

PRIVATE EQUITY SPOTLIGHT

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Volume 1 Issue 5

Welcome to the latest edition of *Private Equity Spotlight*, the free monthly newsletter from Private Equity Intelligence, providing insights into private equity performance, investors and fund raising. Private Equity Spotlight combines information from our three leading products Performance Analyst, Investor Intelligence and Funds in Market.

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The LP Universe - Diversity and Segmentation: the 2,700 LPs on PEI's database will make around 12,000 new fund commitments in 2005. Understanding the distinct investment strategies of different types and sizes of LP is vital.

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Out-performance of large buyout funds - a sustainable sweet spot? As 2005 heads towards a record year for buyout fundraising we look at some of the reasons why mega funds have outperformed.

FUND RAISING _____ P6

With \$104 billion raised so far this year, 2005 is well on its way to our target of \$200 billion. Spotlight keeps you updated with all the latest fund raising activity.

No. of Funds on Road	US	Europe	ROW	Total
Venture	157	73	63	293
Buyout	107	56	23	186
Fund of Funds	45	33	4	82
Other	39	11	12	62
Total	348	173	102	623

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- **Korean National Pension commits to H&Q**
- **OPERS seeking emerging managers**

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The Asian private equity market is receiving increased attention from global institutional investors:

As the Asian private equity market has developed more and more LPs have started to invest in the region. This trend looks set to continue.



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PRIVATE EQUITY SPOTLIGHT

SPECIAL FEATURE: The LP Universe - Diversity and Segmentation

The 2,700 LPs on PEI's database will make around 12,000 new fund commitments in 2005. Understanding the distinct investment strategies of different types and sizes of LP is vital for effective LP targeting and fund raising.

2005 will see approximately 300 new private equity and venture capital funds raise an aggregate \$200 billion of fresh capital. Analysis suggests that this will comprise no fewer than 12,000 individual commitments by LPs to new funds, spread across an incredibly diverse universe of LPs. As Fig. 1 shows, the largest LPs (the 181 LPs on our database with private equity programs of \$1 billion or above) will make 3,000 new fund commitments this year, or 25% of the total, accounting for approximately 70% of the total value of all funds raised.

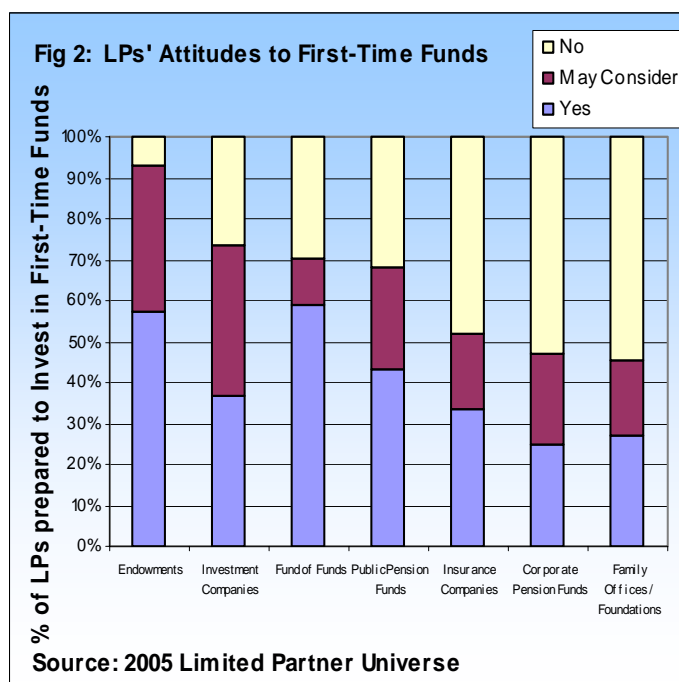
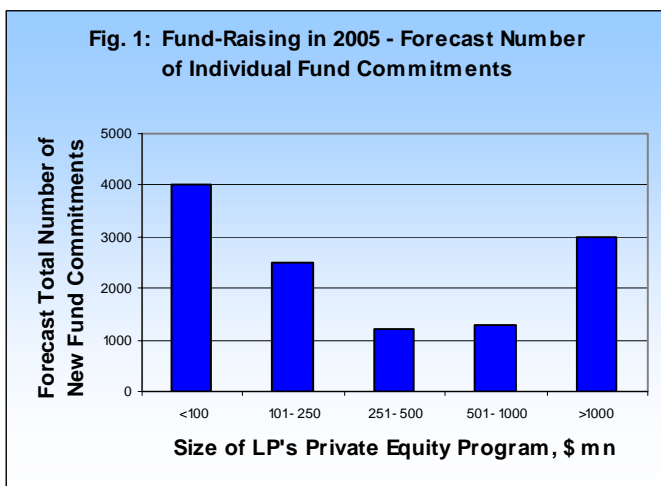
At the other end of the size spectrum, the 2,100 LPs with programs of \$100 million or less will make 3,500 new fund commitments this year. Even though their contribution to the total amount of money raised will obviously be smaller, these LPs are a vital source of finance for many mid-market and smaller funds. (Significantly, while many of these smaller LPs will include fund-of-funds within their portfolios, this is not exclusively the case – in fact, more of these LPs invest in buyout and venture funds than in fund-of-funds.)

