PRIVATE EQUITY SPOTLIGHT

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November 2005 Volume 1 Issue 9

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 online products Performance Analyst, Investor Intelligence and Funds in Market, and our publications.

No. of Funds on Road	US	Europe	ROW	Total
Venture	156	63	69	288
Buyout	100	49	29	178
Fund of Funds	48	39	5	92
Other	48	10	12	70
Total	352	161	115	628

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PERFORMANCE · INVESTORS · FUND RAISING

Private Equity Intelligence

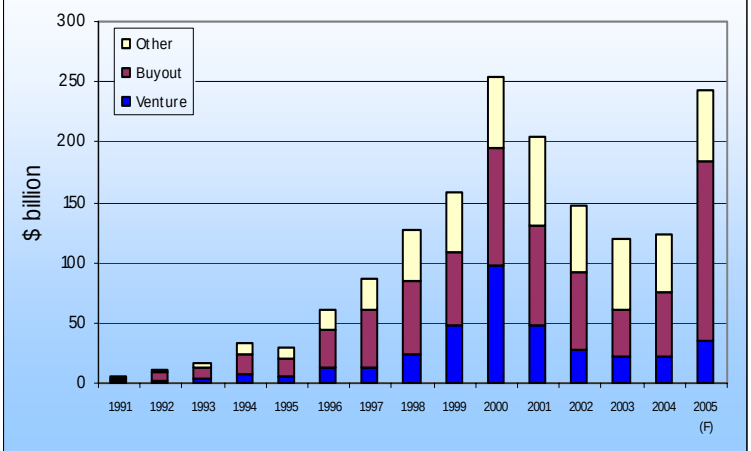
PRIVATE EQUITY SPOTLIGHT

Feature Article: Global Fund Raising and Returns – Cyclical Peak or Sustainable Growth?

As we go to press on 3rd November, no fewer than 307 private equity funds have achieved final closes to date this year, raising an aggregate $189 billion between them.

Looking ahead to the final two months of the year, it looks likely that 2005 will see a total of between $220 billion and $250 billion of final closes, pushing hard on 2000's total as the best fund-raising year ever seen in the industry (please see Fig. 1).

Fig 1: Private Equity Fund Raising by Vintage Year, 1991 to 2005



It is perhaps unsurprising therefore that commentators are increasingly expressing concerns about the ability of private equity returns to remain at their current attractive levels, and opining that the sheer weight of money in the industry will inevitably drive profits down.

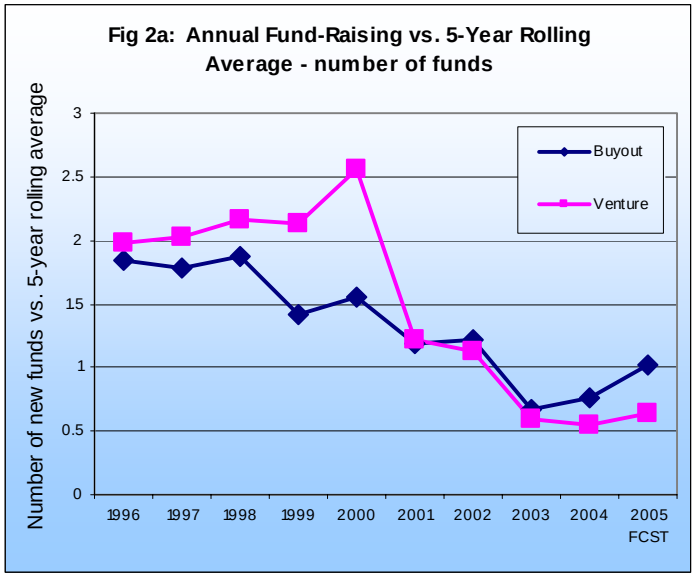
"The largest funds in each vintage year have historically performed better than the average"

