Private Equity Spotlight

August 2007 / Volume 3 - Issue 8

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Welcome to the latest edition of Private Equity Spotlight, the monthly newsletter from Preqin, providing insights into private equity performance, investors and fundraising. Private Equity Spotlight combines information from our online products Performance Analyst, Investor Intelligence & Funds in Market.

End of Buyout Boom? Buyout funds have enjoyed great success over the last three years but should we expect a decline following this peak or will growing LP appetite keep feeding this growth? This month's Feature Article examines the prospects for continued long term growth for the industry.

This month's Performance Spotlight looks at the performance of distressed debt and special situations funds - one of the more specialised sectors of the private equity industry.

This month's Fundraising Spotlight examines the latest data for buyout and venture funds, and also takes an in-depth look at mid-market buyout fundraising.

No. of Funds on Road	US	Europe	ROW	Total
Venture	228	97	107	432
Buyout	141	52	30	223
Fund of Funds	77	53	13	143
Real Estate	103	48	17	168
Other	90	31	31	152
Total	639	281	198	1118

The Middle East

With investor enthusiasm for funds focusing on developing markets increasing, this month's Investor Spotlight examines a market currently experiencing major growth - Middle Eastern private equity.

All the latest news on investors in private equity:

- LAFPP appoints new private equity advisors
- West Midlands Pension increases target to private equity
- AlpInvest Partners awarded EUR 500 million mandate
- MASCF seeking 2 French private equity funds
- Asian Development Bank issues call for proposals from private equity managers

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Feature Article:
Too Soon to Call the End of Buyout Boom?

After three years of increasingly strong fundraising from the buyout sector, and with the recent turbulence in the credit markets, it is perhaps understandable that many commentators are calling the peak in the market, and predicting a decline from current levels, both in terms of fundraising itself, and the returns that LPs can expect from their private equity investments. But does the data support this hypothesis? We believe not. This month's Feature Article presents the evidence supporting continued long term growth for the industry.

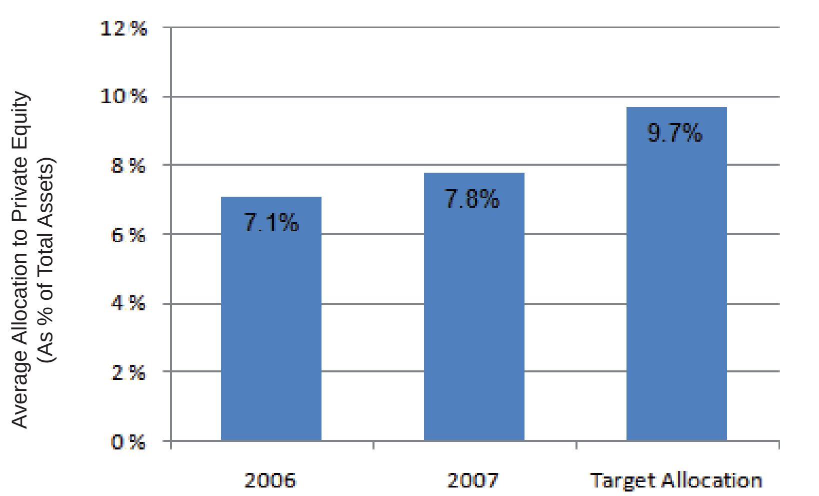
Our starting point is the target allocations that LPs worldwide have for their private equity programs. These targets tend to evolve slowly – as indeed they must do for such a long-term illiquid asset class. Sensible LPs set their targets on the basis of their expected returns over the long term, not the latest spectacular exit on the one hand or credit market wobble on the other.

The returns generated by the best funds have indeed been spectacular over the recent past, but most GPs and LPs recognize the 'Perfect Calm' conditions that the industry has experienced. Few in the industry expect returns to continue at the recent absolute levels – but the key question is whether private equity can continue to out-perform equities and other asset classes in more testing market conditions.

The evidence from our 2007 Private Equity Performance Monitor is that private equity funds have generally out-performed listed equities by a significant margin over the long term, and there is no evidence to suggest that this has changed. As a result, institutional investors worldwide are increasing their allocations to the asset class. Fig. 1 shows the average allocation (for institutions that invest in private equity) increasing from 7.1% in 2006 to 7.8% in 2007, with an average target allocation of 9.7%. Furthermore, a growing number of new institutions are entering private equity for the first time. This growing LP appetite will continue to drive private equity's growth.

Driven by this LP appetite, 2006 was an all-time record for private equity fundraising, as 776 new funds of all types raised $475 billion in commitments from LPs, and within this total 193 buyout funds raised $224 billion.

