

# PRIVATE EQUITY SPOTLIGHT

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May 2006

Volume 2 Issue 5

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

## FEATURE ARTICLE \_\_\_\_\_ P1

**Mega-Fund Returns:** buyouts have delivered excellent returns to LPs in recent years, and nowhere more so than the largest funds, which have performed even better than the market average. Spotlight examines the trends and highlights the implications for investors.

## PERFORMANCE SPOTLIGHT \_\_\_\_\_ P4

**Early Stage Venture Funds :** this month we look at how early stage venture funds compares against general venture funds.

## FUND RAISING \_\_\_\_\_ P5

Fundraising conditions remain favourable, with 169 funds raising \$106 billion so far in 2006. In addition to our regular look at venture & buyout, this month we examine the booming market for infrastructure & natural resources funds.

No. of Funds on Road	US	Europe	ROW	Total
Venture	191	66	89	<b>346</b>
Buyout	135	58	39	<b>232</b>
Fund of Funds	59	36	9	<b>104</b>
Other	64	16	16	<b>96</b>
<b>Total</b>	<b>449</b>	<b>176</b>	<b>153</b>	<b>778</b>

## INVESTOR SPOTLIGHT \_\_\_\_\_ P10

**This month we focus on potential investors in private equity energy funds**

- ⇒ Which investors have an active interest in energy funds?
- ⇒ Who are the largest investors in energy funds?
- ⇒ What is the LP appetite like for this sector?



## INVESTOR NEWS \_\_\_\_\_ P12

All the latest news on investors in private equity:

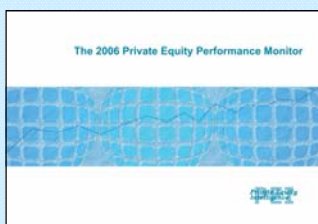
- **HGK Asset Management (HGK)** creates Alternative Investment division.
- **Partners Group** closes maiden Asian fund of funds.
- **PASERS** commits \$290 to 5 new funds

## \*OUT NOW\*

The 2006 Performance Monitor

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**Publisher:** Private Equity Intelligence Ltd  
10 Old Bailey, London EC4M 7NG. Tel: +44 (0)207 038 1650.

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# PRIVATE EQUITY SPOTLIGHT

## Feature Article: Mega-Fund Returns:

Most of the growth in buyout fund raising in the past two years has come from mega-funds of \$5 billion or more, which now make up over half the money coming into the buyout sector. This month Spotlight looks at the evidence on how these mega funds have performed in the US and Europe and considers the implications for LPs.

The growing importance of mega-funds in the buyout sector may be well-known, but the sheer scale of the growth in fund sizes is nothing short of remarkable. Fig. 1 below shows how the total new commitments of capital to buyout funds have been shifting to larger funds. In 2004 (when a total of \$65 billion was committed to new buyout funds worldwide), only 8% of the total dollars went to funds of \$5 billion or more. By 2005 that proportion had risen to 33%, and during the first quarter of 2006 no less than 55% of the total money raised went into mega-funds. As a result, most of the growth in the buyout sector is accounted for by these mega-funds.

The growth of the buyout sector has been underwritten by the solid performance that it has delivered to LPs. Fig. 2 shows the net-to-LP IRRs that the median fund in each vintage year has delivered over the period 1990 to 2003 (IRRs being

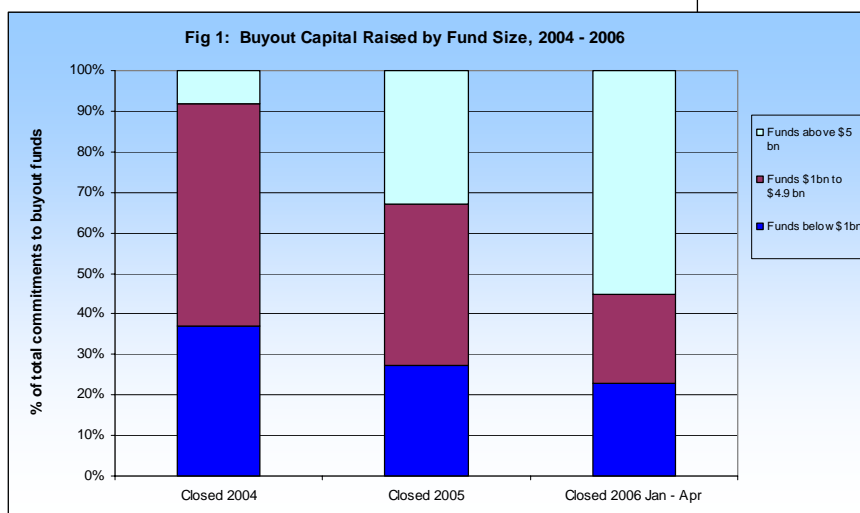
calculated from inception to date.) For most vintage years the net IRRs have been in the range between 10% and 20%, while upper quartile IRRs (not shown in the chart) have been in the range between 15% and 25%.

