Private Equity Spotlight

April 2007 / Volume 3 - Issue 4

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

Private equity management fees have come under the spotlight recently, with increasing comment in the press about the absolute levels of management fees that LPs pay on their investments. However, the key issue for LPs and GPs is the impact of fee structures on alignment of interest.

PERFORMANCE SPOTLIGHT

Private equity fund managers often describe themselves as ‘top quartile’, but is such past performance actually likely to lead to future top quartile performance? We examine the relative performance of different funds from the same firms over time.

FUNDRAISING

2006 was a record breaking year for private equity fundraising, with a total of 722 funds achieving a final close, raising $453 billion in aggregate commitments. See how fundraising has progressed in the first quarter of 2007 with the Q1 Global Fundraising Update.

No. of Funds on Road	US	Europe	ROW	Total
Venture	231	105	92	428
Buyout	130	47	27	204
Funds of Funds	78	51	12	141
Real Estate	75	14	19	108
Other	83	23	29	135
Total	597	240	179	1016

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INVESTOR SPOTLIGHT

With Preqin Hedge set to launch its new Investor Profiles online database, we take the opportunity to examine the growing institutional support for hedge funds, and draw comparisons between the largest investors in private equity and in hedge funds.

- What are the latest trends amongst hedge fund investors?
- What similarities are there between the largest hedge fund and private equity investors?
- Predictions on the levels of commitments likely in next 12 months.

INVESTOR NEWS

All the latest news on investors in private equity:

- Hamilton Lane set to be given more discretion over LACERS’ investments
- Schindler Pensionskasse looking to make its first commitment to private equity real estate vehicles
- Shropshire Pension issue RFP for real estate fund manager
- WVIMB given authorisation to invest in alternatives
- Arkansas Teachers’ hires new executive director and investment chief

Private Equity Spotlight

> *Comparing fees between different funds reveals great variation. The popular view that terms are standardized on '2 and 20' is simply incorrect.*

Private Equity management fees are undoubtedly high. The benchmark 2% fee may not sound much, but by the time one has added in some fund formation costs, and accounted for the fact that fees are initially charged on commitments and not investments, the actual average fee over the lifetime of the fund is closer to 5% per annum of the LP's invested capital. Add in some reasonable assumptions about carry and the figure is likely to be 8% to 10%.

However, focusing on the absolute level of fees misses the point. Private equity firms don't simply manage assets in the way that other asset management organizations do, they are much more closely involved in managing the businesses they own. By its very nature, private equity is a high cost asset class: acquiring and nurturing private businesses, large and small, will always be more expensive than simply buying and selling stocks, bonds, or commodities. It may not be stretching the analogy too far to compare fees for a private equity fund with fees for a long-only equity fund manager plus the typical corporate costs at a conglomerate like GE. Private equity firms aren't so much managers of assets as entrepreneurs applying capital to create value for their backers.

How then should LPs look at management fees and related costs? Three key metrics spring to mind: first, are the net returns after fees and costs satisfactory; secondly, how do the terms for each fund compare with those for other similar private equity funds; and thirdly, do the fees promote alignment of interests between the GP and the LPs?

Net returns for LPs have clearly been excellent across most sectors of the private equity industry. Despite the many commentators who have attempted to call the top of the market, performance is still good, and LP appetite appears undimmed. It is worth recalling that even in the depths of the downturn at the millennium, a well-diversified LP would actually have experienced positive returns (just) across its entire private equity portfolio. Certainly the experience was no worse than many other asset classes. Whilst future returns may struggle to match the tremendous results of recent years, there is no good reason to suppose that net returns from a suitably diversified private equity portfolio will fail to match LPs' reasonable expectations over the medium term.

Comparing fees between different funds reveals great variation. The popular view that terms are standardized on '2 and 20' is simply incorrect. There is actually significant variation in terms between ostensibly similar funds, not just the headline fees, but in other vitally important areas also. Taking just buyout funds as an example:

- Initial fee rate: while most funds start around 2%, a significant minority of funds have fees in the range 1.5% to 1.75%, and others start with fees of 2.5% or more;
- Fee reduction after the investment period: 41% of funds keep the fee rate the same, but apply it to the cost basis of the unrealized portfolio. 26% of funds reduce the percentage fee rate as well as applying it to the cost basis;
- Transaction fee rebates: these vary significantly between funds: almost half of all funds rebate 50% to 70% of transaction fees back to the LP, 30% of funds rebate 70% to 90%, and 25% of funds rebate between 90% and 100%.
- GP commitments to the fund: can vary between 1% or less up to as much as 10% of the total fund.

Taken together, the variance in terms can result in major differences in net costs for the LP. There is clear evidence that fund terms have hardened over the past few years (it would be surprising if they hadn't, given the success of the industry and the level of LP appetite for new funds), so it is particularly important for LPs to evaluate and compare the aggregate fees they are being charged over the lifetime of the fund.