Fig. 1: Increasing Allocations to Private Equity



The pace of fundraising has continued into 2007, and at the time of writing (August 14th) we know of 356 new funds that have achieved final closes, raising $306 billion between them – well on the way to meeting our projection of $500 billion for the year. Buyouts have continued to do well, with 93 new funds raising an aggregate of $139 billion so far. (It is significant that fewer funds have been raised this year, but that the individual funds have increased significantly in size – of this, more later.)

"... the amount of (equity) 'Dry Powder' available to the buyout industry globally remains in the range $300 - $350 billion. This is only a 'stock' of around 12 to 18 months' supply, which is low by historic standards..."

Some commentators have questioned whether the industry can profitably invest all the new funds that have been raised. The evidence suggests it can. As of January 2007, the total 'Dry Powder' available to the industry (i.e. equity funds that have been committed by LPs but as yet uncalled for investment) was $330 billion globally. Deals completed during Q1 and Q2 were around $600 billion, suggesting an equity component of around $150 billion – broadly in line with the $139 billion raised by new funds over this period. As a result, the amount of (equity) 'Dry Powder' available to the buyout industry globally remains in the range $300 - $350 billion. This is only a 'stock' of around 12 to 18 months' worth of deals, which is low by historic standards. (In 2003 the industry had over thee years of equity supply.)

There is also a wealth of fund investment opportunities available for investors. Over 1,100 new private equity funds are currently on the road worldwide, targeting $566 billion. Within the buyout sector 224 new funds are out there looking for an aggregate $233 billion of funding.

In summary: private equity continues to deliver superior returns to investors; LPs target allocations are continuing to increase; fundraising continues at a rapid pace; the industry is managing to invest the large amounts of capital being raised; and there is a wealth of new fund investment opportunities available to LPs. Hardly the top of the market. Nobody is saying that changes in the credit market will not have an effect on the types of investment made, and how they are financed – of course they will. But the conditions for continued long-term growth of the buyout industry are still very much in place.

So is everything rosy in the fundraising market? Yes and no. We mentioned fund sizes earlier, and Fig. 2 examines this further. The largest funds, those of $5 billion and above, are being raised very quickly, with the number of new funds on the road being broadly similar to the closes achieved so far this year. Looked at another way, the average large fund is taking around 8 months to get raised.

Down at the other end of the size scale things are very different. There are over three times as many funds of below $500 million currently on the road as have been successfully raised so far this year – in other words, the average sub-$500 million fund is taking nearly two years to get raised.

Perhaps this shouldn't surprise us: LP appetite is strongest for the largest funds from the firms with the strongest track records. Conversely, the mid-market has seen a tremendous growth in the number of new fund offerings, and it is simply very difficult for firms raising small and medium-sized funds to get their message heard above the competitive noise – even for firms with solid track records. As always, careful targeting of LPs is vital – the appetite is certainly there, it's a question of finding the right LPs.

Fig. 2: Fundraising Success vs. Fund Size - Buyouts

Fund Size	Funds currently On Road	Funds Closed 2007 YTD	Funds currently On Road per Fund Closed YTD
$5 bn +	10	9	1.1
$1 to $4.9 bn	46	21	2.2
$500 to $999 mn	20	16	1.3
$250 to $499 mn	60	19	3.2
Below $250 mn	87	28	3.1

Product in Spotlight:
Fund Raising Support

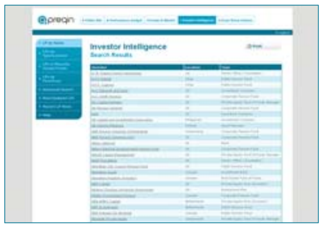
Each month Spotlight takes a closer look at one of the many products and services provided by Private Equity Intelligence, exploring the features offered; how it can help you in your job; who uses it and how you can get it.

This month: ***Fund Raising Support***

After a record 2006, LP demand for new funds remains strong in 2007, with over $300 billion already raised by the end of August. Despite this, successfully raising a new fund remains as challenging as ever, for three main reasons:

- Mega-funds: are capturing an increasing share of the pie.
- Competition: demand may be high, but so is supply, with 1,118 new funds currently on the road worldwide.
- LP churn: new LPs are entering the asset class, while existing large LPs are generally focusing their attentions on a narrower roster of core relationships. Most GPs are having to cast the net wider and develop relationships with new LPs.

The two volume 2007 **Limited Partner Universe** provides comprehensive listings and detailed analysis of 1,500 of the most important global LP investors in private equity.



Investor Intelligence is the ultimate online resource for LP information: continuously updated profiles for over 3,500 LPs worldwide, plus powerful search tools to help you find the LPs you need.