Approximately 63% of the capital raised during 2005 will come from North American LPs (including Fund-of-Funds based in North America, even if the underlying source of

funds may come from elsewhere), 29% from Europe and 8% from elsewhere, principally Asia, Middle East and Australia. This geographic split is changing rapidly: LPs in Europe and Asia typically have target allocations to private equity that are only 60% as high as those for North American LPs. We anticipate that by 2010 European LPs could contribute 40% of the industry's financing globally, with a further 15% from the rest of the world. North America will remain in pole position with a 45% share – although most of the growth in funding will come from outside the US, with net growth of EUR 200 billion from European LPs.

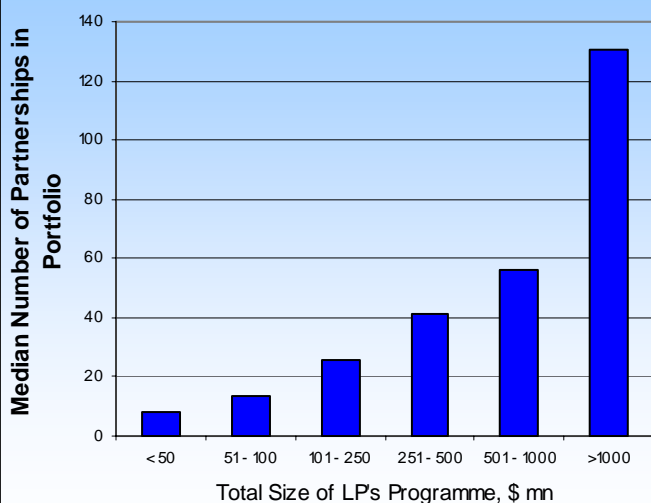
Fund-of-funds are the biggest single group of LPs in terms of amount of investment, followed by public pension plans, corporate pension plans and insurance companies. The 1,130 LPs on our database that fall into these four categories contribute no less than 75% of the aggregate allocation to private equity globally. However, the many and diverse other categories of LPs are of great importance for many segments of the market. For example,

“By 2010 European LPs could contribute 40% of the industry's financing globally, with a further 15% from the rest of the world.”