While the performance of buyout funds in general has been good, the performance of the largest funds has been remarkable. Figs. 3 and 4 show the median IRR for US and European buyout funds by vintage year, and against this we have plotted the IRRs achieved by the largest funds in each vintage year.

Even though the sample sizes are (by definition) small, these largest funds have clearly performed very well relative to the market average – in the US 18 out of 24 large funds beat the median, while in Europe 14 out of 18 beat the median. In both the US and Europe, some of these big funds beat the median benchmark performance by a huge margin, and clearly any LP investing across a portfolio of large buyout funds would have done very well indeed.

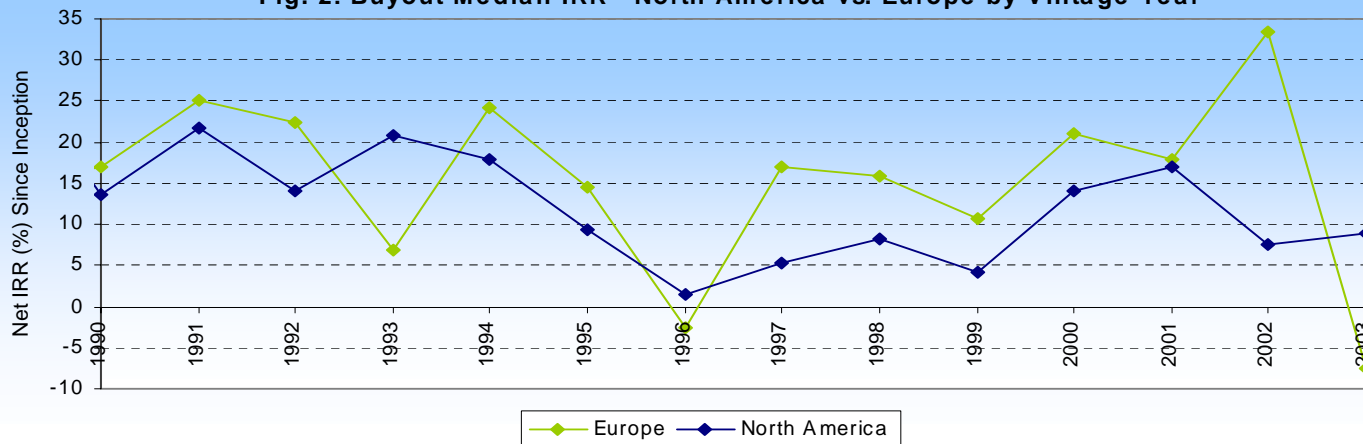
If the historic performance of the largest buyout funds has been good, then what of the future? There has been much speculation about the potential impact on returns across the industry of the sheer volume of money now available to private equity firms.

**“While the performance of buyout funds in general has been good, the performance of the largest funds has been remarkable.”**



# PRIVATE EQUITY SPOTLIGHT

**Fig. 2: Buyout Median IRR - North America vs. Europe by Vintage Year**



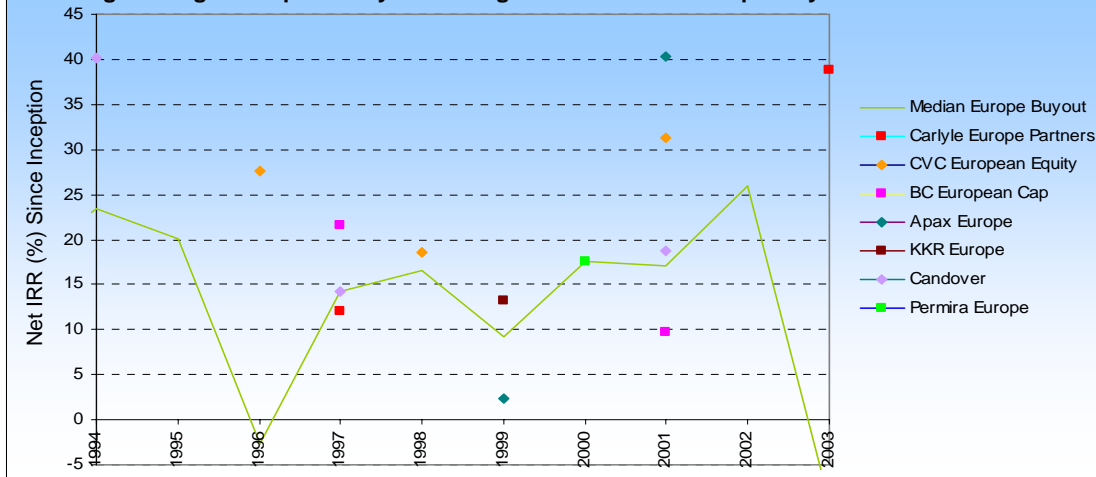
While current acquisition prices are high, and it may be difficult for funds generally to match the excellent returns achieved in recent vintage years, we believe that there are several grounds for confidence, especially as regards the largest funds:

- Number of competing funds: while the amount of available funding has grown, the number of funds competing has remained fairly steady, as the growth has come primarily from larger funds being raised;
- Stable overhang: despite the record fund raising volumes, the 'overhang' of uncalled commitments has not grown to the same extent: uncalled commitments to all fund types worldwide were around \$595 billion in January 2005, and now appear to be around \$700 billion – growth indeed, but no more than would

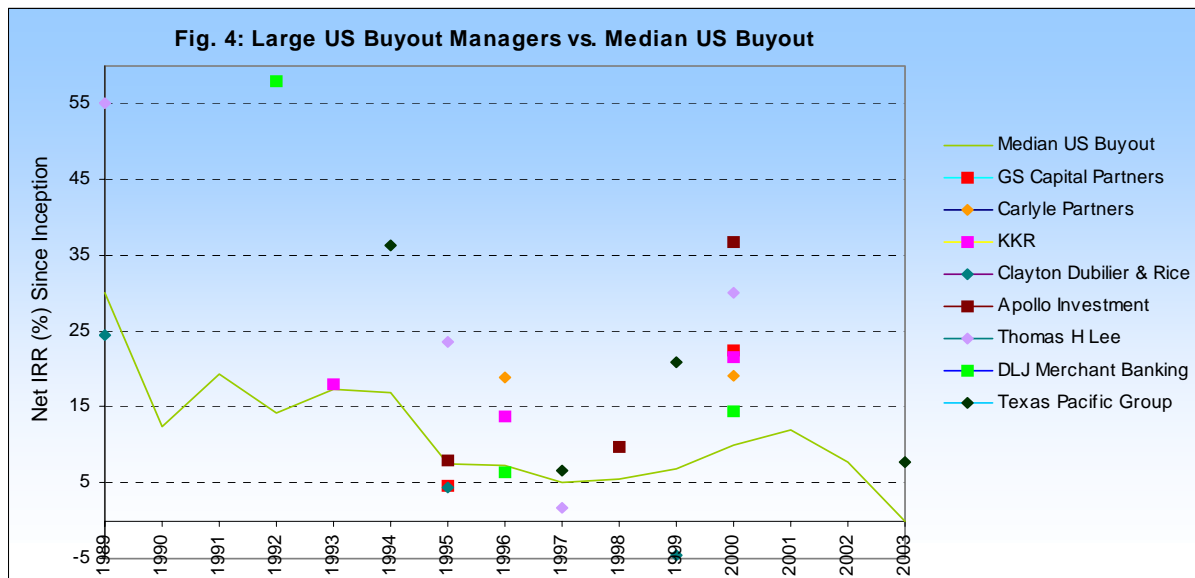
be expected in line with the growth of the entire market. For buyout funds in particular, the 'stock' of uncalled commitments amounts to around 3 to 3.5 years' worth of call-ups of capital, at the current rate. In other words, the vision of a massive pool of uncalled capital is more myth than reality;

- Dynamics of mega-funds unchanged: while the precise definition of what constitutes a 'mega-fund' is forever moving upwards, the largest funds have enduring advantages compared to those competing in the middle market. They have access to the best managerial and advisory talent; they are generally run by the firms with

**Fig. 3: Large European Buyout Managers vs. Median Europe Buyout**



# PRIVATE EQUITY SPOTLIGHT

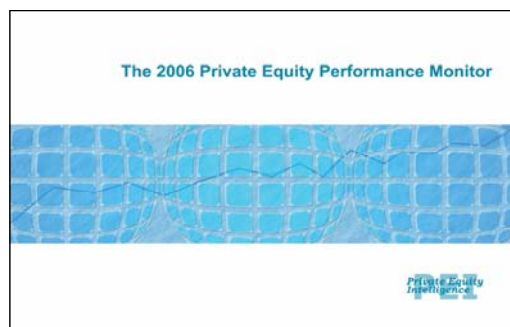


the longest and best-established track records; they are competing for assets where there will (generally) be fewer bidders competing than further down the size spectrum; and they are taking private equity into new (and hopefully under-exploited) territory in terms of the size of the assets acquired.

People are always right to urge caution, but let's not write the obituary of the mega-fund just yet.

***The data and analysis presented in this article is taken from the new 2006 Private Equity Performance Monitor - your guide to private equity and venture capital fund performance.***