Alignment is the final, and perhaps most important consideration. The historic pattern in private equity has been to create strong alignment throughout the entire chain – from the LPs investing in the fund, through the GP, and on to the managers in each portfolio company. Management fees have been there to 'pay the bills', while the real gains for the GP kick in through the carry. This model is coming

> *Even though management fees on the largest funds are somewhat lower, they do not fully reflect the economies of scale...*

under strain with the mega-funds raised over the past couple of years. Even though management fees on the largest funds are somewhat lower (typically 1.5%), they do not fully reflect the economies of scale of managing such large funds. Fig. 1 below shows total staffing at European buyout firms, expressed in terms of staff per $1 billion under management. The economies of scale are clear, and would point to a starting management fee in the range 0.7% to 0.9% for the largest funds – and indeed isolated examples of fees for large buyout funds from the 2000 to 2001 vintages confirm that funds can be run at these cost levels.

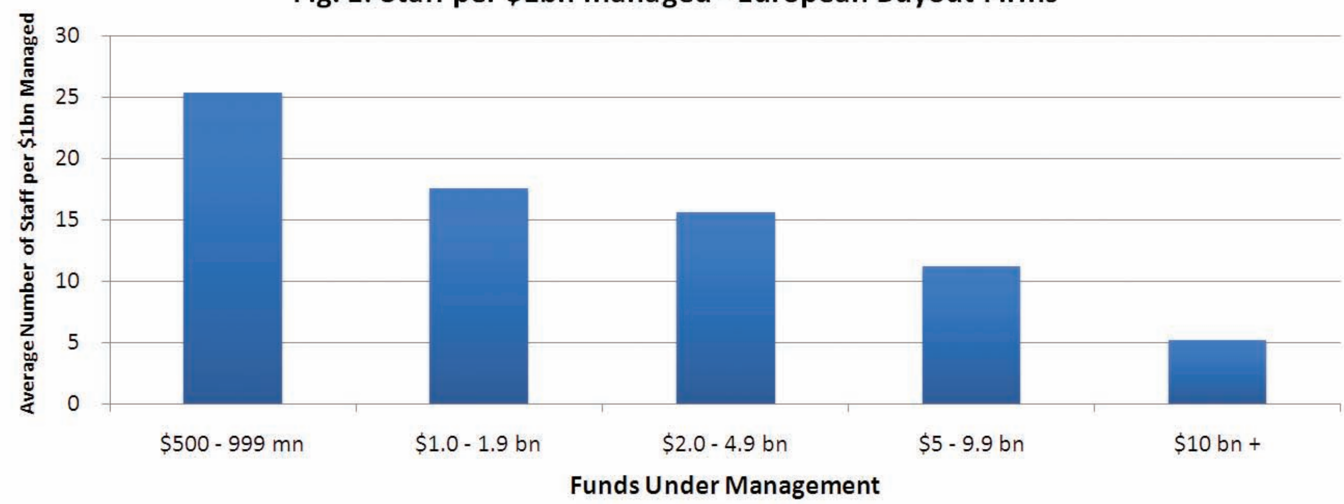
It is clear that current management fee levels of around 1.5% give GPs a massive surplus above the actual costs of running the fund, driving a wedge into the alignment of GP and LP interests. These fees should be reduced. However, they will not decline without a quid pro quo on the carry – and nor should they: if GPs are delivering excellent returns for their LPs, they clearly deserve to be rewarded. A reconfiguration of the terms structure for the largest funds towards lower fees (around 0.7% to 0.9%) and higher carry (up to 30% or even 35% above a suitably high hurdle rate) would preserve the GP's potential to generate wealth, and re-align the interests of GP and LP more closely.

This month's feature article draws upon the 2007 Fund Terms Advisor. This year's edition is a detailed review of private equity partnership terms and conditions, based upon analysis of over 1,100 funds of all types and sizes from the US, Europe and around the world.

For further details please visit

www.preqin.com/fta

Fig. 1: Staff per $1bn managed - European Buyout Firms



2007 Fund Terms Advisor

Your Essential Guide to Fund Terms and Conditions

- Analysis of fund terms and conditions based on data for over 1,100 funds of all types
- Detailed benchmarks for all key fund terms: management fees; carry; hurdles; fee rebates; keyman provisions; no fault divorce clauses etc
- Unlimited access to our unique online Fund Terms Advisor to model the economic impact of different fund terms
- Essential tool for GPs raising new funds, LPs committing to funds, lawyers, consultants, advisors and placement agents
- NEW FOR 2007: Listings of key terms for 437 Funds.
- More information is available at: www.preqin.com/FTA

