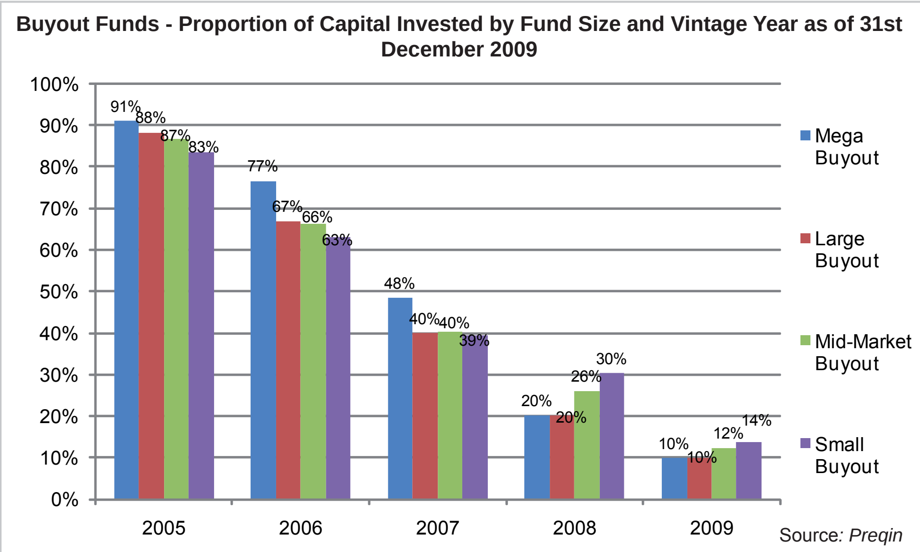
Buyout Fund Size Breakdown

For the purposes of this analysis, funds greater than USD 4.5 billion in size are classed as mega buyout funds. Funds between USD 1.5 billion and USD 4.5 billion are classed as large, funds between USD 500 million and USD 1.5 billion are classed as mid-market and funds less than USD 500 million in size are considered small-cap.

Using Preqin's individual fund level performance data, it is possible to calculate the amount of capital invested by buyout funds of different vintage years. Fig. 2 gives the proportion of capital invested by buyout funds of each size. The proportion of capital invested by mega and large buyout funds exceeds that invested by mid-market and small buyout funds for vintages up to 2007. For example, vintage year 2005 mega buyout funds have 91% of their capital invested compared to 83% for small buyout funds.

A reversal of this trend can be seen in 2008 and 2009 vintage funds, with mid-market and small buyout funds having invested higher proportions of their funds' capital than their larger counterparts. Only 20% of capital has been invested from mega buyout funds with a vintage of 2008, compared to small-cap buyout funds of this vintage that have invested 30%

Fig. 2:



of their capital. For vintage 2009 funds, mega buyout funds have invested 10% of their capital, while small buyouts have invested 14%.

Summary

It is evident that some private equity buyout funds that are nearing the end of their investment periods still have uncalled capital. Small and mid-market funds of vintage 2005 and 2006 still have significant proportions of dry powder and therefore fund managers may have to negotiate with LPs in order to extend the investment periods of their funds.

Funds of more recent vintages, are showing a different pattern, with the larger sized funds having proportionately more capital still unspent than smaller funds. In many cases this is because of the lack of available financing for leveraged deals, impacting upon the number of investments that these vintages are able to make.

With financing conditions improving and pressure from investors to put capital to work it is expected that there will be a rise in the number of deals being made over the next two years. Vintage 2007 and 2008 funds will be nearing the end of their investment periods during this time and still have a combined $332 billion in dry powder. Therefore it is likely that the number of deals being made by such funds will increase significantly in 2011 and 2012, with some larger managers turning to more mid-sized deals, and also utilizing higher levels of equity when making new investments, with the possibility of refinancing to increase leveraging in the future.

Lola Aboderin

The data used in this article was taken from Preqin's Fund Manager Profiles, for more information and to register for a demo, please visit:
www.preqin.com/fmp

Deals Spotlight: Retail and Consumer

Each month Preqin examines a sector of the private equity market to gain some insights into the nature of the industry in different areas and geographies. This month we examine some of the characteristics of buyout deals in the retail and consumer sectors.

Fig. 1:

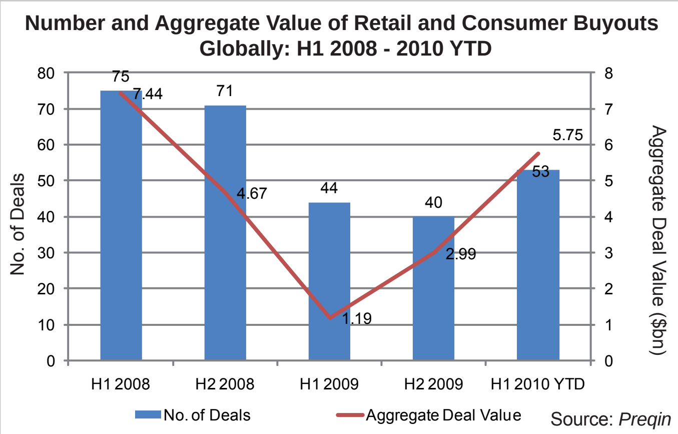


Fig. 2

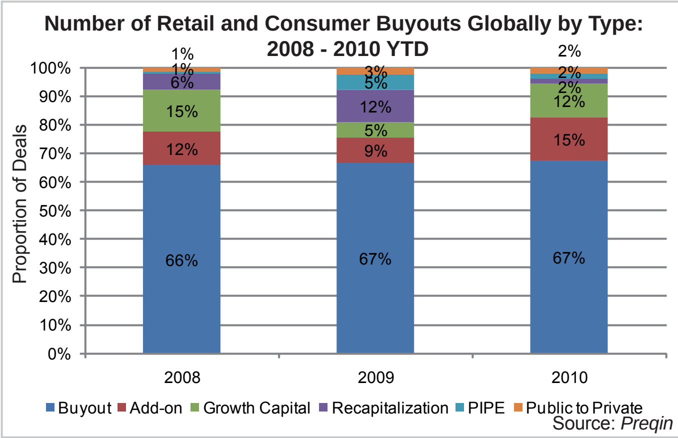


Fig. 3:

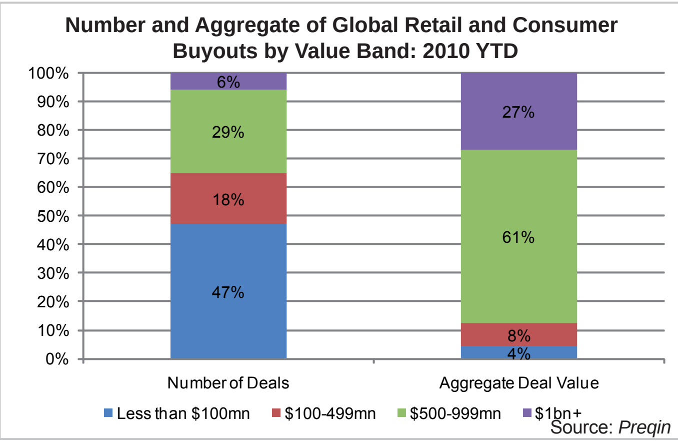


Fig. 4:

5 Largest Retail and Consumer Buyouts Globally 2010 YTD

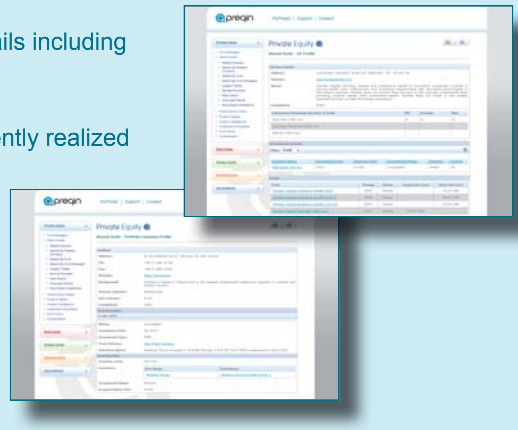
Name	Location	Type	Deal Value	Date	Buyer	Seller
Pets at Home	UK	Buyout	GBP 955mn	Jan-10	Kohlberg Kravis Roberts	Bridgepoint Capital
Matahari Department Store	Indonesia	Buyout	USD 892m	Jan-10	CVC Capital Partners	PT Matahari Putra Prima
Spotless Group	France	Buyout	EUR 600m	Feb-10	BC Partners	AXA Private Equity
DFS	UK	Buyout	GBP 500m	Apr-10	Advent International	n/a
Card Factory	UK	Buyout	GBP 350m	Apr-10	Charterhouse Capital Partners	n/a

Product In Focus: Deals Analyst

Included as part of Preqin's integrated 360° online private equity database, or available as a separate module, Deals Analyst provides detailed and extensive information on private equity backed buyout deals globally. The product has in-depth data for over 9,000 buyout deals across the globe, including information on deal value, buyers, sellers, debt financing providers, financial and legal advisors, exit details and more.

Key features of this powerful database include:

- **Buyout Deals:** View detailed information on over 9,000 deals globally, including comprehensive data on all buyouts from 2008-present, and 10 year buyout data for the largest 100 global buyout firms.
- **Market Overview:** Allows users to view quarterly and annual dealflow, plus details on global exit activity. Filter results by region, deal type, location, value band and industry.
- **Search for Portfolio Companies:** View extensive information regarding private equity investments made, including key financial data relating to the company.
- **Search for Fund Managers:** View current and historical investment data for private equity firms, including comprehensive data on buyout investments, most frequently used advisors and debt financing providers, average investment sizes, preferred deal industries, number and value of deals by location, value band, deal type and much more.
- **Access League Tables:** Largest deals, most active firms by investment size and number of deals, financial advisors, debt financing providers, legal advisors.
- **Search for Service Providers:** View details on financial and legal advisors in deals, including information on whether they acted on behalf of the buyer or the seller on the transaction.
- **Search for Debt Financing and Mezzanine Providers:** View details including amount of debt provided in the transaction.
- **Recent Deals and Exits:** View recently announced deals and recently realized exits.
- **Advanced Search:** Use our powerful search tool to access information on buyout deals globally, including searching by company and investor location, industry, deal size, date, deal status, deal type, investment stake and key company financials.