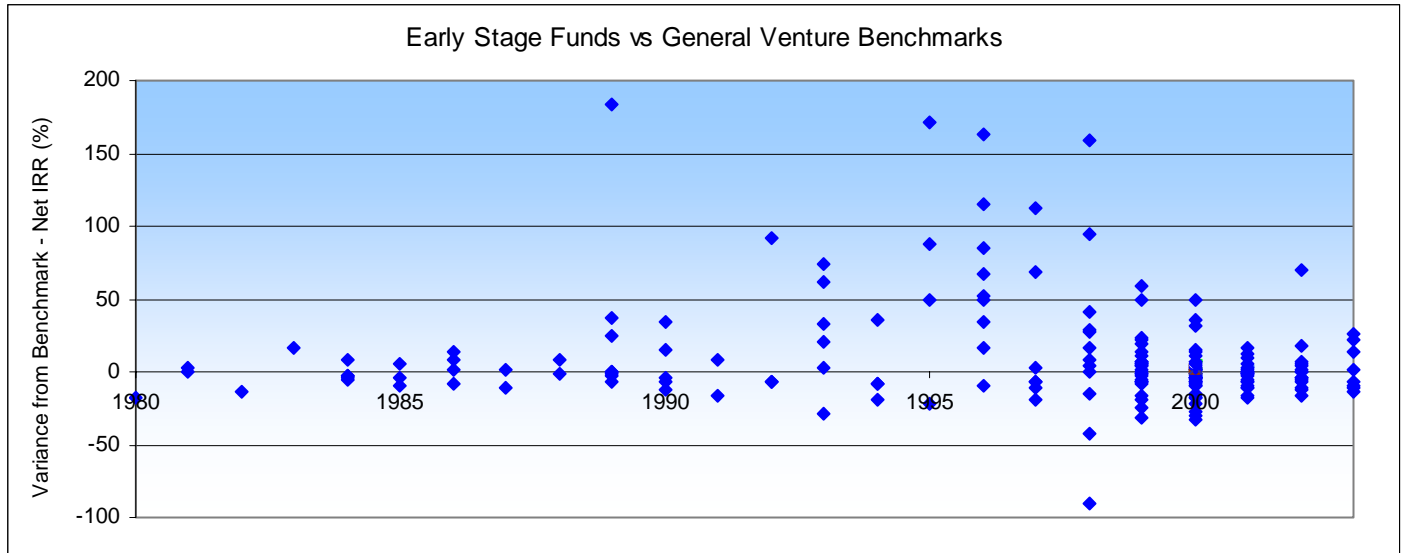
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# PERFORMANCE SPOTLIGHT

*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.

## PERFORMANCE OF EARLY STAGE FUNDS



\*IRRs used for the chart above are 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.

### PERFORMANCE COMMENTARY

This month Spotlight looks at the performance of early stage funds using an analysis taken from our last publication, the 2006 Private Equity Performance Monitor

Early stage venture funds are of particular interest to many investors, as it is here that some of the biggest gains can be made. The figure above shows the performance of each of 200 early stage funds from vintages 1980 through to 2003. The IRR for each fund has been shown relative to the benchmark IRR for all venture funds of that vintage year – i.e. it shows whether the fund beat the benchmark, and by how much.

Interestingly, approximately half of the early stage funds beat the general venture benchmark and half fall short – i.e. the median performance of early stage funds has been close

to that of general venture funds. However, it is clear from the graph that there is a pronounced skew in the distribution – the funds that have performed well tend to beat the benchmark by a bigger margin than the ones that fall short. As a result, the average deviation from benchmark for early stage funds is +8.6%. This demonstrates the economics of early stage fund investing for LPs: there is a wide dispersion in fund returns, and even if the median performance may not be significantly better than that of other venture funds, a well-diversified portfolio should perform very well, especially if the LP has the skills to select a favourable mix of better funds.

The table below summarizes the net performance of some of the best early stage funds. (Our Performance Analyst database currently has performance data for 293 early stage funds.)

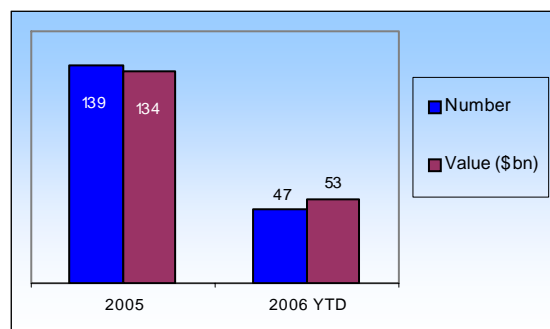
Fund	Vintage	Fund Size (Mn)	Called (%)	Distr. (%)	Value (%)	Multiple	IRR (%)	Benchmark IRR (%)	Date Reported
<b>Columbia Capital Equity Partners I-B</b>	1995	90 USD	100.0	479.9	3.7	4.8x	192.3	89.7	31-Dec-05
<b>Novak Biddle Venture Partners I</b>	1997	23 USD	97.5	362.1	1.2	3.6x	79.5	10.0	31-Mar-06
<b>Jerusalem Venture Partners I</b>	1993	20 USD	100.0	750.0	0.0	7.5x	54.0	54.0	31-Dec-05
<b>Sequoia Capital VII</b>	1996	150 USD	100.0	1,513.5	125.5	16.4x	174.5	64.0	30-Sep-05
<b>Clearstone Venture Partners I-B</b>	1998	73 USD	100.0	255.0	30.3	2.9x	154.9	3.5	30-Sep-05

