

The 2010 Preqin Private Equity Fund of Funds Review



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Dear Spotlight Reader,

This month's edition of Spotlight includes extensive analysis on the private equity fund of funds market. We have seen funds of funds accounting for a higher percentage of investors in closed funds in comparison with previous years, and are also seeing an increasing number of investors turning to funds of funds in 2009 compared with 2008. All analysis is taken from our newly released publication, The 2010 Preqin Private Equity Fund of Funds Review.

Also in this month's edition, we examine the use of investment consultants by institutional investors, reveal the latest changes in the returns and NAV of private equity funds, and uncover all the latest investor news.

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

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.

PE Fund of Funds Special

Feature Article

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The Growing Importance of Funds of Funds

With other institutional backers of private equity funds having less capital to commit than in recent years, funds of funds have become increasingly important - both as sources of capital for fund managers, and also as an investment proposition in their own right. This month's extended feature article examines the importance of funds of funds in the current financial climate in detail.

Performance Spotlight

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Private Equity Performance as of Q2 2009

This month's Performance Spotlight analyses the returns generated by private equity partnerships as at 30th June 2009 in order to provide an independent and unbiased description of the industry performance.

Fund Manager Spotlight

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California-Based Private Equity Firms

This month's Fund Manager Spotlight looks at private equity firms based in California.

Fundraising Spotlight

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This month's Fundraising Spotlight takes an in-depth look at buyout, venture and fund of funds fundraising.

If you would like to receive Private Equity Spotlight each month please email spotlight@preqin.com.

London: Scotia House, 33 Finsbury Square, London. EC2A 1BB
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Secondaries Spotlight

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We look at statistics from Preqin's industry-leading product, Secondaries Market Monitor, and uncover the latest secondaries news.

Investor Spotlight

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Conferences Spotlight

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- Industriens Pensionsforsikring
- Arizona State Retirement System

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The 2010 Preqin Private Equity Fund of Funds Review

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Private Equity: The Growing Importance of Funds of Funds

Private equity fund of funds have always been amongst the most significant and important providers of capital to private equity fund managers. In addition, they have provided a valuable investment opportunity for investors lacking the funds or expertise to construct their own portfolio of primary funds. Following the onset of the prevailing financial crisis their importance within the industry has grown even further.

Growing Importance of Funds of Funds as Investors

The importance of fund of funds managers as investors in new funds has grown considerably as other prominent investor types such as pension funds and endowments have cut back on the number of new commitments they are making, with some institutions ceasing new investment activity altogether. With all their capital invested in one asset class, fund of funds managers have not been affected by any denominator effect or lack of funds, and although many of them hold reservations towards certain areas of the industry, they have retained their ability to invest in new vehicles.

Fig. 1 shows the investor make-up of the average fund closed in 2008 and 2009. Fund of funds managers have become increasingly significant, growing from making up 16% of the average fund in 2008 to 22% in 2009. A number of direct fund managers that were previously able to form a fund based on traditional institutional investors such as pension funds have been increasingly turning to multi-managers when raising new vehicles.

A Compelling Investment Solution

Funds of funds have also grown in importance as investment propositions for institutional investors over the course of 2009. Investors with less capital available to invest have been attracted by the diversification that they

Fig. 1:

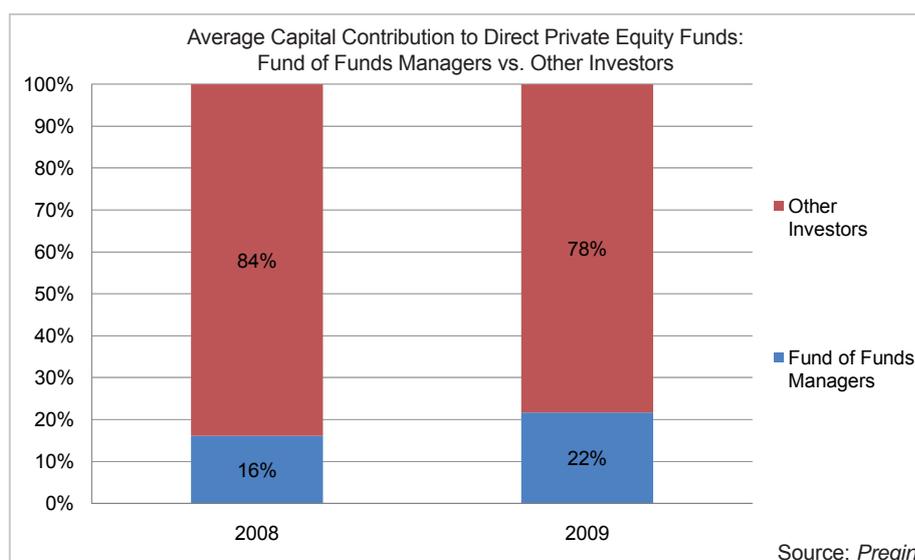
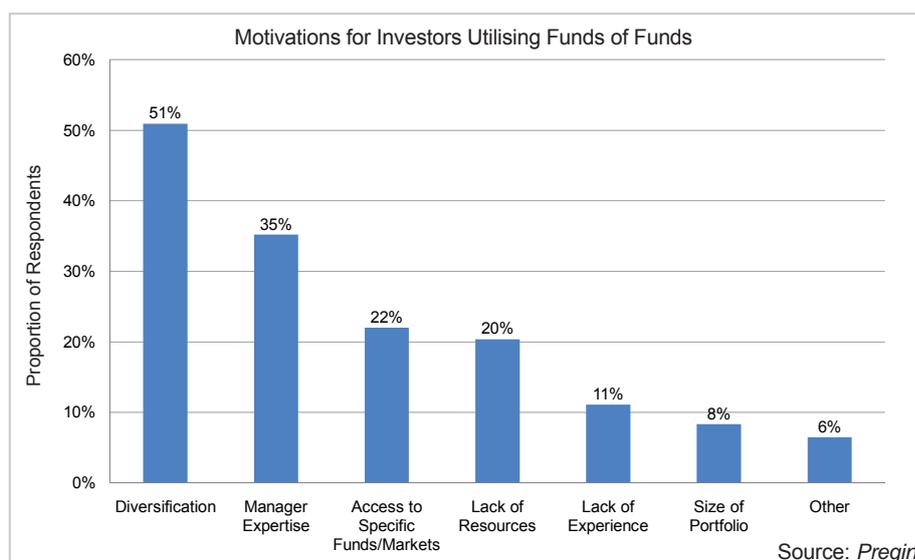


Fig. 2:



can gain through investing in a fund of funds, while the uncertainty that is surrounding the industry at present has led other investors to seek the expert knowledge and experience of fund of

funds managers in addition, or as an alternative, to constructing a portfolio of direct fund investments themselves. As Fig. 2 shows, the most common reason for investors to seek a fund of funds is

Fig. 3:

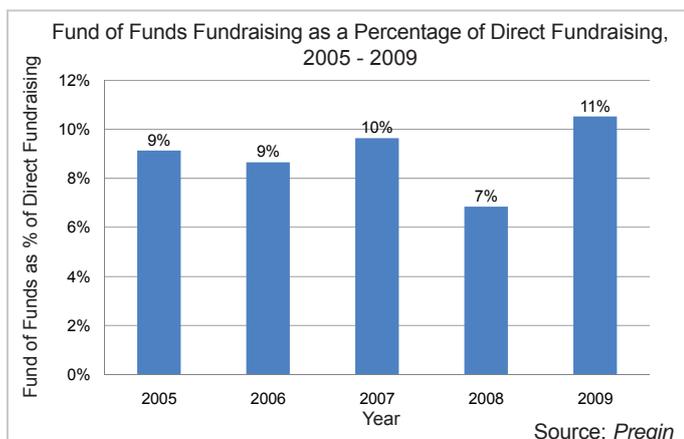
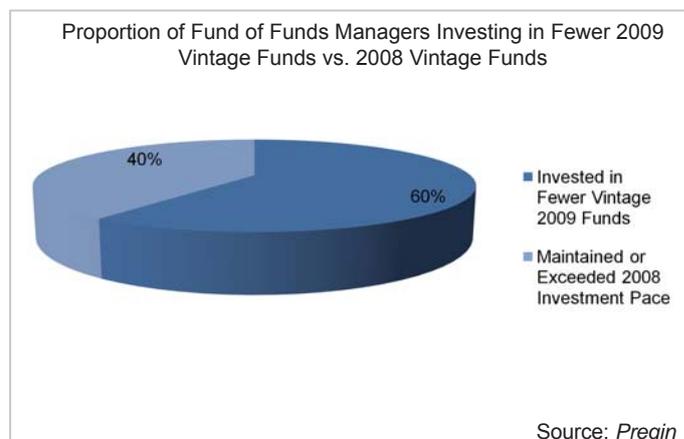


Fig. 4:



due to the diversification that vehicles of this type offer. Manager expertise is also a key factor, with the access that such vehicles can provide to leading direct funds also an important factor, albeit less important than in previous years when many brand name funds were significantly over-subscribed.

