The 2010 Preqin PE Compensation and Employment Review

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Dear Spotlight Reader,

This month's edition of Spotlight includes exclusive analysis on employment within the private equity industry. Much has been said about the economies of scale enjoyed by the largest firms – we take a closer look in this month's feature article, and also include information on some of the latest trends in compensation practices. This is all taken from our newly released publication, The 2010 Preqin Compensation and Employment Review.

Using Preqin performance data, we look at the risk return characteristics of different types of private equity investment and examine the levels of dry powder available to distressed fund managers. We also take a look at IT fundraising alongside our regular look at venture and buyout. The latest secondaries news is examined, while this month's Investor Spotlight considers the appetite of LPs for CEE focused private equity funds.

We hope you enjoy this month's edition, and as ever we welcome any feedback, questions and suggestions for any research that you would like to see in Spotlight in the future.

Kindest regards,

Tim Friedman
Head of Communications
Preqin

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Private Equity Spotlight

November 2009 / Volume 5 - Issue 11

www.preqin.com

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.

Spotlight on Private Equity Employment

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The 2010 Preqin Private Equity Compensation and Employment Review

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Private Equity:
Trends in Employment and Compensation

How Many Private Equity Firms are Active Today?

The number of active private equity firms has grown steadily year on year since the emergence of the industry. Despite the economic downturn, the number of firms actively managing a private equity fund has continued to grow in 2009, with 412 new firms established worldwide this year as of October, bringing the total to 4,270, as Fig. 1 shows. When private equity firms that do not raise distinct private equity funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into a commingled private investment vehicle) are included, the figure is more like 6,000. In addition, it is important to also note that beneath this lies a further tranche of smaller firms that invest lesser sums of capital, raising money from private sources such as friends and family.

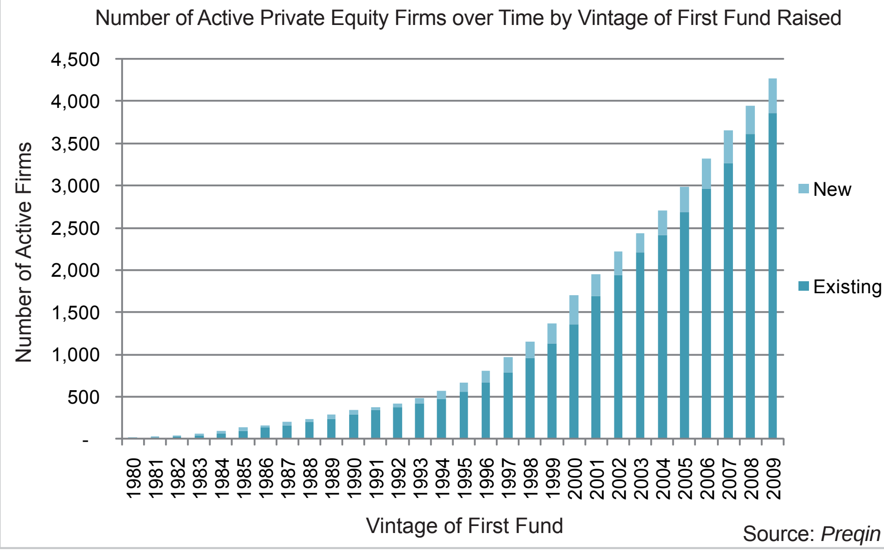
Private Equity Employment by Country and City

The US remains the most developed country for private equity and this is reflected in its share of the number of firms headquartered there, as shown in Fig. 2. North American firms represent 53% of the total number of private equity fund managers worldwide, and the overwhelming majority of these are based in the US. It therefore comes as no surprise that the US is by far and away the leading country when it comes to the number of people employed within the private equity industry. Out of the estimated 69,100 employees working in the industry worldwide, US-headquartered private equity firms employ an estimated 38,500, well over half of the global total. Six of the top 10 cities by private equity employment are in the US. London, Paris, Sydney and Tokyo complete the top 10, illustrated in Fig. 3.

Private Equity Employment by Firm Type

Venture and buyout focused firms employ the largest number of people, with each sector accounting for around 30% of the total (see Fig. 4), despite the fact that buyout firms manage well over twice the amount of assets

Fig. 1:



Source: *Preqin*

Fig. 2:

Country*	Estimated Total Employment
US	38,500
UK	7,700
France	2,300
Germany	1,500
Australia	1,400
Canada	1,400
Japan	1,100
India	1,000
Hong Kong	900
Switzerland	900
China (exc. Hong Kong)	800
Italy	800
Sweden	800
Israel	600
Netherlands	600
Other	8,800
Total	**69,100**

**Based upon location of head office for each firm*

Source: *Preqin*

Fig. 3:

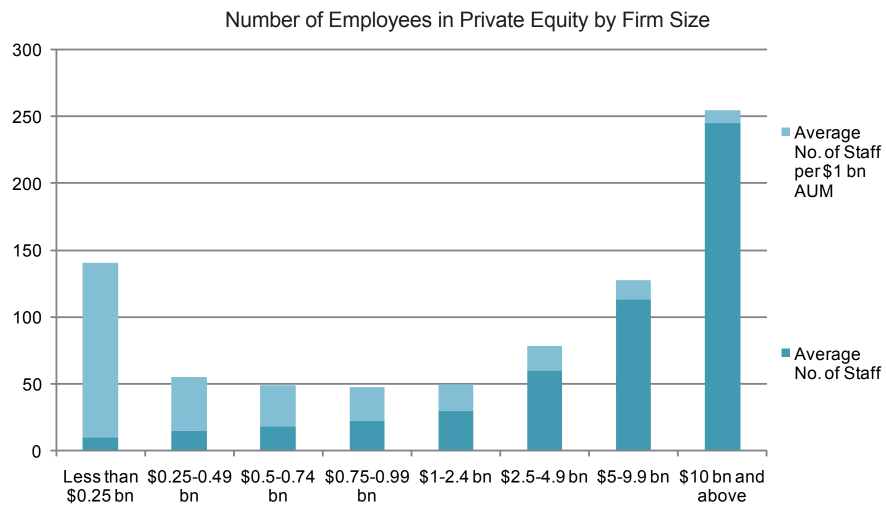
City*	Estimated Total Employment
New York	11,000
London	7,000
San Francisco**	3,900
Boston	2,700
Paris	2,200
Chicago	1,700
Washington	1,300
Los Angeles	1,200
Sydney	1,000
Tokyo	1,000
Hong Kong	900
Dallas	800
Stockholm	750
Toronto	700
Singapore	600
Total	**69,100**

Source: *Preqin*

**Based upon location of head office for each firm*

*** Includes Menlo Park, Palo Alto and San*

Fig. 5:



Source: *Preqin*

"...Investors are seeking to bring management fee levels more in line with the actual costs associated with running funds..."

that venture firms manage, suggesting that large private equity firms can benefit from significant economies of scale. Fig. 5 shows both the average number of staff and the average number of staff per $1 billion in assets under management at private equity firms of varying degrees of size. Although, as one would expect, the average number of employees rises as the size of the firm increases, the average number of employees per $1 billion in total assets falls progressively with each increase in firm size. The smallest group of firms have, on average, one employee for every $7.7 million in total assets, whilst firms with $10 billion or more in total assets have an average of one employee for every $100 million managed.