LP Targeting Service:

In addition to our hard copy and online products, we assist many GPs to target the very best LP prospects for their new funds.

Starting with an understanding of your fund's strategy, we identify the key factors likely to drive LP interest. Will it be suited to larger or smaller LPs? Local, regional or global? Have they invested with similar firms previously? Will they support emerging managers? etc.

We then analyze our total database of over 3,500 LPs to identify the very best prospects for your new fund. Our analysts use their detailed knowledge and experience to assess each prospect and generate a final short list of 100 to 120 high potential LPs for your fund. They are also available to support you with further research assistance throughout your fund-raising.

Many GPs ask us to undertake a further stage of 'qualification', interviewing the target LPs to confirm who has the strongest interest in your fund. LP Targeting is an efficient and cost-effective way of helping you to focus your efforts on the very best LP prospects for your fund.

For further information please contact Mark O'Hare at: mark@preqin.com or call +44 (0)20 7822 8500

Performance Spotlight: Distressed Debt

This month Spotlight analyses the performance of distressed debt and special situations funds - one of the more specialised sectors of the private equity industry, with relatively few vehicles being raised annually in comparison with other fund types such as buyout and venture.

Median Net IRR - Distressed Debt and Special Situation vs. All Private Equity

**Figures show median IRR from inception to latest date now available for funds by vintage year. IRRs are fund IRRs calculated on a net basis to LPs, i.e. after management fees and GP carry.*

Preqin has identified 130 general partners, managing a total of 167 distressed debt funds and 79 special situation funds. By combining performance returns of 124 of these funds we have collected a sufficiently large pool of fund data to create performance benchmarks for these specialist fund types.

The graph compares the performance of distressed debt and special situation funds against the benchmark for all private equity benchmark for funds of vintage years 1999 to 2004. The graph confirms that distressed debt and special situation funds have performed very well, with funds of all vintage years consistently outperforming the overall private equity industry, providing excellent returns to their investors.

Investors willing to invest in this specialist sector should always consider that although distressed debt and special situation funds show healthy median IRRs, there does exist a large variation in returns between the most and least successful fund managers.

Recently, increased investor interest in this sector has prompted fund of funds managers such as Morgan Stanley, Goldman Sachs and Siguler Guff to create vehicles specialising in distressed debt investing, offering diversification across different investment styles and managers. Such vehicles provide an excellent opportunity for smaller investors and those lacking experience in this niche sector of the industry to gain exposure.

The table below summarizes the net performance of some of the most successful distressed debt and special situation funds showing the potentially substantial returns that funds of this type are capable of returning to investors.

Fund	Vintage	Fund Size (Mn)	Multiple (X)	Net IRR (%)	Date Reported
WLR Recovery Fund II	2002	400 USD	2.56	88.9	31-Dec-06
KPS Special Situations Fund II	2002	404 USD	2.34	61	31-Dec-06
Carlyle Strategic Partners	2004	211 USD	1.46	56.3	31-Dec-06
OCM Opportunities Fund IV-B	2002	1505 USD	2.42	44.7	31-Dec-06
TowerBrook Investors	2001	1000 USD	2.88	41.8	31-Dec-06

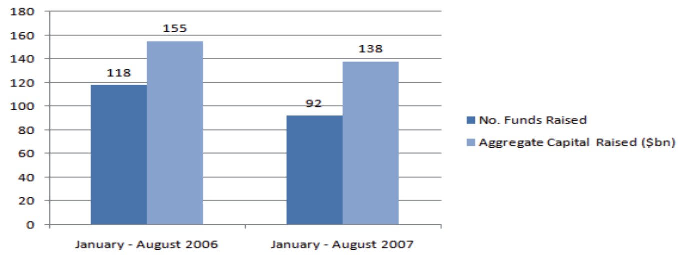
For more information on private equity fund performance please visit www.preqin.com/pa

Fundraising Spotlight: Buyout

BUYOUT FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	141	52	30	223
Total Target Value ($bn)	167	50	16	233
Average Target Size ($mn)	1,173	957	526	2,656

FINAL CLOSES BAROMETER



BUYOUT FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
Carlyle Partners V	Carlyle Group	17,000 USD	US
KKR Fund 2006	Kohlberg Kravis Roberts	16,625 USD	US
Apollo Investment Fund VII	Apollo Management	15,000 USD	US
Apax Europe VII	Apax Partners	10,000 EUR	UK
PAI Europe V	PAI Partners	10,000 EUR	France
KKR European Fund III	Kohlberg Kravis Roberts	7,700 EUR	US
Silver Lake Partners III	Silver Lake	8,000 USD	US
Thomas H Lee VI	Thomas H Lee Partners	8,000 USD	US
Carlyle Europe Partners III	Carlyle Group	5,000 EUR	US
Kelso Investment Associates VIII	Kelso & Company	5,000 USD	US