To find out more about Deals Analyst, or to register for a demo, please visit:

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London: Scotia House, 33 Finsbury Square, London. EC2A 1BB
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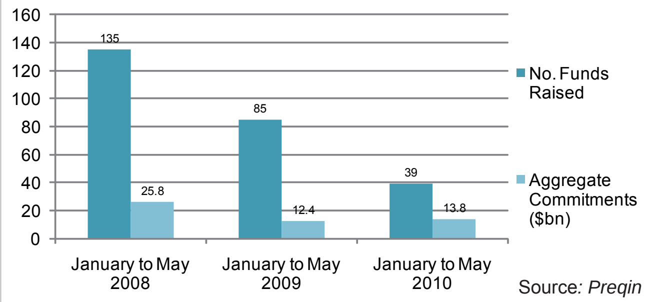
Fundraising Spotlight: Venture Funds

Venture Funds on the Road

Funds on the Road	US	Europe	RoW	Total
Number of Funds	174	101	185	460
Aggregate Target ($bn)	33	12	35	80
Average Size ($mn)	189	121	188	173

Final Close Barometer



Source: *Preqin*

Fund	Manager	Type	Size (mn)	Manager Location
Invention Investment Fund II	Intellectual Ventures	Early Stage: Seed	2,500 USD	US
Oak Investment Partners XIII	Oak Investment Partners	Venture (General)	1,500 USD	US
Guosheng CLSA (Shanghai) Industrial Investment Management Co.	CLSA Capital Partners	Venture (General)	10,000 CNY	Hong Kong
Capital Royalty Parallel II	Capital Royalty	Early Stage	1,000 USD	US
ECP Africa Fund III	Emerging Capital Partners	Expansion	1,000 USD	US
Hospitality Development Fund	Abu Dhabi Investment House	Expansion	1,000 USD	United Arab Emirates
Millennium Private Equity Media & Telecommunication	Millennium Private Equity	Venture (General)	1,000 USD	United Arab Emirates
Sequoia Capital 2010	Sequoia Capital	Early Stage	1,000 USD	US
Robeco TEDA Sustainable Private Equity Fund	SAM Private Equity	Venture (General)	6,000 CNY	Switzerland
Celtic Pharma Holdings II	Celtic Pharma	Venture (General)	750 USD	UK, US, Canada, Europe

Recently Closed Venture Funds

Drug Royalty II
Manager: DRI Capital
Target Size (mn): 500 USD
Closings: Final Close: 701 USD (Apr-2010)
Geographic Focus: North America, Canada, US
Industry Focus: Pharmaceuticals, Biotechnology
Placement Agent: Atlantic-Pacific Capital
Sample Investors: New Mexico Educational Retirement Board, New York State Teachers' Retirement System, San Bernardino County Employees' Retirement Association

CID Greater China Venture Capital Fund III
Manager: CID Group
Target Size (mn): 200 USD
Hard Cap: (mn): 400 USD
Closings: Second Close 34 USD (Aug-09), Third Close (Nov-09), Final Close: 400 USD (May-10)
Geographic Focus: China
Industry Focus: Healthcare, Any
Law Firm: K&L Gates

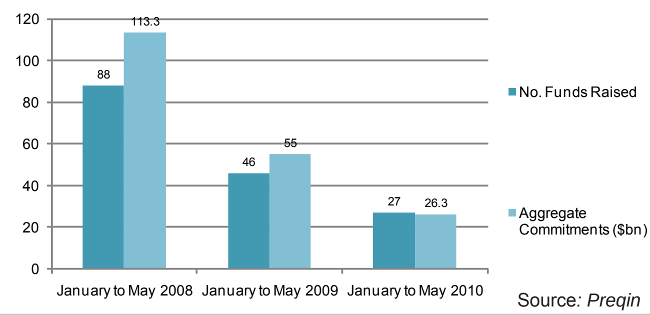
Gimv-XL Fund
Manager: Gimv
Target Size (mn): 600 EUR
Closings: First Close: 500 EUR (Jan-09), Second Close: 560 EUR (Jun-09), Final Close: 609 EUR (Mar-10)
Geographic Focus: Belgium
Industry Focus: Diversified
Placement Agent: Not Used
Sample Investors: Dexia Bank, Dexia Insurance Belgium, Dexia-Banque Internationale à Luxembourg, Ethias Insurance, Fortis Bank, Gimv, ING Belgium

Fundraising Spotlight: Buyout Funds

Buyout Funds on the Road

Funds on the Road	US	Europe	RoW	Total
Number of Funds	107	43	77	227
Aggregate Target ($bn)	72	16	41	128
Average Size ($mn)	672	361	529	565

Final Close Barometer



Source: *Preqin*

Fund	Manager	Size (mn)	Fund Focus
Blackstone Capital Partners VI	Blackstone Group	15,000 USD	US
Morgan Stanley Capital Partners V	Morgan Stanley Private Equity	6,000 USD	US
Metalmark Capital Partners II	Metalmark Capital	3,000 USD	US
China Cultural Industry Investment Fund	BOCI Private Equity	20,000 CNY	Hong Kong
GP Capital	China International Capital Corporation Private Equity	20,000 CNY	China
EnCap Energy Capital Fund VIII	EnCap Investments	2,500 USD	US
African Agricultural Land Fund	Emergent Asset Management	2,000 EUR	UK
Lion Capital Fund III	Lion Capital	2,000 EUR	UK
Trident Fund V	Stone Point Capital	2,250 USD	US
Abraaj Buyout Fund IV	Abraaj Capital	2,000 USD	United Arab Emirates