Fundraising for new fund of funds vehicles has dropped in capital terms from previous years. However, their size relative to the rest of the market has increased in 2009. As Fig. 3 shows, capital raised for funds of funds relative to direct funds has grown significantly over the past year, with fund of funds capital equivalent to 11% of capital raised for direct funds in 2009, up from 7% in 2008 – a 57% increase. The figures for 2009 do not include December figures, and with this month traditionally being a strong month for fund of funds closes,

this percentage is likely to increase further.

How do Fund of Funds Managers View the Market?

With fund of funds managers becoming an increasingly important source of capital, understanding their views and concerns towards the industry is a vital consideration for fund managers seeking commitments. Our survey of 78 leading fund of funds managers revealed some important trends in this area. As Fig. 4 shows, although fund of funds managers are still investing, a significant 60% have made fewer investments this year than they did in 2008. Fig. 5 highlights fund of funds managers' most pressing concerns, and reveals why a significant proportion are not investing at the same rate as in previous years. Concerns over financing

was ranked as most important by our respondents, with investor sentiment and a lack of exit opportunities following closely behind. General economic uncertainty was also seen as an important factor, as was the current level of new deal opportunities.

Fund Strategies of Interest for Fund of Funds Managers

Fig. 6 shows some of the fund strategies that fund of funds managers are viewing as providing compelling investment opportunities in the current market. Most popular are small to mid-market buyout funds, which a significant 81% of respondents saw as presenting interesting opportunities. In contrast, none of the fund of funds managers we surveyed saw large to mega buyout funds as a good opportunity at present.

Fig. 5:

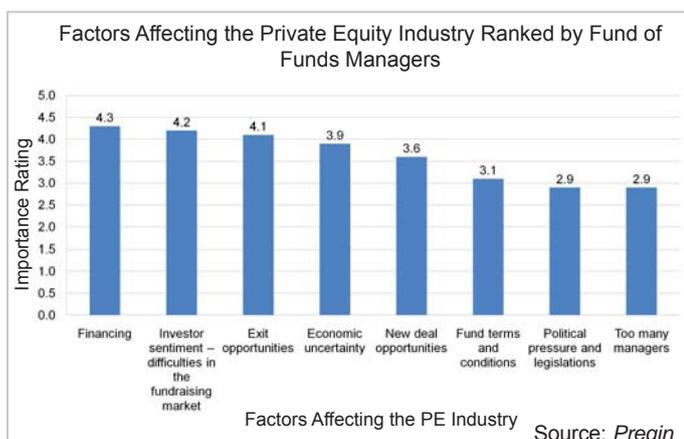
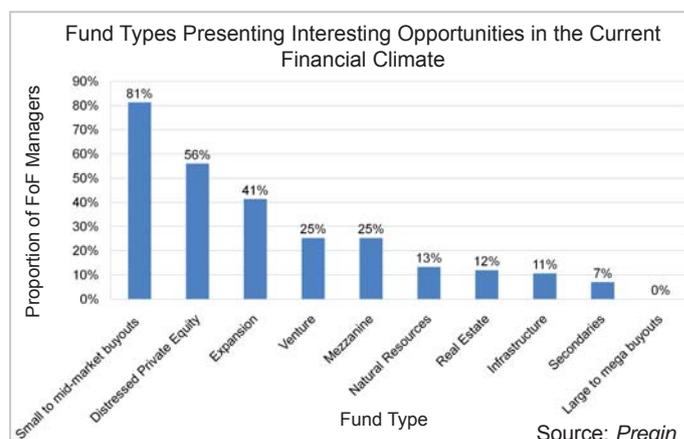


Fig. 6:



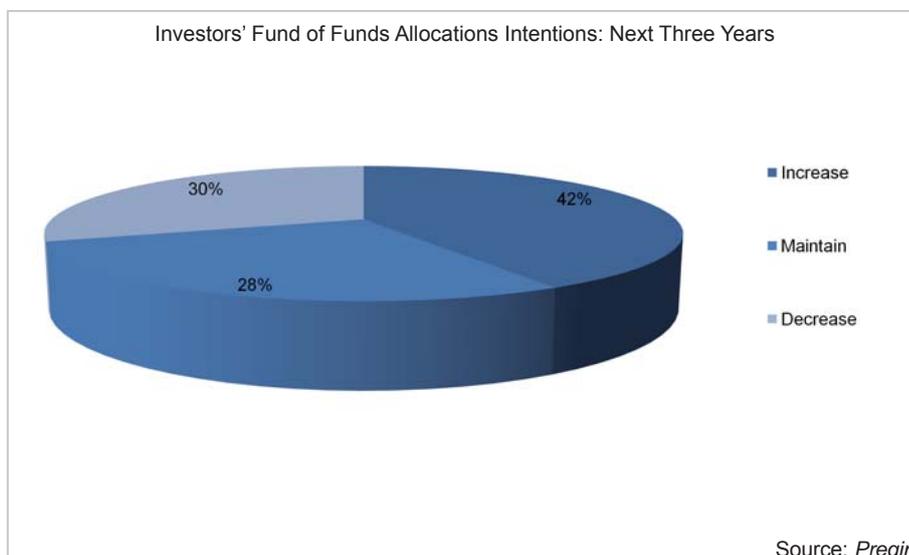
Distressed vehicles were also seen as being of interest in the current market, as were expansion funds. Venture funds and mezzanine funds were being considered by 25% of respondents, with the small proportion of managers viewing real estate and infrastructure funds as good opportunities reflecting the overall fundraising market, which has seen support for vehicles of these types decline dramatically over the past year.

What Does the Future Hold for Funds of Funds?

Preqin's statistics clearly demonstrate the importance of fund of funds managers in the current environment, but what does the future hold for these fund managers? Performance of the private equity asset class was showing signs of improvement for Q2 2009 (the latest available at time of writing in December 2009), and signs indicate that investor sentiment was beginning to improve. Will investors continue to invest in funds of funds, or will more institutions choose to avoid the dual layer of fees and branch out on their own?

The question can be partly answered by viewing the intentions of current investors in funds of funds. Preqin's survey of 180 LPs in funds of funds revealed that 42% of current investors would be increasing their fund of funds allocations over the next three years, 28% would maintain, and 30% would be decreasing (Fig. 7). These results show the natural churn of institutions through the fund of funds

Fig. 7:



sector, with many choosing to make their earliest investments in private equity via a fund of funds, before reducing their activity in the area, and increasing the direct component of their portfolio. The 42% looking to increase activity is a relatively high proportion, and would suggest that a large proportion of smaller investors are not confident enough in the market to start forming a portfolio of direct interests themselves.

In addition to smaller and newer investors in private equity, there are also a significant number of larger, more experienced investors that invest in funds of funds in order to gain access to

new geographic areas and new types of investment. In recent years there have been a number of funds established to focus on emerging markets, such as Africa and Asia, and also on new areas of the industry, with some funds of funds focusing specifically on emerging areas such as cleantech.

The future for funds of funds therefore looks bright, but much will rely on managers' ability to live up to their claims of superior fund selection, and this will largely determine the ability of fund of funds managers to attract new investors in such a competitive market. As Fig. 8 shows, fund of funds managers are

The data used in this article was taken from the newly released
 2010 Preqin Private Equity Fund of Funds Review.



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enjoying some success when it comes to fund selection, with 56% of underlying investments made by fund of funds managers beating the median, and only 16% of underlying funds appearing in the bottom quartile.

Such performance may not seem overly impressive, but this is taken over the industry as a whole. Within the industry there is a significant level of difference between the best and worst performing managers, and critically there is strong evidence that the top managers enjoy a good degree of consistency in terms of performance. As Fig. 9 shows, managers with a top quartile fund will follow this up with another top fund 43% of the time, and only see their follow-on fund fall into the bottom quartile 6% of the time. In contrast the worst performing fund managers will only see their follow-on fund fall into the top quartile 4% of the time, with the follow-on funds for bottom quartile performers remaining in the bottom segment in 50% of cases. For investors, a diligent analysis of past performance is therefore an essential consideration when selecting a fund of funds. Preqin's research would suggest that investors can take some comfort in the fact that there are some excellent fund of funds managers that are managing to regularly outperform the benchmark returns for the industry.

The outlook for the sector is encouraging, with fund of funds managers becoming increasingly important for both investors and fund managers alike. It is likely that the recent tumultuous conditions in the market will highlight poor investment decisions made by some multi-managers, and as with other areas of the private equity industry, it is certain that not all managers will be able to raise new funds in a market where there are fewer investors committing to new vehicles, and those that do have capital available are being increasingly stringent with their due diligence processes. However, in the long run the sector will emerge stronger, and looks set to be an integral part of the private equity landscape for the foreseeable future.

