

Private Equity Spotlight

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August 2008 / Volume 4 - Issue 8

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.

Feature Article

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Investors turn to debt funds as credit crunch bites

This month's feature article examines the effect that the credit crunch has had on private equity fundraising and investor attitudes.

Performance Article

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Buyout Dry Powder – Starting to Pile Up?

In light of strong fundraising in recent years, with mega funds of ever increasing size having been raised, we examine whether an excess of dry powder has been building up.

Fundraising Article

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This month's Fundraising Spotlight takes an in-depth look at buyout, venture, distressed debt and mezzanine fundraising.

No. of Funds on Road	US	Europe	ROW	Total
Venture	222	96	131	449
Buyout	161	70	59	290
Fund of Funds	109	84	20	213
Real Estate	231	115	57	403
Other	116	55	53	224
Total	839	420	320	1,579

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Investor Article

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This month we take a close look at North American and European LPs in China focused funds, and identify some of the key players in this important investor class.



Investor News

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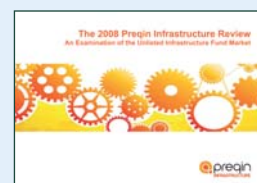
All the latest news on investors in private equity:

- **New Hampshire Retirement System (NHRS)** has selected an alternative investment consultant.
- **Skandia** is looking to sell a portfolio of private equity funds.
- **CalPERS** announces returns from private equity investments for the 12 months ending 31st March 2008.
- **Louisiana State University Foundation** plans to invest in between 1-3 private equity funds by the end of 2009.
- **Alaska Permanent Fund Corporation (APFC)** has awarded a separate account mandate.

OUT NOW

The 2008 Preqin Infrastructure Review

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Feature Article: Investors turn to Debt Funds as Credit Crunch Bites

Private equity fundraising has remained strong, despite many predictions that the industry would see a reduction in new commitments being made in 2008. Buyout fundraising remains extremely tough, so how is it that the overall figures have again reached record breaking levels, and is this likely to continue in the future?

In order to gain an insight into investor attitudes to private equity we turn to Preqin's Investor Intelligence database, which contains details for over 4,000 investors in private equity worldwide. In the course of updating profiles for this database, analysts survey investor attitudes to private equity in a number of different ways that can help identify whether or not the strong appetite for the asset class that we have seen in recent years is likely to continue.

Investors are surveyed as to their medium to long term attitudes to private equity, specifically whether they envisaged their allocations increasing, decreasing or remaining the same. As Fig. 1 shows, of the investors surveyed, 71% anticipated their allocations to private equity would increase over the next few years, while 27% expected their commitment levels would remain the same. Just 3% of the investors polled foresaw a reduction in their exposure to the asset class, fewer than the 5% seen last year. In 2007, 72% of LPs expected their private equity allocation would grow over the long-term, a comparable proportion to that seen this year, showing that despite fears of the knock-on effect of the credit crunch, LPs are clearly taking a long-term view of the asset class.

On average, investors in private equity currently have 7.9% of their total assets allocated to private equity. The average target allocation for these investors,

Fig. 1:

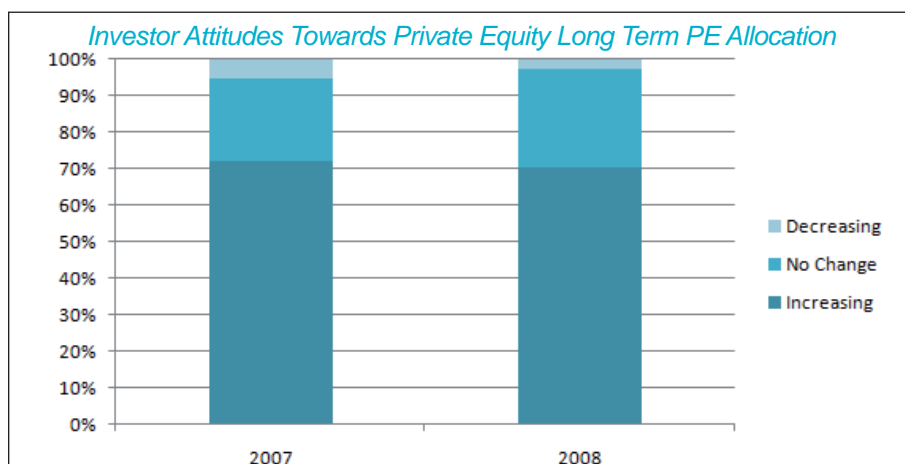
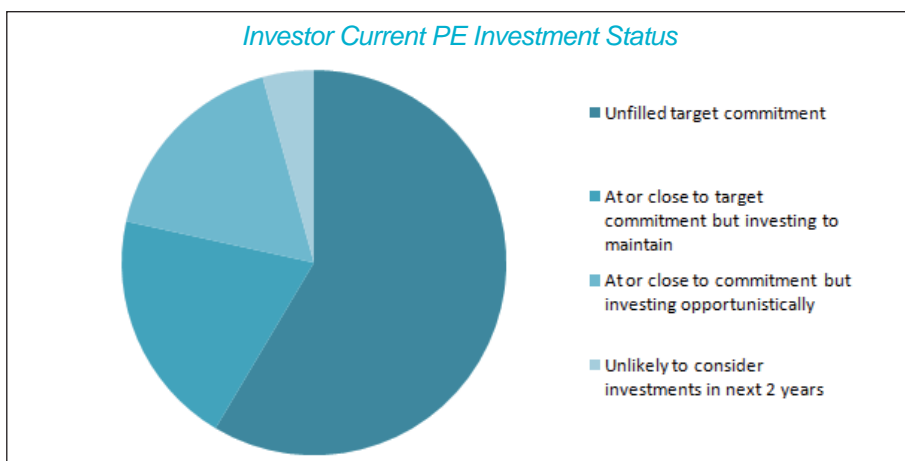


Fig. 2:



however, is 10.2% of total assets. This means that there is, on average, a considerable gap of 2.3% between the existing level of exposure investors have to private equity and the level of

exposure they are looking to attain. This gap is widening; in 2007, we reported that the difference between average current and target percentage allocations was 1.9%. Furthermore, the

“... despite fears of the knock-on effect of the credit crunch, LPs are clearly taking a long-term view of the asset class ...”

average target allocation of investors as a percentage of total assets reported last year was 9.7%, which is considerably less than the average seen this year. Therefore, it is clear that not only have the majority of investors yet to reach their target commitment level, but the gap between existing and planned levels of exposure is growing, primarily as a result of a rise in target allocations to private equity.

The long term outlook therefore is good. However, what can the database tell us about current attitudes? What are investors likely to be doing in the coming months? In order to establish likely activity in the short term investors on the database were also surveyed as to their current activity; and were questioned as to whether they had achieved their target allocation or not, and how much they would be investing over the next two years.