Fig. 4:

Firm Type	Estimated Total Employment
Venture	21,100
Buyout	20,600
Real Estate	11,100
Fund of Funds	6,000
Distressed Private Equity	2,900
Infrastructure	2,400
Mezzanine	2,000
Balanced	1,300
Natural Resources	900
Other	800
Total	**69,100**

Source: *Preqin*

Management Fees

Since the management fees that private equity firms collect are almost universally calculated as a percentage of total investor commitments to a firm's funds, one would expect that the percentage rates charged by the largest firms would be lower than those charged by smaller firms, given the economies of scale that the larger firms enjoy. The larger funds do indeed generally have lower management fees than the smaller funds; however, these lower fees only partially reflect the economies of scale that the larger firms benefit from. As a result, the operating economics of the largest funds are very favourable and the management fees earned by these vehicles have become a significant source of income for their managers.

Consequently, and particularly in light of the current economic climate and its effects on the GP/LP relationship, there is pressure from LPs on GPs of the larger funds to reduce the management fee rates for new vehicles looking to raise capital. Investors are seeking to bring management fee levels more in line with the actual costs associated with running funds of different size and type. Evidence for this can be seen in Fig. 6, which shows that the biggest decreases in management fees for the most recent buyout funds have come from the largest group of funds.

From the results of our recent compensation survey, which can be found in full in the newly released 2010 Preqin Private Equity Compensation and Employment Review, it appears that the favourable operating economics of the largest funds are channelling through to remuneration for employees at these firms to some extent. For example, the average total remuneration for a managing general partner of a private equity firm in the smallest size group in our sample earns $1.4 million per year, while this figure increases to $5.1 million for those in the

Fig. 6:

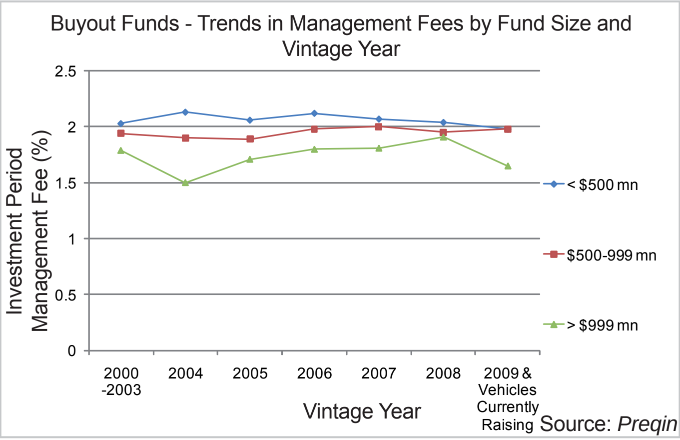
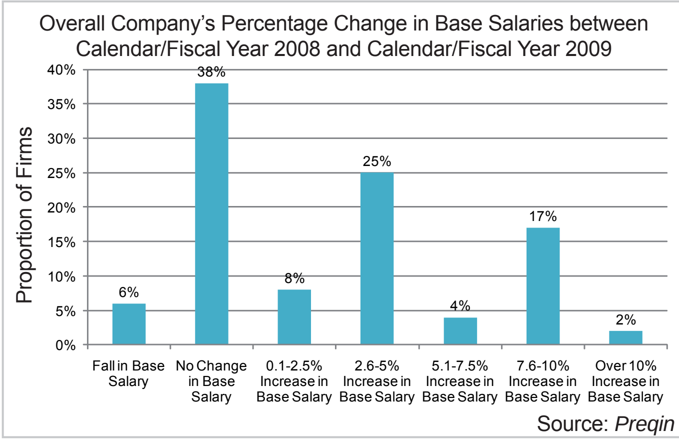


Fig. 7:



largest size group.

At a company-wide level, the average percentage increase in base salaries for all employees between 2008 and 2009 was approximately 2%. Overall, 56% of private equity firms increased base salaries over the period, while 38% made no changes and 6% decreased base pay, as shown in Fig. 7.

The 2010 Preqin Private Equity Compensation and Employment Review

In order to analyse the latest trends in compensation in the private equity industry, Preqin, in conjunction with FPL Associates, conducted a survey of 56 leading private equity firms to collect data on their compensation practices and remuneration levels over the past year, for which we are grateful to the participating firms. This has allowed us to compile meaningful statistics covering all levels of deal-making positions at private equity firms, as well as a wide range of non-deal-making roles at these firms. Another key feature of this publication is the information on employment within the private equity industry worldwide. Our databases allow us to provide meaningful estimates on levels of employment, and to break this down by various criteria including country, city, firm type and firm size. The 2010 Preqin Private Equity Compensation and Employment Review also provides information on the firm-level compensation reeived by private equity firms from their investors, which is based on data on the terms and conditions of around 1,500 separate private equity funds. For more information, please visit: www.preqin.com/compensation.

Sam Meakin

2010 Preqin Private Equity Compensation & Employment Review: Order Form

The 2010 Preqin Private Equity Compensation and Employment Review is a source of reliable and accurate information on the latest trends in private equity compensation and employment enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

Full contents include:

- Private equity compensation by position
- Survey of compensation practices at private equity firms
- Overview of firm level compensation
- Tax structures within private equity compensation (Baker & McKenzie)
- Current employment within the private equity industry
- Growth of the PE industry over time
- Centres of employment activity

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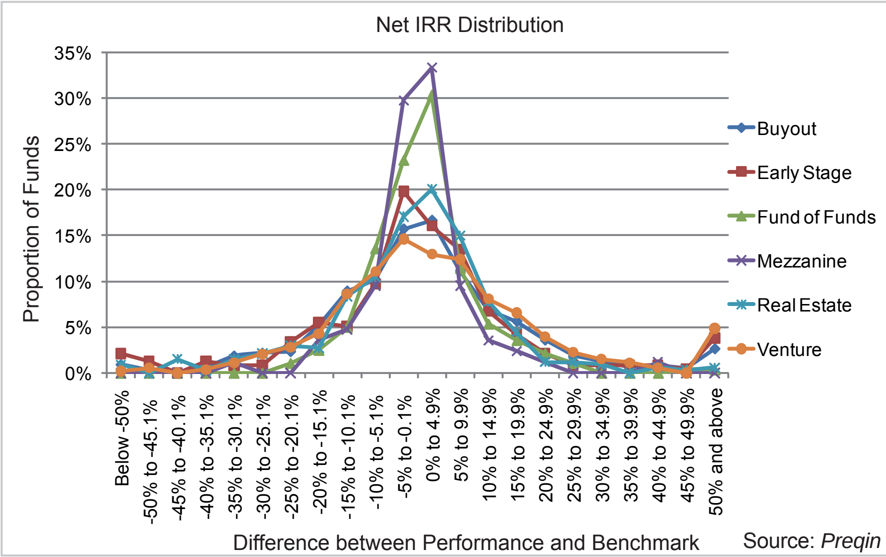
Performance Spotlight:
Risk and Return for Private Equity

The private equity industry offers a wide choice of investment strategies, from early stage investments funding start-up companies to buyout operations acquiring majority stakes in global corporations. Each investment type has its own risk pattern, and consequently returns are very diverse amongst the different types of private equity funds. It is therefore important for investors in private equity to assess the risks and returns specific to each strategy, in order to build a diversified and profitable portfolio of funds.