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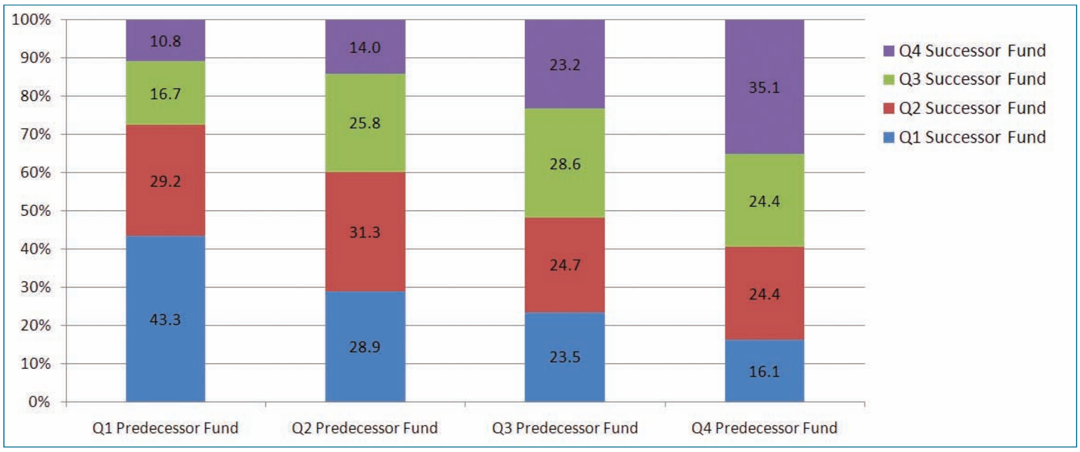
Performance Spotlight

Performance Spotlight is your monthly update on Private Equity Performance. This month: track record - identifying trends between the relative performance of different funds operated by the same firms over time.



This month Spotlight analyses the track record of private equity fund managers in order to identify any trends between the relative performance of different funds operated by the same firms over time. Are managers of top quartile funds likely to match this performance in follow on funds? Are fund managers operating less well-performing funds historically likely to continue to deliver poor returns to their investors? We conducted the following analysis using performance data for over 3,400 funds managed by 1,159 firms.

Private equity firms like to describe themselves as top performers, often insisting that their previous funds are ranked in the top quartile. To what extent should potential investors use past performance as a guide to potential future returns? The graph above shows the relationship between successor and predecessor funds for the overall private equity industry, clearly showing a strong correlation of relative fund performance over time.

GPs currently managing a top quartile fund have a 43.3% probability of having their next fund also feature in the top quartile, with only a 10.8% chance of a follow on fund being ranked in the bottom quartile. This clearly supports the belief that there are not only top quartile funds but also top quartile managers able to deliver consistently strong performance across a large proportion of their vehicles. Second quartile fund mangers have a probability of around 60% of beating the median benchmark with their next fund, and a 28.9% chance of improving their ranking and seeing their next fund feature in the top quartile.

Unfortunately for managers of less successful funds, there is also evidence that it can be very difficult to improve on previous fund performance and jump into the top quartile rankings. Managers of third quartile funds have a moderate chance of moving into a higher quartile, with an approximately 50% probability of having their following fund performance falling above or under the median benchmark – with a 23.2% probability of being top quartile. Managers of bottom quartile funds have a 35.1% probability of remaining in the bottom quartile with their follow-on funds, and a 59.5% probability of being beaten by the median fund, with only a 16.1% probability of featuring in the first quartile.

These findings confirm the strong influence of GP's track record on fund performance. Investors seeking to invest with a new GP should always consider the performance of their previous funds by benchmarking these against peer funds, as previous performance is certainly a good indicator of likely future performance. However, there is also evidence that less successful managers are able to improve upon past performance and move into the higher quartiles, although the data shows that this only happens in a minority of cases.

This analysis was made using data from our Performance Analyst, an online database showing performance data for more than 3,400 private equity funds of all types and geographic focus

For further details and to sign up for a free trial please visit:

www.preqin.com/pa

Overview
Global Fundraising Update - Q1 2007

Mega funds continue to dominate in 2007 - The latest data for 2006 reveals that a total of 722 funds achieved a final close over the course of the year, raising an unprecedented $453 billion in aggregate commitments. Fundraising has remained strong in 2007, with a total of $88 billion being raised in Q1. The trend towards larger funds continues to grow, with a number of large funds closing, raising the average fund size to $900 million for funds closed so far in 2007.

$88 billion raised during Q1 2007

A total of 104 funds achieved a final close during Q1 2007, raising an aggregate $88 billion. This represents a small decrease from the $104 billion raised during the first quarter of 2006, although we do expect the total to increase as we receive additional information regarding funds closed during Q1 2007. Although the value of funds closed has remained relatively steady, the number of funds being raised has declined dramatically, with the 104 funds raised in Q1 lower than any other quarter of the past two years. Funds in excess of $2 billion in size continue to dominate the fundraising market, with 55% of all commitments made in 2007 coming from such vehicles. The stock of funds on the road has grown to over 1,000 separate vehicles, indicating that competition will be fierce in 2007, especially for managers of smaller funds.

Fundraising in Q1 2007 by Fund Type

• 25 Buyout funds raised an aggregate $44 billion during Q1 2007, with 70% coming from US focused funds, 20% from European focused funds, and 10% from the Rest of World.