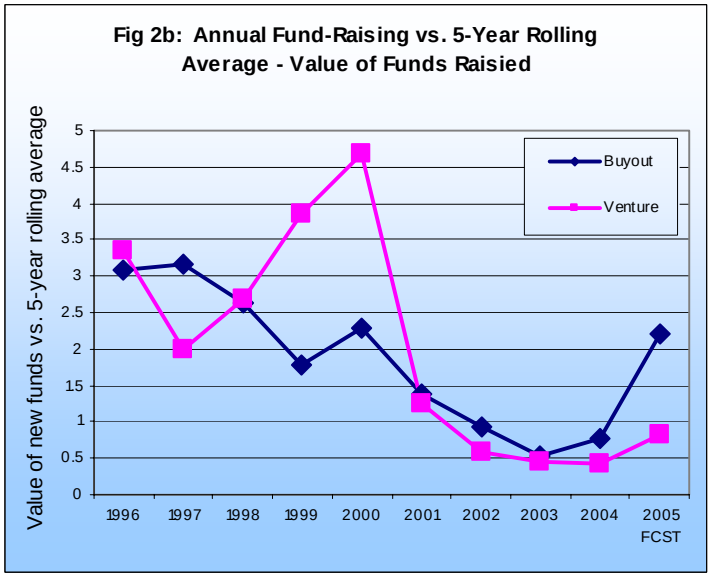
But is this necessarily true? Here we present some data to support a contrary view: that the current surge in fund raising is soundly based, and that the industry can absorb the wall of money and continue to deliver the 'alpha' that LPs are looking for.

A Tale of Two Cities ("*It was the best of times, it was the worst of times . .* ") Everyone knows that 2000 was the year of the venture fund, while 2005 is being driven primarily by buyouts (please see Fig. 1). There are further critical differences in the scale and nature of the fund-raising markets in 2000 and 2005. Fig 2a charts the number of new venture and buyout funds raised each year globally between 1996 and 2005, compared with a five-year rolling average. Fig 2b does the same for the amount of money raised. The contrast is clear:

- 2000: the number of new venture funds raised in 2000 reached two-and-a-half times the rolling five year average. Between them, these funds raised over four-and-a-half times the annual average amount of money. Furthermore, the venture money raised by these funds was targeted at a well-defined and finite universe of opportunities: new business start-ups and expansion, primarily in the tech area. With the benefits of hindsight, the problem is clear: an excessive amount of money, in a large number of hands (many of them inexperienced), chasing a finite pool of opportunities.

- 2005: is a record year for buyout fund raising, with the amount of money just over twice the five-year rolling average. However, this ratio is actually lower than it was in 2000 – i.e. it is within the established longer-term growth of the buyout industry. Furthermore, the number of new funds raised is bang on the rolling five year average. In other words, it is essentially the same (experienced) firms that are raising the money –



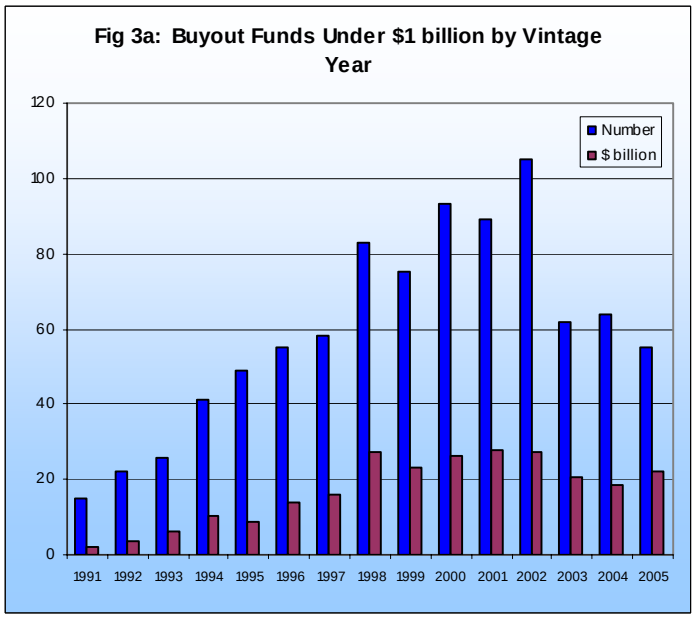


they are just raising more of it. There is a further and vital qualitative difference: the universe of buyout opportunities is elastic, as assets can and do transfer between private equity and the (much larger) quoted world. (We'll revisit this point later).

(As an aside, it is important to note that, despite the pain experienced from funds around the Millennium, venture has delivered over $100 billion of net value gains to date for LPs over the vintages 1991 to 2003, and is once more on an improving trend).