Fig. 1 displays the range of returns provided by various types of private equity strategy by plotting the proportions of funds according to how much they vary from their respective median benchmarks by strategy and vintage year. The shapes of these IRR distributions illustrate the spread of returns. The wider the IRRs are dispersed, the riskier the private equity strategy is considered to be.

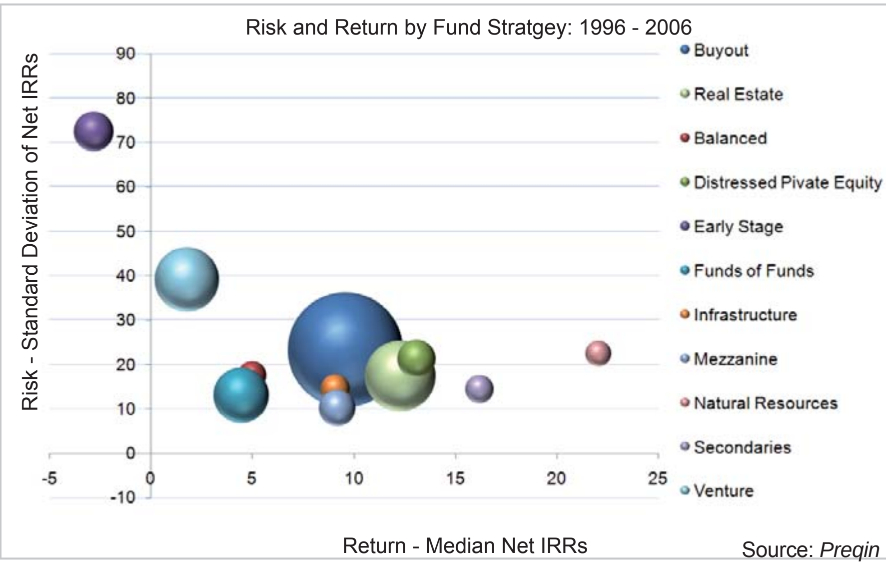
Fig. 1:



Source: *Preqin*

Comparing the IRR dispersions for each specific fund type, it appears that venture capital and early stage funds are amongst the riskiest strategies. A significant number of venture and early stage funds have generated net IRRs that outperformed their benchmarks by over 50%. Buyout funds are also widely dispersed around their respective benchmarks, but fewer of these funds are posting IRRs with extremely high differences from the benchmark. Real estate funds and funds of funds have IRR dispersions much more clustered around their median benchmarks. Mezzanine seems to offer the least variable return pattern in the private equity industry, with 70% of mezzanine funds posting IRRs within +/- 5% of their median benchmarks.

Fig. 2:



Source: *Preqin*

The risk is obviously only one side of the equation and expected returns are ultimately inseparable from any investment opportunity. Investors need to weigh up both sides as none will be willing to take high risk if no appropriate rewards are to be expected. Using data from Preqin's Performance Analyst database, we created a model showing the risk/return trade-off specific to each strategy. In this analysis, the risk factor is represented by the standard variation of the net IRRs. Returns are measured as the median net IRRs generated by the funds in the sample. We restricted this analysis to funds of vintages 1996 to 2006 and the sizes of the spheres correspond to the total commitments made to each fund type.

Fig. 2 illustrates the risk versus return ratios for each strategy, highlighting the strategies that deliver good returns at acceptable risk levels and those that do not. The strategies positioned furthest to the right are generating the best performance and the higher a fund strategy is positioned on the chart, the higher its standard deviation and therefore the riskier the strategy. The bottom right of the graph therefore shows the strategies producing the highest returns coupled with the lowest level of risk.

For the vintages observed, natural resources is the private equity strategy that has produced the best returns, but with the fourth highest standard deviation, it is also one of the riskiest fund types. Secondary funds of funds have delivered the second best returns and show only a moderate level of risk, making it one of the most attractive strategies on a risk:return basis. With a risk level similar to that of natural resources and posting the third best returns, distressed private equity is revealed as a valuable investment type for investors. Real estate is still posting an acceptable risk-return profile for the vintages 1996 to 2006, but its relatively poor performance in the past few years is likely to significantly shift these returns down. Buyout, the strategy with the most capital commitments, is posting good returns but is also the third riskiest strategy. Funds of funds are showing one of the lowest standard deviations, confirming that their diversification strategy does lower the overall investment risk.

Early stage is the strategy with the highest risk and has also generated the lowest median return. Venture capital is in a similar position in recent years, being the second riskiest strategy and one of the worst performers. These strategies are showing very high levels of risk because amongst many funds underperforming, a few funds have actually generated extremely good performance.

It is clear that there are many different risk-return profiles amongst private equity strategies. Some strategies are certainly generating good returns for an acceptable level of risk while others seem very risky and not as attractive in terms of returns. Investors should carefully assess the estimated risk of each strategy against its potential returns in order to design an optimal portfolio of private equity funds. Obviously, this model has its limitations and should only be used as a guide. Fund performance varies significantly between fund managers and strict due diligence is necessary if investors want to invest with the right managers.

Etienne Paresys

The data used for this analysis has been taken from Preqin's Performance Analyst database, and Preqin's Performance Benchmarks products.
For more information, please visit: www.preqin.com/performance

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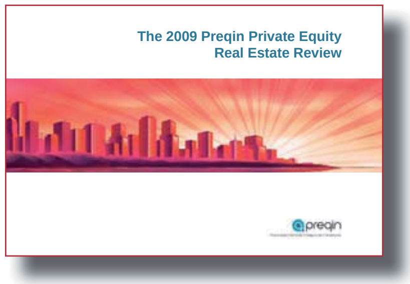
Preqin's Review is the ultimate guide to the PE real estate industry, with comprehensive profiles and analysis gathered via direct contact by our analysts with hundreds of leading firms and investors worldwide. Highlights of this year's edition include:

- Detailed analysis examining the history and development of the PERE market; recent funds closed; the current fundraising market; fund terms and conditions; investors; performance; plus separate sections showing key facts and figures for the most important sub-sectors (opportunistic, value add, debt etc).
- Profiles for 350 most important active PERE firms and details for over 1,500 funds, including investment strategies and key information.
- Profiles for over 250 active institutional investors in the sector, including investment preferences and key contact details.
- Detailed listings for all funds recently closed, plus funds currently raising.