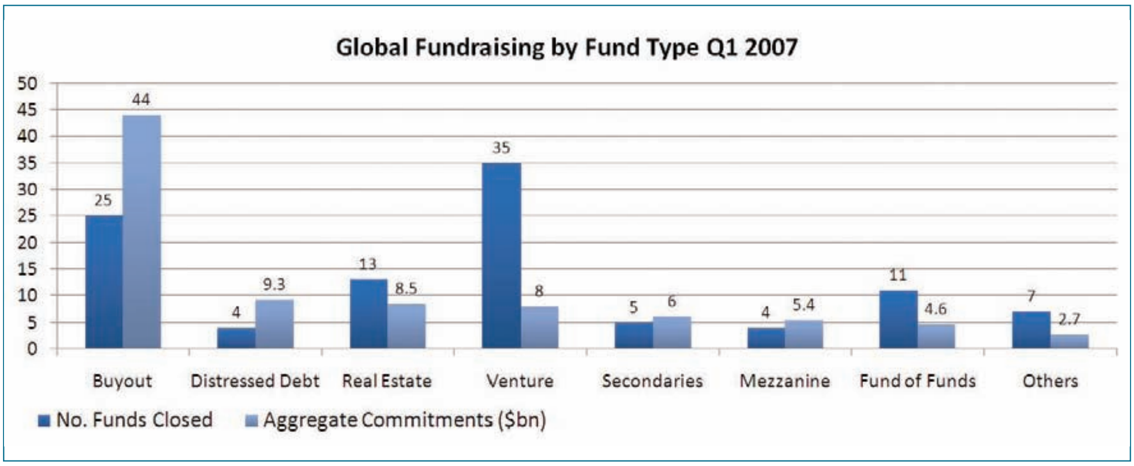
• 35 Venture funds raised an aggregate $8 billion, with over $4 billion coming from US focused vehicles.

• 13 Real estate funds raised an aggregate $8.5 billion. Over $4 billion of this total was raised from US focused funds, and more than $2 billion from funds focusing on the Rest of the World.

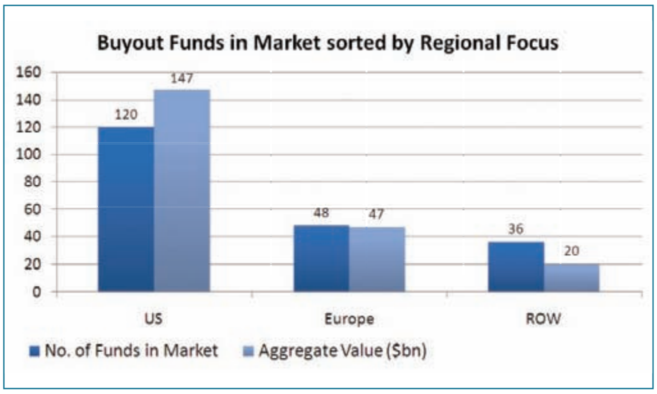
• 11 Fund of funds achieved a final close in Q1 2007, raising an aggregate $4.6 billion in commitments. The majority of this total was raised from European focused fund of funds.

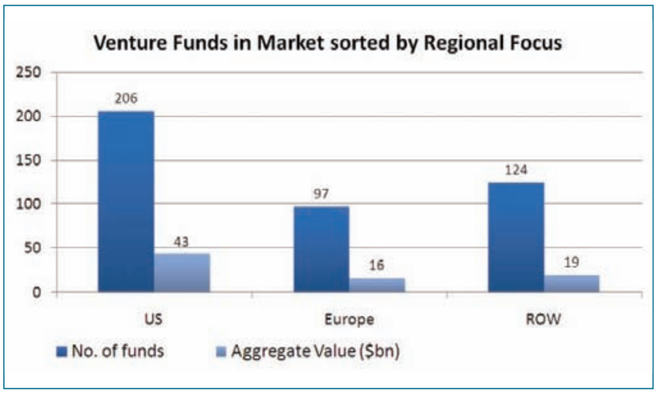
• 5 Secondaries funds raised an aggregate $6 billion. Goldman Sachs' latest secondaries vehicle, GS Vintage Fund IV accounts for $3 billion of the total raised.

• 4 Distressed debt funds achieved a final close during Q1 2007, raising an aggregate $9.3 billion.



Funds In Market
Global Fundraising Update - Q1 2007





The number of private equity funds on the road is greater than ever. There are currently over 1,000 funds on the road with a combined target of $488 billion. There is evidence of momentum in the market, with over 70 of these funds having already reached a second close, and over 350 funds having reached a first close.

Buyout Funds on the Road:

• There are currently 204 buyout funds in the market targeting an aggregate $213 billion.

• The majority in terms of number and aggregate sought are US focused buyout funds. European focused buyout funds account for 22% of the overall target, and Rest of the World focused funds account for 9%.

• The average size of buyout funds in the market currently stands at just over $1 billion.

Venture Funds on the Road:

• There are currently 427 venture funds on the road seeking an aggregate $78 billion in aggregate commitments.