PRIVATE EQUITY SPOTLIGHT

Fig 3: Breadth of Portfolio - Number of Partnerships vs. LP Size



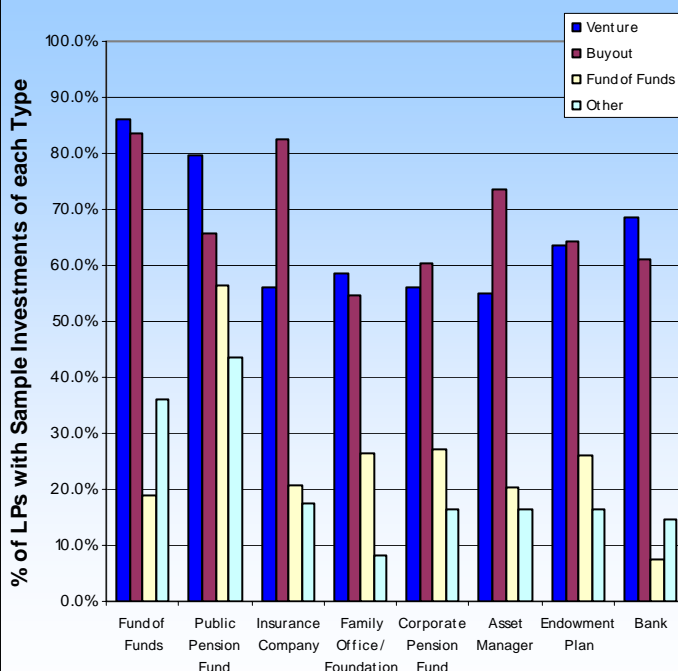
Source: 2005 Limited Partner Universe

while corporate pension funds and insurance companies are among the least likely of all LPs to invest with emerging managers in first time funds, endowments, investment companies and fund-of-funds are strong supporters of these funds (Fig. 2).

As in any asset class, LPs diversify their portfolios across several funds and vintages. As Fig. 3 shows, the typical breadth of portfolio increases with the size of the LP's private equity program: LPs with programs of \$1 billion or more have an average of 130 partnerships, while even middle-sized LPs with programs of \$250 to \$500 million typically have just over 40 funds in their portfolios. Even the very smallest LPs – those with \$50 million or less in the asset class – generally spread their investment across around 8 partnerships.

As we have built our LP database we have strived to collect as much information as possible on the actual partnerships in which each LP has invested. The database now includes 16,000 such sample investments – the most reliable possible indication of the true interests of these LPs. Fig. 4 below shows how the pattern of investment varies across different types of LP. Fund of Funds, Public Pension Plans, Endowments and Banks are the most active investors in venture funds, while Insurance Companies, Corporate Pension Funds and Asset Managers showing a greater tendency to invest in Buyout Funds. Public Pension Plans

Fig 4: Sample Investments by Type of LP



Source: 2005 Limited Partner Universe

are also strong supporters of Fund of Funds and the "Other" category of funds, that includes specialist areas like Mezzanine, Distressed Debt and others. Similar patterns emerge when one analyses investments by size of LP, with the bigger LPs being the most active investors in specialist fund types.

The LP universe is both incredibly diverse, and evolving rapidly as new LPs enter the market or increase their allocations, and while some established investors trim theirs. Their interests and investment strategies are amenable to analysis, and careful research and targeting can help find the best match between GP and LP, and so contribute to fund-raising and IR.

This research is taken from The 2005 Limited Partner Universe. The publication analyses the universe of LPs identifying the patterns of investment by different types and size of investor. It also contains detailed listings for 1,250 active LPs from around the globe.

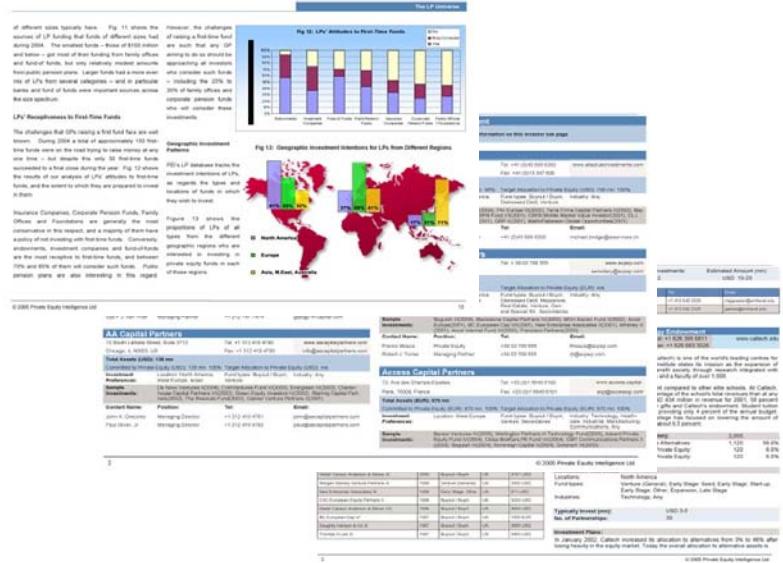
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PERFORMANCE SPOTLIGHT

Performance Spotlight is your monthly update on Private Equity Performance. Each month we look at the performance for a particular type of fund and give you information on some of the top performing funds.