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Fund Manager Spotlight: Distressed Firms

The list of the top 20 distressed private equity firms by estimated dry powder, shown in Fig.1, is dominated by US-based firms, with only two firms, Altima Partners and Ashmore Investment, located outside of the US. Los Angeles-based Oaktree Capital Management has the most distressed dry powder available, with $5.2 billion at its disposal. New York's Avenue Capital Group is second on the list with $3.76 billion of estimated distressed dry powder. Bayside Capital, WL Ross & Co and Crestview all have more than $2 billion in dry powder reserves. London-based Altima Partners has the most distressed private equity dry powder of any non-US-based firm, with $840 million available.

Fig. 2 displays the dry powder available to distressed private equity funds from December 2003 to November 2009. The data reveal that the amount of distressed private equity dry powder available increased annually between December 2004 and December 2008, with large increases witnessed between 2005 and 2007. Distressed dry powder in December 2006 was almost double the level recorded the previous year, and December 2007 posted a 49% increase on December 2006. This year, estimated available distressed dry powder has decreased for the first time in six years, with current levels showing a drop of 28% from December 2008 and currently standing close to December 2006's total. This decline can be explained by the fact that far fewer distressed private equity funds have reached a final close in 2009 than in 2008. $47.4 billion was raised by 30 distressed private equity funds in 2008, however 2009 has witnessed only nine distressed funds close to date, raising $1.6 billion, a decrease of 97% from the previous year. These figures would suggest that fund managers are increasingly drawing on their dry powder reserves thus leading to a decrease in the capital available to them.

Fig. 3 illustrates the changing amount of distressed private equity dry powder available over time across the distressed fund types. The graph reveals that all three distressed private equity fund

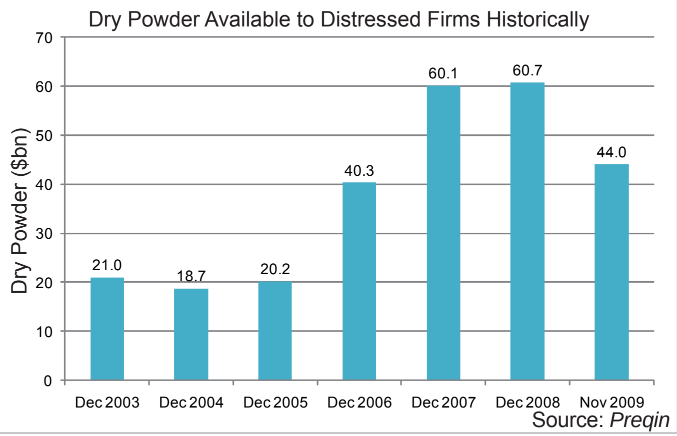
Fig. 1:

Top 20 Distressed Firms by Estimated Dry Powder

Firm	Estimated Dry Powder ($ bn)	Firm Location
Oaktree Capital Management	5.20	US
Avenue Capital Group	3.76	US
Bayside Capital	2.49	US
WL Ross & Co	2.26	US
Crestview	2.17	US
MatlinPatterson Global Advisors	1.93	US
Cerberus Capital Management	1.59	US
Angelo, Gordon & Co	1.36	US
KPS Capital Partners	1.28	US
Sankaty Advisors	1.14	US
MHR Fund Management	1.11	US
Apollo Management	1.01	US
Altima Partners	0.84	UK
Centerbridge Capital Partners	0.70	US
Ashmore Investment Management	0.57	UK
Versa Capital Management	0.57	US
Sun Capital Partners	0.56	US
Carlyle Group	0.56	US
Aurora Resurgence	0.55	US
Providence Equity Partners	0.44	US

Source: *Preqin*

Fig. 2:

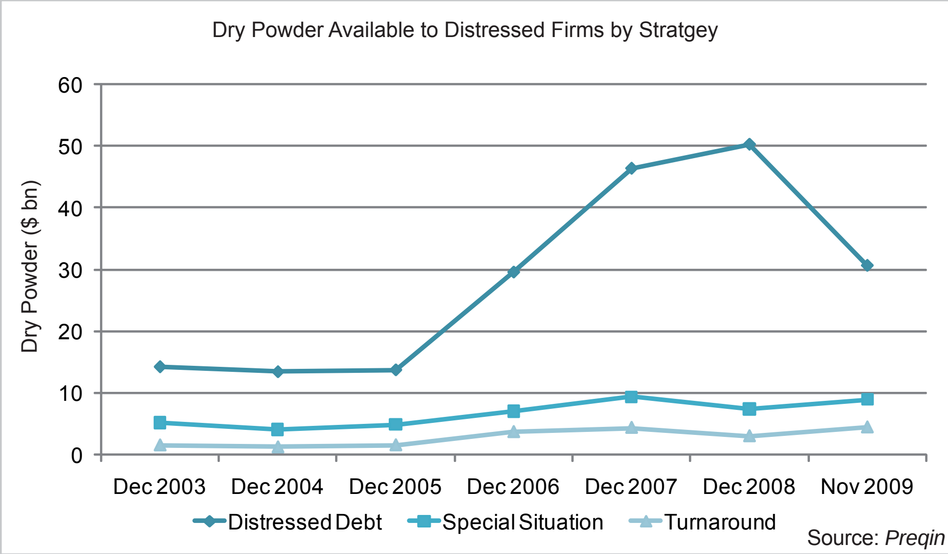


Source: *Preqin*

types have seen levels of dry powder increase from those observed in December 2005. Special situations and turnaround dry powder increased modestly in this time period, while distressed debt increased at a far quicker rate, before falling again over the course of 2009. By December 2007, special situations and turnaround dry powder had increased by 92% and 178% respectively from their December 2005 levels. Distressed debt dry powder, on the other hand, increased by 238% during the same period. After December 2007, distressed debt continued its rise from $46.4 billion to $50.3 billion, while both special situation and turnaround dry powder experienced a decline. In a reversal of trends, current dry powder figures have seen distressed debt levels drop 39% from the December 2008 peak of $50.3 billion, while special situations and turnaround estimates have risen to $8.9 billion and $4.4 billion respectively.

Benjamin Formela-Osborne

Fig. 3:



Source: *Preqin*

The data used in Fund Manager Spotlight is taken from Preqin's industry leading product, Fund Manager Profiles.
For more information or to register for trial access, please visit:

www.preqin.com/fmp

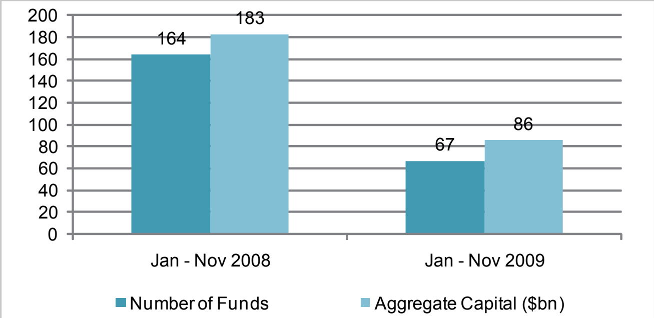
Fundraising Spotlight: Buyout

Buyout Funds on the Road

Funds on the Road	US	Europe	ROW	Total
No. of Funds	110	53	72	235
Aggregate Target Size ($bn)	95	27	43	164
Average Target Size ($mn)	864	509	597	698