As Fig. 2 shows, a significant 59% of LPs have yet to close in on their target allocations to private equity and a further 20% have reached their target allocations but are still investing to maintain their current level of exposure. An additional 17% are close to or have reached their target allocations but will make further commitments to private equity funds should suitable opportunities present themselves. Just 4.3% of LPs questioned were unlikely to make further investments in the asset class over the next two years, which is evidence that only a fraction of the total number of institutions that currently invest in private equity will not be making further commitments in the short term.

Fig. 3:

Change in Capital Raised by Fund Type Between H1 2007 and H1 2008

Fund Type	Change in Capital Raised between H1 2007 and H1 2008 (%)
Buyout	-18%
Distressed Debt	+57%
Mezzanine	+98%
Venture	Same
Real Estate	+4%

The conclusions that we can draw from this are that investors are still keen on the private equity asset class, and are still eager to invest further capital. The number of funds on the road remains extremely high, and there is no shortage in the supply of new vehicles. On an overall level, fundraising is expected to remain steady in coming years. The key driver for investor appetite in private equity is returns, and these have remained consistently strong in recent years, and have yet to show signs of decline despite the current challenging market conditions.

However, it would be incorrect to state that the credit squeeze has not had an effect on investor attitudes. Many investors have been approaching new fund opportunities with increased levels of trepidation. The credit crunch has led to many investors starting to question whether the buyout industry will be able to produce the same stellar returns that have been achieved in recent years, and as a result some investors have turned to different sectors of the industry when making new investments.

Fig. 3 compares fundraising levels for different sectors within the private equity industry between the first half of 2007 and the first half of 2008 – the two most successful quarters ever for the private equity fundraising market. In terms of the level of capital raised, there is very little to choose between the two periods, with a total of \$323.8bn raised in H1 2007 compared with \$324.4bn in H1 2008. However, there exists a significant shift in where investor capital is going, with the level of capital being raised by buyout funds falling by 18% between the two periods, while sectors more focused on debt have risen dramatically, with mezzanine fundraising nearly doubling, and distressed debt funds garnering 57% more capital in the latter period.

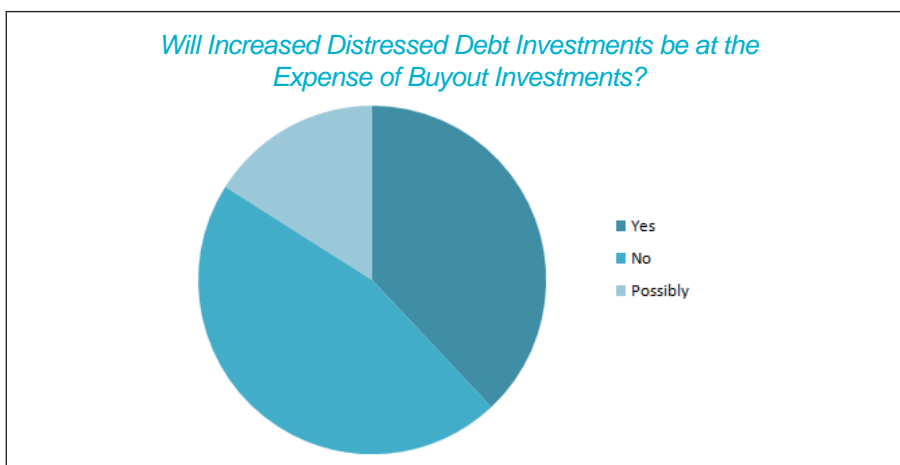
These figures demonstrate that there exists considerable flexibility in the private equity industry, and that the potential for downturn in one area is more likely to lead to a change in investment focus and the adoption of a more stringent selection process rather than a drop in overall allocation.

Feature Article: Investors turn to Debt Funds as Credit Crunch Bites

In order to test this theory we undertook another survey, this time enquiring of investors in distressed debt funds as to whether any recent and future increased investments in distressed debt would come at the expense of new buyout investments. The results certainly show a concerning trend for those managers raising buyout funds. As Fig. 4 shows, although 46% of respondents stated that increased activity in distressed debt was not coming at the expense of making new buyout investments, 38% of those surveyed did state that they would be lessening their exposure to the buyout market in favour of debt funds, with a further 16% unsure as to what impact new distressed investments would be having on their buyout activity.

Such investor sentiment has already prompted a number of private equity managers to enter the distressed arena with new offerings, and it seems likely

Fig. 4:



that these vehicles will continue to enjoy success in the fundraising market while conditions in the lending markets remain tough, and dealflow in the buyout sector remains low.

Tim Friedman

More details on the distressed debt market will be revealed in next month's Spotlight, which will coincide with the launch of the 2008 Preqin Distressed Debt Review, a new publication packed full of vital analysis on this rapidly growing market, along with profiles for all distressed debt and turnaround firms worldwide, and profiles for investors in the sector.

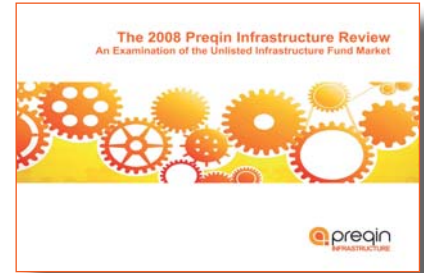
For more information on this upcoming publication, or to register your interest, please email:

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The 2008 Preqin Infrastructure Review is the most comprehensive examination of the unlisted infrastructure fund market ever produced. With exclusive information on 120 firms, 200 funds and over 180 investors in the sector, plus detailed analysis reviewing every aspect of the industry, the Preqin Infrastructure Review is a vital purchase for fund managers, fundraising professionals, advisors, consultants, legal firms and investors in this rapidly growing market. Features of this year's publication include:

- Detailed analysis examining the history and development of the infrastructure market; recent funds closed; the current fundraising market; fund terms and conditions; investors; plus separate sections showing key facts and figures for the most important regions.
- Profiles for 120 infrastructure firms, and 200 funds, including detailed investment strategies and key information.
- Profiles for over 180 investors in the sector, including investment plans and key contact details.
- Detailed listings for all funds ever closed, plus funds currently raising.
- Fund terms and conditions listings for 19 vehicles, plus transparent performance data for 40 infrastructure funds (all performance data is net to investors)



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Performance Spotlight: Buyout Dry Powder – Starting to Pile Up?

The environment for buyout fundraising was obviously incredibly strong in recent years, growing from \$71 bn in 2004 to \$249.7 bn in 2007 (all buyout funds, global.) In fact, fundraising has continued strongly even after the credit crunch hit – with \$113 bn raised in the second half of 2007 and \$130 bn in the first half of 2008 (although May, June and July have seen a discernable slowdown.)