RECENTLY CLOSED BUYOUT FUNDS

Odewald & Compagnie III:
Manager: Odewald & Compagnie
Target Size (mn): 600 EUR
Final Close (mn): 600 EUR (July-2007)
Geographic Focus: Austria, Germany, Netherlands, Switzerland
Industry Focus: Any
Placement Agent: Lazard Private Fund Advisor Group
Lawyer: Pollath & Partners

Advent Latin American Fund IV:
Manager: Advent International
Target Size (mn): 1,000 USD
Final Close (mn): 1,300 USD (July-2007)
Geographic Focus: Argentina, Brazil, Mexico
Industry Focus: Healthcare, Retail, Communications, Financial Services, Life Sciences, Chemicals & Materials, Energy
Sample Investors: British Columbia Investment Management Corporation, CalPERS, GIC Special Investments, HarbourVest Partners, Harvard Management Associates, Pennsylvania SERS

Castanea Partners Fund III:
Manager: Castanea Partners
Target Size (mn): 475 USD
Final Close (mn): 575 USD (July-2007)
Geographic Focus: US
Industry Focus: Consumer Products, Retail, Information Services, Education / Training, Marketing, Publishing
Sample Investors: J. Paul Getty Trust, Princo, Yale University Endowment

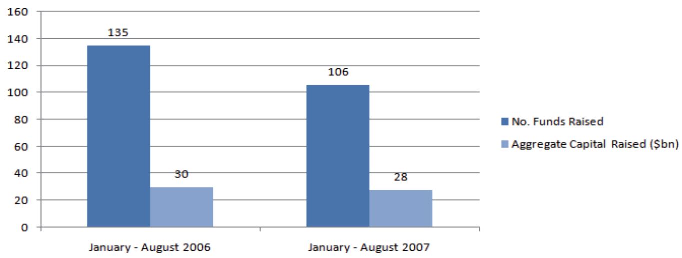
Fortress Investment Fund V:
Manager: Fortress Investment Group
Target Size (mn): 5,000 USD
Final Close (mn): 5,000 USD (July-2007)
Geographic Focus: US
Industry Focus: Telecoms, Transportation, Media, Financial Services, Property,
Sample Investors: OPERF, Pennsylvania PSERS, Washington State Investment Board

Fundraising Spotlight: Venture

VENTURE FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	228	97	107	432
Total Target Value ($bn)	46	22	14	82
Average Target Size ($mn)	202	227	131	190

FINAL CLOSES BAROMETER



VENTURE FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
Citigroup International Growth Partnership II	Citigroup Venture Capital International	3,500 USD	UK
Cyrte Investments TMT Fund	Cryte Investments	1,500 EUR	Netherlands
Pine Brook Road Partners I	Pine Brook Road Partners	2,000 USD	US
Technology Crossover Ventures VII	Technology Crossover Ventures	2,000 USD	US
Bertelsmann	Bertelsmann Capital Ventures	1,000 EUR	Germany
VantagePoint Venture Partners V	VantagePoint Venture Partners	1,250 USD	US
DIB Media & Telecommunications Fund (TMT)	Dubai Islamic Bank	1,000 USD	UAE
Patenterprise Energy Fund I	Patenterprise	1,000 CHF	Switzerland
Red Zone Capital Partners II	Red Zone Capital Partners	750 USD	US
Carlyle Venture Partners III	Carlyle Group	700 USD	US

RECENTLY CLOSED VENTURE FUNDS

Technology Partners Fund VIII:
Manager: Technology Partners
Target Size (mn): 250 USD
Final Close (mn): 300 USD (July-2007)
Geographic Focus: US
Industry Focus: Life Sciences, Medical Technologies, Clean Technology
Placement Agent: Not Used
Lawyer: Cooley Godward Kronish
Sample Investors: Indiana Public Employees' Retirement Fund, San Francisco City & County Employees' Retirement System

Bessemer Venture Partners VII:
Manager: Bessemer Venture Partners
Target Size (mn): 750 USD
Final Close (mn): 1000 USD (July-2007)
Geographic Focus: India, US
Industry Focus: Any

Vector Fund IV:
Manager: Vector Capital
Target Size (mn): 1,000 USD
Final Close (mn): 1,200 USD (July-2007)
Geographic Focus: US
Industry Focus: Technology
Lawyer: Gunderson Dettmer
Sample Investors: Harvard Management Company

Spark Capital II:
Manager: Spark Capital
Target Size (mn): 300 USD
Final Close (mn): 360 USD (July-2007)
Geographic Focus: US
Industry Focus: Technology, Media, Entertainment
Sample Investors: Partners Group, Pearl Holding

Fundraising Spotlight:
Mid-Market Buyout

Booming Mega-Buyout Market Masks Tough Times For Mid-Market: Over the past three years fundraising for the private equity industry has gone from strength to strength; each half-year has seen more capital raised than in the one that came before it, while record fund sizes are repeatedly beaten and new records set as investor appetite for private equity has remained strong.