Source: *Preqin*

Final Close Barometer



Source: *Preqin*

Buyout Funds on the Road

Fund	Manager	Size (mn)	GP Location
Blackstone Capital Partners VI	Blackstone Group	15,000 USD	US
Madison Dearborn Capital Partners VI	Madison Dearborn Partners	7,500 USD	US
Morgan Stanley Capital Partners V	Morgan Stanley Private Equity	6,000 USD	US
Clayton Dubilier & Rice VIII	Clayton Dubilier & Rice	5,000 USD	US
Abraaj Buyout Fund IV	Abraaj Capital	4,000 USD	United Arab Emirates
Onex Partners III	Onex Corporation	4,000 USD	Canada
Avista Capital Partners II	Avista Capital Partners	3,000 USD	US
Carlyle Asia Partners III	Carlyle Group	3,000 USD	US
Metalmark Capital Partners II	Metalmark Capital	3,000 USD	US
HgCapital 6	HgCapital	1,800 GBP	UK

Source: *Preqin*

Recently Closed Buyout Funds

Asia Environmental Partners

Manager: Olympus Capital Holdings Asia
Target Size (mn): 250 USD
Closings (mn): Final Close: 250 USD (Oct-2009)
Geographic Focus: China, India, Asia
Industry Focus: Environmental Services, Clean Technology, Renewable Energy
Placement Agents: Forum Capital Partners
Sample Investors: International Finance Corporation (IFC)

Investindustrial Fund III – Annex

Manager: Investindustrial
Target Size (mn): 100 EUR
Closings (mn): Final Close: 100 EUR (Oct 2009)
Geographic Focus: Italy
Industry Focus: Technology, Industrial, Consumer Services, Manufacturing, Computer Services, Aerospace, Any, Food, Business Services

Placement Agents: MVision Private Equity Advisers
Sample Investors: Princeton University Investment Company (Princo), ATP Private Equity Partners, New York Life Capital Partners, Wilshire Private Markets Group, Adveq Group

Capiton IV

Manager: Capiton
Target Size (mn): 350 EUR
Closings (mn): First Close: 190 EUR (Jul-2009), Final Close: 350 EUR (Sep-2009)
Geographic Focus: Austria, Germany, Switzerland
Industry Focus: Any
Placement Agent: Not Used
Sample Investors: Dunedin Enterprise Investment Trust

Benjamin Formela-Osborne

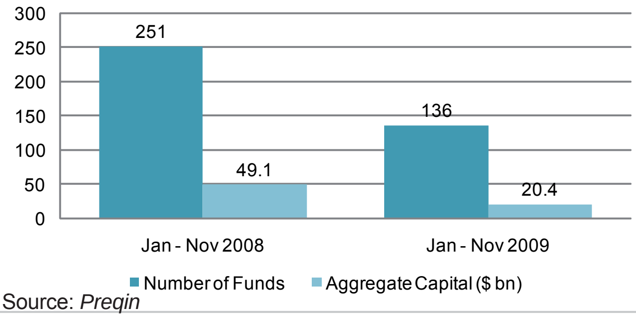
Fundraising Spotlight:
Venture

Venture Funds on the Road

Funds on the Road	US	Europe	ROW	Total
Number of Funds	180	85	168	433
Aggregate Target Size ($bn)	36	14	32	82
Average Target Size ($mn)	198	167	191	188

Source: *Preqin*

Final Close Barometer



Source: *Preqin*

Venture Funds on the Road

Fund	Manager	Size (mn)	GP Location
Invention Investment Fund II	Intellectual Ventures	2,500 USD	US
New Enterprise Associates XIII	New Enterprise Associates	2,500 USD	US
Shanghai Financial Development Investment Fund	Jinpu Industrial Investment Fund Management	8,000 CNY	China
ECP Africa Fund III	Emerging Capital Partners	1,000 USD	US
Hospitality Development Fund	Abu Dhabi Investment House	1,000 USD	United Arab Emirates
Millennium Private Equity Media & Telecommunication	Millennium Private Equity	1,000 USD	United Arab Emirates
Gimv-XL fund	Gimv	600 EUR	Belgium
PONTIS Growth Capital Fund II	PONTIS Capital	600 EUR	Austria
Yucaipa Corporate Initiatives Fund II	Yucaipa Companies	800 USD	US
Celtic Pharma Holdings II	Celtic Pharma	750 USD	Bermuda

Source: *Preqin*

Recently Closed Venture Funds

Ambienta I

Manager: Ambienta
Target Size (mn): 250 EUR
Closings (mn): First Close: 124 EUR (Feb-2008); Second Close: 146 EUR (Apr-2008); Third Close: 150EUR (Aug-2008); Final Close: 217.5 EUR (Sep-2009)
Geographic Focus: Europe
Industry Focus: Transportation, Environmental Services, Energy, Utilities, Infrastructure, Power, Clean Technology, Renewable Energy
Lawyer: Labruna Mazziotti Segni
Sample Investors: Doughty Hanson & Co, Intesa SanPaolo, Macquarie Funds Group, Societa Cattolica di Assicurazioni

India Financial Inclusion Fund

Manager: Caspian Advisors
Target Size (mn): 100 USD
Closings (mn): First Close: 30 USD (Aug-2008); Second Close: 38 USD (Dec-2008); Third Close: 58 USD (Mar-2009); Fourth Close: 73.9 (Aug -2009) Final Close: 88.9 USD (Sep-2009)
Geographic Focus: India
Industry Focus: Financial Services
Lawyer: Nishith Desai Associates
Sample Investors: CDC Group, Development Finance Institution (FMO), Gray Ghost Fund

Global Asia Clean Energy Services IV

Manager: FE Clean Energy Group
Target Size (mn): 250 USD
Closings (mn): Final Close: 101.5 (Oct-2009)
Geographic Focus: South America, East Europe, Asia, Central Europe
Industry Focus: Renewable Energy
Lawyer: Moses & Singer
Sample Investors: Overseas Private Investment Corporation

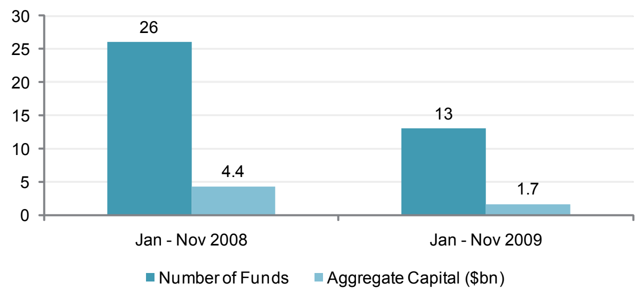
Fundraising Spotlight:
IT Focused Funds

IT Focused Funds on the Road

Funds on the Road	US	Europe	ROW	Total
Number of Funds	21	12	7	40
Aggregate Target Size ($bn)	3	2	1	6
Average Size ($mn)	146	150	74	123