• Over 50% of the capital sought is by venture funds focusing on the US. Venture funds focusing on the Rest of the World account for 24% of the overall target, while venture funds focusing on Europe account for just 20%.

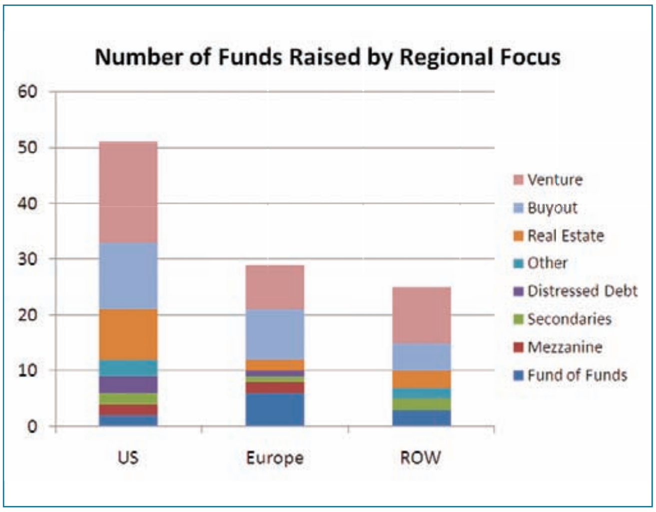
LARGEST BUYOUT FUNDS ON THE ROAD

Fund	Manager	Fund Size (mn)	Location
GS Capital Partners VI	Goldman Sachs Private Equity	19,000 USD	US
KKR Fund 2006	Kohlberg Kravis Roberts	16,625 USD	US
Carlyle Partners V	Carlyle Group	15,000 USD	US
Apax Europe VII	Apax Partners	8,500 EUR	UK
Thomas H Lee VI	Thomas H Lee Partners	9,000 USD	US

LARGEST VENTURE FUNDS ON THE ROAD

Fund	Manager	Fund Size (mn)	Location
Citigroup International Growth II	Citigroup VC International	3,500 USD	US
Pine Brook Road Partners I	Pine Brook Road Partners	2,000 USD	US
Cyrte Investments TMT Fund	Cryte Investments	1,500 EUR	Netherlands
Bertelsmann	Bertelsmann Capital Ventures	1,000 EUR	Germany
VantagePoint Venture V	VantagePoint Venture Partners	1,250 USD	US

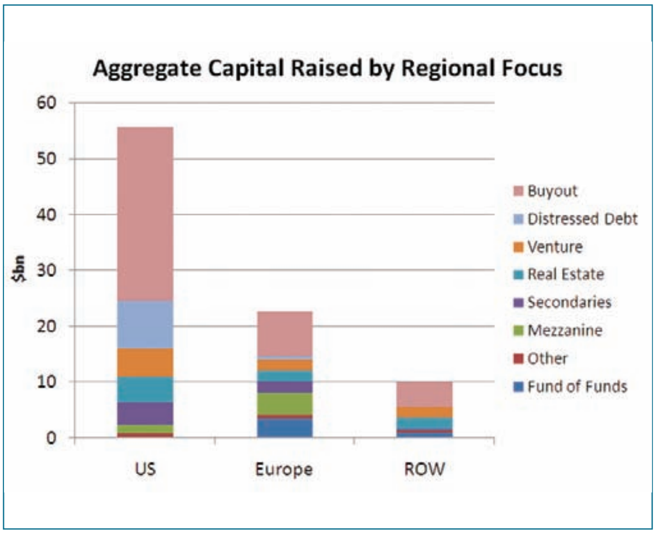
Geographic Focus
Global Fundraising Update - Q1 2007



US focused funds have continued to attract more capital than European and Rest of the World focused funds. $55 billion was raised by private equity funds focusing on the US market, representing over 60% of the overall total raised during Q1 2007.

European focused funds raised an aggregate $23 billion in commitments from 29 funds, 26% of the total capital raised globally during Q1 2007.

Rest of World focused funds raised just over $10 billion from a total of 25 funds achieving a final close during Q1 2007, with over $4 billion of this coming from buyout funds alone.



US:

• Buyout funds continue to dominate the US private equity market. 57% of the total capital raised by US focused funds in Q1 2007 came from buyout funds. In total 12 funds of this type raised an aggregate $31 billion in commitments.

• US focused Distressed Debt funds were the next most successful fund type in terms of capital commitments during Q1 2007, collecting a total of $8.6 billion. The bulk of the total raised came from the CVI Global Value Fund which achieved a final close on a sizeable $5.7 billion.

• Real estate funds raised $4.5 billion from a total of 9 funds. CB Richard Ellis Strategic Partners IV alone raised over $1 billion of this total.

• Venture funds raised an aggregate $4 billion from 19 funds.

Europe:

• 8 Buyout funds focusing on Europe raised an aggregate $7.9 billion during Q1 2007, representing 35% of the European fundraising market for the period. CVC European Equity Partners IV Tandem Fund was the largest of these funds, collecting over $5 billion in commitments.