Recently Closed Buyout Funds

Advent Latin American Fund V
Manager: Advent International
Target Size (mn): 1,500 USD
Closings (mn): Final Close: 1,650 USD (Apr-2010)
Geographic Focus: South America, Central America, Argentina, Brazil, Mexico
Industry Focus: Consumer Products, Retail, Consumer Services, Financial Services, Aerospace, Education / Training, Business Services
Sample Investors: Pennsylvania State Employees' Retirement System, Washington State Investment Board

CDH China Fund IV
Manager: CDH China Management Company
Target Size (mn): 1,400 USD
Closings: First Close: 765 USD (Sep-09),
Final Close: 1,428 USD (Apr-10)
Geographic Focus: China
Industry Focus: Diversified
Sample Investors: AlpInvest Partners, Asia Alternatives Management, CDC Group, CPP Investment Board, Future Fund, Government of Singapore Investment Corporation (GIC), International Finance Corporation (IFC), Texas County & District Retirement System, Washington State Investment Board

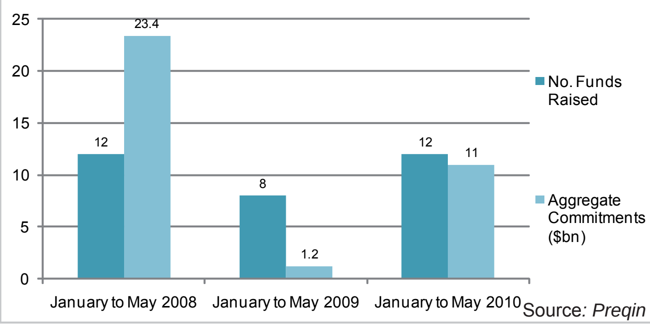
Sterling Group Partners III
Manager: Sterling Group
Target Size (mn): 600 USD
Closings: First Close: 300 USD (Oct-09), Final Close: 820 USD (Mar-10)
Geographic Focus: US
Industry Focus: Industrial, Distribution, Manufacturing
Placement Agent: Lazard Private Fund Advisory Group
Sample Investors: Allianz Capital Partners, Constitution Capital Partners, CPP Investment Board, Credit Suisse Customized Fund Investment Group, DuPont Capital Management, Hancock Capital Management, Los Angeles Fire and Police Pension System, New York State Teachers' Retirement System, RCP Advisors, State of Wisconsin Investment Board

Fundraising Spotlight:
Distressed Private Equity Funds

Distressed PE Funds on the Road

Funds on the Road	US	Europe	RoW	Total
Number of Funds	32	12	9	53
Aggregate Target ($bn)	33	5	4	43
Average Size ($mn)	1025	444	489	802

Final Close Barometer



Source: *Preqin*

Fund	Manager	Type	Size (mn)	Manager Location
OCM Opportunities Fund VIII	Oaktree Capital Management	Distressed Debt	5,000 USD	US, Global
Ares Corporate Opportunities Fund III	Ares Management	Special Situation	4,000 USD	US
Carlyle Distressed Financial Services Fund	Carlyle Group	Special Situation	3,000 USD	US, North America
Ashmore Global Special Situations Fund V	Ashmore Investment Management	Special Situation	2,500 USD	Emerging Markets
Corsair IV Financial Services Capital Partners	Corsair Capital	Turnaround	2,000 USD	South America, Europe, Asia, North Africa
CVI Credit Value Fund	CarVal Investors	Distressed Debt	2,000 USD	US
GSO Capital Solutions Fund	Blackstone Group	Distressed Debt	2,000 USD	US
OCM Opportunities Fund VIIIB	Oaktree Capital Management	Distressed Debt	2,000 USD	US, Global
Littlejohn Fund IV	Littlejohn & Co.	Turnaround	1,250 USD	North America, Europe
Bayside Distressed Debt	Bayside Capital	Distressed Debt	1,000 USD	US

Recently Closed Distressed PE Funds

OCM Principal Opportunities Fund V
Manager: Oaktree Capital Management
Target Size (mn): 3000 USD
Closings (mn): First Close: (Feb-09), Second Close: (Apr-09), Final Close: 3,331USD (Feb-10)
Geographic Focus: US, North America, Europe, Asia
Industry Focus: Diversified
Law Firm: Debevoise & Plimpton
Sample Investors: American Beacon Advisors, Berkshire Taconic Community Foundation, Elizabethtown College Endowment, Maryland State Retirement and Pension System, Massachusetts Pension Reserves Investment Management Board, Ohio Public Employees' Retirement System, School Employees' Retirement System of Ohio, Washington State Investment Board, YMCA Retirement Fund