OUT-PERFORMANCE OF LARGE BUYOUT FUNDS - A SUSTAINABLE SWEET SPOT?

2005 is clearly on track to be a record year for fund raising – as at the time of going to press on June 30th, 141 new funds worldwide had achieved final closes in the first six months of the year, for an aggregate \$104 billion. Big buyout funds are the hottest segment of a very hot market – 68% of the total amount of money raised so far this year has been by buyout funds, and 65% of this by funds of \$2 billion or more. A further 14 buyout funds with targets above \$2 billion are still on the road, aiming to raise an aggregate \$72 billion – and they will probably be joined by additional new funds during the second half of the year.

One factor driving this may be simple opportunism – if LP appetite is there, best to make the most of it while it lasts. However, it is also underpinned by the superior historic performance of the largest buyout funds – as Fig 1 shows, the largest buyout funds in each vintage year have tended to out-perform buyouts as a whole, both in terms of IRR and Value Multiple. The margin

of out-performance appears to have been significantly greater in Europe than it has been in the US.

There could be several reasons for this out-performance. Part of it could simply be the standards of professionalism and due diligence at the largest buyout houses. However, another may be the levels of competition that exist in each segment of the market. The middle market is notoriously competitive, with tens of firms sometimes competing in auctions, and the greater efficiency of the US market as compared with Europe may possibly explain the relatively more modest out-performance historically enjoyed by the larger US funds. In order to illustrate this factor – and to see how current fund-raising may influence the picture – we analyzed how many European buyout funds could compete on a stand-alone basis for companies with enterprise values of between EUR 250 million and EUR 4 billion.

(Methodological notes: we assumed that funds would limit any one investment to 10% of the total portfolio, and that equity would typically comprise 25% of each deal. We included all funds from vintages 2002 and after, and assumed that all funds currently on the road would reach a final close. Finally, we included all European-focused funds plus all US-focused funds of \$2 billion or more, on the basis that most of these funds will also invest in European assets.)

Fig. 2 displays the results. The middle market is clearly very competitive, with 35 to 45 firms capable of bidding for assets of EUR 500 million or less. Even assets of EUR 1 billion can be bid for by more than 25 private equity firms. It is only above EUR 2 billion that

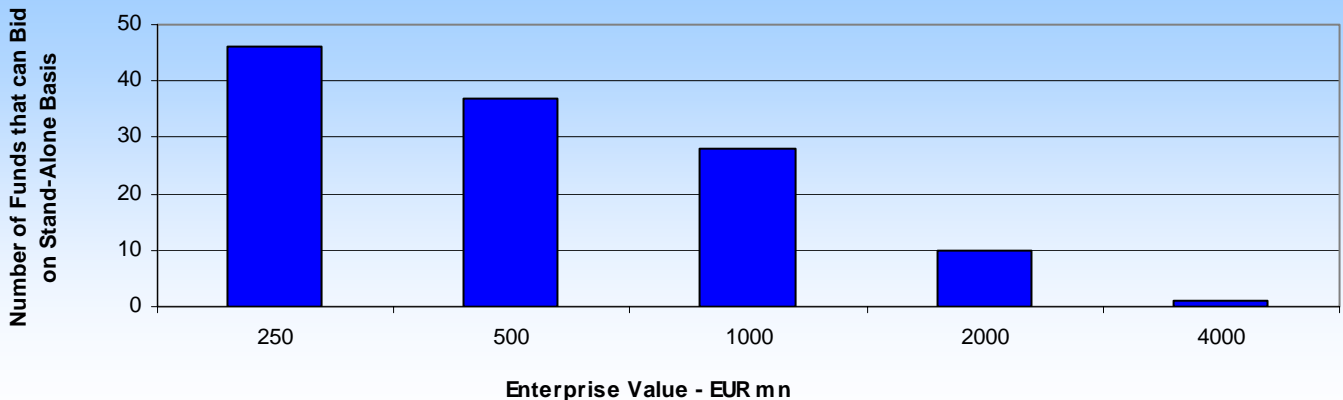
Fig 1: Performance of Largest 25% of Funds in Each Vintage Year vs. Average for all Buyout Funds