The pace of fundraising was matched by the equally rapid rate at which the buyout firms were able to put the committed funds to work, so the rapid growth in fundraising did not lead to an excess of ‘dry powder’ – i.e. the funds committed by LPs and as yet unused by the GPs. In fact, so rapid was the rate at which the funds were being put to use during 2006 and 2007 that, even though the absolute dollar volume of dry powder grew, this actually equated to a declining level of ‘months of supply’ in relation to the rate at which it was being used (please see Fig. 1.)

How have things developed over the past year?

Available capital grew by over \$100 bn in 2006, since when it has remained steady at \$400 – 450 bn worldwide. The graph shows that most of the growth in industry dry powder came from the largest funds: available dry powder from funds of \$2 bn and above grew from \$150 bn in early 2006 to \$260 bn by early 2007, since when it has remained steady. The volume of dry powder available in small funds (up to \$500mn) has remained broadly steady at \$50 – 60 bn, and for mid-market funds (\$500 – 2,000 mn) the volume of dry powder grew from \$95 bn to \$120 bn.

Using the data from Preqin’s Performance Analyst database, we have estimated the aggregate rate of capital calls for buyout funds worldwide – and these are shown in Fig. 2. These

Fig. 1:

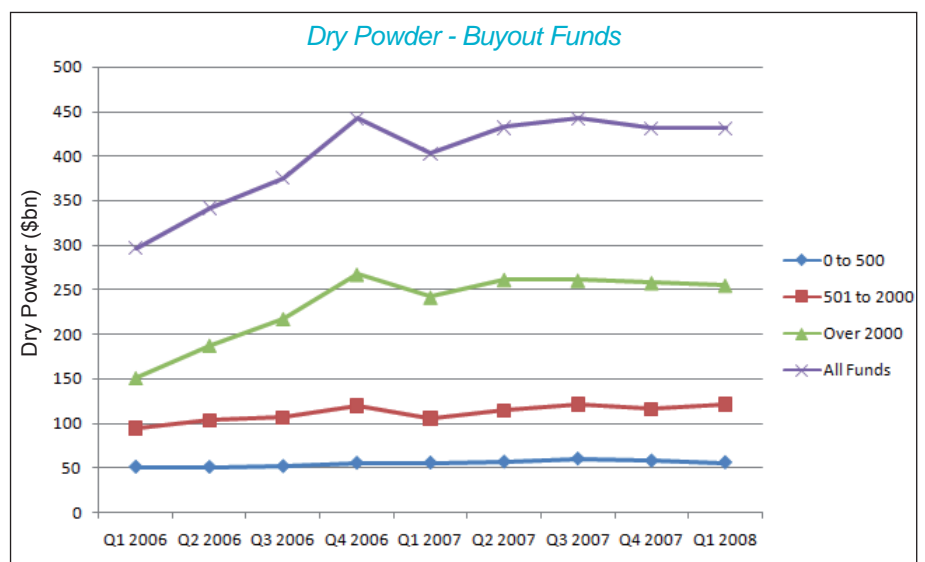
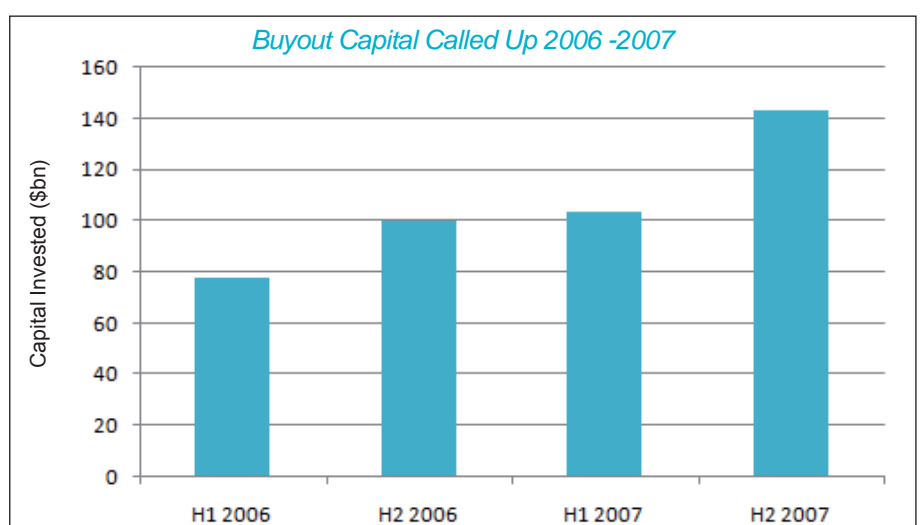


Fig. 2:



Performance Spotlight: Buyout Dry Powder – Starting to Pile Up?

remained surprisingly strong throughout 2007 H1 (\$104 bn) and 2007 H2 (\$143 bn) presumably as deals negotiated before the credit crunch were completed. In fact, the continuing strong flow of cash calls was responsible for the aggregate dry powder stabilising at around \$430 bn worldwide.

The rate of cash call-ups is clearly likely to slow down in 2008 as deals have slowed, and we'll be tracking this as fresh cash call data becomes available. However, we believe that dry powder will prove to be less of a worrying overhang

for the industry than many commentators seem to expect:

- First, the growth in the absolute volume of dry powder has come mostly in the larger funds of \$2.0 bn and above. These are the very funds that are being most active in looking at alternative places to invest – most notably in discounted debt;
- Second, the dollar amount of dry powder available to medium and smaller funds did not grow as much as for the largest funds; and
- Third, for the deals that are now

being done the proportion of debt has declined, so the equity call-ups from LPs will need to be correspondingly greater.

This analysis uses data from Performance Analyst, if you would like to know more, or if you would like to have trial access please visit: www.preqin.com/pa or contact us: info@preqin.com

Mark O'Hare

PRIVATE EQUITY SUMMIT FOR INSTITUTIONAL INVESTORS

September 7-8, 2008
The Phoenician, Scottsdale, AZ

The 2008 Private Equity Summit is specifically geared towards institutional investors who are looking to further their knowledge of current trends in private equity. The Summit will explore the most effective strategies for a variety of investment vehicles and will tackle relevant topics such as private equity portfolio theory, private equity buyouts in emerging markets, real estate opportunities and pitfalls, alternative investments, international investing and more.

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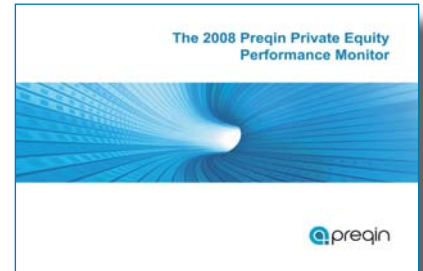


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With transparent performance data for over 3,600 private equity funds managed by over 1,100 firms, plus extensive analysis and commentary, the 526 page 2008 Preqin Private Equity Performance Monitor is the most comprehensive guide to private equity performance ever produced, and is a vital guide for investors, fund managers, advisors and anyone involved in the fund marketing process.