Apollo European Principal Finance Fund
Manager: Apollo Management
Target Size (mn): 1500 USD
Hard Cap (mn): 2000 USD
Closings (mn): First Close: 850 (Dec-08),
Final Close: 1400 USD (Feb-10)
Geographic Focus: Europe
Industry Focus: Diversified
Placement Agent: Arvco Capital Research, UBS Investment Bank Private Funds Group
Sample Investors: Arizona Public Safety Personnel Retirement System, California Public Employees' Retirement System (CalPERS), Portfolio Advisors, San Bernardino County Employees' Retirement Association, San Francisco City & County Employees' Retirement System, Teachers' Retirement System of Louisiana

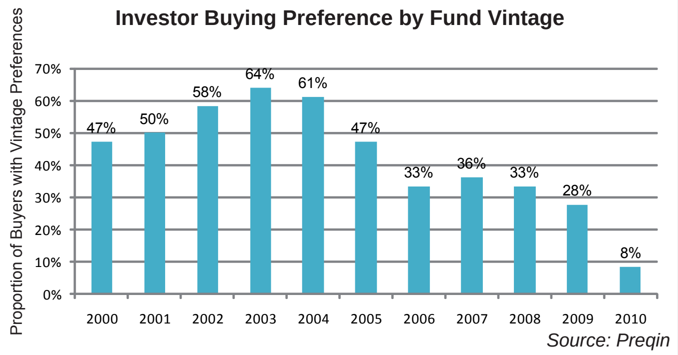
ICG Recovery Fund 2008
Manager: Intermediate Capital Group
Target Size (mn): 750 EUR
Hard Cap (mn): 1000 EUR
Closings (mn): First Close: 475 EUR (Oct-08), Second Close: 506 EUR (Oct-09), Third Close: 549 EUR (Nov-09), Fourth Close: 561 EUR (Feb-10), Final Close: 843 EUR (Apr-10)
Geographic Focus: Europe
Industry Focus: Diversified
Placement Agent: Lazard Private Fund Advisory Group
Law Firm: Ashurst

Anna Strumillo

Secondaries Spotlight

Preqin's Secondary Market Monitor (SMM) comprises a comprehensive database of secondary market players. Included are both traditional and non-traditional buyers of private equity fund interests, potential sellers of fund interests, and secondary market intermediaries.

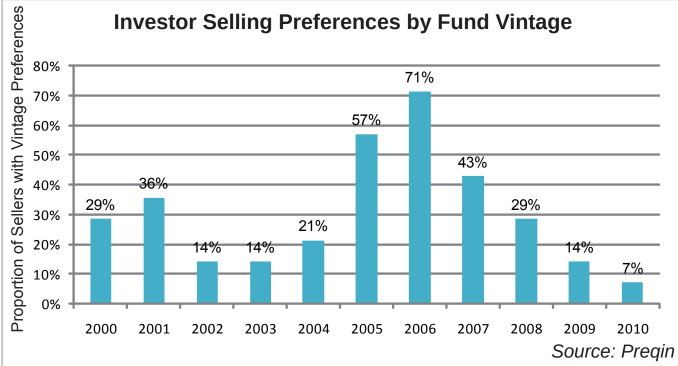
Fig. 1



Source: Preqin

Although most LPs approach potential secondary market purchases opportunistically in terms of vintage year, a small proportion (7%) of potential secondary market buyers have expressed a preference for purchasing interests in funds of particular vintages. LPs feel they can achieve higher returns from funds investing at particular points in the market cycle. Fig. 1 shows the vintage year most frequently cited by LP buyers with vintage preferences was 2003, with 64% naming this year. Funds of vintages 2002 and 2004 are also of considerable interest to LPs.

Fig. 2



Source: Preqin

8% of potential secondary market sellers have stated particular fund vintage years they are looking to exit. Fig. 2. shows us that a considerable 71% of such investors are looking to sell interests in funds with a 2006 vintage. 2005 and 2007 vintage funds are also common among secondary market sellers.

According to Preqin's unique pricing model, a $10,000,000 commitment to the median 2007 venture fund - which would have called $4,040,000 and has a reported net asset value (NAV) of $3,446,120 - would today fetch $2,683,400 on the secondary market, or approximately 78% of its NAV.

Secondaries News

Morgan Stanley Global Secondary Opportunities Fund I has held a final close

Morgan Stanley Alternative Investment Partners' dedicated secondaries fund has closed with USD 585 million in commitments, above its original target of USD 500 million. The vehicle will purchase limited partner interests in buyout, venture, distressed debt, mezzanine and growth equity funds on a global scale. The fund of funds manager considers buying fund interests on the secondary market as a core part of its private equity investment strategy and also allocates capital to such investments through its primary fund of funds vehicles.

Royal Bank of Scotland is close to completing its secondary market deal with AlpInvest Partners

The fund of funds manager is likely to take on the bank's portfolio of European private equity funds for EUR 400 million. The stakes in the portfolio consist of European private equity funds with vintages 2004-2008 and include both deployed and undeployed fund commitments. Royal Bank of Scotland decided to sell its private equity fund stakes in order to shed its non-core assets and simplify its balance sheet after losses resulting from the financial downturn. Following the sale of European fund stakes, the bank is now also considering selling its US portfolio of private equity fund interests for approximately USD 250 million in order to remove additional non-core assets from its portfolio.