Tim Friedman

Fig. 8:

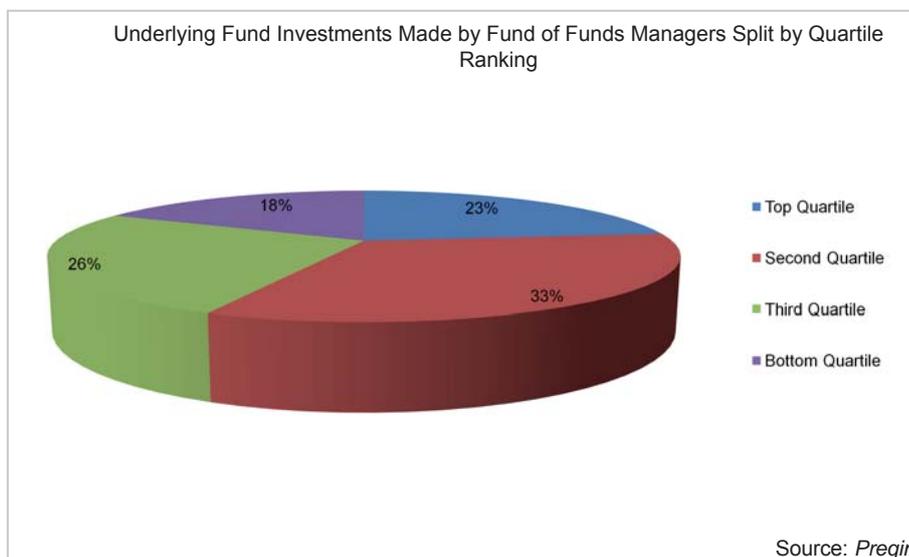
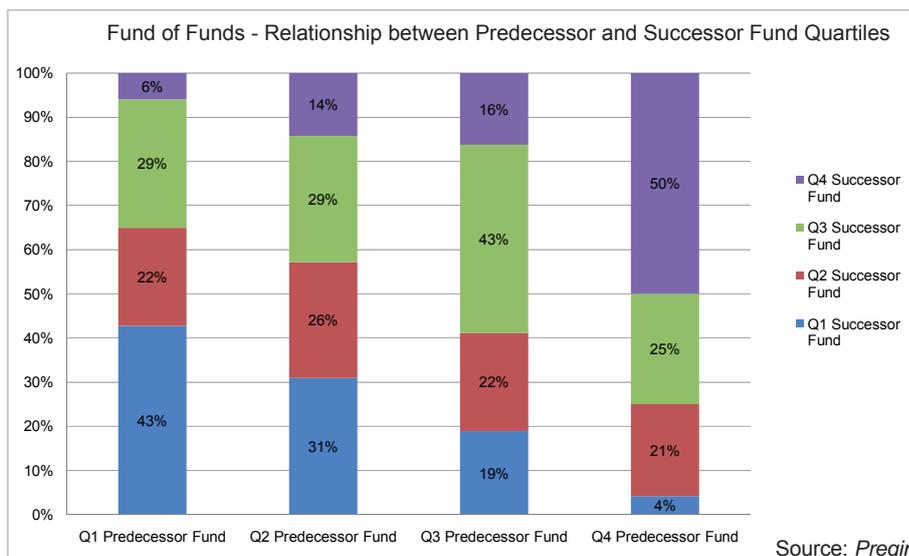


Fig. 9:



The 2010 Preqin Private Equity Fund of Funds Review - Now Available

For this year's Fund of Funds Review Preqin has sought to include data, listings, profiles and analysis on every aspect of the private equity fund of funds industry, including fund managers, fundraising, fund terms and conditions, fund performance, institutional investors in funds of funds and more.

Preqin goes to extreme lengths to ensure that the publication is as accurate as possible, gathering intelligence through a number of different channels, including most importantly from the fund managers and investors themselves.

For more information, including sample pages and details on how to order your copy, please visit: www.preqin.com/PEFOF

2010 Preqin Private Equity Fund of Funds Review: Order Form

Now into its fourth edition, the 2010 Preqin Private Equity Fund of Funds Review has been completely updated to provide the most comprehensive and up to date guide available yet. Full contents include:

- Profiles for over 230 fund of funds managers from around the globe, including individual contact details and vehicle-specific details for each manager's most recent funds.
- Key fund performance metrics for over 500 individual fund of funds vehicles.
- Detailed profiles for 150 LP investors investing in funds of funds. Information on specific investment plans.
- Detailed analysis on all aspects of funds of funds, including fundraising, terms and conditions, fund of funds managers as investors, performance, investors in fund of funds, fund of funds as investment advisors.
- Includes the results of a survey of 78 leading fund of funds managers, covering their views of the market and the effect of the current financial climate on their investments.
- Includes a survey of 180 institutional investors in funds of funds, covering their motivations for investing in funds of funds and their future investment plans.



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Performance Spotlight: Private Equity Performance as of Q2 2009

Using data from Performance Analyst, Preqin has analysed the returns generated by private equity partnerships as at 30th June 2009 in order to provide an independent and unbiased assessment of the industry's performance. Recently, private equity funds have experienced a particularly volatile period, with the onset of the credit crunch, the introduction of mark-to-market portfolio valuations which came into force for US funds on 31 December 2008 and the continuation of market instability. The release of June 2009 data shows that the private equity industry is beginning to recover and that fund valuations are showing early signs of improvement.

Change in NAV by Quarter

Taken across all fund types and geographies, the private equity industry shows an average increase of 2.7% in net asset value between Q1 2009 and Q2 2009. Analysing the industry by fund type reveals that buyout funds have seen the biggest increase in net asset value in Q2 2009 from the previous quarter: 3.6%. This is good news for buyout funds as they were amongst the most severely affected in Q4 2008, when fund managers wrote down their portfolios by an average of -11.1%. Private equity real estate, another strategy particularly affected by the subprime crisis, posted a modest increase of 1.1% from the previous quarter. The multi-fund strategies, fund of funds and secondaries, are both still reporting small declines in June 2009 of -0.1% and -0.5% respectively, but these might be explained by possible quarter-lag of the reporting dates of their underlying partnership investments. Mezzanine focused funds posted a quarterly increase from Q1 2009 of 1.2%. Venture fund managers saw little change in their June 2009 portfolio valuations, posting an increase of 0.2%. Across the main industry fund types, portfolio valuations are showing signs of improvement, most noticeably for buyout funds, to which many LPs have allocated a significant portion of their portfolios.

Fig. 1:

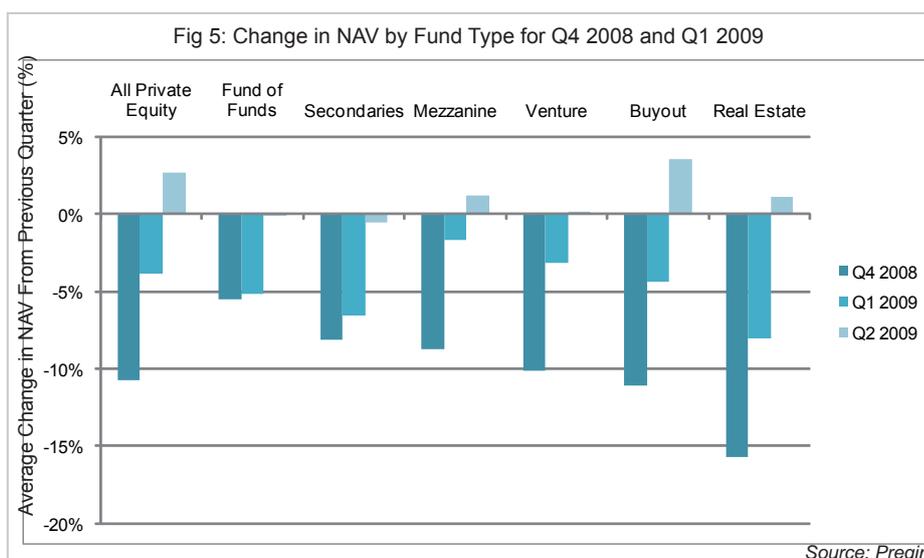
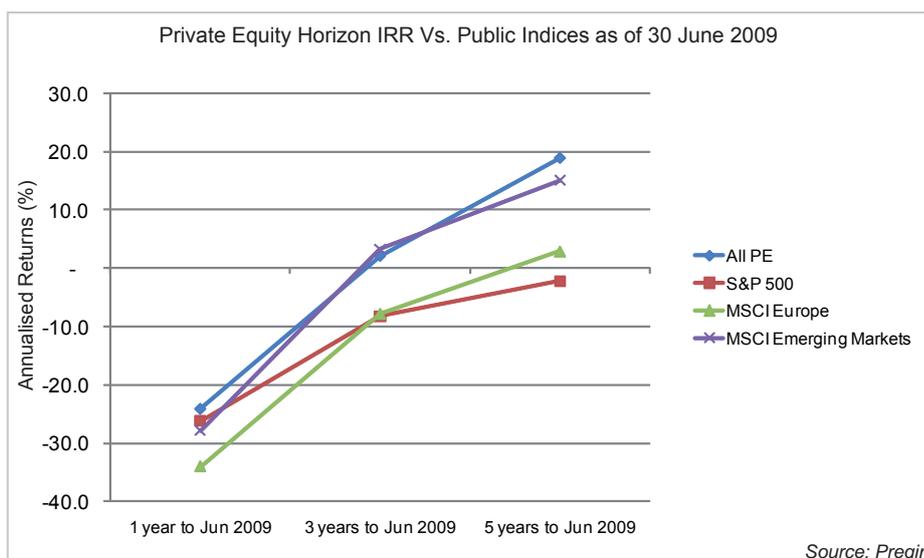