- Transparent performance data for over 3,600 funds of all different types from over 1,100 firms. In terms of value, these funds represent around 65% of all funds ever raised in the history of the industry.
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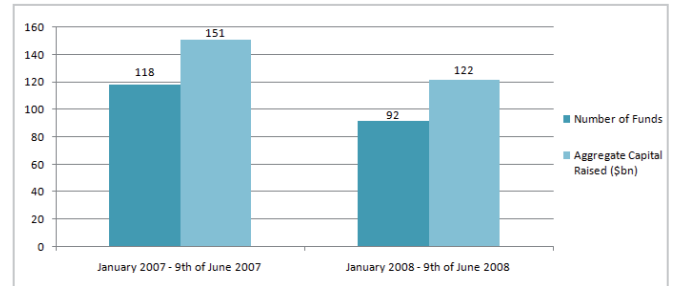
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Fundraising Spotlight Buyout

Buyout Funds on the Road

Funds on Road	US	Europe	ROW	Total
Number	160	71	59	290
Total Target Value (\$bn)	202	81	32	314
Average Target Size (\$mn)	1,262	1,138	539	1,083

Final Closes Barometer



Buyout Funds on the Road

Fund	Manager	Size (Mn)	GP Location	Fund Focus
Blackstone Capital Partners VI	Blackstone Group	20,000 USD	US	US
TPG Partners VI	TPG	18,000 USD	US	US
CVC European Equity Partners V	CVC Capital Partners	11,000 EUR	UK	Europe
Apollo Investment Fund VII	Apollo Management	15,000 USD	US	US
Carlyle Partners V	Carlyle Group	15,000 USD	US	US
Madison Dearborn Capital Partners VI	Madison Dearborn Partners	10,000 USD	US	US
Charterhouse Capital Partners IX	Charterhouse Capital Partners	6,000 EUR	UK	Europe
KKR European Fund III	Kohlberg Kravis Roberts	6,000 EUR	US	Europe
Candover 2008	Candover Partners	5,000 EUR	UK	Europe
Clayton Dubilier & Rice VIII	Clayton Dubilier & Rice	7,500 USD	US	US

Recently Closed Buyout Funds

Banc Fund VIII

Manager: Banc Funds Company

Target Size (mn): 600 USD

Final Close (mn): 650 USD (August-2008)

Geographic Focus: North America

Industry Focus: Financial Services

Sample Investors: Washington State Investment Board

Evergreen Pacific Partners II

Manager: Evergreen Pacific Partners

Target Size (mn): 400 USD

Final Close (mn): 425 USD (August-2008)

Geographic Focus: Canada, US

Industry Focus: Distribution, Consumer Services, Manufacturing, Media

Sample Investors: Credit Suisse, Guardian Life Insurance, Oregon State Treasury, Pennsylvania Public School Employees' Retirement System, School Employees' Retirement System of Ohio, Washington State Investment Board

Egeria Private Equity Fund III

Manager: Egeria

Target Size (mn): 475 EUR

Final Close (mn): 500 EUR (July-2008)

Geographic Focus: Netherlands

Industry Focus: Any

LLR Equity Partners III

Manager: LLR Partners

Target Size (mn): 600 USD

Final Close (mn): 800 USD (July-2008)

Geographic Focus: US

Industry Focus: Healthcare, Financial Services, IT, Business Service

Sample Investors: Pennsylvania Public School Employees' Retirement System, Philadelphia Board of Pensions & Retirement

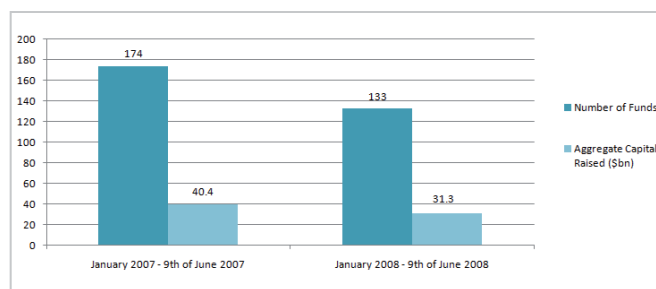
Raffaella Mirai

Fundraising Spotlight Venture

Venture Funds on the Road

Funds on Road	US	Europe	ROW	Total
Number	222	96	131	449
Total Target Value (\$bn)	40	18	24	82
Average Target Size (\$mn)	180	188	183	183

Final Closes Barometer



Venture Funds on the Road

Fund	Manager	Type	Size (Mn)	GP Location	Fund Focus
Cyrte Investments TMT Fund	Cyrte Investments	Venture (General)	1,500 EUR	Netherlands	Europe
Pine Brook Road Partners I	Pine Brook Road Partners	Expansion	2,000 USD	US	US
ICICI Venture Capital Fund III	ICICI Venture Funds Management	Venture (General)	1,500 USD	India	ROW
China-Singapore Hi-tech Industrial Investment Fund	China-Singapore Suzhou Industrial Park	Venture (General)	1,330 USD	China	ROW
DIC/First Eastern Investment China Dubai Capital	First Eastern Investment	Expansion	1,000 USD	Hong Kong	ROW
Essex Woodlands Health Ventures VIII	Essex Woodlands Health Ventures	Venture (General)	1,000 USD	US	US
Millennium Private Equity Media & Telecommunication	Millennium Private Equity	Venture (General)	1,000 USD	United Arab Emirates	ROW
Reliance Capital I	Reliance Capital	Venture (General)	1,000 USD	India	ROW
Southgate Capital Partners	Southgate Capital Partners	Venture (General)	1,000 USD	US	US
Iame	Iame Capital Riesgo	Venture (General)	500 EUR	Spain	Europe

Recently Closed Venture Funds

Cowen Healthcare Royalty Partners

Manager: Cowen and Company

Target Size (mn): 350 USD

Final Close (mn): 500 USD (July-2008)

Geographic Focus: Global

Industry Focus: Healthcare, Medical Devices

Placement Agent: Not Used

Sample Investors: Travelers Companies, Nordea Private Equity, Strategic Investment Group, New York Life Capital Partners, Missouri Local Government Employees Retirement System

Versant Ventures IV

Manager: Versant Ventures

Final Close (mn): 500 USD (August-2008)

Geographic Focus: US

Industry Focus: Pharmaceuticals, Healthcare, IT, Biotechnology, Medical Devices

Physic Ventures

Manager: Physic Ventures

Final Close (mn): 159 USD (August-2008)