Has the ability of mega-buyout funds to raise such enormous levels of capital, and their resulting domination of the overall fundraising market disguised a diminishing investor appetite for smaller, mid-market buyout funds? Are investors as keen on smaller vehicles as they have been for the bigger mega-buyout funds?

Fig. 1 shows half-yearly fundraising by funds $1bn and greater in size from 2004 until H1 2007, while Fig. 2 shows half-yearly fundraising by funds smaller than $1bn in size. The first graph clearly shows that investor appetite for mega-buyouts has been consistently increasing, with fundraising increasing dramatically from year to year. Only H2 2005 shows a slight decrease from the previous half year, and the first half of 2007 saw fundraising for mega-buyouts exceed $100bn for the first time in the history of the industry.

Fig. 2 shows a steady, if unspectacular increase in fundraising from funds smaller than $1bn in size until 2006, where fundraising levelled out over the course of the year. Moving into 2007 fundraising by funds of this size has now started to decline, with mid-market funds raising the lowest amount of capital for a half-yearly period in almost three years. Over the same period mega-buyout fundraising has increased five-fold.

The decrease in fundraising for mid-market funds could be explained by firms previously raising mid-market funds now raising vehicles of a larger size, pushing them into the mega-buyout market. This is certainly the case with certain firms such as Ripplewood Partners and New Mountain Partners. Both previously focused on the mid-market, these firms are now managing funds in excess of $2.5bn in size.

Fig. 1: Half Yearly Fundraising 2004 - Q2 2007
Mega Buyout Funds

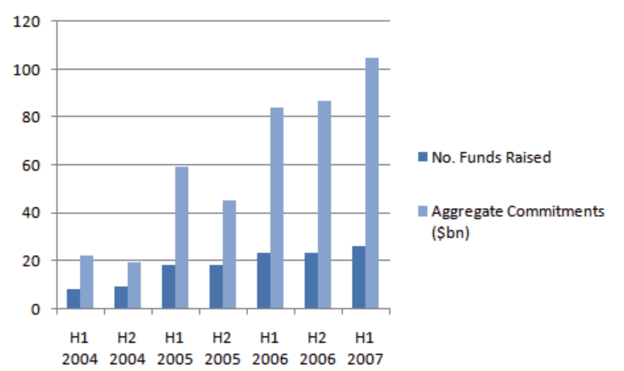
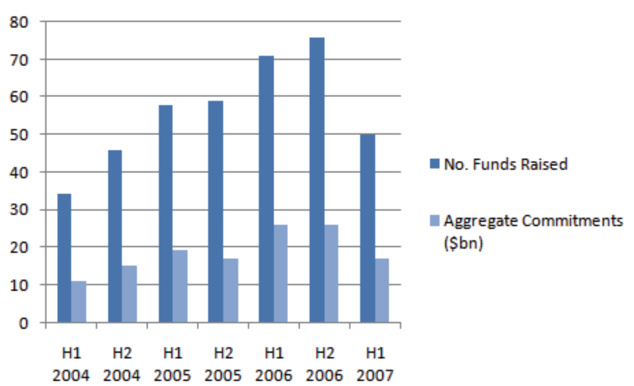


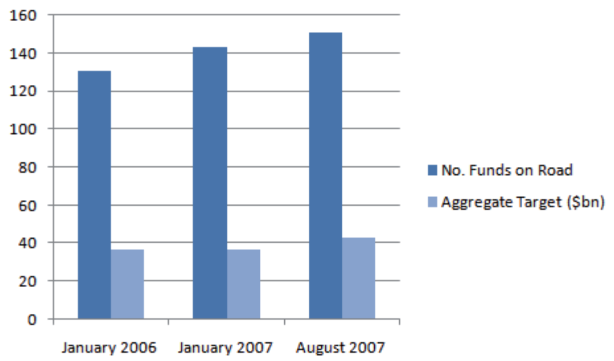
Fig. 2: Half Yearly Fundraising 2004 - Q2 2007
Mid Market Buyout Funds



> *...There are now more buyout funds smaller than $1bn in size on the road seeking capital than at any other point in time, with new funds hitting the road at a faster pace than they are being closed...*

If the decrease in mid market fundraising were to be due to a natural evolution in the size of vehicles being raised, then it would follow that a drop in fundraising would be accompanied by a drop in the number of managers seeking to raise vehicles of this size. However, as Fig. 3 shows, this is not the case. There are now more buyout funds smaller than $1bn in size on the road seeking capital than at any other point in time, with new funds hitting the road at a faster pace than they are being closed.