	<u>Europe</u>	<u>N. America</u>
IRR performance:		
- % beating benchmark:	67%	55%
- average IRR vs. benchmark:	+ 6.2%	+ 2.4%
Value Multiple performance:		
- % beating benchmark:	75%	56%
- average Value Multiple vs. benchmark:	+ 41%	+ 13%

Source: 2005 Private Equity Performance Monitor

PERFORMANCE SPOTLIGHT

Fig 2: Competition in European Buyouts



the number of potential bidders falls into single figures. Naturally, other bidders are also important, and club deals are a factor too, however it is clear that the largest funds face relatively less competition than the middle market. This should continue to be the case,

and there are therefore good reasons to continue to expect the out-performance of larger buyout funds to persist. However, each big new fund closed raises the bar a further notch, and yesterday's big fund becomes tomorrow's mid-market one.

The 2005 Private Equity Performance Monitor

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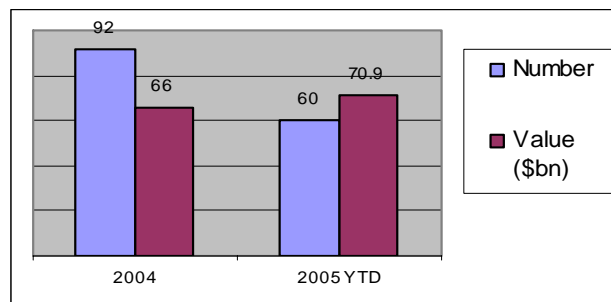
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FUNDS in MARKET—Buyout

BUYOUT FUNDS ON THE ROAD

	US	Europe	ROW	Total
No. on Road	107	56	23	186
Total Target Value (\$bn)	78	38	5	121
Average Target Size (\$mn)	728	680	208	649

FINAL CLOSES BAROMETER



LARGEST BUYOUT FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
Blackstone Capital Partners V	Blackstone Group	11000 USD	US
CVC European Equity Partners IV	CVC Capital Partners	6000 EUR	Europe
Warburg Pincus Private Equity IX	Warburg Pincus	7800 USD	US
Thomas H Lee VI	Thomas H Lee Partners	7500 USD	US
Apollo Investment Fund VI	Apollo Capital Partners	6000 USD	US
Candover 2005	Candover Partners	3500 EUR	Europe
KKR European Fund II	Kohlberg Kravis Roberts	3500 USD	Europe
Clayton Dubilier & Rice VII	Clayton Dubilier & Rice	3500 USD	US
Vestar Capital Partners V	Vestar Capital Partners	3500 USD	US
Welsh Carson Anderson & Stowe X	Welsh Carson Anderson & Stowe	3500 USD	US

SAMPLE BUYOUT FUNDS CLOSED DURING JUNE 2005

Lion Capital (ex Hicks Muse Tate & Furst Europe II):

Manager: Lion Capital
Final Close (mn): 820 EUR (Jun-2005)
Geographic Focus: Europe
Industry Focus: Services, Manufacturing, Media, Food
Placement Agent: Citigroup Global Markets
Sample Investors: Aviva

Charlesbank Equity Partners VI:

Manager: Charlesbank Capital Partners
Target Size (mn): 900 USD
First Close (mn): 675 USD (May-2005)
Final Close (mn): 900 USD (Jun-2005)
Geographic Focus: North America
Industry Focus: Healthcare, Consumer Products, Retail, Distribution, Manufacturing, Media, Financial Services, Energy, Education / Training, Food
Sample Investors: Harvard Management Company