Geographic Focus: US

Industry Focus: Pharmaceuticals, Healthcare, IT, Biotechnology, Medical Devices

US Venture Partners X

Manager: US Venture Partners

Target Size (mn): 600 USD

Final Close (mn): 625 USD (July-2008)

Geographic Focus: US

Industry Focus: Healthcare, Communications, Software, Medical Instruments

Sample Investors: Conversus Asset Management

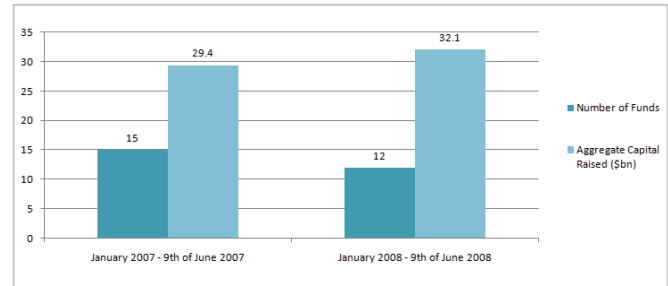
Raffaella Mirai

Fundraising Spotlight Distressed Debt

Distressed Debt Funds on the Road

Funds on Road	US	Europe	ROW	Total
Number	21	1	1	23
Total Target Value (\$bn)	19.7	0.05	0.3	20.05
Average Target Size (\$mn)	938	0.05	0.3	871

Final Closes Barometer



Distressed Debt Funds on the Road

Fund	Manager	Size (Mn)	Fund Status	GP Location	Fund Focus
Wayzata Investment Partners II	Wayzata Investment Partners	3,500 USD	Second Close	US	US
Avenue Europe Special Situations Fund	Avenue Capital Group	1,500 EUR	First Close	US	Europe
OCM European Principal Opportunities Fund II	Oaktree Capital Management	1,250 EUR	Raising	US	Europe
Schultze Master Fund	Schultze Asset Management	1,500 USD	Raising	US	US
Highland Restoration Capital Partners	Highland Capital Management	1,000 USD	First Close	US	US

Recently Closed Distressed Debt Funds

Avenue Special Situations V

Manager: Avenue Capital Group

Final Close (mn): 6,000 USD (June-2008)

Geographic Focus: US

Industry Focus: Any

Sample Investors: Alaska Permanent Fund Corporation, CalPERS, Colorado Public Employees' Retirement Association, Conversus Asset Management, Employees' Retirement System of Rhode Island, Indiana Public Employees' Retirement Fund, Kentucky Retirement Systems, Montana Board of Investments, New Hampshire Charitable Foundation, New Jersey State Investment Council, New York State Teachers' Retirement System, Pennsylvania Public School Employees' Retirement System, Pennsylvania State Employees' Retirement System, Portfolio Advisors, San Francisco City & County Employees' Retirement System, Teachers' Retirement System of the State of Illinois, University of Michigan Endowment, Washington State Investment Board

AG Capital Recovery Partners VI

Manager: Angelo, Gordon & Co

Target Size (mn): 1,500 USD

Final Close (mn): 2,000 USD (April-2008)

Geographic Focus: US

Industry Focus: Financial Services, Property

Sample Investors: Ohio State University Endowment, San Bernardino County Employees' Retirement Association, Virginia Retirement System

ADM Maculus Fund V

Manager: ADM Capital

Target Size (mn): 500 USD

Final Close (mn): 418 USD (April-2008)

Geographic Focus: Europe and Asia

Law Firm: White & Case

Industry Focus: Any

OCM Opportunities Fund VIIIB

Manager: Oaktree Capital Management

Final Close (mn): 10,900 USD (May-2008)

Geographic Focus: US

Industry Focus: Any

Sample Investors: Alaska Permanent Fund Corporation, ALPHA Associates, Conversus Asset Management, Credit Suisse Customized Fund Investment Group, Kansas Public Employees' Retirement System, Lehman Brothers, LGT Capital Partners, LACERS, MassPRIM Board, Montana Board of Investments, Norfolk Foundation, Oklahoma Police Pension and Retirement System, Oregon State Treasury, Pennsylvania Public School Employees' Retirement System, Pennsylvania State Employees' Retirement System, Portfolio Advisors, Princess Private Equity Holding, State of Delaware Board of Pension Trustees, State of Wisconsin Investment Board, Teachers' Retirement System of the State of Illinois, Virginia Retirement System

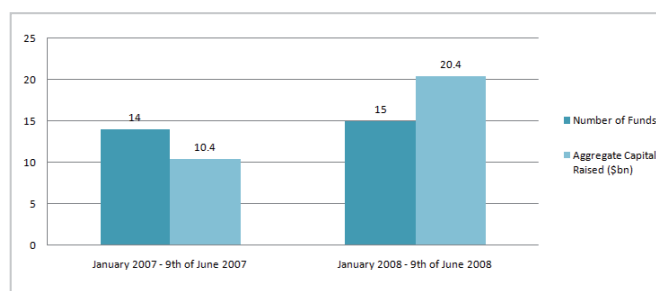
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Fundraising Spotlight Mezzanine

Mezzanine Funds on the Road

Funds on Road	US	Europe	ROW	Total
Number	23	10	3	36
Total Target Value (\$bn)	14	7	0.4	21.4
Average Target Size (\$mn)	608	700	0.1	594

Final Closes Barometer



Mezzanine Funds on the Road

Fund Name	Manager	Size (Mn)	Manager Country	Fund Focus
Park Square Capital II	Park Square Capital Partners	2,000 EUR	UK	Europe
TCW / Crescent Mezzanine V	TCW Group	2,500 USD	US	US
Lehman Brothers Global Mezzanine Partners	Lehman Brothers	2,000 USD	US	US
Alcentra Mezzanine II	Alcentra Group	1,000 EUR	UK	Europe
Barclays Structured Principal Investing Fund	Barclays Private Equity	1,500 USD	UK	US

Recently Closed Mezzanine Funds

GS Mezzanine Partners V

Manager: Goldman Sachs Private Equity Group

Target Size (mn): 13,000 USD

Final Close (mn): 13,000 USD (February-2008)

Geographic Focus: US

Industry Focus: Any

Sample Investors: Minnesota State Board of Investment, North Dakota State Investment Board, South Carolina Retirement Systems

TCW Energy Fund XIV

Manager: TCW Group

Target Size (mn): 2,000 USD

Final Close (mn): 2,600 USD (January-2008)

Geographic Focus: Global

Industry Focus: Energy

Sample Investors: Alaska Retirement Management Board, Louisiana State Employees' Retirement System, Missouri Local Government Employees Retirement System, North Dakota State Investment Board, Pacific Life Insurance Company, Seattle City Employees' Retirement System, University of Minnesota Foundation