Fig. 3: Mid Market Buyout Funds in Market



With fundraising levels now dropping for the mid-market sector, and with no let up in the number of funds on the road, attracting the attention of LPs in such a congested market is going to become increasingly difficult for firms currently in the market, and for firms planning to hit the road over the coming months. Sheer competitive noise will mean that only those firms with the most focused of fundraising efforts, and those with the most loyal base of existing investors will find raising a new vehicle to be anything other than a very challenging undertaking indeed.

However, as noted in this month's Feature Article, there is LP appetite out there for mid market firms who target their fundraising efforts on the best prospects. With more and more new LPs entering the asset class, and many of them findimg it difficult to reach their target allocations, success in the mid market is increasingly a function of carefully targeting the best LP prospects.

Investor Spotlight: Middle East

Over the past four years we have witnessed a healthy growth in the market for private equity funds focusing outside of the more traditional regions of Europe and North America, with funds concentrating on developing markets such as Asia, South America and the Middle East growing in prominence. In 2006 a total of 171 funds focusing on regions situated outside of Europe and North America raised an aggregate $59 billion in commitments – easily the most ever raised for investment in this region over the course of one year.

Funds focusing on the Middle East had a moderately successful year in 2006, with a total of 15 funds focusing on the region achieving final closes, raising an aggregate $3.5 billion in commitments. This represents a slight increase on 2005, when 13 funds had final closes, receiving an aggregate $3 billion in commitments.

The growth in the Middle Eastern private equity market has thus far been steady but not spectacular, however, there is evidence that an explosion in fundraising is imminent, and there is certainly strong evidence that the next two years are going to be the biggest yet for Middle Eastern private equity. The Private Equity Intelligence database shows a total of 49 funds focusing on the Middle East currently on the road seeking capital, with these funds seeking an aggregate $20 billion in target commitments. These managers are having no problems in garnering capital for these funds either; 41% of funds on the road have already held an interim close, showing a significant momentum in the fundraising market.

One big difference between these Middle Eastern funds and funds focusing on other developing markets is the importance of local fund managers to the local market. Of all funds focusing on Asia that closed in 2006, just 53% in terms of number were managed by local general partners rather than foreign firms, and perhaps more importantly, in terms of committed capital only 36% of the total raised was committed to local fund managers. US and UK based fund managers were especially prevalent in the Asian market, with six of the ten biggest funds raised in 2006 in terms of fund size being managed by firms headquartered in these two countries.

Within the Middle East the situation is markedly different, with the vast majority of funds raised being managed by local firms. A total of 75% in terms of both the number and value of funds raised for investment in the Middle East since 2003 is being managed by Middle Eastern firms; showing that not only are the funds managed by domestic firms the most prevalent in terms of number, but are also equal in size to funds managed by firms coming from more developed private equity markets, unlike in Asia for example, where the discrepancy between the number and value of funds raised by domestic managers as a proportion of the total indicates that locally managed funds tend to be smaller than funds managed by more established foreign firms.

Last year saw the close of the biggest Middle Eastern focused fund to date, the $1 billion Global Opportunistic Fund II, managed by Kuwaiti firm Global Investment House. At almost double the size of its predecessor fund which closed only one year before, Global Investment House's latest fund shows the growing appetite amongst institutional investors for Middle Eastern funds.

This fund is likely to be joined by a number of other new billion dollar funds over the next year, as there are currently ten funds on the road targeting to raise $1 billion or more. Abraaj Capital is currently in the market with their Infrastructure and Growth Capital fund, which is seeking to raise a significant $2 billion. The firm had already raised $500 million back in January, and a final close is expected imminently. This is in addition to their $500 million Buyout Fund II which achieved its final close last year.

Investor Spotlight: Middle East

The growth in size of private equity funds focusing on the Middle East has been made possible by the ever increasing levels of investor enthusiasm for private equity vehicles. However, unlike in other developing private equity markets, where most of the capital for closed funds comes from investors in developed regions looking to diversify their portfolios, much of the capital raised for Middle Eastern Private Equity is coming from within the region itself.