# FUNDS in MARKET — Buyout

## BUYOUT FUNDS ON THE ROAD

	US	Europe	ROW	Total
<b>No. on Road</b>	135	58	39	<b>232</b>
<b>Total Target Value (\$bn)</b>	112	43	23	<b>178</b>
<b>Average Target Size (\$mn)</b>	831	742	590	<b>768</b>

## FINAL CLOSES BAROMETER



## LARGEST BUYOUT FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
Texas Pacific Group Partners V	Texas Pacific Group	14,000 USD	US
Blackstone Capital Partners V	Blackstone Group	13,500 USD	US
Permira Buyout Fund IV	Permira	10,000 EUR	UK
KKR Fund 2006	Kohlberg Kravis Roberts	12,000 USD	US
Gulf One Fund	Gulf One	10,000 USD	Bahrain
Thomas H Lee VI	Thomas H Lee Partners	7,500 USD	US
Madison Dearborn Capital Partners V	Madison Dearborn Partners	6,500 USD	US
Cinven IV	Cinven	5,000 EUR	UK
JC Flowers II	JC Flowers & Co	4,000 USD	US
3i Europe Partners V	3i	3,000 EUR	UK

## SAMPLE BUYOUT FUNDS CLOSED DURING APRIL 2006

### Bain Capital Fund IX Coinvestment Fund

**Manager:** Bain Capital  
**Target Size (mn):** 2000 USD  
**Final Close (mn):** 2000 USD (Apr-2006)  
**Geographic Focus:** North America, Europe  
**Industry Focus:** Telecoms, Distribution, Manufacturing, Communications, Energy

### Longreach Fund

**Manager:** Longreach Group  
**Target Size (mn):** 500 USD  
**Final Close (mn):** 750 USD (Apr-2006)  
**Geographic Focus:** Japan, Asia  
**Industry Focus:** Technology, Financial Services  
**Placement Agent:** Denning & Company

### Chequers XV

**Manager:** Chequers Capital  
**Target Size (mn):** 600 EUR  
**Final Close (mn):** 600 EUR (Apr-2006)  
**Geographic Focus:** France, Europe  
**Industry Focus:** Diversified  
**Placement Agents:** MVision Private Equity Advisers  
**Sample Investors:** Pennsylvania Public Employees' Retirement System

### Brockway Moran & Partners III

**Manager:** Brockway Moran & Partners  
**Target Size (mn):** 600 USD  
**Final Close (mn):** 700 USD (Apr-2006)  
**Geographic Focus:** North America  
**Industry Focus:** Distribution, Consumer Services, Manufacturing  
**Sample Investors:** Michigan Department of Treasury, Northern Trust Global Advisors, PPM America Capital Partners, St. Paul Travelers Companies and Virginia Retirement System

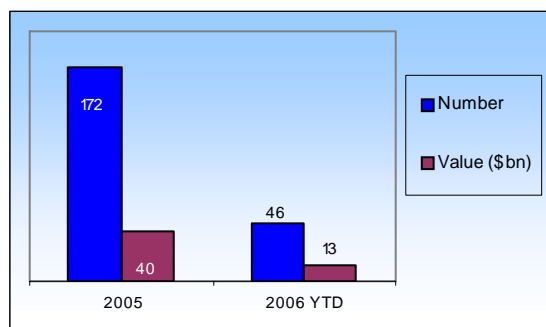
Do you have information on a fund currently raising? Would you like your new fund to be listed on our database?  
 If you have any information regarding a fund in market please contact: [tim@peqin.com](mailto:tim@peqin.com)

# FUNDS in MARKET — Venture

## VENTURE FUNDS ON THE ROAD

	US	Europe	ROW	Total
<b>No. on Road</b>	191	66	87	<b>344</b>
<b>Total Target Value (\$bn)</b>	41	8	13	<b>62</b>
<b>Average Target Size (\$mn)</b>	214	119	146	<b>179</b>

## FINAL CLOSES BAROMETER



## LARGEST VENTURE FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
New Enterprise Associates XII	New Enterprise Associates	2,500 USD	US
MPM BioVentures IV	MPM Capital	650 USD	US
FTVentures III	FTVentures	600 USD	US
Column Group Venture Partners I	Column Group	500 USD	US
DIB Health and Education Fund	Dubai Islamic Bank	500 USD	UAE
Panorama Capital	Panorama Capital	500 USD	US
Vertex India China Pre-IPO Equity Fund	Vertex Venture Holdings	500 USD	Singapore
Media / Communications Partners VI	M/C Venture Partners	450 USD	US
Pacven Ventures VI	Walden International	450 USD	US
Alta BioPharma Partners IV	Alta Partners	425 USD	US

## SAMPLE VENTURE FUNDS CLOSED DURING APRIL 2006

### Oak Investment Partners XII

**Manager:** Oak Investment Partners  
**Final Close (mn):** 2500 USD (Apr-2006)  
**Geographic Focus:** North America  
**Industry Focus:** Technology, Healthcare, Consumer Products, Consumer Services, Communications, Media, Financial Services, IT, Internet, Digital Media  
**Sample Investors:** Pennsylvania State Employees' Retirement System