Summit Subordinated Debt Fund IV

Manager: Summit Partners

Target Size (mn): 750 USD

Final Close (mn): 825 USD (April-2008)

Geographic Focus: North America, Europe

Industry Focus: Technology, Healthcare, Communications, Financial Services, Life Sciences, Software, Electronics, Semiconductors, Information Services, Business Services

Sample Investors: California State Teachers' Retirement System, Massachusetts Pension Reserves Investment Management Board, Minnesota State Board of Investment, Performance Equity Management, Philadelphia Board of Pensions & Retirement, State of Delaware Board of Pension Trustees, University of Michigan Endowment, Virginia Retirement System

Partners Group Global Mezzanine 2007

Manager: Partners Group

Target Size (mn): 300 EUR

Final Close (mn): 447 EUR (April-2008)

Geographic Focus: Europe, Global

Industry Focus: Any

Raffaella Mirai

Investor Spotlight: European & North American Investment in China PE

China has experienced a boom in fundraising in recent years, as European and US investors have turned their attention towards this growing market. In this month's Investor Spotlight we examine the ways in which US and European investors are accessing Chinese private equity investments.

Methodology:

We analysed the make up of investors in a total of 47 funds achieving a final close in the past 12 months with a focus on China. These funds included China specific funds, pan-Asian funds and global emerging markets funds with a specific focus on China. There were a total of 213 sample investments made in total. The funds were also classified by whether they were managed by firms in the greater China region (domestic) or by firms from outside of the region, normally in the US or Europe (foreign).

Domestic vs. Foreign Managers:

It is clear that the majority of North American investors gain their exposure to the region through GPs located outside the China region, with just 36% of North American investments being made to funds managed by GPs located in the greater China region.

In contrast, European LPs are much more likely to consider gaining their access to China through a domestic manager, with just over half of all commitments from European investors being made to domestic managers. Swiss fund of funds manager, Partners Group, has made a number of commitments so far this year to Asian funds managed by domestic GPs, including CDH Venture Partners II and NewMargin Partners I. Domestic fund managers have also attracted commitments from the UK-based Universities Superannuation Scheme and Société Foncière, Financière et de Participations in the past year.

Fig. 1:

US investment into China focused funds split by manager location

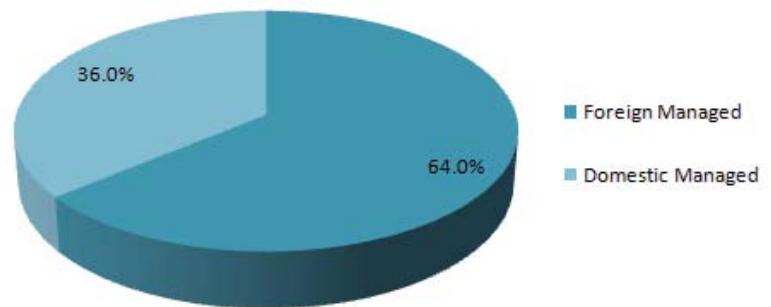
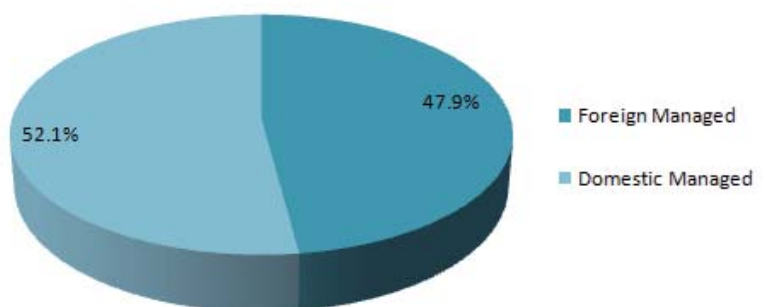


Fig. 2:

European investment into China focused funds split by manager location



US investors have remained relatively conservative in their investments in the region in contrast to their European counterparts, a greater proportion of which look to tap the local knowledge of domestic GPs for their investments. However, a considerable number of North

American LPs are still seeking managers located within the China region, including Export Development Canada, Princeton University Investment Company (Princo) and San Francisco City & County Employees' Retirement System.

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As North American investors gain knowledge of the region through their investments in funds managed by GPs located in North America and Europe, the proportion that will look to domestic managers is likely to rise over the next few years. A number of US fund of funds managers, including HRJ Capital and Portfolio Advisors, are already supporting Asian GPs and are therefore providing their North American LPs with knowledge and exposure to the region, potentially leading further North American investors to commit directly to fund managers in Asia in the future.

China Specific vs. Pan Asian Focused Funds:

We also divided our sample of funds into two groups based on the geographic focus of the fund and compared the proportions of both North American and European investors committing to China-specific funds as opposed to either funds with a pan-Asian focus or global emerging markets funds with a specific focus on China.

US investors have to a large extent been opting for the less risky method of accessing the private equity market in China through investing in a pan Asian fund. 66% of North American investments were made to generalist Asian or emerging markets funds, with just 34% of investments being made to funds specifically targeting China. In contrast, 44% of European investments in our sample were to funds focusing specifically on China, with 56% being made to pan Asian and generalist emerging markets funds. Siemens Venture Capital, Swedfund and Natixis Private Equity are among the European

Fig. 3:

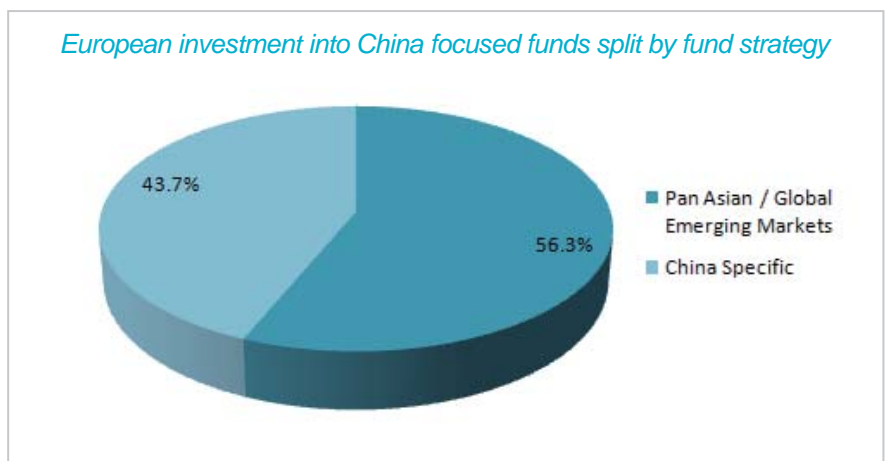
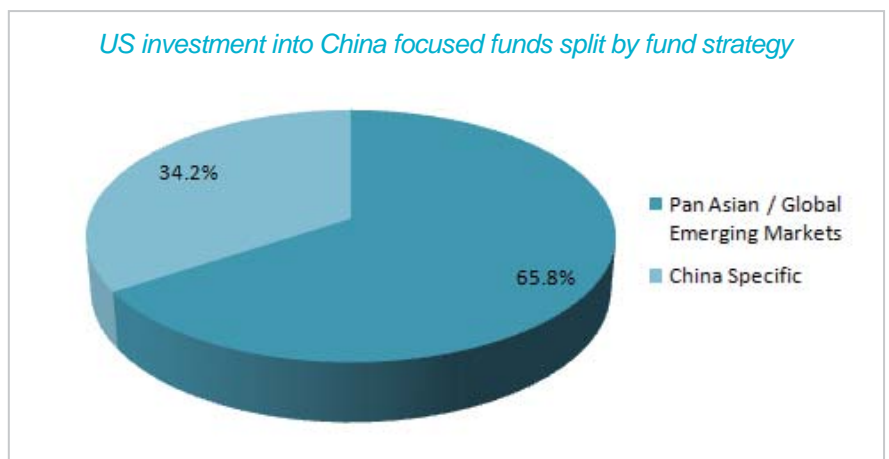