When questioned, managers of funds focusing on emerging markets indicated to Private Equity Intelligence that on average 62% of capital committed to their funds comes from investors in Europe and North America – hardly surprising when one considers that 64% of capital for this region is being committed to managers headquartered in these regions.

The situation for fund managers operating in the Middle East is markedly different. With the majority of Middle Eastern funds being raised by local managers, these firms are often able to gather the majority or all of their capital from within the region itself. The Global Opportunistic Fund II is a prime example, with the firm collecting all commitments for its record breaking fund from investors located within the Middle East.

Middle Eastern investors are becoming increasingly keen to gain exposure to private equity; a recent Private Equity Intelligence survey of Middle Eastern institutional investors revealed that a massive 83% of existing investors in the asset class intended to increase their allocations to private equity over the medium to long-term. However, enthusiasm for private equity amongst investors in the region is by no means a recent development. Middle Eastern governments and family groups have long been important backers of private equity funds. Big name fund managers such as Blackstone, KKR, TPG and Carlyle have all conducted extensive fundraising efforts on the Middle East in the past, with Carlyle reportedly having relationships with 30 limited partners in the region, accounting for a reported 3% of the firm's overall commitments.

What has changed is that whereas in the past Middle Eastern investors seeking to gain exposure to private equity have been mostly interested in funds focusing on Europe and North America,

Ten biggest Middle East-focused private equity funds currently on road:

Fund	Manager	Fund Type	Size (mn)
Abraaj Infrastructure and Growth Capital Fund	Abraaj Capital	Infrastructure	2,000 USD
Gulf One Infrastructure Fund I	Gulf One	Infrastructure	2,000 USD
Swicorp Joussour Company Fund	Swicorp	Buyout	1,000 USD
Investcorp Gulf Opportunity Fund I	Investcorp	Co-investment	1,000 USD
Abu Dhabi Investment Infrastructure	Abu Dhabi Investment Company	Infrastructure	1,000 USD
DIB Energy Fund	Dubai Islamic Bank	Natural Resources	1,000 USD
DIB Financial Institutions Fund	Dubai Islamic Bank	Buyout	1,000 USD
DIB Media & Telecommunications Fund (TMT)	Dubai Islamic Bank	Venture (General)	1,000 USD
Carlyle Middle Eastern Fund	Carlyle Group	Buyout	1,000 USD
Global Opportunistic Fund	Global Investment House	Balanced	550 USD

Investor Spotlight: Middle East

there are now numerous viable investment opportunities available closer to home.

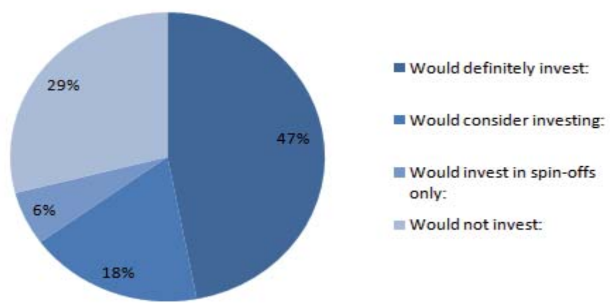
With the emergence of the Middle Eastern private equity market a fairly recent occurrence, a significant proportion of new managers lack the ability to demonstrate a long track history. However, Middle Eastern investors have shown themselves to be very willing to invest with such firms, seeing managers raising their maiden vehicles now to be the potential brand name firms of the future. A significant 47% of investors in the Middle East indicated that they would definitely invest with managers raising their first vehicles, with an additional 6% of investors polled saying that they would consider such investments. A further 18% of managers indicated a slightly more risk-averse strategy, only investing in first-time managers that have spun-out of a more experienced firm. This leaves only 29% of investors who will not consider investing in a first time fund - good news indeed for emerging Middle Eastern managers.

Dubai International Capital is one such investor that is willing to invest with less established managers in order to gain access to the Middle Eastern market. DIC will normally commit to more established firms such as Carlyle when making investments in Europe, North America and Asia-Pacific, but is willing to invest with newer firms when making Middle Eastern investments, showing a particular preference for spin-outs.

Middle Eastern government agencies have long been an important source of capital for the private equity industry, with these investors providing an important source of capital for both foreign and domestic private equity funds. The Government of Kuwait is a prominent investor in private equity funds, with $2 billion currently committed. Preferring to make large commitments to a select few funds in order to build strong relationships with GPs, Kuwait has a preference for buyout and venture funds. The Kuwait Fund for Arab Economic Development is also an important backer of private equity, currently allocating $400 million to the asset class, but with long term ambitions to increase its allocation to 8% of total assets, indicating an increase in commitments to around $650 million. It is looking to increase its typical commitment per fund from USD 20-40 million to USD 30-60 million in an attempt to reach its 8% private equity target allocation.