### Norwest Venture Partners X

**Manager:** Norwest Venture Partners  
**Final Close (mn):** 650 USD (Apr-2006)  
**Geographic Focus:** China, India, Israel, US, North America, Emerging Markets  
**Industry Focus:** Technology, IT, High-Tech, Software, Semiconductors  
**Sample Investors:** Wells Fargo and Company Pension Plan and Wells Fargo Bank

### Caduceus Private Investments III

**Manager:** Orbimed Advisors  
**Target Size:** 400 USD  
**Final Close (mn):** 500 USD (Apr-2006)  
**Geographic Focus:** North America  
**Industry Focus:** Pharmaceuticals, Healthcare, Biotechnology, Medical Instruments, Biomedical, Medical Devices, Medical Technologies

### HitecVision Private Equity IV

**Manager:** HitecVision  
**Target Size (mn):** 200 EUR  
**First Close (mn):** 283 EUR (Jan-2006)  
**Final Close (mn):** 300 EUR (Apr-2006)  
**Geographic Focus:** Norway, Scandinavia  
**Industry Focus:** Oil, Energy  
**Placement Agent:** Pareto Private Equity  
**Sample Investors:** Argentum Fondsinvesteringer, Gjensidige NOR Forsikring, KLP, Storebrand Alternative Investments and Vital Forsikring

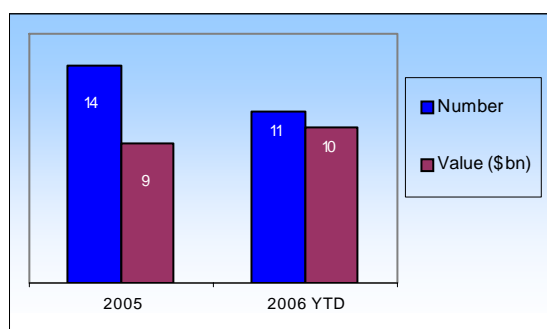
# FUNDS in MARKET

## - Infrastructure /Natural Resources

### COMBINED FUNDS ON THE ROAD

	US	Europe	ROW	Total
<b>No. on Road</b>	4	4	11	<b>19</b>
<b>Total Target Value (\$bn)</b>	5	4	4	<b>13</b>
<b>Average Target Size (\$mn)</b>	1313	1008	344	<b>888</b>

### FINAL CLOSES BAROMETER



### LARGEST INFRASTRUCTURE / NATURAL RESOURCES FUNDS CURRENTLY ON THE ROAD

Fund	Manager	Target Size (Mn)	Location
GS European Infrastructure Fund	Goldman Sachs Private Equity Group	3,000 EUR	US
Energy Capital Partners	Energy Capital Partners	2,250 USD	US
Alinda Capital Partners I	Alinda Capital Partners	1,000 USD	US
Carlyle Infrastructure Fund	Carlyle Group	1,000 USD	US
Guggenheim Infrastructure Fund	Guggenheim Investment Management	1,000 USD	US
DIB Energy Fund	Dubai Islamic Bank	1,000 USD	UAE
DIB Infrastructure Fund	Dubai Islamic Bank	500 USD	UAE
EMP Indonesia Infrastructure	Emerging Markets Partnership	500 USD	US

### SAMPLE RECENT INFRASTRUCTURE / NATURAL RESOURCES FUNDS CLOSES

#### Carlyle Riverstone Global E&P Fund III

**Manager:** Carlyle Group / Riverstone  
**Geographic Focus:** North America  
**Target Size (mn):** 2000 USD  
**First Close (mn):** 1450 USD  
**Final Close (mn):** 3800 USD (Mar-2006)  
**Industry Focus:** Oil, Power, Natural Resources  
**Sample Investors:** AP-Fonden 2, CalPERS, Macquarie, New York State Teachers' Retirement System and Teachers' Retirement System of Illinois

#### KB Asset Management Infrastructure Fund

**Manager:** KB Asset Management  
**Final Close (mn):** 1200000 KRW (Mar-2006)  
**Geographic Focus:** South Korea, Asia  
**Industry Focus:** Infrastructure

#### ArcLight Energy Partners Fund III

**Manager:** ArcLight Capital Partners  
**Target Size (mn):** 2000 USD  
**First Close (mn):** 629 USD (Feb-2006)  
**Final Close (mn):** 2100 USD (Mar-2006)  
**Industry Focus:** Distribution, Energy, Power  
**Geographic Focus:** Global  
**Sample Investors:** CalPERS and CDP Capital

#### Sowood Commodity Partners IV

**Manager:** Sowood Capital Partners  
**Geographic Focus:** North America  
**Final Close (mn):** 1240 USD (Mar-2005)  
**Industry Focus:** Industrial, Energy, Infrastructure, Food, Natural Resources

Every month the Funds in Market Spotlight includes the largest ten funds being raised in the venture and buyout categories as well as the largest funds in another category of private equity. This month we show infrastructure and natural resources funds. A full list of the over 750 funds currently being raised can be viewed on our online database, Funds in Market.