Source: *Preqin*

Final Close Barometer



Source: *Preqin*

IT Focused Funds on the Road

Fund	Manager	Fund Type	Size (mn)	Fund Focus
Riverwood Capital I	Riverwood Capital	Venture (General)	750 USD	US
Atomico Ventures II	Atomico	Venture (General)	200 EUR	UK
Cipio Partners Fund VI	Cipio Partners	Direct Secondaries	200 EUR	Germany
Opus Capital II	Opus Capital Ventures	Early Stage: Start-up	250 USD	US
ABVEN II	Atlantic Bridge	Late Stage	150 EUR	UK
Favonius FVE Fund II	Favonius	Expansion	150 EUR	Netherlands
Nauta Tech Invest III	Nauta Capital	Venture (General)	150 EUR	Spain
TLcom II	TLcom Capital	Early Stage	150 EUR	UK
Ascent Venture Partners V	Ascent Venture Partners	Venture (General)	200 USD	US
Costella Kirsch V	Costella Kirsch	Venture Debt	200 USD	US

Source: *Preqin*

Recently Closed IT Focused Funds

New Atlantic Venture Fund III

Manager: New Atlantic Ventures
Fund Type: Early Stage
Target Size (mn): 175 USD
Closings (mn): First Close: 75 USD (Dec-2007), Second Close: 81.5 USD (Jul-2008), Third Close: 105.7 USD (Jul-2008), Final Close: 115 USD (Apr-2009)
Geographic Focus: US
Industry Focus: Technology, IT, Internet,
Lawyer: Manatt, Phelps & Phillips
Placement Agent: Prevail Capital
Sample Investors: Adveq Group, BlackRock Alternative Advisors

ATLAMED

Manager: ATLAMED
Fund Type: Buyout
Target Size (mn): 60 USD
Closings (mn): First Close: 35 USD (Nov-2005), Final Close: 50 USD (Feb-2009)
Geographic Focus: Morocco
Industry Focus: IT, IT Infrastructure
Sample Investors: Banque Populaire Morocco, Société Centrale de Réassurance, Wafa Assurance

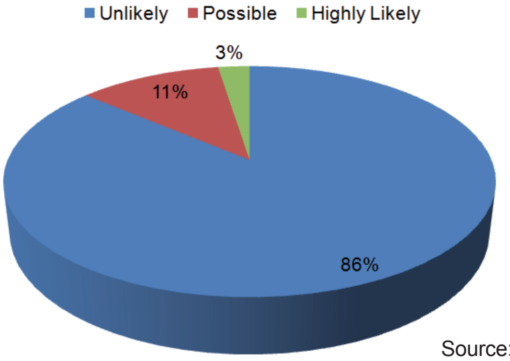
Benjamin Formela-Osborne

Secondaries Spotlight

Preqin's Secondary Market Monitor comprises a comprehensive database of potential buyers and sellers of private equity fund interests, and their corresponding investment preferences. The system currently boasts detailed profiles for over 140 potential sellers of fund interests, diversified across firm type and location.

Fig. 1:

Likelihood of Investors Selling Private Equity Fund Interests Within the Next 24 Months

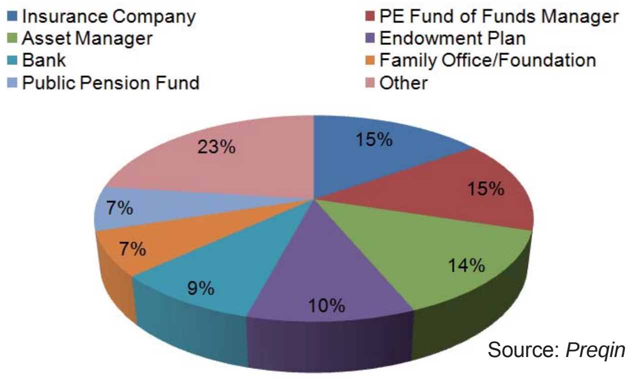


Source: *Preqin*

14% of the investors Preqin has surveyed with regards to selling private equity fund interests on the secondary market consider themselves either highly likely to do so or are considering the option.

Fig. 2:

Breakdown of Secondary Market Seller Types on SMM Database



Source: *Preqin*

A number of different investor types have shown an interest in selling private equity fund interests within the next 24 months. Insurance companies, private equity fund of funds managers and asset managers are the main types, whilst endowment plans and banks form 10% and 9% of all potential sellers respectively.

Secondaries News

Newbury Partners has held a first close on its second dedicated secondaries vehicle.

Newbury Equity Partners II has held a first close on USD 300 million. The vehicle is following a similar strategy to that of its predecessor fund, seeking to acquire interests in established leveraged buyout and venture capital funds on the secondary market. It has a fundraising target of USD 800 million and looks to purchase fund interests on a global scale.

Permal Capital Management has begun marketing its latest fund of funds vehicle focusing on secondary purchases.

The secondary fund of funds manager plans to raise a fourth vehicle with a focus on purchasing private equity fund interests on the secondary market. Permal Private Equity Opportunities IV is to follow a similar strategy to its predecessors, seeking to purchase interests in North American focused buyout and venture capital funds, with a strong preference for holdings in funds that are at least half-invested. The vehicle is reported to have a USD 350 million target.

According to Preqin's unique pricing model, a $10,000,000 commitment to the median 2007 buyout fund - which would have called $3,280,000 and has a reported net asset value of $2,500,000 - would today fetch $1,000,000 on the secondary market, or 43.2% of its net asset value.

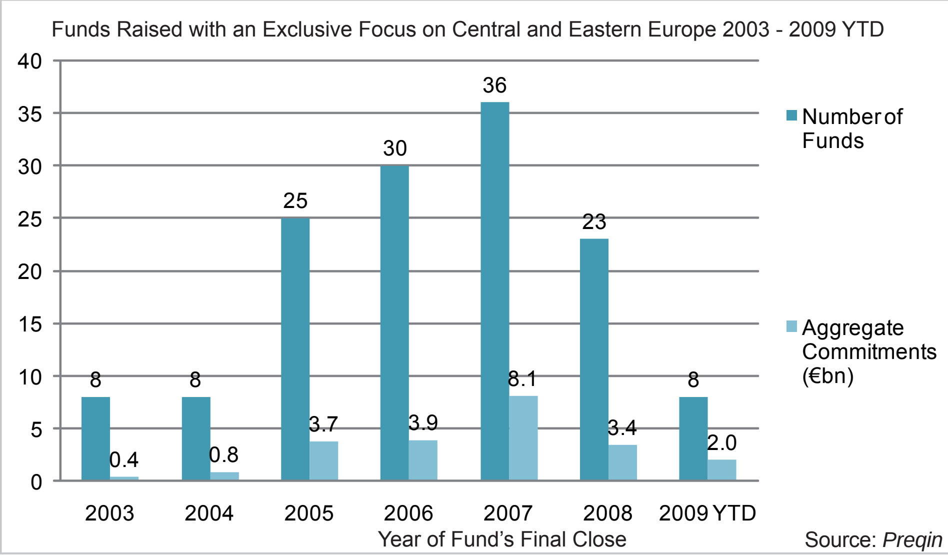
Investor Spotlight:
Institutional Investor Appetite for Private Equity Investment in CEE

At the C5 CEE Private Equity Forum on Friday 6th November in London, unsurprisingly, discussions frequently turned towards fundraising and the ability of GPs at present to secure fresh commitments from investors. In the current climate, institutional investors in private equity have been making few new commitments to private equity funds in general – in August 2009, our survey of 100 investors saw that just 41% had made a new commitment to a fund in the first seven months of the year and 43% intended to make fewer commitments in the following 12 months. Commitments are being made, however, and 79% of respondents to this survey informed us that they anticipated returning to the market to make more investments in private equity in the remaining months of 2009 or in 2010. But what is the current appetite amongst investors for funds specifically targeting Central and Eastern Europe?