Fig. 2:



Horizon IRRs as of June 2009

The overall private equity horizon IRR for the year to June 30th, 2009 stands

at -24.1%. The one-year returns for the Standard & Poor's 500, MSCI Europe and MSCI Emerging Markets were -26.2%, -36.9% and -30.0% respectively. Over the three-year period, the private

equity horizon IRR to Q2 2009 is 2.1%, while the figure for the five-year period stands at 18.9%, as shown in Fig. 1.1. The three- and five-year returns for the Standard & Poor's 500 were -8.2% and -2.2% respectively. It should be noted, however, that comparisons with public markets need to be viewed with caution as private equity remains an illiquid investment class, and horizon returns have to be treated with caution when comparing performance against more liquid investments.

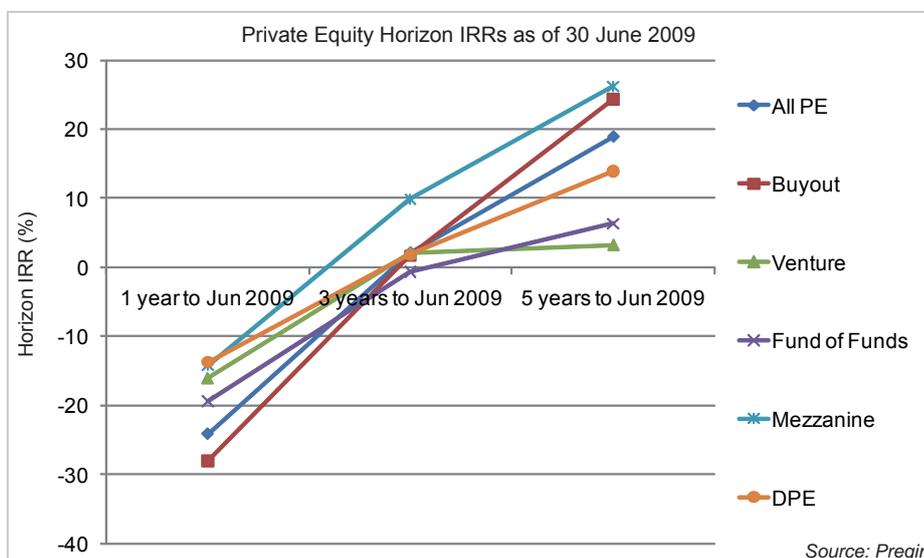
All private equity strategies posted negative one-year returns for the period ending June 30, 2009. With a horizon IRR of -28.0%, buyout has been the worst performing private equity strategy over this period. Being the largest strategy by share of capital commitments, it is significantly influencing the returns calculated for the private equity industry as a whole. Fund of funds is the second-worst performing strategy, with a horizon IRR of -19.4% during the period. Other strategies' horizon IRRs have suffered slightly less, with venture capital at -16.0%, and mezzanine and distressed private equity around -14%.

Mid- and long-term horizon IRRs are all in positive territory, with the exception of the three-year fund of funds IRR to June 2009, which stands at -0.7%. Other private equity strategies are showing modest three-year returns, at around 2%. With a three-year IRR of 9.9%, mezzanine funds are the best performers during that period. Long-term performance remains very strong, with buyout and mezzanine at around 25% over the five-year period. Venture capital and fund of funds are posting positive but lower returns over that period, with five-year horizon IRRs at 3.2% and 6.3% respectively.

This analysis highlights signs of recovery in the private equity industry, as performance improved during Q2 2009. One-year returns are still negative but over the medium to long term, private equity still shows healthy returns. Considering improvements in the public market since June 2009, we should be confident that September's private equity figures will also show improvements and that private equity returns are on their way to recovery.

Etienne Paresys

Fig. 3:



Source: Preqin

Preqin currently holds transparent net-to-LP performance data for over 4,900 private equity funds of all types and geographic focus. In terms of aggregate value, this represents around 65% of all capital ever raised.

For more information on Performance Analyst please visit:
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Fund Manager Spotlight: PE Firms Headquartered in the State of California

There are over 2,500 private equity firms headquartered in the US and over 500 of these have their main office in the state of California, representing around 22% of all fund managers based in the US (Fig. 1). Californian private equity firms have raised over \$364 billion in aggregate capital in the last 10 years. With 116 private equity firms headquartered in San Francisco, this is the most prevalent location for fund managers. Menlo Park is the second most prevalent location, with 80 private equity firms located there.

California's Largest Private Equity Firms

With more than \$41 billion raised in the last 10 years, Oaktree Capital Management is the largest private equity firm headquartered in California, with its main office located in Los Angeles. Hellman & Friedman, headquartered in San Francisco, has raised \$22.9 billion in capital in the last 10 years. Another large firm is Los Angeles-based TCW Group, which has raised more than \$10 billion in the last 10 years (Fig. 2).

Main Investment Strategies

Almost three-quarters of all Californian fund managers predominantly invest in venture opportunities. Over 390 private equity firms based in California focus their investments on venture opportunities, representing about 73% of all the firms based in the state. Venture focused fund managers have raised \$160.5 billion in aggregate capital in the last 10 years.

Buyout fund managers based in California account for 19.3% of all firms headquartered in the state (Fig. 3). Even though they represent only 19% of the private equity firms in the state, buyout firms have raised \$126 billion in aggregate capital in the last 10 years.

Early Stage Investments

More than 150 Californian venture fund managers specifically focus on early stage

Fig. 2:

California's Largest PE Firms		
Firm Name	Location	Total Funds Raised Last 10 Years (mn)
Oaktree Capital Management	Los Angeles	41,023 USD
Hellman & Friedman	San Francisco	22,900 USD
Silver Lake	Menlo Park	16,300 USD
TCW Group	Los Angeles	10,436 USD
New Enterprise Associates	Menlo Park	9,211 USD
Golden Gate Capital	San Francisco	8,614 USD
Oak Hill Capital Partners	Menlo Park	8,400 USD
Leonard Green & Partners	Los Angeles	7,616 USD
Technology Crossover Ventures	Palo Alto	7,420 USD
Accel Partners	Palo Alto	7,043 USD

Source: Preqin

Fig. 1:

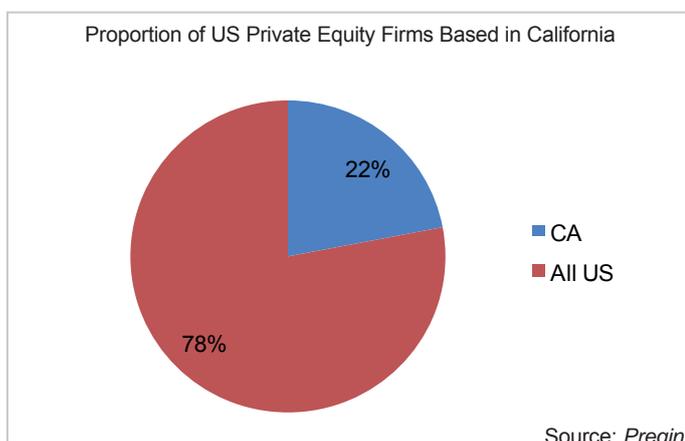
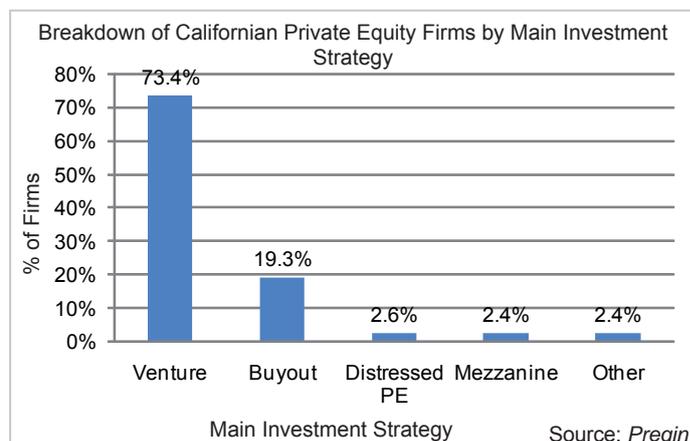


