

Fig. 1: Top 10 Mezzanine Funds Currently on the Road Fundraising

Fund Name	Fund Manager	Current Status	Fund Focus	Target Size (\$mn)	Latest Interim Close Size (\$mn)
GSO Capital Opportunities Fund II	Blackstone Group	Raising	US	3,000	
ICG Europe Fund V	Intermediate Capital Group	Raising	Europe	2,890	
TCW/EIG Energy Fund	EIG Global Energy Partners	Fourth Close	US	2,500	1,320
OCM Mezzanine Fund III	Oaktree Capital Management	Fourth Close	US	2,000	1,300
NYLIM Mezzanine Partners III	New York Life Capital Partners	Raising	US	1,000	
FIMI Opportunity V	First Israel Mezzanine Investors	Raising	ROW	1,000	
KKR Mezzanine Partners I	Kohlberg Kravis Roberts	Third Close	US	1,000	529
Newstone Capital II	Newstone Capital Partners	Raising	US	900	
Capital Royalty Partners II	Capital Royalty	Raising	US	800	
Almack Mezzanine III	Babson Capital Europe	First Close	Europe	629	262

Fig. 2: Annual Mezzanine Fundraising, 2000 - June 2011

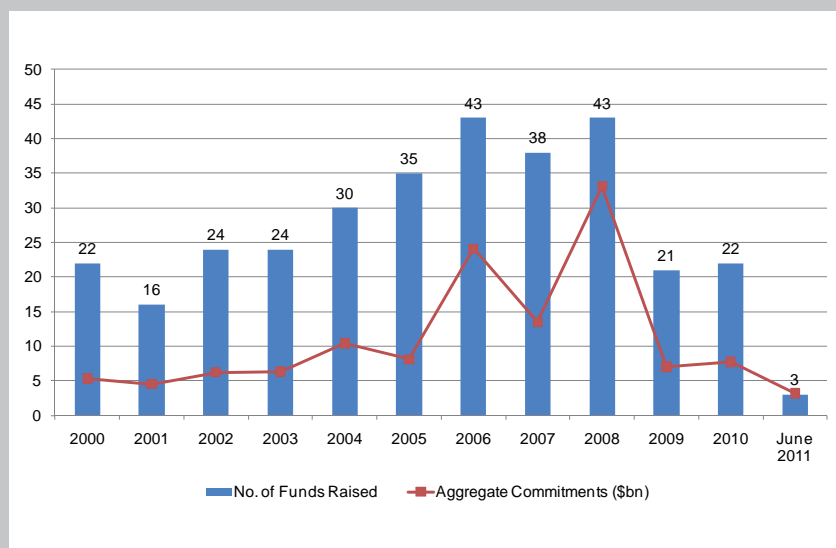
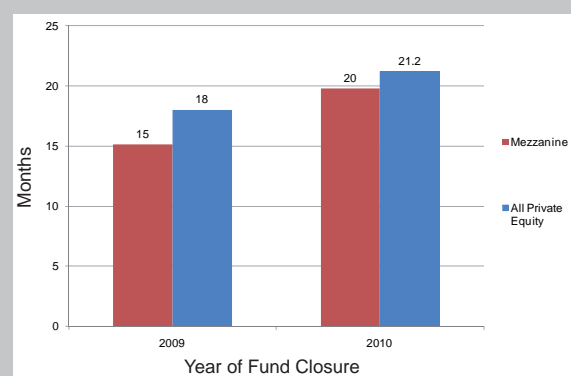


Fig. 3: Average Time Spent Fundraising, 2009 - 2010



In recent years, mezzanine funds – like most fund types in the private equity industry – have suffered from a depressed fundraising environment. As seen in Fig. 2, the numbers of funds reaching final close and the total value of capital raised have declined rapidly from their peak in 2008, when 43 funds garnered an aggregate \$33.1bn. Following the impact of the economic crisis, many institutional investors found themselves under a great deal of pressure and have subsequently become even more cautious in making their investment choices. Conversely, GPs across the full spectrum of private equity have found it difficult to achieve exits and return capital to their LPs, causing a restriction in levels of contributions

back into private equity funds and increased competition for the interest of investors. Mezzanine funds have not escaped the effects of this lull and as a result it is no surprise that the average fund size of such vehicles has declined since the boom period, with aggregate capital raised normalizing to levels closer to those seen from 2000-2005. Despite this, mezzanine funds that reached final close in 2009 and 2010 did so, on average, more quickly than private equity funds overall, as shown in Fig. 3.

In this difficult and highly competitive fundraising climate, there are presently 63 mezzanine funds on the road targeting an aggregate \$27.3bn



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Fig. 4: Mezzanine Investors' Plans for Future Commitments to Mezzanine Funds by Time Frame

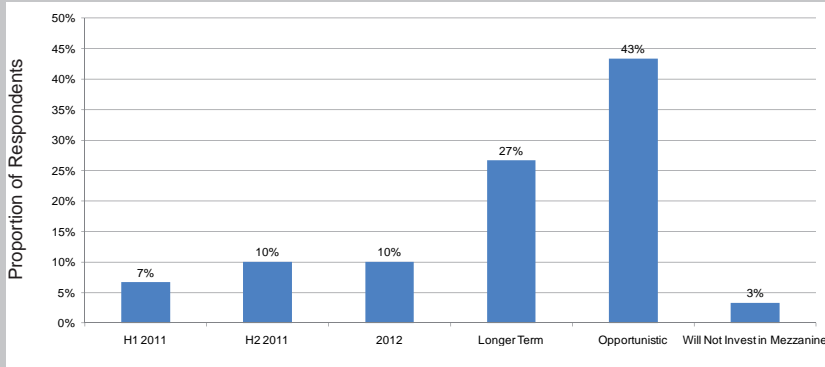


Fig. 5: Mezzanine Investors' Attitudes towards Mezzanine Funds, Post-Financial Crisis