• European focused fund of funds had a successful first quarter with a total of 6 vehicles raising an aggregate $3.5 billion in capital commitments.

• An impressive $4 billion was raised by 2 European focused mezzanine funds. With a final size of €2.2 billion ($2.9 billion) ICG European Fund 2006 was the largest mezzanine fund raised worldwide during Q1 2007.

ROW:

• Buyout funds were again the most popular among private equity funds focusing on the Rest of the World region.

• A total of 5 buyout funds raised an aggregate $4.5 billion, representing 44% of all capital raised by funds focusing on the Rest of the World. during Q1 2007.

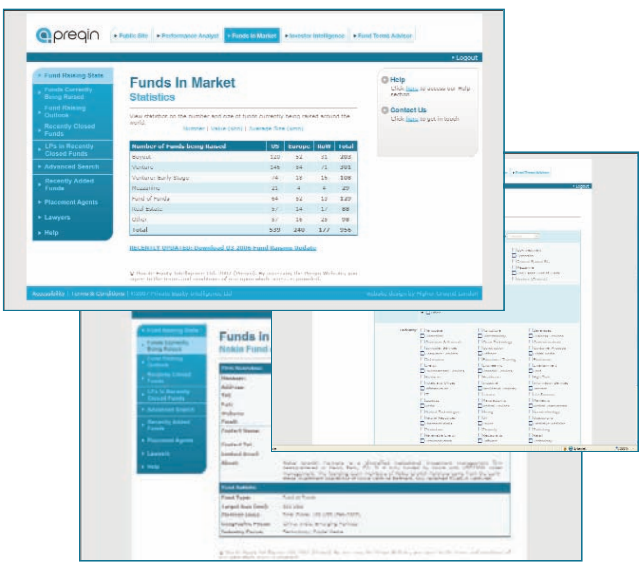
• Affinity Asia Pacific Fund III was the largest fund raised with an investment focus on Asia during Q1 2007. It achieved a final close on $2.8 billion, exceeding its initial target of $2 billion by $800 million.

Product Spotlight:
Funds In Market

Each Month Spotlight takes a closer look at one of the many products and services provided by Private Equity Intelligence, exploring the features offered; how it can help you in your job; who uses it and how you can get it.

This month: Funds in Market

- **Are you currently fundraising?** Use Funds in Market to assess the competition, understand the market, view historical trends and see which LPs have made commitments to which new funds.
- **Are you looking to make fund investments?** Use Funds in Market to identify investment opportunities, compare different fund offerings targeting similar investment strategies, and ensure you are establishing relationships with the most relevant GPs ahead of time.
- **Are you a Placement Agent or Lawyer?** Funds in Market can help you identify new business development opportunities and to assess the competition.



NEW VERSION JUST RELEASED

- Listings of all new funds of all types currently on the road worldwide
- Profiles for each fund: investment focus, managing firm, target size, closes to date, placement agent and legal advisors, contact details
- Details of all funds closed since 2003
- Listings of over 550 new follow-on funds likely to be launched over the coming two years
- Powerful search tools to help find new funds that match your selection criteria by type of fund, geography, industry focus, size etc.
- Listings of sample LPs in recently closed funds
  Information on key placement agents and lawyers including funds worked on

Funds in Market is available by annual subscription

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For more information and to arrange trial access please visit:

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Investor
Spotlight - Hedge Fund Investors

Investor Spotlight is your monthly update on investors in Private Equity. See how key investors are changing their allocations and which new investors are coming into the market. Each month we analyse investors in a specific segment - this month we examine the correlation between the largest institutional investors in hedge funds and private equity.

Towards the end of the last century the majority of commitments made to hedge fund vehicles were coming from high-net-worth individuals, with institutional support for the asset class being limited to a relatively small number of foundations and endowments. Private equity has historically had a far higher level of institutional backing than hedge funds, with the majority of investment in the asset class coming from prominent institutions such as public and corporate pension funds, insurance companies and banks. However, with institutional investors worldwide increasing their allocations to alternatives, the hedge fund industry is receiving greater levels of backing from investors of this type than at any other point in the history of the asset class. In order to maintain these levels of support, the industry must adapt in order to respond to the demands and requirements of these new investors.

Institutional investors are increasingly turning to alternative investment vehicles to diversify their portfolios. In 2006 the private equity industry raised $453 billion in commitments to new private equity funds, with the vast majority of this capital coming from institutional investors. In the same period $160 billion was raised by hedge fund managers – including capital from both institutional investors and high net worth individuals. Using data taken from Preqin Hedge's Investor Profiles, which contains details for over 750 institutional investors in the arena, we predict that in the next 12 to 18 months an additional $85 billion will be poured into hedge funds and fund of hedge funds through institutional commitments alone.