Greenhill Capital Partners II

Manager: Greenhill Capital
Target Size (mn): 700 USD
First Close (mn): 558 USD (Apr-2005)
Final Close (mn): 875 USD (Jun-2005)
Geographic Focus: North America
Industry Focus: Telecoms, Financial Services, Energy, Any, Infrastructure
Placement Agent: Merrill Lynch

Summit Partners Private Equity Fund VII:

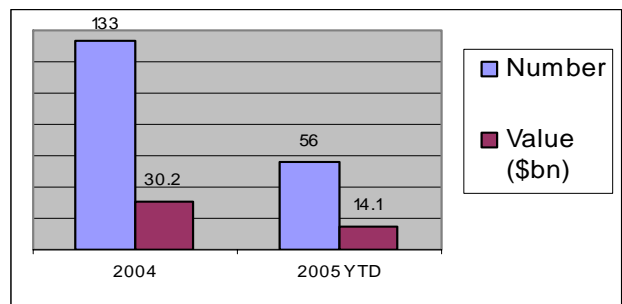
Manager: Summit Partners
Target Size (mn): 3000 USD
Final Close (mn): 3000 USD (Jun-2005)
Geographic Focus: North America, Europe
Industry Focus: Healthcare, Consumer Products, Industrial, Communications, Financial Services, Life Sciences, Software, Electronics, Semiconductors, Information Services, Business Services
Sample Investors: Pennsylvania State Employees' Retirement System

FUNDS in MARKET—Venture

VENTURE FUNDS ON THE ROAD

	US	Europe	ROW	Total
No. on Road	157	73	63	293
Total Target Value (\$bn)	24	11	8	42
Average Target Size (\$mn)	153	146	120	144

FINAL CLOSES BAROMETER



LARGEST VENTURE FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
Spectrum Equity Investors V	Spectrum Equity Investors	1500 USD	US
Whitney VI	Whitney & Co	750 USD	US
TVM Life Science Venture VI	Techno Venture Management	400 EUR	Europe
Austin Ventures IX	Austin Ventures	525 USD	US
North Bridge VI	North Bridge Venture Partners	515 USD	US
Atlas Ventures VII	Atlas Venture	500 USD	US
United States Power Fund II	Energy Investors Funds Group	500 USD	US
ABS Capital V	ABS Capital Partners	500 USD	US
Sequoia Capital Late Stage III	Sequoia Capital	475 USD	US
H&Q Asia Pacific Korea Fund	H&Q Asia Pacific	400 USD	Pacific Rim

SAMPLE VENTURE FUNDS CLOSED DURING JUNE 2005

JMI Equity Fund V:

Manager: JMI Equity
Target Size (mn): 300 USD
Final Close (mn): 300 USD (Jun-2005)
Geographic Focus: North America
Industry Focus: Software, Business Services
Placement Agent: CP Eaton & Associates
Sample Investors: Pennsylvania State Employees' Retirement System

Summit Partners Venture Capital Fund II:

Manager: Summit Partners
Target Size (mn): 250 USD
Final Close (mn): 300 USD (Jun-2005)
Geographic Focus: North America
Industry Focus: Healthcare, Industrial, Communications, Financial Services, Software, Semiconductors, Information Services, Business Services

Prism Venture Partners V:

Manager: Prism Venture Partners
Target Size: 400 USD
First Close (mn): 103 USD (Jan-2005)
Final Close (mn): 250 USD (Jun-2005)
Geographic Focus: North America
Industry Focus: Technology, Communications, Life Sciences, Software
Sample Investors: The University of Texas Investment Management Company

New Horizon Fund:

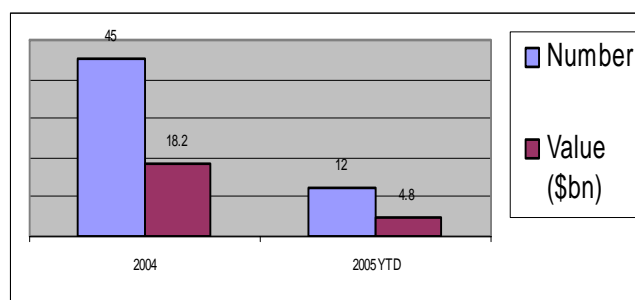
Manager: Temasek Holdings
Target Size (mn): 100 USD
Final Close (mn): 100 USD (Jun-2005)
Geographic Focus: China
Industry Focus: Any