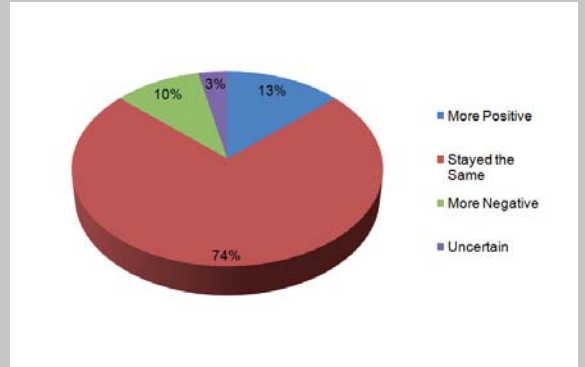


Fig. 6: Overall Private Equity Fundraising in 2010, by Fund Type

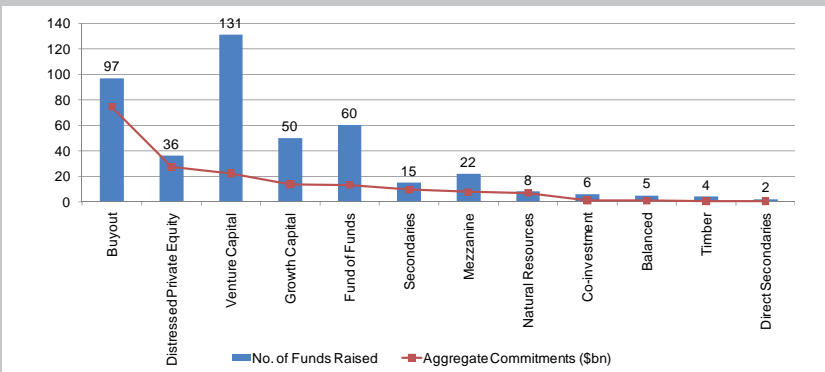
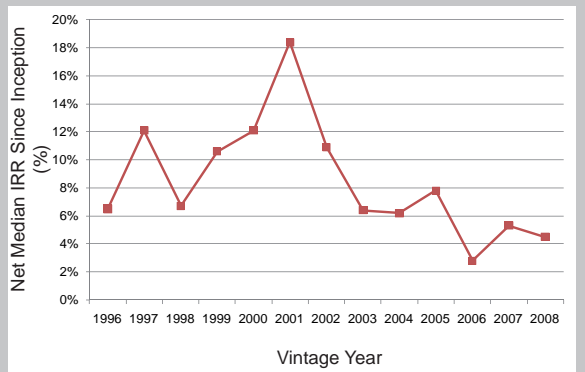


Fig. 7: Mezzanine Fund Net Median IRR by Vintage



from investors. Of these funds, 33 have reached an interim close and to date have gathered a total of \$5.5bn in commitments. Fig. 1 shows the top 10 mezzanine funds currently on the road, ranked by target size. This shows that while certain mezzanine vehicles, such as EIG Global Energy Partners' TCW/EIG Energy Fund, have made sizeable interim closes, few of the largest funds in this position are close to hitting their final target sizes, which suggests that LP interest in these fund types remains relatively subdued.

Mezzanine investors interviewed on the timing of their next investment in the fund type revealed a largely opportunistic approach, as shown in Fig. 4. The views of these LPs towards mezzanine funds in the wake of the financial crisis are shown in Fig. 5, with some sample opinions from respondents in Fig. 8, highlighting the polarization of views towards

the strategy. Additionally, investor appetite for first-time mezzanine offerings appears to be significantly depressed, with 50% of LPs interviewed indicating that they would not consider such funds. Fig. 6 shows that mezzanine fundraising, relative to other private equity fund types, has been comparatively low in the past year, representing 5% of all funds and 4% of aggregate capital raised by the industry in 2010.

Performance metrics for mezzanine funds show that median IRR levels peaked for vintage 2001 funds and, with few exceptions, have declined for subsequent vintages. This, in part, has led to LPs adopting a mixed view on mezzanine private equity opportunities, suggesting that fundraising for the 63 vehicles presently on the road is likely to remain difficult.



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Fig. 8: Sample Opinions of LPs Regarding Mezzanine Funds

“Mezzanine funds are attractive because they tend to perform well”

“We still believe there are good opportunities with mezzanine funds”

“Mezzanine funds are good investment opportunities for risk, return and reward”

“Mezzanine funds provide a quick and stable return and benefit from short j-curves”

“Mezzanine provides a greater certainty of return and also constant returns”

“Managers have learned a lot from the crisis and thus make it more confident”

“We are not investing in mezzanine funds at the moment as there are no good opportunities”

“Mezzanine investments are not on the agenda at the moment”

“There are more reasons why mezzanine funds are unattractive than particularly attractive”

“At the moment we do not see mezzanine funds as favourably as we previously have and therefore will decrease allocation to mezzanine funds”

“Two years ago mezzanine funds were attractive opportunities but now companies are able to borrow from banks so mezzanine funds are now less attractive”

“Opinion has definitely changed since crisis, we were very bullish and invested in a mezzanine fund in 2009 but now it is levelling out a bit”