Fig. 4:



LPs to have shown an interest in China so far this year.

GPs specifically targeting China have received some support and interest from US-based GPs, with New Enterprise Associates, Middleland Capital and Centennial Ventures among the GPs that have provided capital for China-specific funds managed by Asian GPs

in the past year. The Chinese private equity market has also drawn interest from a number of other large US investors, including University of Texas Investment Management Company, Michigan State University Foundation, Stanford Management Company and Massachusetts Mutual Life Insurance Company.

Investor Spotlight: European & North American Investment in China PE

Fig. 5:

European LPs in Recent China Focused Funds

Investor Name	Investor Type	Country	China focused funds committed to in past 12 months
Partners Group	Private Equity Fund of Funds Manager	Switzerland	TPG Asia V, CDH Venture Partners II, NewMargin Partners I, Baring Asia Private Equity Fund IV, Navis Asia Fund V, Granite Global Ventures III
CDC Group	Government Agency	UK	Aureos China Fund, CMIA China Fund III, Navis Asia Fund V, Global Environment Emerging Markets Fund III
Pantheon Ventures	Private Equity Fund of Funds Manager	UK	NewMargin Partners I, Baring Asia Private Equity Fund IV, Granite Global Ventures III
Development Finance Institution	Government Agency	Netherlands	Aureos China Fund, Global Environment Emerging Markets Fund III
Proparco	Private Equity Firm (Investor)	France	Green Investment Asia Sustainability Fund I, Aloe Environment Fund 2

Fig. 6:

North American LPs in Recent China Focused Funds

Investor Name	Investor Type	Country	China focused funds committed to in past 12 months
Pennsylvania Public School Employees' Retirement System	Public Pension Fund	US	Capital International Private Equity Fund V, MGP Asia Fund III, Clarity Partners China, Baring Asia Private Equity Fund IV, Navis Asia Fund V
California Public Employees' Retirement System (CalPERS)	Public Pension Fund	US	TPG Asia V, LaSalle Asia Opportunity Fund III, ARA Asia Dragon Fund, Granite Global Ventures III
University of Michigan Endowment	Endowment Plan	US	Capital International Private Equity Fund V, Morgan Stanley Private Equity Asia Fund III, TPG Asia V, LaSalle Asia Opportunity Fund III
New Jersey State Investment Council	Public Pension Fund	US	New Jersey Asia Investors Fund I, LaSalle Asia Opportunity Fund III, ARA Asia Dragon Fund
Portfolio Advisors	Private Equity Fund of Funds Manager	US	Capital International Private Equity Fund V, Baring Asia Private Equity Fund IV, Hupomone Capital Fund

Again, as the private equity market becomes more established in China and Asia as a whole, we anticipate that smaller LPs will follow their larger counterparts and begin investing in country-specific funds as well as more generalist funds.

Helen Kenyon

Conferences Spotlight: Forthcoming Events:

Featured Conferences:

Private Equity Summit for Institutional Investors

Date: 7th-8th September 2008

Location: The Phoenician, Scottsdale, AZ

Sponsor: Opal Financial Group

Opal Financial Group's Private Equity Summit For Institutional Investors is an event designed for institutional investors to address current trends in private equity, venture capital and leveraged buyouts.

Information: www.opalgroup.net/conferencehtml/2008/private_equity08/private_equity.php

SuperReturn Middle East

Date: 12th-15th October 2008

Location: Jumeirah Emirates Towers, Dubai

Sponsor:

Following its phenomenal launch event in December 2007, when SuperReturn Middle East attracted more than 550 senior regional and international delegates, the cream of the world's media and rave reviews in just its first year, SuperReturn Middle East 2008 has returned with the most phenomenal line-up of regional and international leaders - ever seen in the region.

Information: www.icbi-events.com/superreturnme

2008 Private Equity Exchange

Date: 13th November 2008

Location: Meridien Hotel, Paris

The 2008 Private Equity Exchange will address many issues facing the private equity asset class. More than 100 international speakers will share their insights and visions of the industry through the three-track conferences: LBO for Professionals, LBO for Management teams, Restructuring & Underperformance.

Information: www.private-equity-exchange.com

Terrapinn MENA 08

Date: 17th-19th November 2008

Location: Dubai

Sponsor: Terrapinn

Now in its fourth year, Terrapinn MENA 2008 will bring together specialists behind the force of this rapidly expanding private equity business in the MENA markets.

Information: <http://www.terrapinn.com/2008/pemena>

Conferences Spotlight: Forthcoming Events:

Other Conferences:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Islamic Finance & Investment World	25 - 28 August 2008	Johannesburg, South Africa	Terrapinn
Fund Forum Latin America 2008	2 - 4 September 2008	Sao Paulo, Brazil	ICBI
Green Innovation Venture Capital Summit	7 - 8 September 2008	Scottsdale, Arizona	Opal Financial Group
HedgeAnswers: An Afternoon for Understanding Hedge Funds	08 September 2008	Chicago	HedgeAnswers
Capital Raising for Corporates	8 - 9 September 2008	London	IFR
India's Capital Markets	9 - 10 September 2008	Mumbai	IFR
HedgeAnswers: An Afternoon for Understanding Hedge Funds	10 September 2008	San Francisco	HedgeAnswers
HedgeAnswers: An Afternoon for Understanding Hedge Funds	12 September 2008	Dallas	HedgeAnswers
HedgeAnswers: An Afternoon for Understanding Hedge Funds	15 September 2008	Boston	HedgeAnswers
Private Equity Analyst Conference 2008	16 - 17 September 2008	New York	Dow Jones
HedgeAnswers: An Afternoon for Understanding Hedge Funds	16 September 2008	Philadelphia	HedgeAnswers
Private Equity Tax Practices 2008	17 September 2008	London	IIR
The Seventh MedTech Investing Europe Conference	18 - 19 September 2008	London	Campden Media
Leopard Cambodia Investment Forum '08	20 - 21 September 2008	Phnom Penh, Cambodia	Leopard Capital
SuperReturn Asia 2008	22 - 25 September 2008	Hong Kong	ICBI
The Family Office & Alternative Investment Conference	22 - 23 September 2008	Boston	Campden Media
First Annual Beijing Private Equity Forum	22 September 2008	Beijing	EMPEA
The Private Equity International India Forum	30 Sept - 1st Oct 2008	Mumbai	Private Equity International
Buyouts North 2008	01 October 2008	Toronto	Buyouts Conferences
Facilities And Asset Management Conference	5 - 9 October 2008	Dubai	IIR Middle East
Australia Infrastructure Partnerships	7 - 8 October 2008	Sydney	PFI
12th Annual CEE Private Equity Forum	8 - 10 October 2008	London	C5
SuperReturn Middle East 2008	13 - 15 October 2008	Dubai	ICBI
The Private Equity International COOs and CFOs Forum	14 - 15 October 2008	London	Private Equity International
North America West Coast Infrastructure Partnership	14 - 15 October 2008	Los Angeles	PFI
Leveraged Finance Asia 2008	15 - 16 October 2008	Hong Kong	IFR
Endowment & Foundation Forum	19 - 21 October 2008	Boston	Opal Financial Group
Alternative Investment Summit Russia 2008	20 - 23 October 2008	London	Terrapinn
Private Equity World Africa 2008	21 - 24 October 2008	Johannesburg, South Africa	Terrapinn
Financing Energy Projects in Asia	21 - 22 October 2008	Singapore	PFI
European Alternative & Institutional Investing Summit	27 - 29 October 2008	Monte Carlo	Opal Financial Group
Private Banking & Wealth Management Africa 2008	28 - 31 October 2008	Johannesburg, South Africa	Terrapinn
Private Banking Latin America 2008	28 - 30 October 2008	Miami	Terrapinn
The Asia Pacific Family Office Conference	30 - 31 October 2008	Hong Kong	Campden Media
Islamic Capital Markets	4 - 5 November 2008	London	IFR
4th Annual Emerging Markets Private Equity Forum	4 - 5 November 2008	London	Private Equity International
Fund Forum USA 2008	10 - 12 November 2008	Key Biscayne	ICBI
GAIM International Fund of Funds 2008	11 - 13 November 2008	Geneva	ICBI
Private Equity World MENA 2008	17 - 20 November 2008	Dubai	Terrapinn
SuperInvestor 2008	18 - 21 November 2008	Paris	ICBI
The 5th Annual Buyouts West 2008	18 - 19 November 2008	Los Angeles	Buyouts Conferences
Latin American Debt Markets	19 - 20 November 2008	New York	IFR
Financing Renewable Energy Projects	27 November 2008	Hamburg	C5

Investor Spotlight: LP News

State Administration of Foreign Exchange (SAFE) has announced plans to invest in European private equity funds. The USD 1,680 billion Chinese sovereign wealth fund has held talks with European private equity firms regarding the commitment of billions of euros to their latest funds in an attempt to reduce its exposure to the dollar. SAFE will also encourage fund managers to invest in natural resources companies outside the US, further diversifying its currency exposure.

Alaska Permanent Fund Corporation (APFC) has awarded a separate account mandate to Pathway Capital Management. APFC has awarded a USD 400 million mandate to Pathway to invest in buyout and venture funds that are less than USD 2.5 billion in total size that will invest in companies with market capitalisations of USD 1 billion or less. APFC has had a relationship with Pathway since 2003, when it appointed the firm in a discretionary role to act as its sole private equity advisor.

Maine Public Employees Retirement System (MainePERS) has approved an allocation to private equity. MainePERS has approved a 5% target allocation to private equity. It began conducting an asset allocation study in Q4 2007 to determine if it should expand its alternatives exposure to include private equity. The asset/liability study was conducted by its investment consultant Ennis Knupp & Associates and following the conclusion of the study in Q2 2008, the investment board agreed to set a 5% private equity target allocation, which is expected to be reached within 5 years.

California Public Employees' Retirement System (CalPERS) has announced a 19.6% return from private equity investments for the 12 months ending 31st March 2008. The positive returns have helped the USD 248 billion pension fund offset the 10.7% loss incurred from public equity investments and support the decision made in December 2007 to change asset allocations in favour of alternative investments. The pension fund is one of the largest investors in private equity funds worldwide and holds a portfolio diversified across fund types, including buyout and fund of funds. The majority of CalPERS' private equity investments have been made in the US but the pension fund also considers funds raised in emerging markets.

San Jose Police and Fire Department Retirement Plan will begin its search for a private equity manager within the next few months. The USD 2.7 billion pension plan recently raised its target allocation to the private equity asset class from 5% to 8% in an attempt to further diversify the pension fund's investment portfolio. San Jose Police and Fire Department Retirement Plan has been an active investor in private equity funds since 2005, preferring to invest in buyout, venture and fund of funds.

Paul Capital Partners has promoted Paul Macleod to partner. Macleod is based in the firm's London office and is responsible for sourcing, evaluating and negotiating European and Asian healthcare investment opportunities for Paul Capital's healthcare funds.

Skandia is looking to sell a portfolio of private equity funds on the secondary market. The USD 150 million portfolio consists of funds run by US managers including Avenue Capital Group, Fortress Investment Group, Sun Capital Partners and TA Associates. The USD 40 billion insurance company has hired Cogent Partners to assist in the marketing process. Skandia has 3.5% of its total assets committed to private equity and invests on a global scale, with a strong preference for European buyout and venture funds.

Louisiana State University Foundation plans to invest in between one and three private equity funds by the end of 2009. The USD 440 million foundation, which has a preference for fund of funds, will invest with both new and existing managers. As of Q2 2008, Louisiana State University Foundation had 4.5% of its assets under management allocated to private equity and a target allocation of 6%. Louisiana State University Foundation is advised by CRA RogersCasey. The foundation expects its exposure to private equity increasing over the longer term.

New Hampshire Retirement System (NHRS) has selected an alternative investment consultant. In July 2008, NHRS chose New England Pension Consultants to provide alternative investment advice, which will include private equity, absolute return, timberland funds, debt/mezzanine and infrastructure. The investment committee at NHRS is considering increasing its allocation to alternatives, excluding commercial real estate, from 5% to 10%.

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