Antonia Lee

Investor Spotlight: Investor Views on Fund Terms and Conditions

Fund terms and conditions have been a prominent issue for private equity investors during the past year. As the rates of distributions have slowed and fund managers have struggled to reach fundraising targets, limited partners have increasingly sought to have a greater say in the negotiation of terms and conditions.

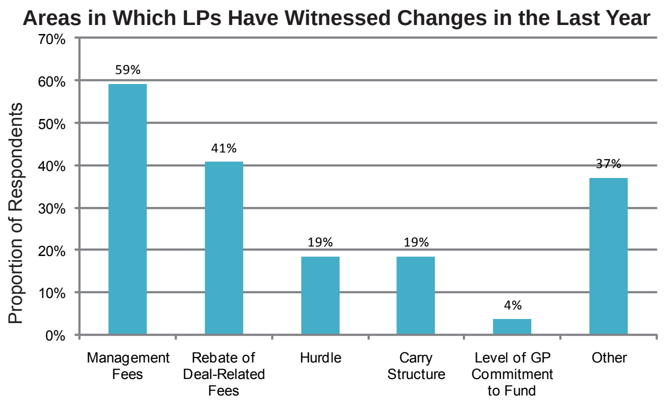
During 2009 and the first half of 2010, a concerted effort has been made by LPs to put fund terms and conditions under the spotlight and to highlight areas of concern for investors. At the start of May 2009, Oregon Investment Council (OIC), which manages approximately $65 billion of assets for state pension funds such as Oregon Public Employees' Retirement Fund (OPERF), officially adopted a set of private partnership investment principles to guide the council on decisions about prospective investments. The Institutional Limited Partners Association (ILPA) released its own set of private equity principles in September 2009 and these have since been endorsed by more than 100 institutional investors. Another industry body, British Private Equity & Venture Capital Association (BVCA), launched the LP Advisory Board in April 2010 with the aim of "enhancing relationships and levels of understanding" between GPs and LPs.

As part of our research for Preqin's newly release publication, the 2010 Fund Terms Advisor, Preqin surveyed 50 institutional investors in May to find out their views on private equity fund terms and conditions. Some of the results of the survey are presented here.

Recent Changes in Prevailing Terms and Conditions

Three-quarters of the LPs surveyed said that they have seen changes in the prevailing fund terms during the last 12 months. As shown in Fig. 1, the majority of these LPs (59%) cited the structure and level of management fees as an area in which alterations have occurred. A similar proportion (62%) of participants in a similar survey in 2009 told us that they had witnessed recent changes to management fees, suggesting that this has been the prime area of change during the last 18-24 months.

Fig. 1:



Source: *Preqin*

The rebate of deal-related fees is an area that appears to have changed more in the last 12 months than in recent years, with 41% of investors stating that they have witnessed changes to this aspect of fund terms in the last year. A number of LPs indicated that they were receiving a greater share of transaction fees, while one Germany-based insurance company said that transaction costs "have reduced as the GP has taken on more of it."

There is further evidence to support this. OPERF decided in April to invest $100 million in a second Aquiline Capital Partners fund after the GP agreed to transfer 100% of transaction fees back to the LP, provided that it reaches its $2 billion target. Around the same time, California Public Employees' Retirement System (CalPERS) announced that it had established a new strategic partnership with Apollo Management that would see a $125 million reduction in management and other fees paid to the firm for funds managed exclusively for the retirement system.

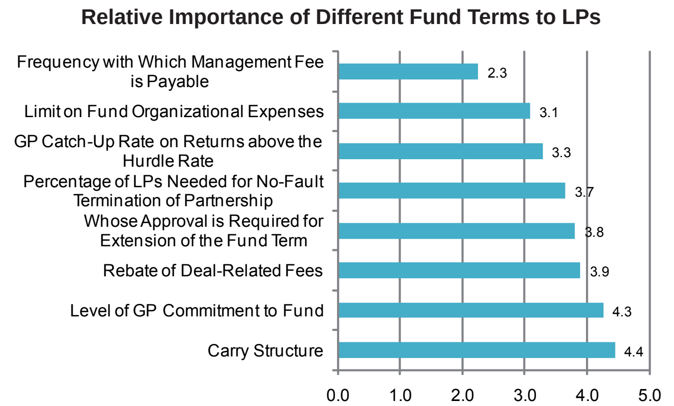
LPs named a number of other areas in which they have witnessed changes in the last year. One said that it had seen changes in key-man provisions, while a private sector pension fund in the Netherlands believes that the "no-fault divorce clause is more standard now." A US government agency explained that its relationships with GPs had improved over a number of issues, including "the length of time for capital calls to be made, the timing of the GP's investments, and general risk mitigation procedures."

The Importance of Various Fund Terms

We asked survey participants to rate a number of fund terms from one to five according to their relative importance to the individual LP. A fund term with a rating of five was considered to have high relative importance, and a fund term with a rating of one had low relative importance.