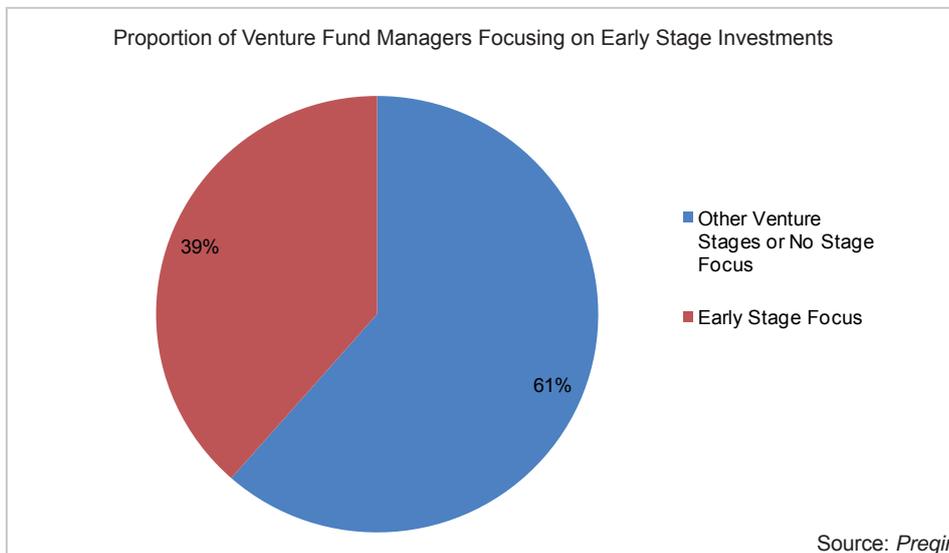
Fig. 3:



opportunities. This represents 39% of all venture firms in California (Fig. 4). Early stage focused fund managers have raised \$32.8 billion in aggregate capital in the last 10 years, which accounts for 20% of the total raised by all venture fund managers in the period.

Raffy Mirai

Fig. 4:



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:

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Investing in the
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On behalf of The Wharton School of the University of Pennsylvania, we are delighted to welcome you to the 16th annual Wharton Private Equity and Venture Capital Conference. This season's conference, themed "A New Dawn: Investing in the Post Crisis World", will provide a forum for discussing some of the imminent issues arising out of the recent financial crisis affecting private equity and venture capital firms, their investors, and portfolio companies, and the way forward for the various industry stakeholders.

Keynotes:

John F. Megrue, Jr.
CEO of Apax Partners U.S.

Dalip Pathak
Head of Warburg Pincus Europe and India

Paul Holland
General Partner of Foundation Capital

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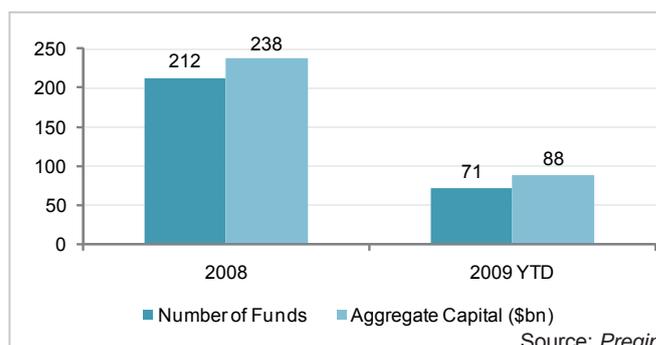
Fundraising Spotlight: Buyout

Buyout Funds on the Road

Funds on the Road	US	Europe	ROW	Total
No. of Funds	120	52	63	235
Aggregate Target Size (\$bn)	98	26	35	159
Average Target Size (\$mn)	819	493	561	678

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
African Agricultural Land Fund II	Emergent Asset Management	2,000 EUR	UK

Source: Preqin

Recently Closed Buyout Funds

WestView Capital Partners II

Manager: WestView Capital Partners

Target Size (mn): 300 USD

Closings (mn): First Close: 200 USD (Oct 2008); Final Close: 325 USD (Nov 2009)

Geographic Focus: US

Industry Focus: Healthcare, Consumer Products, Manufacturing, Media, Any, Business Services

Placement Agents: Probitas Partners

Sample Investors: AIG Private Equity, Constitution Capital Partners, Hospitals of Ontario Pension Plan, Massachusetts Pension Reserves Investment Management Board

Levine Leichtman Capital Partners IV

Manager: Levine Leichtman Capital Partners

Target Size (mn): 1,000 USD

Closings (mn): First Close: 425 USD (Jun 2008); Final Close: 1,100 USD (Oct 2009)

Geographic Focus: US

Industry Focus: Telecoms, Healthcare, Consumer Products,

Financial Services, Software, Leisure, Aerospace, Property

Placement Agents: Wetherly Capital Group

Sample Investors: Arizona State Retirement System, CalPERS, Los Angeles Fire and Police Pension, Municipal Employees' Annuity & Benefit Fund of Chicago, New Mexico Educational Retirement Board, New Mexico State Investment Council, NY State Common Retirement Fund, Philadelphia Board of Pensions & Retirement, San Antonio Fire and Police Pension

Innova/5

Manager: Innova Capital

Target Size (mn): 325 USD

Closings (mn): First Close: 256 USD (Nov 2008); Second Close: 324 USD (Dec 2008); Third Close 380 USD (Feb 2009); Final Close 388 USD (Nov 2009)

Geographic Focus: East Europe

Industry Focus: Telecoms, Healthcare, Industrial, Manufacturing, Financial Services, Infrastructure, Business Services, Production

Placement Agents: Not Used

Sample Investors: Dunedin Enterprise Investment Trust

Lola Aboderin

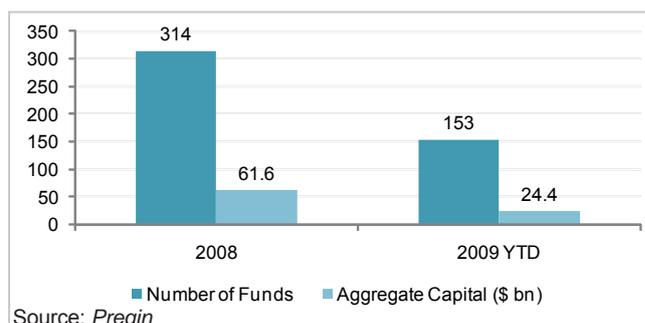
Fundraising Spotlight: Venture

Venture Funds on the Road

Funds on the Road	US	Europe	ROW	Total
Number of Funds	191	99	146	436
Aggregate Target Size (\$bn)	37	17	27	81
Average Target Size (\$mn)	193	173	187	186

Source: Preqin

Final Close Barometer



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
Millennium Private Equity Media & Telecommunication	Millennium Private Equity	1,000 USD	United Arab Emirates
Hospitality Development Fund	Abu Dhabi Investment House	1,000 USD	United Arab Emirates
ECP Africa Fund III	Emerging Capital Partners	1,000 USD	US
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

Greylock XIII

Manager: Greylock Partners
Target Size (mn): 500 USD
Closings (mn): Final Close: 575 USD (Nov-2009)
Geographic Focus: US
Industry Focus: Consumer Services, IT, Software
Sample Investors: DUMAC, Harvard Management Company, Princeton University Investment Company (Princo), Stanford Management Company

Industry Focus: Any
Placement Agent: Candela Capital
Lawyer: Linklaters
Sample Investors: AGF Private Equity, BNP Assurances, CDC Entreprises, CNP Assurances, Dahlia Partners, Fondinvest Capital, MACSF, Ofi Private Equity, Prédica, SGAM Private Equity, Swiss Life

Winch Capital II

Manager: LCF Edmond de Rothschild Private Equity
Target Size (mn): 250 EUR
Closings (mn): First Close: 175 EUR (Jun-2009); Final Close: 250 EUR (Oct-2009)
Geographic Focus: France

Bank of Ireland Seed and Early Stage Equity Fund

Manager: Kernel Capital Partners
Target Size (mn): 26 EUR
Closings (mn): Final Close: 26 EUR (Nov-2009)
Geographic Focus: Ireland
Industry Focus: Technology, Media, Financial Services, Food, Clean Technology, Wireless, Renewable Energy
Sample Investors: Bank of Ireland, Enterprise Ireland, University of Limerick Foundation