With new institutional investors from the Middle East continuing to enter the private equity asset class, and with existing investors increasing their allocations to private equity all the time, conditions for fund managers raising capital in the region have never been better. With an excellent stock of new funds set to close over the coming year, the Middle East private equity market is set to grow in stature, becoming one of the most important and significant centres for the industry in the world.

Attitudes of Middle Eastern insitutional investors to first-time private equity funds:



2007 Limited Partner Universe: Order Form

The 2007 Limited Partner Universe is a two volume publication providing the most comprehensive printed guide to private equity limited partners available today:

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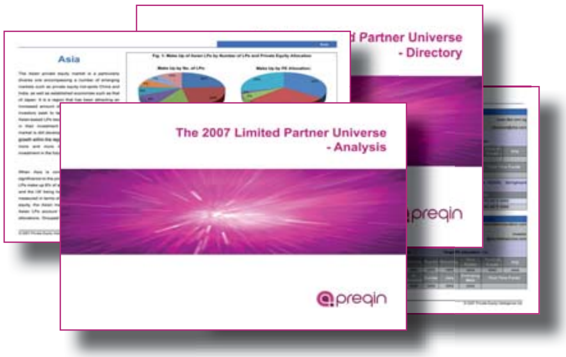

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Investor Spotlight: News

ABP Investments and **Pensioenfonds PGGM** have awarded a EUR 500 million mandate to AlpInvest Partners. The mandate will cover clean technology and sustainable development and focus on funds in Europe and the US. The two Dutch pension funds will each make EUR 250 million available within a time period of two years to 2009 but possibly stretching to 2010. AlpInvest Partners is looking to open a London office by the end of 2007 to assist in its efforts to carry out the new mandate.

EUR 10.1 billion French insurance company **Mutuelle d'Assurances du Corps de Santé Français** (MASCF) is seeking to invest in two, preferably French, private equity funds this year. It will invest in mezzanine or buyout funds and will not consider other fund types. MASCF invests approximately 90% in French funds and the remaining 10% in West European funds. MASCF prefers to invest within Europe to avoid any currency risks.

Los Angeles Fire and Police Pension System (LAFPP) has appointed Aldus Equity Partners and StepStone Group to advise it on core private equity program and on its smaller specialised portfolio, respectively. The new appointments follow Pension Consulting Alliance's recommendations to increase the annual pace of private equity investments. As of May 2007, LAFPP was looking to commit USD 200 million across 10 funds over the following 12 months.

The **Army & Airforce Exchange Service Pension Fund** (US) has committed USD 100 million to Quellos Group's latest vehicle, Quellos Private Capital III. The USD 5.5 billion retirement system stated in May that it was looking to increase its allocation to private equity and expected to commit USD 200 million to three fund of funds vehicles over the next 12 months.

The USD 8.1 billion **Consolidated Edison Pension Fund** is considering a maiden allocation to private equity. The energy company's pension fund is discussing making its first investments in alternatives.

TD Capital Private Equity Investors outlined its investment plan for the next 12 months by confirming it will commit between USD 200-250 million across 10 to 12 private equity funds. It is likely that these commitments will be made through TD Capital Private Equity Investors II, a fund of funds vehicle which closed in Q4 2006 on USD 443 million. It will invest in largely buyout funds with a smaller allocation for venture funds. In terms of the geographic focus, it is expected that 70% of the fund will be invested in underlying funds with a US focus while 30% is destined for European private equity funds; however, there is some scope for 15% of the fund to be allocated to opportunities in Asia.

Asian Development Bank (ADB) has issued a call for proposals for private equity fund managers to present investment opportunities in the clean energy sector in developing countries. The USD 52 billion bank has stipulated that the chosen fund must invest in at least a single, but preferably a combination of energy sectors including renewable energy and energy efficiency initiatives. 85% of the fund must be invested in the bank's developing member countries, with no more than 15% for "newly industrialised countries" such as China, Republic of Korea and Singapore. The deadline for proposal submissions is 13th September 2007, with a final selection likely in February 2008.

Pensionskasse der Mitarbeiter der Hoechst-Gruppe is reviewing private equity funds with a view to investing in the near future. The German pension fund is currently looking for new managers to advise and run its alternative asset investment portfolio. It hopes to have selected new managers by early 2008.

West Midlands Pension Fund has increased its target allocation to private equity to 7% of total assets. The pension fund, with GBP 7.8 billion in assets under management, increased its private equity target from 5% of total assets, following a decision to increase its overall allocation to alternatives. The change was prompted by the strong returns West Midlands Pension Fund has received from its current private equity portfolio.