FUNDS in MARKET—Fund-of-Funds

FUND-OF-FUNDS ON THE ROAD

	US	Europe	ROW	Total
No. on Road	45	33	4	82
Total Target Value (\$bn)	12	9	1	22
Average Target Size (\$mn)	256	269	181	257

FINAL CLOSES BAROMETER



LARGEST FUND-OF-FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
European Strategic Partners 2004	Standard Life Investments	500 EUR	Europe
ViaNova European Buyout Fund of Funds	ViaNova Capital	500 EUR	Europe
Paul Capital Top Tier Investments III	Paul Capital Partners	600 USD	US
RWB Private Capital Fonds II	RenditeWertBeteiligungen	400 EUR	Europe
Northgate Private Equity Partners II	Northgate Private Equity	500 USD	US
Private Equity European Partners III	Adveq Group	325 EUR	Europe
Pantheon Europe Fund IV	Pantheon Ventures	400 USD	Europe
Partners Group Global Mezzanine 2005	Partners Group	300 EUR	Europe

SAMPLE FUND-OF-FUNDS CLOSED DURING MARCH-JUNE 2005

Knightsbridge Venture Capital VI:

Manager: Knightsbridge Advisers
Final Close (mn): 500 USD (Apr-2005)
Sample Investors: Annie E. Casey Foundation, California Endowment, Shell Pensions Trust, UK, South Yorkshire Pensions Authority and Telstra Superannuation Scheme

Commonfund Capital Natural Resources VI:

Manager: Commonfund Capital
Final Close (mn): 302 USD (Apr-2005)

Pomona Partnership Holdings IV:

Manager: Pomona Capital
Target Size (mn): 200 USD
Final Close (mn): 250 USD (Jun-2005)
Geographic Focus: Global
Sample Investors: BancBoston Capital - PEP

VCM Golding Mezzanine

Manager: Golding Capital Partners
Target Size (mn): 150 USD
First Close (mn): 50 USD
Final Close: 200 USD (Jun-2005)
Geographic Focus: Europe, North America

Funds in Market: Additional Information

The Funds in Market Spotlight includes each month the largest ten funds being raised in the venture and buyout categories as well as the ten largest funds in another category of private equity. This month we show fund of funds. A full list of the over 600 funds currently being raised can be viewed on our online database, Funds in Market.

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INVESTOR SPOTLIGHT

Investor Spotlight is your monthly update on investors in Private Equity. See how key investors are changing their allocations and which new investors are coming into the market. Each month we analyse investors in a specific region—this month we look at Asia.

INVESTOR NEWS

Fonds de Réserve pour les Retraites (FRR) has hired Campbell Lutyens as a consultant in order to select private equity managers. FRR plans to select these managers during the Autumn of 2005. The fund is expected to invest hundreds of millions in private equity. Furthermore, the current EUR 7 billion size of FRR is expected to increase to EUR 25 billion during the course of 2005.

Following its decision late last year to allocate up to 13% of assets to alternatives, **New Jersey State Investment Council** has made its first investments in private equity funds. The council selected three buyout managers, Warburg Pincus, Oak Hill Capital Partners and Quadrangle Capital Partners to manage a total of USD 325 million. The pension fund has assets of over USD 70 billion.

The Korean government has recently introduced an initiative aimed at rejuvenating the private equity market within Korea. This is to be underwritten by **Korea's National Pension Corporation (KNPC)** which will contribute USD 150mn to be shared by six new firms in Korea. It has recently committed USD 200 million to H&Q Asia Pacific who are working with Wise Assets and Hyundai Securities. The KNPC is South Korea's largest institutional investor. NPC's decision to enter the private equity arena comes as part of a move to diversify its portfolio.

Singapore-based insurance company, **NTUC Income**, plans to allocate USD 100 million a year to private equity and venture capital. NTUC, with SGD 12 billion in total assets, is Singapore's largest car insurance provider and the third largest life insurance provider with plans to expand abroad. Historically, investments have been in fixed income and public equity, however, in early 2005, Mr. Koh (formerly of TIF Ventures) was hired to start up a private equity investment team.