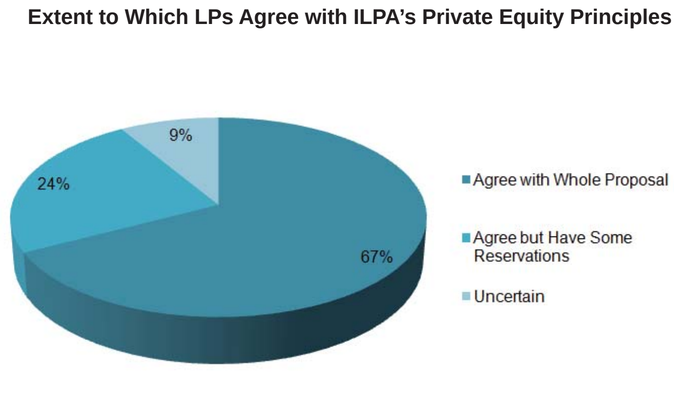
The issue of whether carried interest is distributed on a 'whole fund' basis or a 'deal-by-deal' basis has a high level of importance among LPs. As illustrated in Fig. 2, the carry structure achieved an average rating of 4.4 out of 5. Almost as important for LPs, with a rating of 4.3, is the size of a GP's commitment to a fund. This suggests that investors appreciate the show of faith demonstrated by fund managers that are prepared to put a significant amount of their own capital to work. One North European government agency commented that the traditional GP commitment of 1% of a fund's size should actually be considered as "fairly low."

Fig. 2:



Source: *Preqin*

Fig. 3:



Source: *Preqin*

The rebate of transaction and other deal-related fees, the parties responsible for approving the extension of a fund's investment term, and the proportion of LPs required to terminate a partnership, were areas that were rated between 3.7 and 3.9 in terms of relative importance. The frequency with which management fees are due to be paid has a relatively low importance for LPs, averaging a rating of 2.3 out of 5.

Attitude towards ILPA's Principles

The aforementioned ILPA Private Equity Principles are intended to act as guidelines for GPs and LPs when negotiating terms and conditions. The principles aim to address and improve the key issues of the alignment of interests, fund governance and transparency to investors.

As Fig. 3 shows, the vast majority (91%) of LPs that were asked agree to some extent with ILPA's proposed principles. A considerable 67% agreed with the entire proposal, while just under one-quarter of LPs agreed with the bulk of the proposal but harboured some reservations. For fund managers seeking to align their interests with those of investors, this provides a clear indication that LPs, on the whole, consider ILPA's principles to be an appropriate set of guidelines by which GP-LP relationships should be established and maintained.

Of the LPs that have reservations about ILPA's guidelines, several expressed doubts that the principles will be followed. One New York-based public pension fund questioned whether managers will employ the principles, asking: "How is it all going to be executed and monitored? Will there be much pressure for GPs to follow them?" Another public sector pension fund claimed that it is "not big enough" to enforce the principles. An LP located in Washington, DC, described the proposal as "a wonderful guideline of the way things should go," but added that give-and-take was required between GPs and LPs because the principles "cannot be [implemented] in their entirety."

Some investors suggested that there are important areas not covered by the principles. In particular, some commented that there should be guidelines covering LP-to-LP relationships, claiming that these "can be just as bad" as GP-LP relationships. One respondent said: "Some LPs could be cornerstone investors and also co-investors; parallel to this they [could] also make up part of the advisory committee for the fund – surely this will lead to conflicts of interests and an uneasy relationship with other LPs." Another LP said: "There are bound to be several LPs trying to do deals with GPs just so they can invest in a fund. They would allow GPs to not follow the principles and cut each other out of deals."

Conclusion

LPs generally expect GPs to maintain improved fund terms and conditions in the medium to long term, suggesting that they see the recent focus on, and alteration of, terms and conditions as a necessary long-term development, rather than simply as a short-term measure while the investing and fundraising environments are difficult.

Joe Childs

This article features information take from
The 2010 Preqin Fund Terms Advisor.

For more information about this publication, to view sample pages or to order a copy, please visit:

www.preqin.com/fta

Conferences Spotlight: Forthcoming Events

PRIVATE EQUITY SERIES

Date: 28th -29th September 2010
Location: ETC Venues, The Hatton, London
Organiser: IIR Global Conferences

The most complete seminar on private equity turnaround & restructuring features:

Current trends & regulatory developments occurring within the restructuring market
The new environment for restructuring pre-crunch personal deals
Restructuring the leverage frenzy:
- challenges and solutions for restructuring PE deals of the last cycle
Creative restructuring strategies
Case study:
- the structured exit of the deeply distressed Saab Automobile by General Motors

Information:
http://www.informaglobalevents.com/KM2257PRE
VIP Code: KM2257PRE

SuperReturn Emerging Markets 2010

Date: 28-30 June 2010
Location: Geneva
Organiser: ICBI

Hear Bill Gates Foundation & 60 more LP speakers interested in emerging markets. Hear regional experts from South East Asia, Africa, Middle East, India, China, Latin America, CEE, Russia & CIS. Schedule meetings ahead of the event & connect via LP/GP speed networking, LP Roundtables and Quick Fire Showcase & more structured networking. 15% discount, quote VIP: KR2243PREQEM.