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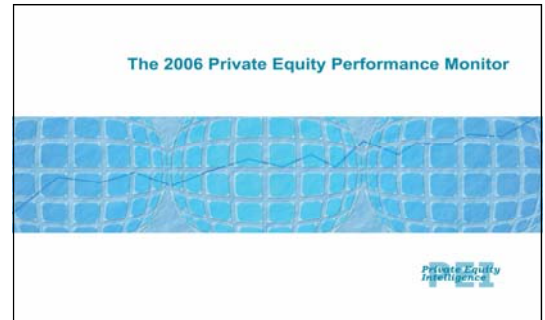
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## THE 2006 PERFORMANCE MONITOR

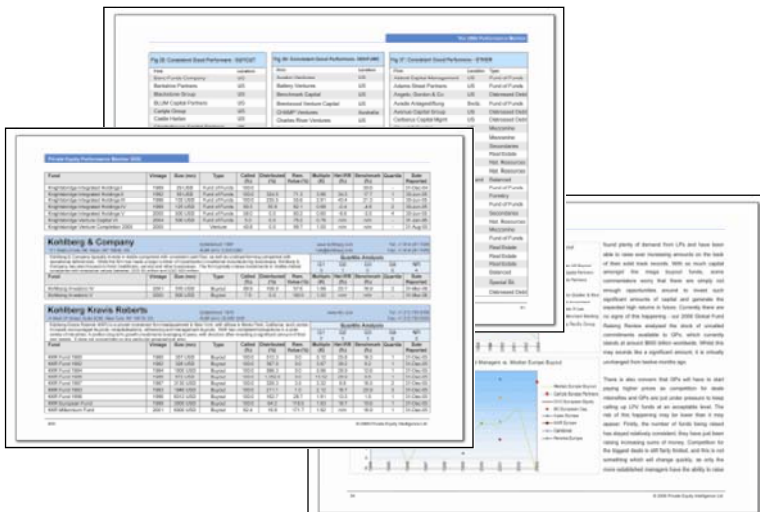
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- How have different industry sectors performed – the real performance of private equity when compared to listed equity
- What is the level of risk - complete assessment of different types of fund
- How does private equity performance compare against other asset classes – see how the private equity portfolio outperformed the stock market by 24% over ten years.



## WHO USES IT AND WHY?

The 2006 Performance Monitor is proving to be hugely popular with a wide range of private equity professionals worldwide:

- LPs use it to assess and compare the real long-term track records for 790 firms worldwide
- GPs and their placement agents use it to compare performance with relevant peer funds
- Advisors use it to keep up with the latest performance information for over 2,700 funds
- Fund of Funds use it to track performance of direct funds and of other fund of funds.

## HOW CAN I GET IT?

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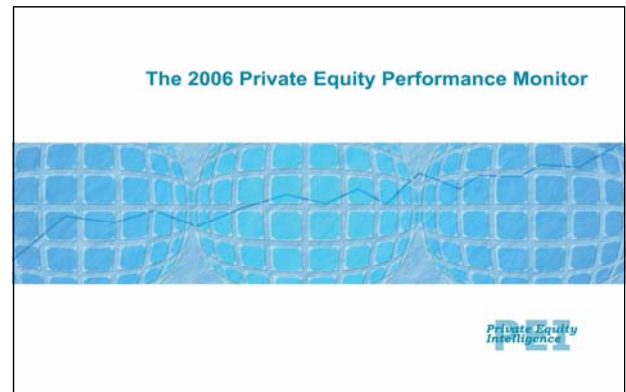
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# INVESTOR SPOTLIGHT

*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 the potential investors in private equity energy funds.

Interest in energy-focused funds has never been greater with an expanding group of investors including allocations to the sector as part of their private equity portfolios. The Investor Intelligence database identifies 77 investors who have previously committed to one or more natural resources-focused funds. In addition, the database identifies a further 57 LPs who have specifically expressed an interest in investing in such funds in the future.

LPs looking towards the energy sector include the Teachers' Retirement System of the State of Illinois (TRS). The pension fund, with over USD 31 billion under management, has a 6% target allocation to private equity. In 2006, its commitments to private equity funds include USD 50 million specifically for industry-focused funds such as those investing in the energy sector. Recent commitments by TRS include USD 50 million to Energy Capital Partners Fund and USD 90 million to Carlyle Riverstone Global Energy & Power Fund III. Carlyle's USD 3.8 billion fund will give TRS exposure to oil, power and natural resources investment opportunities in the US. Fellow US pension funds New York State Teachers' Retirement System and California Public Employees' Retirement System (CalPERS) were also limited partners in Carlyle's third energy and power offering, committing USD 100 million and USD 250 million respectively.

Energy specialist fund manager, Arclight Capital Partners, has been enjoying a successful fundraising period with investor appetite at its most fierce. Arclight's third fund, Arclight Energy Partners Fund III, recently closed on USD 2.1 billion, USD 100 million above its original target. The fund secured commitments from over 90 LPs in less than 3 months.