Around 50-60% will be allocated to private equity in the US, with a 25% allocation to Asia. The allocation will be split between buyouts and growth funds (2/3) and venture investments (1/3). Geographic focus for investments will be on India, South Korea and possibly China. NTUC's annual allocation may be increased further in the future.

A new law aims to update the way the **New York State Common Retirement Fund** allocates investments, with the stated goal of directing a greater share of the USD 120 billion pension fund to alternatives. Currently, the system is allowed only a 15% allocation to alternatives. Supporters of the bill see hedge funds and private equity funds as having a smoothing affect on the volatility of the overall portfolio as well as the potential for higher returns.

Ohio Public Employees' Retirement System (OPERS) is looking for emerging managers. In April this year, the system appointed 13 private equity fund managers to help it reach its target allocation of 4% to the asset class by 2008. To date, 2 out of every 3 investments are in the US, with the international portfolio comprising mainly European investments.

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INVESTOR SPOTLIGHT

The Asian private equity market is receiving increased attention from global institutional investors

The Asian private equity market has seen a marked increase in activity during the course of 2004 following a significant period of decline and economic instability. This flurry of activity suggests overseas LPs are becoming increasingly better educated about Asia's strengths.

Enthusiasm for increased investment in Asian private equity can be seen by looking at many of the largest LP investors in private equity. CalPERS is set to increase its current allocation of 4% of its Alternative Investment Management Program to Asian fund investments. It is seeking to renew relationships with fund managers in Asia and broadly diversify across the region. In particular, it will increase its exposure to the Indian private equity market. In addition, Oregon Public Employees' Retirement Fund (OPERF) is currently looking for fund managers for selective markets including Asia.

In Europe, enthusiasm for Asia is mirrored by LPs such as Italian-based CDB Web Tech. The firm views venture investments in China, India, Hong Kong and Japan more favourably than their European counterparts and will focus on these regions accordingly for future fund investments. CDB Web Tech targets a long-term return of 30% for its venture capital investments. Heavy-weight private equity investor AlpInvest has approximately USD 200 million available for investment in Asia and other emerging markets during 2005. Swiss-based investment company, Saad, also hopes to invest more in Asia in the future whilst Belgian-based Damacor International, with around EUR 2 billion in assets, will consider first-time funds and newly developed Asia for new investments.

Fund-of-funds managers are also experiencing the Asian appeal. French-based AXA Private Equity, is set to significantly expand its Asian activities with the opening of a Singapore office in September and the launch of its AXA Asia Fund. This latest fund-of-funds is targeting between USD 150-200 million and will seek investments in India, China, Japan, Korea, Taiwan, Australia, and Singapore. Swiss-based fund-of-funds manager, Partners Group, is similarly optimistic about opportunities in Asia. It believes that over the coming years the best returns will be in buyouts in Asia and in Europe, with lower returns in the US. Thus, following the opening of its Singapore office last October, future strategy will see the group invest across Asia, with the target of having 10% of assets invested in the region in the next five years.

In 2005, another fund-of-funds manager, Wilshire Associates, will expand its Australasian activities to the rest of Asia. It plans to invest in about 10 to 15 Asian funds over the next three years and a total number of approximately 30 GPs in the long term. It expects a return of 15% on its Asian portfolio.

Private Equity Intelligence's Funds in Market database identifies 89 funds currently on the road targeting an aggregate of over USD 7.5 billion for investment within Asia. Amongst these is the mega-buyout Asia Opportunities II fund for which JP Morgan Partners has a target size of approximately USD 1.1 billion. Thus, increased investment activity in Asia looks set to continue for the foreseeable future.

Largest Asian Investors

	Allocation to Private Equity (USD mn)	Total Assets under Management (USD mn)
TIF Ventures	1,350	1,350
Temasek Holdings	n/a	107,500
GIC Special Investments	400	100,000
Daido Life Insurance	1,870	55,115
DBS Asset Management	n/a	116,000