Information:
http://www.icbi-events.com/srem-preqem

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Fund Forum International 2010	28 June - 1 July 2010	Monaco	ICBI
SuperReturn Emerging Markets	29 - 30 June 2010	Geneva	ICBI
India Private Equity and Venture Capital Conference	15 - 16 July 2010	London	IBF Media
Asset Allocation Summit New Zealand 2010	21 - 23 July 2010	Auckland	Terrapinn
Public Funds Summit East	21 - 23 July 2010	Newport, RI	Opal Financial Group
Nordic Investors Forum 2010	7 - 8 September 2010	Stockholm	IQPC
2010 Investment Forum for Endowments, Foundations and Pension Funds	14 September 2010	New York	Argyle Executive Forum
Private Equity Summit for Institutional Investors	15 - 16 September 2010	San Francisco	Opal Financial Group
Capital Creation 2010	15 - 17 September 2010	Monte Carlo	Worldwide Business Research
African Investor Index Series Summit	17 September 2010	New York	African Investor
Alternative Investments Summit	21 - 22 September 2010	San Diego	IMN
Emerging Markets Summit: BRIC & Beyond	22 September 2010	New York	iGlobal Forum
Investing in Distressed Debt 2010	22 - 23 September 2010	London	IIR
PEI Turkey Forum	22 - 23 September 2010	Istanbul	PEI Media

Investor Spotlight: LP News

Swiss National Accident Insurance Institution (SUVA) plans on committing USD 400 million to USD 600 million to private equity over the next 12 months.

The USD 38 billion Switzerland-based insurance company is allocating USD 400-600 million of capital to 6 to 10 new vehicles over the coming months. SUVA invests globally in private equity in a variety of fund types including buyout, distressed debt and venture funds. The insurance company typically commits CHF 30-80 million per fund and looks to take a maximum stake of 10% in vehicles that it invests in. For this reason it does not invest in funds smaller than USD 200 million in size. The insurance company is below its 5% target allocation to private equity with 4% of total assets currently allocated to the asset class.

United Overseas Bank (UOB) expects to increase its allocation to private equity in the long term.

UOB, a USD 124 billion Singapore-based bank that has been investing in private equity since the early 1990s, expects to increase its private equity allocation in the long term. It anticipates making new private equity fund commitments in the second half of 2010, and expects to commit USD 60 million across four new funds. UOB is open to forming some new relationships with managers but will mainly be re-upping with existing managers. It has a preference for venture, mezzanine and small to mid-cap buyout funds. The bank currently has less than 1% of its assets allocated to investments in private equity.

Folksam is looking to invest in four to five private equity vehicles in the coming year.

Over the next 12 months the Stockholm-based insurance company will look to commit a total of EUR 200 million to four or five new private equity vehicles. Folksam manages EUR 24 billion of assets and invests opportunistically in private equity. It has no fixed target allocation to investments in the asset class. Folksam typically commits to European, particularly Scandinavian funds, and US-focused vehicles. The insurance company has a preference for funds of funds, particularly secondaries funds, when investing outside of the Nordic region, and will invest directly in funds domestically. It also seeks to invest in venture funds with a focus on the cleantech industry. Folksam will commit EUR 10-50 million to each new fund, and plans to focus mainly on investments in the Nordic region for the time being.

Pohjola Insurance has awarded a EUR 50 million private equity mandate to Pohjola Private Equity Funds to be invested over the next 12 months.

The EUR 2.9 billion insurance company is below its target allocation to private equity of 4% of total assets with 2.3% of assets currently allocated. It has allocated EUR 50 million to Pohjola Private Equity Funds to invest in 8 to 10 vehicles over the next 12 months. On behalf of Pohjola Insurance, Pohjola Private Equity Funds is to invest the capital on a discretionary basis in buyout, mezzanine or secondaries vehicles. Pohjola Insurance is not seeking to gain exposure to venture funds in the foreseeable future and will only participate in first-time funds under exceptional circumstances.

North Carolina Department of State Treasurer (NCDST) is adding to its private equity team.

The USD 68.7 billion public pension fund is hiring new staff to help implement suggestions put forward by its consultant Ennis Knupp and Associates at a board meeting in April. The investment consultant suggested that the pension fund should look to make more direct and co-investments, and should invest in secondaries funds. Ennis Knupp and Associates suggested that NCDST's private equity team should comprise at least four, and ideally eight, members. For now, the pension is seeking two new staff members to work exclusively in the private equity division. At present, all such investments are looked after by Craig Demko alone. The pension fund has recently hired Shawn Wischmeier, former CIO of Indiana Public Employees' Retirement Fund, as CIO. He replaces Patricia Gerrick, who was dismissed last August.

Scotiabank Private Equity Investments is looking to increase its Asian exposure.

Scotiabank Private Equity Investments (Scotiabank PE), the private equity investment arm of Scotiabank, is looking to increase its exposure to the Asian continent. Scotiabank PE, which is based in Toronto, predominantly invests in the US and Canada, but also has an allocation to global opportunities. It has been satisfied by European fund investments in the past, but the dearth of fundraising activity in the region has led to a subsequent slow down in Scotiabank PE's commitments. It sees Asian private equity as providing interesting opportunities in the current climate. The investment bank invests excess capital received from Scotiabank and will consider investments in buyout and venture capital funds. It also considers co-investment opportunities.

Emma Dineen

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 and Secondary Market Monitor subscribers.

In the last month, Preqin analysts have added 10 new investors and updated 1,281 existing investor profiles.

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