Benjamin Formela-Osborne

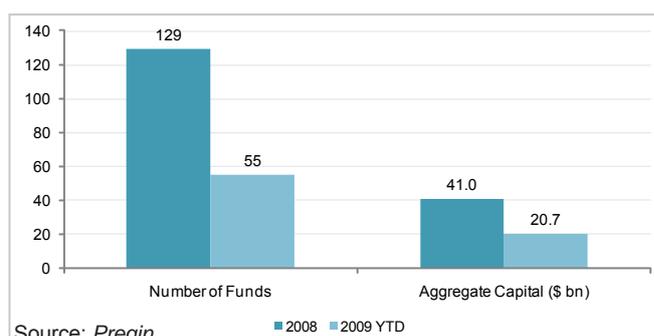
Fundraising Spotlight: Funds of Funds

Funds of Funds on the Road

Funds on the Road	US	Europe	ROW	Total
Number of Funds	87	72	9	168
Aggregate Target Size (\$bn)	26	21	3	51
Average Size (\$mn)	302	300	353	304

Source: Preqin

Final Close Barometer



Source: Preqin

Funds of Funds on the Road

Fund	Manager	Size (mn)	Fund Focus
HarbourVest International VI Partnership	HarbourVest Partners	3,000 USD	US
AXA Capital Europe	AXA Private Equity	1500 EUR	France
JP Morgan US Corporate Finance IV	JPMorgan Asset Management- Private Equity Group	1,800 USD	UK
GS Distressed Opportunities Fund IV	Goldman Sachs Private Equity Group	1,750 USD	US
GS Private Equity Partners IX	Goldman Sachs Private Equity Group	1500 USD	US
JPMorgan Venture Capital Investors IV	JPMorgan Asset Management- Private Equity Group	1,200 USD	UK
AXA Capital America	AXA Private Equity	1,000 USD	France
TL Ventures	TL Ventures	1,000 USD	US
European Strategic Partners 2008	SL Capital Partners	630 EUR	UK
Portfolio Advisors Private Equity Fund VI	Portfolio Advisors	900 USD	US

Source: Preqin

Recently Closed Funds of Funds

Arcano Global Opportunity Fund II

Manager: Arcano Capital

Target Size (mn): 250 EUR

Closings (mn): First Close: 84 EUR (May-2008); Second Close: (Jul-2008); Final Close: 150 EUR (Nov-2009)

Geographic Focus: North America, Europe, Asia, Australasia, Global, Emerging Markets

Lawyer: Rodés & Sala

Masseran France Sélection 1

Manager: Masseran Gestion - Fonds de Fonds

Closings (mn): First Close: 90 EUR (Dec-2007); Final Close: 101 EUR (Nov-2009)

Geographic Focus: France, North America, Europe

Industry Focus: Technology, IT, Life Sciences, Environmental Services, Energy, Any

LFPE

Manager: La Financière Patrimoniale Européenne

Target Size (mn): 200 EUR

Closings (mn): Second Close: (Feb-2007); First Close: 100 EUR (Apr-2007); Third Close: 127 EUR (Jul-2008); Fourth Close: 152 EUR (Oct-2008); Final Close: 250 EUR (Oct-2009)

Geographic Focus: Austria, Denmark, Finland, Germany, Italy, Luxembourg, Norway, Portugal, Spain, Sweden, West Europe, Scandinavia

Hanna Ohlsson

Calling all LPs

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Preqin's Secondary Market Monitor

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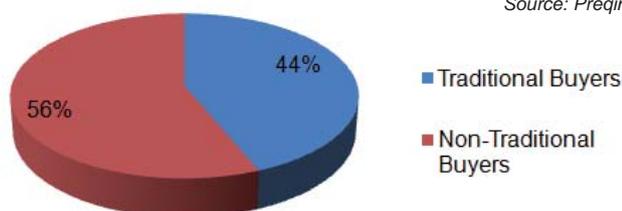
Secondaries Spotlight

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:

Breakdown of SMM Database by Buyer Type

Source: Preqin



With the secondary market currently offering an attractive opportunity for buyers to gain access to top performing managers at substantial discounts to NAV, and with immature secondaries offering an alternative to primary commitments, a wealth of non-traditional buyers have entered the market. Fig. 1 shows that non-traditional buyers, including pension funds, endowments and family offices, actually form the majority (56%) of all the buyers Preqin has surveyed, in terms of number. Traditional buyers include secondary fund of funds managers, fund of funds managers and private equity firms.

Fig. 2:

Primary Location of Intermediaries Listed on SMM

Source: Preqin

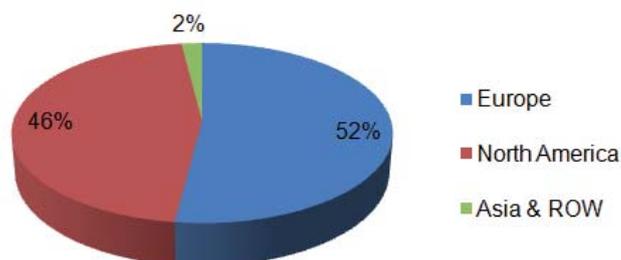


Fig. 2 shows the geographical breakdown of secondary market intermediaries, by primary location. The graph highlights an almost even coverage across Europe and North America, while a much smaller proportion of intermediaries are primarily based in Asia & ROW.

Secondaries News

Rho Fund Investors has launched its first secondaries fund.

The fund of funds manager has begun its fundraising efforts for RFI Venture Secondaries, its first vehicle focused entirely on acquiring positions in private equity funds on the secondary market. The fund has a target of USD 200 million and aims to deploy 80-90% of this capital to venture opportunities, with the remainder going towards technology-orientated buyout opportunities. Previous to this, Rho Fund Investors took part in secondary market purchases on an opportunistic basis.

Tennessee Consolidated Retirement System is considering investing in secondaries funds.

The USD 25 billion pension fund is in discussions with several secondary fund of funds managers as it is considering making its first commitment to a secondaries fund. The retirement system is looking to diversify its private equity portfolio by vintage year and feels that it can achieve this by investing capital in such funds. It did consider the possibility of buying private equity fund interests directly on the secondary market, but decided against doing so.

Secondary Market Monitor (SMM) is a service available free of charge to accredited LPs. The service enables LPs to obtain indicative pricing indications on all or part of their private equity and private equity real estate portfolios.



For more information, please visit

www.preqin.com/smm

According to Preqin's unique pricing model, a \$10,000,000 commitment to the median 2005 venture fund - which would have called \$7,560,000 and has a reported net asset value (NAV) of \$5,806,000 - would today fetch \$3,272,000 on the secondary market, or approximately 56% of its NAV.

Investor Spotlight: Alternatives Investment Consultants

Investment consultants perform a vital function within the alternative assets universe, providing an array of services to institutional investors of all different types and sizes, from small family offices, all the way up to multi-billion dollar pension plans. Whether the investment advice given by consultants is on a discretionary or non-discretionary basis, in many cases forming a relationship with an institution's investment consultant can be the most effective way for fund managers to negotiate commitments to new vehicles.

This article examines some of the key attributes of this important industry using data from the newly released 2010 Preqin Alternatives Investment Consultant Review.

How big is the industry?

In total there are over 200 investment consultants of note operating within the alternatives industry. As Fig. 1 shows, in terms of the services they provide, 16% offer advisory services on a discretionary-only basis, 35% only work on a non-discretionary basis, and 49% offer both types of services. Roughly 20% of those firms acting as investment consultants also operate as fund of funds managers.

In terms of the areas of the alternatives industry that consultants cover, 74% will advise on private equity, 61% on hedge funds, 54% on real estate and 34% on infrastructure (Fig. 2).

How are investment consultants performing?