The two largest groups of investors in the asset class are endowments / family offices, and public pension plans, which represent 37% and 33% respectively of all the institutions investing or considering investment in hedge funds. Endowments and family offices with their greater investment freedom and less public scrutiny were amongst the first institutional investors in the asset class. However pension plans have been, and continue to be, the fastest growing source of institutional capital for hedge fund managers – with many pension funds being under-funded, and forced to reconsider their investment policies and increase allocations to alternatives.

In order to seek higher returns many public pension funds have turned to alternative asset classes, and increased their interest in hedge funds. Over the past five years these plans have begun to adapt their allocation and are increasingly seeking legislative approval to allow them to include hedge fund strategies as part of their diversified investment portfolios.

Using data from Preqin Hedge we can identify the public pension plans which invest the greatest amount of capital into the asset class. Predictably California Public Employee's Retirement System (CalPERS) is the largest investor – currently investing USD 11.5 billion in hedge fund vehicles, but with a target allocation of 8% this figure will rise to USD 18.4 billion over the next 3 years.

In terms of proportion of total assets under management dedicated to hedge fund investments, the San Diego County Employees Retirement Association (SDCERA) is the most active institutional investor in hedge funds in North America, with no less than 20% of its total assets under management employed in the area. Despite coming under pressure from beneficiaries after suffering significant losses from its investment into the now defunct Amaranth Advisors, SDCERA has maintained its 20% allocation to the asset class, stating that the consistent high returns that the asset class had provided in the past outweigh the potential risks of a changing market.

One of the earliest public pension plans to utilise hedge funds as part of a diversified portfolio was Ontario Teachers' Pension Plan, which made its maiden investment in 1994. Thirteen years later it is now one of the most sophisticated institutional investors in the market, with a 12% target allocation - this equates to approximately $10 billion – providing the second largest contribution to total hedge fund capital of all public pension plans. It currently has over 150 managers on its hedge fund roster in accordance with its strategy to commit a small amount of capital to a large number of diverse managers in order to lower the risk of its overall portfolio.

Investor Spotlight

> *In the next 12 to 18 months around $85 billion will be poured into hedge funds and fund of hedge funds through institutional commitments alone...*

In terms of overlap with private equity investments, public pension funds tend to be more likely to invest in both private equity and hedge funds than other institutional investors. The Preqin Investor Intelligence database reveals that of the top 25 investors into private equity (discounting private equity fund of funds) only five additionally invest in hedge funds. However four out of the top ten public pension investors into private equity also appear in the top ten hedge fund investors list (Fig. 1). Notable abstainers from hedge fund investments include the Washington State Investment Board and California State Teachers Retirement System.

Thus far only public pension plans which cover North America have been discussed. However, a significant proportion of hedge fund investors are entering the market from other regions. Amongst the top 25 hedge fund investors as identified by our Preqin Hedge Investor Profiles product, five are European, the largest of these being ABP Investments based in the Netherlands. We estimate that approximately 35% of the total numbers of public pension plans investing in hedge funds are European with the remaining 65% based in North America. Hedge fund investments from UK pension funds are booming, with pension funds making their first forays into the market all the time. New entrants from the UK include Bexley Council Pension Fund and Warwickshire Pension Fund, each making its maiden investment in the latter part of 2006.

So what type of vehicles do public pension plans invest with? Preqin Hedge Investor Profiles reveals that pension fund portfolios often contain a number of fund of hedge funds in order to increase diversity and to reduce the overall risk exposure of their hedge fund investments. We estimate that approximately 65% of public pension plans seek fund of hedge funds as a strategic target. Often fund of hedge funds form part of a wider portfolio that also contain some direct investments, which allow the pension funds to have greater exposure to managers or strategies that they believe will generate the greatest returns. A relatively small proportion - about 20% - of public pension plans are put off by the double layered fees of fund of funds and make solely direct investments. These plans tend to be more experienced with larger resources (which are needed to implement a direct investment program).

The future looks bright for the hedge fund industry – we estimate that a third of public pension funds are below their target allocation towards the asset class, and will continue to invest at a high level over the next 18 months. With other funds continually reassessing their exposure to hedge funds, and with new public pension plans constantly entering the arena, we predict that the market for hedge funds designed to cater for institutional needs will grow in order to cater for this rising demand amongst institutional investors.

Fig. 1: Top ten public pension investors into private equity and top ten hedge fund investors

Top 10 Public Pension Plans Investing in Private Equity :	Top 10 Public Pension Plans Investing in Hedge Funds:
California Public Employees' Retirement System (CalPERS)	California Public Employees' Retirement System (CalPERS)
Ontario Teachers' Pension Plan	Ontario Teachers' Pension Plan
CPP Investment Board	Regents of the University of California
Washington State Investment Board	ABP Investments
California State Teachers' Retirement System	New Jersey State Investment Council
Oregon State Treasury	North Carolina Department of State Treasurer
ABP Investments	Iowa Public Employees' Retirement System
New York State Common Retirement Fund	Virginia Retirement System
Michigan Department of Treasury	Michigan Department of Treasury
Pennsylvania Public School Employees' Retirement System	Massachusetts Pension Reserves Investment Management Board

Investor News

BAE Systems Pension Funds Trustees is set to increase its exposure to the private equity asset class by widening its investment mandate. Until now, it has only invested in fund of funds, but is looking to commence investment in buyout and venture funds, and potentially other types of funds, in Q3 2007. All investments will be advised on by its private equity consultant, Cambridge Associates.