Over the past decade, the private equity market in Central and Eastern Europe has drawn a growing amount of interest from investors, culminating in a significant leap in fundraising in 2007, when 36 funds with an exclusive focus on the region reached a final close, securing an aggregate €8.1 billion. However, as shown in Fig. 1, fundraising in 2008 was less successful and saw a return to the aggregate commitment levels of 2005/6. So far this year, eight funds with an exclusive focus on Central and Eastern Europe have reached a final close, raising €2 billion between them.

So what can be expected for CEE fundraising in the future? At present, there are 50 funds on the road with an exclusive focus on opportunities in CEE countries, seeking commitments totalling

Fig. 1:



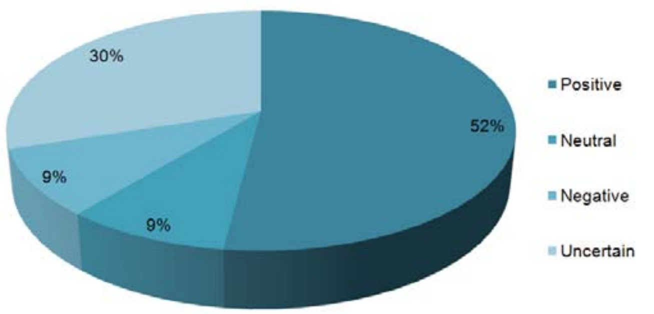
€9.3 billion. So far, 21 of these funds have held an interim close, securing an aggregate €1.9 billion in commitments. Competition for investors is intense at present: we have seen LPs approach new investments with an increasing degree of caution in the current climate and, in many cases, allocating less capital to fresh commitments during 2009 and 2010. In addition, we also estimate that the dry powder at the disposal of CEE-based fund managers is €5.7 billion and, with deal flow at low levels currently, many LPs will not be seeking to put more capital to work in the region until they have funded existing commitments.

In our recent conversations with LPs that have previously shown an interest in investing in CEE focused funds, we have sought to ascertain their views of the market following the financial downturn and their appetite for the region. For the majority of these investors, CEE forms only a small part of their private equity portfolios, although we did also speak with a number of institutions with a specific focus on, or developmental interest in, the region. Of our sample, 68% had made a commitment to at least one CEE focused fund in the past, the rest having either gained exposure to CEE through regional or global funds, or having not as yet made their initial foray into the region. Just 12% of our sample informed us that they had made at least one new commitment to a fund targeting Central and Eastern Europe in 2009.

How do these investors feel about the quality of the opportunities presented by private equity in CEE in the current climate? As Fig. 2 shows, more than half (52%) are positive about the region, compared to just 9% who currently view it negatively. It is worth remembering, however, that this sample of LPs was taken from those that had previously

Fig. 2:

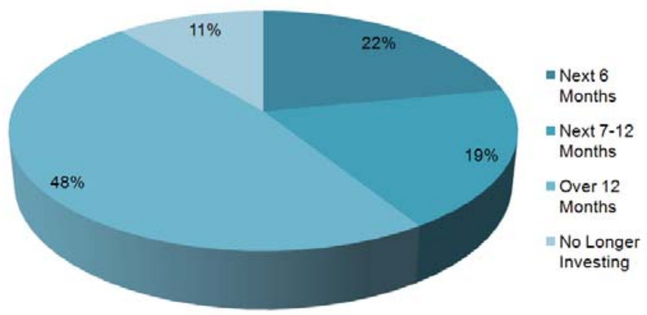
Investors' Opinion of Opportunities Currently Presented by Private Equity in Central and Eastern Europe



Source: *Preqin*

Fig. 3:

Investors' Timeframe for Next Central and Eastern European Commitment



Source: *Preqin*

viewed this market favourably, and this perhaps makes it more surprising that 30% of investors were unsure about the quality of opportunities in the region. Furthermore, from our discussions with investors, it is clear that there is some confusion about how the opportunities presented in CEE compare to those in other emerging or frontier markets, which indicates that GPs need to be prepared to educate LPs on the economic conditions in the region when pitching their funds.

We also asked investors what is perhaps the most important question at present: when do you anticipate making your next commitment to a CEE focused fund? As has already been mentioned, there are 50 funds currently in the market seeking commitments, and at the C5 CEE Private Equity Forum, it was clear that a considerable number of GPs are looking to start fundraising for their next vehicles in the coming 12 months. As shown in Fig. 3, 41% of our sample of investors anticipated making their next commitment to a fund targeting CEE in the coming 12 months, encouraging news for fundraising GPs. However, it is important to remember that this sample contains only LPs that have previously expressed an interest in the region and, in fact, 11% of these LPs told us they were no longer looking to invest in the region.

The remaining 48% of LPs in our sample do not anticipate committing to a CEE focused fund within the next 12 months. For some, this is a result of already being at their allocations to the region and not wanting to make further commitments until deal flow and distributions pick up again. For others, it is a result of a more general change in strategy, with some citing a greater aversion to risk at present holding them back from making further investment in CEE for at least the next year. One US public pension fund told us "we already have a big stable of fund managers with proven track records, and the current climate means we've cut back investments, so we're not looking to invest in CEE at the moment as we feel we can already achieve higher returns in developed regions." Some investors also gain exposure to CEE through pan-Europe focused funds or global funds with an allocation to CEE, rather than funds specifically focused on the region.

Although in the short term, a significant proportion of LPs are holding back from making new commitments to funds focused on Central and Eastern Europe, over the long term, we have seen that LPs are generally optimistic about private equity in the region: 33% told us they expect to increase the level of their exposure to CEE in the future and a further 56% intend to maintain their existing allocation. Just 11% told us they expected to reduce their allocation to CEE.

Increasingly over the course of 2010 and into 2011, we anticipate many LPs will gradually be returning to the market and will be looking to put capital to work in the CEE region. However, with so many funds on the road and with LPs continuing to approach the private equity asset class with a greater degree of caution than in the past, fundraising is still set to be highly competitive. In order to be in with the best chance of successfully carrying out a fundraising campaign, GPs will need to present a compelling story to investors, to stand out from other similar fund offerings in the market, and also be prepared to educate LPs on the opportunities presented by investment in Central and Eastern Europe. An awareness of which LPs not only show an appetite for the region but also have capital available at the present time to commit will also be essential. Managers should be prepared for fundraising to take longer than in previous years and must also ensure they have realistic fund size expectations. Offering more LP-friendly fund terms and conditions and being mindful of the opinions and needs of existing LPs are also important factors for GPs to consider to increase their chances of securing commitments to their next vehicles.