Investors rely on their consultants in a number of different ways, and see a number of different attributes as key

Fig. 1:

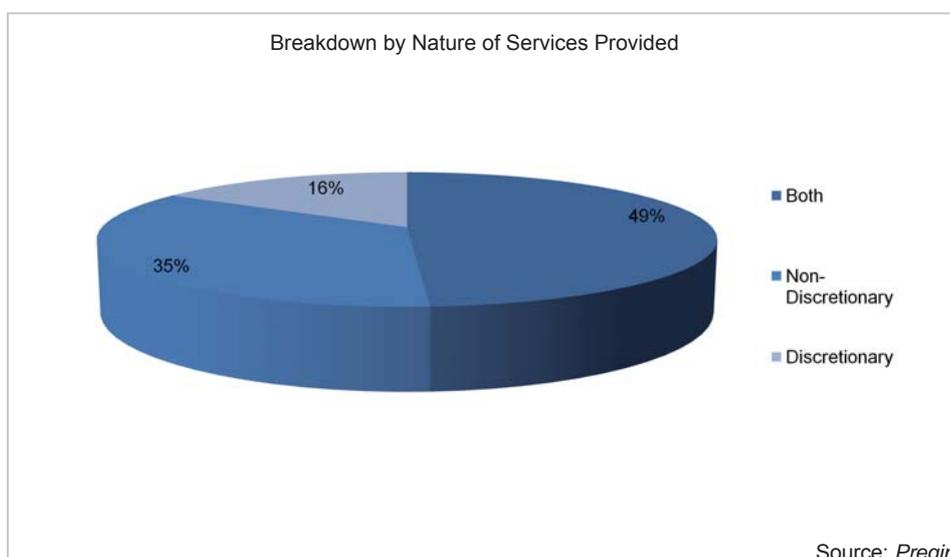
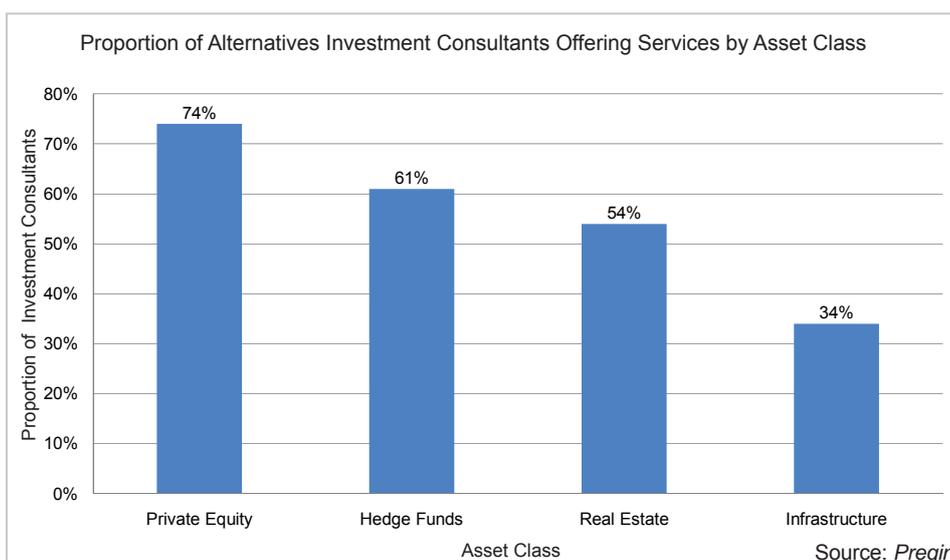


Fig. 2:



considerations when assessing their performance. In order to evaluate client satisfaction, Preqin undertook a survey of 50 leading institutional investors utilising the services of consultants. The make-up of the respondents is representative of the global make-up of institutional investors in alternatives by type, size and location.

To what extent are clients satisfied with services provided?

The shift in fortunes for the global financial markets following the events of September 2008 clearly had a major effect on the alternative assets industry. The value of existing fund investments fell dramatically, and although there is evidence that a recovery is underway, the results of this year's survey remain especially poignant, revealing the extent to which investors feel that their consultants have performed in anticipating and reacting to the financial crisis.

For investment consultants currently providing advice in the alternatives space, the results of our survey provide reassuring evidence that the vast majority of investors are at the very least satisfied with the performance of their consultants, and a significant proportion of clients repeatedly told us that they feel the performance of their consultants has been excellent. Very few clients expressed dissatisfaction with the abilities of their consultants at present.

We ranked the responses given by investors on the performance of their consultants in key areas on a scale of one to five, where one denotes a low level of satisfaction with an investment consultant in that area and five a very high level of satisfaction. As Fig. 3 shows, investors, on average, rated both the level of customer service they currently receive from their consultants and the quality of the due diligence they conduct as 4.3, showing high levels of client satisfaction.

Perhaps unsurprisingly, where investment consultants received the lowest average rating was in providing accurate market predictions, with an average client ranking of 3.6, although investors frequently informed us that

Fig. 3:

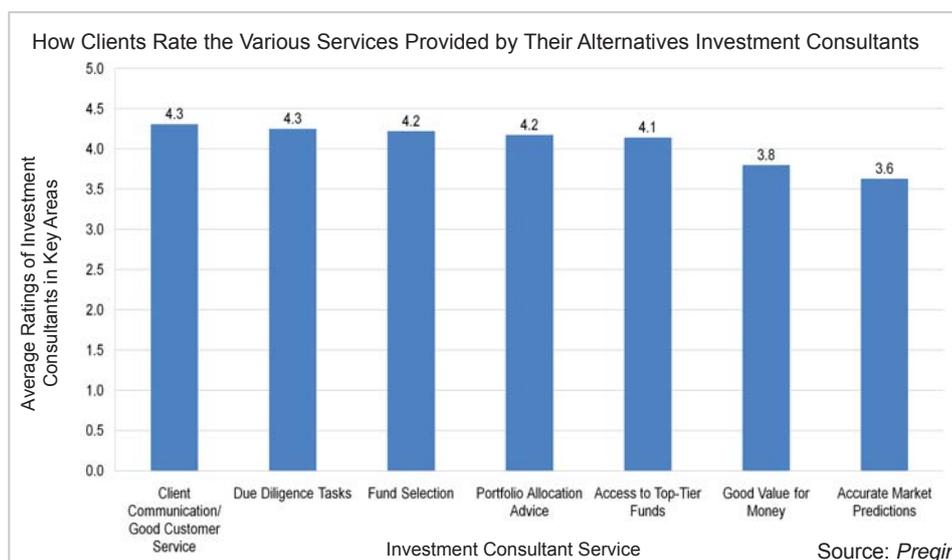
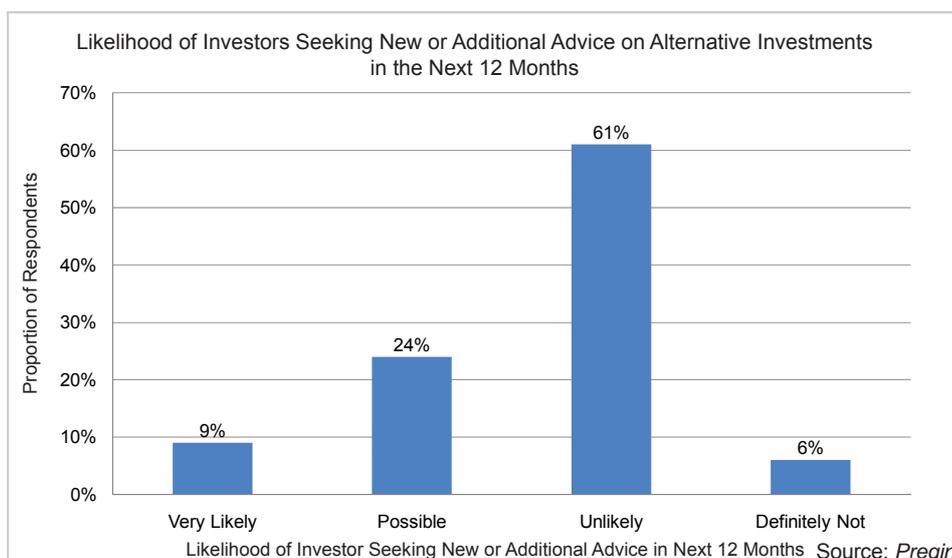


Fig. 4:



they recognised how much more difficult this task had been in recent months compared to previous years. Although the value for money provided by investment consultants also received a slightly lower ranking of 3.8, most investors felt that the costs involved, although high, had to be accepted when utilising the services of the best investment consultants.

Encouraging results?

Such results are certainly encouraging for those acting as investment consultants.

Investors are clearly satisfied with the services they are receiving, and recognise that making accurate market predictions would have been an extremely challenging task over the course of the past 18 months. There is perhaps some evidence that the cost of services provided is becoming more of an issue than in the past, and many investors told us that they were examining costs much more closely in the current environment. However, as previously mentioned, for the majority of investors the expense of services

provided by their consultants is seen as necessary for them to maintain their standards.

A dynamic industry

One of the factors driving the strong performance of those in the industry is the healthy levels of competition that exist – both with the high number of firms offering services, and the frequency with which investors will assess the performance of their retained consultants against that of others in the market.

We asked investors how often they review their investment consultants and just under two-thirds, 63%, told us they look to review the contracts they have with their consultants at least once a year. For some, this review occurs on a quarterly basis, for others on a semi-annual basis. A number of investors informed us they review their consultants as frequently as every month. Just over a quarter of investors also told us that they review their investment consultants less

frequently than every three years.