The Texas State Senate has approved a bill that will force the state's pension plans to sell or transfer any current investments tied to Sudan. If the Texas House of Representatives also approves the bill, **Texas Public Employees' Retirement System** would have to divest its holdings in companies with ties to the Sudan and any investments with businesses that have some sort of connection with or earn 10% of their revenues in Sudan. Earlier this year a similar bill was passed in Illinois and another, focused on Iranian investments, is in the process of moving through the California state legislature.

The GBP 833 million **Shropshire County Council Pension Fund** is currently looking for a real estate fund manager. The pension fund is keen to add diversification to its real estate portfolio and gain access to European property investments.

In a push to achieve its private equity allocation, **Los Angeles City Employees' Retirement System (LACERS)** is set to increase the discretion its private equity advisor has over its investments. Under the current policy, Hamilton Lane is able to choose and make investments, pledging up to USD 30 million if LACERS has committed to the firm before or up to USD 20 million to fund managers new to the pension plan. Investment staff at LACERS are set to vote on a proposal to increase these limits to USD 40 million for returning managers and USD 25 million for new managers. Potential investments must be put forward to the staff at LACERS with board approval required only if there are disagreements with the recommendations. Under this program, Hamilton Lane recently committed USD 20 million to the TPG Star Fund on LACERS' behalf.

Seattle City Employees' Retirement System is currently looking for a real estate advisor in order to revamp its strategy. The USD 1.7 billion pension fund considers private real estate to be its best performing asset class but has put off investment decisions until an advisor is found.

Schindler Pensionskasse is looking to make its maiden commitments to private real estate vehicles. The CHF 13 billion pension fund is currently considering several investments in opportunistic and value added funds and those focused on Organisation for Economic Co-operation and Development countries.

The USD 426 million **Merced County Employees' Retirement Association** is in the process of carrying out an asset allocation review which its investment consultant will present next month. The review will re-evaluate all of the retirement system's alternative asset investments including its target allocation to private equity which currently stands at 5%.

The **Regents of the University of California** is set to increase its allocation to private equity. As of Q1 2007, commitments to private equity stood at 2% of assets for the University of California Retirement Plan (UCRP) and 3% for the University of California General Endowment Pool (GEP). It was proposed that UCRP's exposure to the asset class should increase to 3% over 2007, then to 5% in 2008. It was also recommended that GEP's exposure to private equity should increase to 5% in 2007, with the aim of committing 7.5% in 2008. The new allocations are expected to be approved in July 2007.

Following the passage of a bill passed in March 2007, the **West Virginia Investment Management Board (WVIMB)** has been given authorisation to invest in alternatives and has issued an RFP for an alternatives consultant. The USD 7.8 billion WVIMB can now invest up to 25% in real estate investment trusts and up to 20% in other alternatives. The Board is not yet sure which other asset classes it will adopt but is expected to make some private equity investments.

Arkansas Teachers' Retirement System has hired Paul Doane as its new executive director and investment chief. He replaces David Malone, who retired in Q4 2006. The USD 10 billion pension fund has a 6% target allocation to private equity but has made few recent commitments while it sought a replacement for Malone. It is therefore expected to re-enter the asset class following Doane's appointment.

Each month Spotlight provides a selection of the recent news on LP

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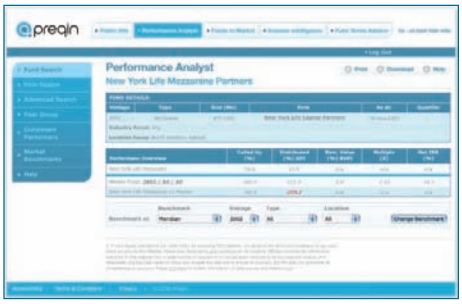

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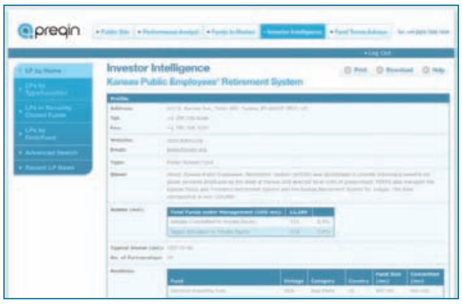

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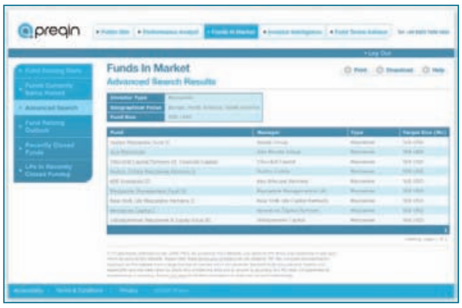

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