Helen Kenyon

Conferences Spotlight: Forthcoming Events

Private Equity Exchange 2009

Date: December 2nd, 2009

Location: Hotel Meridien Etoile Paris, France

Organiser: Leaders League

8th edition of the Private Equity Exchange Summit in Paris on the 2nd of December 2009. Audience composed of over 800 international delegates: CEOs, GPs and LPs along with the best in the field advisors and bankers. Established itself as a highlight on the calendar of the European private equity and restructuring industry. ONE TO ONE DEAL MEETINGS platform alows delegates 2 weeks before the event to visualise the full list of participants and book meetings for dday.

Information:

www.private-equity-exchange.com

The PE Investor Relations Conference

Date: December 2nd, 2009

Location: Hotel Novotel, London St Pancras

Organiser: BIE Events

The event for the private equity investor relations community, the conference will look at the most important topics for the function. Through listening to presentations, panel discussions and networking with your peers, you will gain new ideas to add value to your business.

Information:

www.bieevents.com/peir-details

Super Return 2010 International

Date: 8 - 11 February 2010

Location: Berlin

Organiser: ICBI

1200 attendees and 200+ speakers such as David Rubenstein, Guy Hands, Leon Black, Hardy McLain, Sir Ronald Cohen, David Roux; and LPs: NEW YORK CITY RETIREMENT SYSTEM, THE GUARDIAN LIFE INSURANCE CO, TEACHERS PRIVATE CAPITAL, TEACHER RETIREMENT SYSTEM OF TEXAS… Unbeatable networking including pre-event meeting scheduling, fund showcase, speed networking.

Information:

http://www.icbi-events.com/superreturn-preqwb

Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
8th Africa Venture Capital Association Annual Conference	15 - 17 November 2009	Cairo	AVCA
9th Annual Super Investor	17 - 20 November 2009	Paris	ICBI
Buyouts West 2009	19 November 2009	Los Angeles	Buyouts Conferences
Private Equity MENA 2009	22 - 25 November 2009	Dubai	Terrapinn
The PEI Turkey Forum	23 - 24 November 2009	Istanbul	PEI Media
Alternative Investments Europe Summit 2009	23 - 25 November 2009	Monte Carlo	Marcus Evans
Renewable Energy Investments and Financing Forum	1 - 2 December 2009	London	C5
Private Equity Exchange 2009	02 December 2009	Paris	Lawficom Editions (Leaders League)
EVCA Buyout Forum	2 - 3 December 2009	Paris	EVCA
Alternative Investing Summit	6 - 8 December 2009	Dana Point, CA	Opal Financial Group
Private Banking World Middle East 2009	7 - 9 December 2009	Bahrain	Terrapinn
The New England Venture Summit	08 December 2009	Boston	youngStartup Ventures
The PE Investor Relations Conference	10 December 2009	London	BIE Events

Investor Spotlight: LP News

Stichting Unilever Pensioenfonds `Progress´ will commit between EUR 60 million and EUR 80 million to direct funds over the next 12 months.
The pension fund is planning to commit the capital to European focused buyout and venture vehicles. This is in addition to its plans for investments in funds of funds focusing on Asia. Stichting Unilever Pensioenfonds `Progress´ has historically invested with a wide geographic focus across buyout, venture, funds of funds and secondaries opportunities in private equity. The pension fund is increasingly optimistic about the private equity market, and thinks that the asset class will provide good offerings in the next 12 months.

Minnesota State Board of Investment has committed USD 75 million to two funds.
The retirement scheme has committed an additional USD 25 million to Merit Mezzanine Fund V and USD 50 million to Lexington Capital Partners VII. The new capital represents a 50% and 100% increase over the respective commitments first made in June 2009. Minnesota State Board of Investment manages a number of funds on behalf of municipal employees, teachers, and other public workers, and is one of the largest retirement schemes in the US. It has an allocation to private equity of approximately 6% and considers new investments opportunistically.

Washington State Investment Board (WSIB) commits a total of USD 400 million to two Oaktree funds.
The USD 64.6 billion public pension fund pledged USD 250 million to OCM Opportunities Fund VIII, and USD 150 million to OCM Principal Opportunities Fund V. These are both 2009 vintage distressed debt vehicles and are focused on a range of industries globally. WSIB has a target allocation of 25% to private equity investments and holds a well diversified portfolio, investing in a wide variety of fund types and opportunities on a global scale.

AP-Fonden 2 (AP2) is looking to hire a new CIO.
The CIO of the SEK 183 billion Second Swedish National Pension Fund, Johan Held, has resigned after 18 months in the job. He left for a similar role at insurance group AFA, after its CIO announced his retirement. AP2's new hire will be its fourth CIO in as many years. Mr Held oversaw AP2 during one of its most challenging years, when the value of its investment portfolio dropped 24%. In the first half of 2009, AP2 invested SEK 340 million in private equity and was under-allocated to the asset class.

Stagecoach Group Pension Scheme is looking to invest in approximately 10 new private equity vehicles over the next year.
The UK-based pension scheme is looking to make the 10 new investments over the next 12 months as its past commitments reach maturity. The GBP 575 million pension fund is currently over-allocated to private equity with 15% of its total assets committed to the asset class and a target of 10%. Stagecoach Group Pension Scheme will use future investments to maintain its long-term allocation to private equity. The pension fund has a typical investment size of up to GBP 5 million per vehicle, and has typically invested in a wide range of private equity fund types including venture, growth, buyout and fund of funds vehicles, with a focus on North America and Western Europe.

Van Leer Group Foundation will look globally for private equity investment opportunities in the next 12 months.
The Dutch charitable organisation, founded by philanthropist Bernard Van Leer, currently has EUR 540 million in total assets and is over its 15% target allocation to private equity, with a current allocation of 19%. Van Leer Group Foundation, which has not made any new commitments to private equity vehicles so far in 2009, will resume its investment in the asset class in 2010. Although historically it has tended to commit to vehicles in the US and Europe, it will look at investment opportunities in funds offering a wide geographic focus. The foundation believes that during times of economic uncertainty, it is important to diversify the geographic scope of its private equity portfolio in the search for better returns.

Gonzaga University Endowment is to broaden the focus of its private equity investments.
The Washington-based university will look globally for opportunistic private equity investments in the next year. The endowment, which has a current allocation of 8% of its total assets to private equity, has historically invested in US-based vehicles. Gonzaga University Endowment will invest opportunistically over the next 12 months as it continues to move towards its 10% target to private equity. The endowment hopes that by widening its geographical focus it will benefit from the best possible returns.

Hanna Ohlsson

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.
Contact us for more information - info@preqin.com