This continual assessment is more than just an administrative necessity. As Fig. 4 shows, our poll revealed that although 67% of respondents stated that it was 'unlikely' that they would be seeking new investment consultants in the coming year, or that they definitely would not be, this leaves a third of investors that are possibly or very likely to be seeking to form new relationships. In some cases this will be due to expansion into new areas, but for others this will be due to dissatisfaction. It is also important to consider that for some pension funds it is a statutory requirement to issue an RFP for consultants within a certain timeframe regardless of how well their existing consultants are perceived.

Within the body of the Review the full results of our extensive poll are examined, including revealing assessments of performance by consultants on an asset class-specific basis.

Outlook for the future

The results of our survey show that the alternatives investment consultant industry is in good health, and that investors are mostly satisfied with how their consultants have performed. It is likely that the important position of investment consultants will be maintained for the foreseeable future.

However, this relatively stable overview does not impart the full picture. There is clear evidence of investors assessing their consultants at regular intervals, and further evidence of movement between consultants, whether due to investor expansion into new areas, statutory requirements or simply due to dissatisfaction.

Tim Friedman

The data used in this article was taken from the newly released
2010 Preqin Alternatives Consultant Review.

A good source of intelligence on the alternatives investment consultant industry is a vital tool in helping fund managers and marketers build relationships with these important custodians of institutional investor capital. It is also an important consideration for consultants seeking to maintain an accurate overview of the market, and for investors utilising and considering the services of consultants.

The 2010 Preqin Investment Consultants Review is the ultimate guide to this important sector within the alternatives sphere, containing profiles for 200 different investment consultancy firms. Consultant profiles within the Review contain information on the types of services offered, asset classes covered, key financial information, direct contact information for relevant contacts and perhaps most importantly, details showing which consultants are being retained by 1,100 institutional investors from around the world.

For more information on this year's Review, including sample pages and information on ordering your copy, please visit:

www.preqin.com/consultants



Conferences Spotlight: Forthcoming Events

LSE Alternative Investments Conference

Date: 25th & 26th January 2010
Location: Marriot Hotel, Grosvenor Square, London
Organiser: London School of Economics

The LSE Alternative Investments Conference is the world's largest student conference on private equity and hedge funds. The conference takes place in the Marriot Hotel in Grosvenor Square, London. Last year students from over 70 universities attended, and delegates participated in a mixture of keynote speeches, panel discussions and seminars.

Information:
www.lseaic.com

Wharton Private Equity & Venture Capital Conference

Date: 5 February 2010
Location: Hyatt at the Bellevue
Organiser: Wharton Business School

The Wharton School of the University of Pennsylvania is delighted to host its 16th annual Wharton Private Equity and Venture Capital Conference themed A New Dawn: Investing in the Post Crisis World.

Information:
whartonpeconference.org

Indian Investment Summit

Date: 8-10 February 2010
Location: JW Marriott Mumbai, India
Organiser: Terrapinn Pte Ltd

India Investment Summit is where industry experts converge and share their thoughts, ideas and strategies to capitalize on the tremendous opportunities in India. Find out comparative advantages of asset allocation into India, access new opportunities for partnerships and investments and to understand institutional appetite, new capital sources and funding models.

Information:
www.terrapinn.com/2010/indiainvest

Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Institutional Research Meeting	13 - 14 Jan 2010	London	Institutional Investor Institute
Asian Financial Forum	20 - 21 Jan 2010	Hong Kong	HK Trade Development Council
Cleantech Investor Summit	20 - 21 Jan 2010	Palm Springs	IBF Media
The Activist Investor Conference	21 - 22 Jan 2010	New York	DealFlow Media
LSE Alternative Investments Conference	25 - 26 Jan 2010	London	LSE
Buyouts South 2010	28 Jan 2010	Boca Raton, FL	Buyouts Conferences
European Pensions Symposium	3 - 5 Feb 2010	Rome	Institutional Investor
Investment Performance Analysis & Risk Management Asia 2010	3 - 4 Feb 2010	Hong Kong	IQPC
2010 Wharton Private Equity & Venture Capital Conference	05 Feb 2010	Philadelphia	Wharton
SuperReturn International 2009	8 - 11 Feb 2010	Berlin	ICBI
India Investment Summit 2010	8 - 10 Feb 2010	Mumbai	Terrapinn
Asset Allocation Summit Australia 2010	22 - 26 Feb 2010	Sydney	Terrapinn
The Active-Passive Investor Summit	22 Feb 2010	New York	IMN
Institutional Investors' Congress	22 - 23 Feb 2010	Vienna	Opal Financial Group
15th Annual Public Funds Summit	1 - 3 March 2010	Huntington Beach, CA	IMN
Rights & Responsibilities of Institutional Investors	11 March 2010	Amsterdam	Institutional Investor Events
Go4Europe Conference	15 March 2010	Tel Aviv	Cukierman & Co
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn

Investor Spotlight: LP News

Industriens Pensionsforsikring will make further commitments to private equity vehicles in 2010.

The USD 12 billion Danish private sector pension fund will make new commitments to between 8 and 14 private equity vehicles over the next 12 months. Industriens Pensionsforsikring will commit an average of USD 20 million per fund. The pension fund currently has 5.2% of its total assets invested in private equity and in recent years has maintained a 7.5% target to the asset class. It will however look to raise its target allocation in the long term, allowing for increased investments in the asset class. Industriens Pensionsforsikring will make commitments to a variety of private equity vehicles, covering a range of investment stages, over the next 12 months and will seek investment globally, including emerging markets and the US.

Teacher Retirement System of Texas (TRS) commits capital to private equity investment in Asia.

The USD 80 billion pension fund for employees of the public education system in Texas has a current allocation of 7.5% to private equity. In November 2009, TRS awarded mandates of USD 100 million to both Squadron Capital and Morgan Creek Capital Management for private equity investments in Asia. For its investment with Morgan Creek Capital Management, it is understood that an undisclosed proportion of the USD 100 million will be used as a commitment to Morgan Creek's latest fund of funds offering, Morgan Creek Capital Asia. TRS is hoping to benefit from investment opportunities in Asia. TRS has historically been a large global investor in private equity, having made commitments to vehicles in the asset class across varying geographies and fund type.

Arizona State Retirement System has increased its target allocation to private equity.

Arizona State Retirement System passed the new allocation guidelines in an investment committee meeting last month, increasing its target allocation to private equity funds from 5% to 7% of total assets. Also included in the revised investment strategy is an allocation to opportunistic investments, which could cover multiple asset classes, including private equity. The USD 21 billion public pension fund currently has USD 630 million committed to private equity, and recently invested in Maranon Capital's first mezzanine fund, Maranon Mezzanine Fund I, which is targeting USD 250 million to invest in healthcare, consumer products, distribution, manufacturing and business services industries in North America, and hopes to wrap up fundraising by the end of the year.

Enterprise Ireland and University of Limerick Foundation (ULF) have invested in an Irish seed venture fund.

Enterprise Ireland and ULF have committed EUR 8 million and EUR 1 million respectively to the EUR 26 million Bank of Ireland Seed and Early Stage Equity Fund. The two investors will also act as strategic partners in the fund, providing research and other non-financial support to its underlying companies. Enterprise Ireland works to promote and foster entrepreneurship in the country, in part by investing in venture capital funds. ULF is the fundraising and endowment unit of the University of Limerick. In addition to providing research and development grants, it also invests in commercial venture funds that benefit its region.

Highland County Council Pension Fund is considering investing in private equity.

The GBP 450 million pension fund based in Inverness, Scotland, has not previously invested in private equity. It is currently considering making its initial move into the asset class by carrying out due diligence studies on the possibility of doing so. It hopes to have made a decision by the end of Q1 2010. The pension fund, which is made up of local government, police and firefighter pension schemes, does not currently invest in any other alternative asset classes. If investing in private equity is approved, the pension fund will be looking to invest through funds of funds. Any decisions about investments in private equity made by Highland County Council Pension Fund will be advised upon by Hymans Robertson, the pension fund's investment consultant.

California Public Employees' Retirement System (CalPERS) has invested USD 1.1 billion in the latest Levine Leichtman buyout fund.

CalPERS manages assets of USD 198 billion and targets a 14% allocation to private equity funds. The public pension system committed USD 75 million to Levine Leichtman Capital Partners IV, which exceeded its USD 1 billion target, closing on USD 1.1 billion at the end of October. The fund plans to invest in US-based buyout opportunities across a broad scope of industries, allocating USD 25-100 million to each investment. Other known limited partners include Los Angeles Fire and Police Pension System, with a USD 25 million commitment, New Mexico State Investment Council (USD 35 million), New York State Common Retirement Fund (USD 50 million), Philadelphia Board of Pensions & Retirement (USD 25 million) and San Antonio Fire and Police Pension Fund (USD 10 million).

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