The total amount raised includes a re-up from fund of funds manager CDP Capital – Private Equity Group, with a history of investing in the energy sector. Another returning investor is The University of Texas Investment Management Company (UTIMCO). With around USD 19 billion under management UTIMCO increased its allocation to private equity from 10% to 15% in 2005. In order to meet this target UTIMCO will have to make commitments of USD 1.67 billion in 2006 and 2007. As a result, in the three month period to March 2006, UTIMCO has made commitments to ten funds, with an average commitment size of USD 38.7 million.

Also making the headlines in the energy sector is First Reserve Corporation which has announced its eleventh fund, First Reserve Fund XI, targeting USD 2.5 billion. LPs have been clamouring for a piece of this fund with commitments expected from existing LPs in the firm's previous funds, including California State Teachers' Retirement System (CalSTRS), Massachusetts Pension Reserves Investment Management Board (Mass PRIM) and Washington State Investment Board (WSIB). In March this year CalPERS committed USD 200 million to Arclight's third fund following its USD 75 million commitment to Arclight Capital Partners II. CalPERS plans to invest USD 3 billion per year in private equity to maintain its 6% weighting. CalPERS' investments returned 12.7% in the fiscal year ending June 2005, adding USD 23.5 billion to its total assets.

Outside of the US, European LPs making commitments to energy-focused funds include AP-Fonden 2. The Swedish pension fund is a limited partner in both the Carlyle Riverstone Renewable

# INVESTOR SPOTLIGHT

Energy Infrastructure fund to which it committed SEK 159 million, and the Carlyle Riverstone Global Energy & Power Fund III which received an SEK 239 million commitment. AP2 has assets under management of over SEK 173 billion and a target allocation to private equity of 1.9%.

Enthusiasm for energy funds can also be seen amongst French investors with both Dexia-Crédit Local and Proparco committing to such funds. Proparco committed to the Global Asia Clean Energy Services Fund which raised a total of USD 70 million and held a final close in December 2005, whilst Dexia-Crédit Local invested in Impax New Energy Investors. Similarly to Dexia, British Airways Pension Fund also committed to the Impax fund through which it will have exposure to Western European energy and natural resources investment opportunities.

With a further 59 funds across the globe currently seeking an aggregate USD 23 billion for energy related investments GPs' confidence in investor appetite for energy funds is clearly high.

## **Are you currently fund raising?**

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# INVESTOR NEWS

The New Jersey-based USD 3 billion **HGK Asset Management (HGK)** has created an Alternative Investment division. The firm is actively seeking to make its maiden investment in the private equity asset class and its strategy is likely to include commitments to fund of funds vehicles.

Swiss based **Partners Group** has closed its first dedicated Asian fund of funds with commitments of USD 375 million. The fund, which exceeded its initial target of USD 300 million, will invest 60% of its assets in mature Asian economies such as Japan, Korea, South-East Asia, Australia and 40% in the emerging economies of China and India.

**Private Equity Investors (PEI)** have closed their fourth secondary fund, Private Equity Investors IV with commitments of USD 170 million. The fund, which exceeded its original target of USD 150 million, will focus on secondary purchases of fund interests (principally venture, buyout and mezzanine) and portfolios of direct private equity holdings in the US.

**Los Angeles County Employees' Retirement Association (LACERA)** is redefining the way it selects private equity firms to manage part of its allocation to emerging managers. Investment officer Chris Wagner has imposed a set of new criteria by which managers must have at least five years private equity experience and be targeting to raise funds of at least USD 300 million.

Swiss-based fund-of-funds manager **Partners Group** is expanding its Singapore office with the appointment of two trainees: Juan Lin-Hui and Shih-Loong Ngooi. The two recruits are currently being trained in the firms Zug headquarters and will be posted to Singapore in the coming weeks. In total the Singapore office has room for 20 new employees. Partners Group has recently launched an Asian focused fund of funds targeting USD 500 million.

The USD 28.8 billion **Pennsylvania State Employees' Retirement System (PA SERS)** has authorised commitments of USD 290 million to five private equity funds in its latest board meeting. Commitments range in size from USD 30 million to USD 100 million. The five funds are: Avenue Asia Special Situations Fund IV, HarbourVest International V, New Enterprise Associates XII, Oak Investment Partners XII, and Texas Pacific Group Partners V. In the four month period to 26th April 2006, PA SERS has approved commitments to 19 private equity funds worth a total of USD 840 million to USD-denominated funds, as well as EUR 95 million to EUR-denominated funds.

Texas-based **Fort Worth Employees' Retirement Fund** is allocating 7.5% (USD 112 million) of its assets to private equity. The USD 1.5 billion fund is actively seeking to make its maiden investment in the asset class.

**Each month Spotlight provides a selection of the recent news on LP investors. More news and updates are available online for Investor Intelligence subscribers.**

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