Figs. 3a and 3b further explore the size dimension, tracking buyout funds raised globally each year below and above $1 billion in size. It becomes abundantly clear that the mid-market is having a respectable, but by no means remarkable, fundraising year. All the growth has come in the mega-funds of over $1 billion – and even here it is the amount of money raised that has really grown, more than the number of funds.

The mid-market is clearly already very competitive in the US and Europe, with dozens of funds able to bid in most auctions – but at least the analysis above



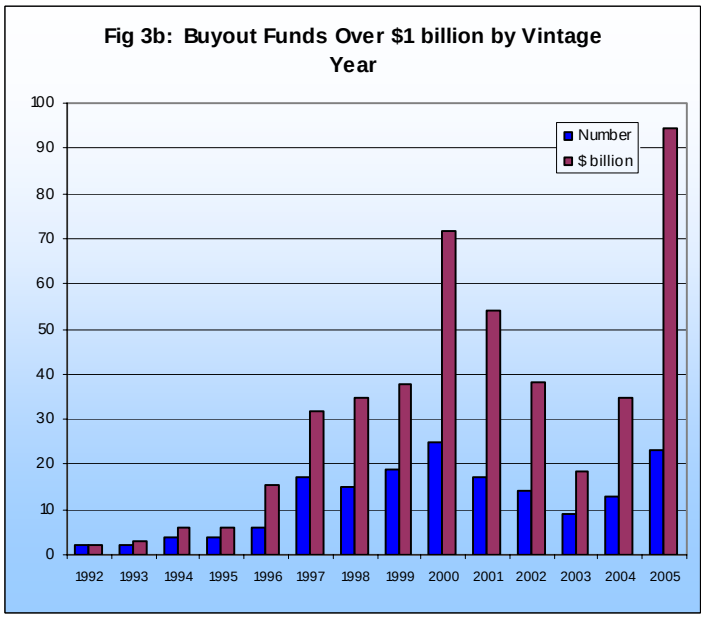


Fig 4: Performance of Largest 25% of Buyout Funds in each Vintage Year

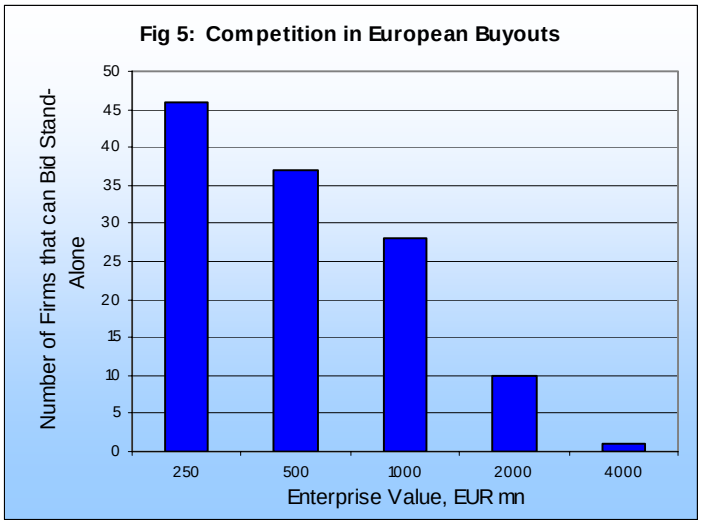
	Europe	US
- number of "larger" funds in sample:	24	77
- number beating IRR benchmark:	16	42
- average IRR vs. benchmark:	*+ 6.2%*	*+ 2.4%*
- number beating average multiple:	18	43
- average multiple vs. benchmark:	*+ 0.41 X*	*+ 0.13 X*

Source: 2005 Private Equity Performance Monitor

suggests that things are unlikely to become *more* competitive. This is backed up by statistics from Thomson Financial on the average European mid-market multiple – which has remained in the range 7.4 times to 7.7 times between 1999 and 2004. Mid-market players rightly point to statistics like these to argue that the sector is not over-heating, and that good returns can still be generated by careful operators.

What then, are the prospects for the current generation of large buyout funds above $1 billion in size - funds that will comprise one-third by number and 80% by value of all funds raised this year? The first point to note is that the largest funds in each vintage year have historically performed better than the average: our own 2005 Performance Monitor showed that the top quartile by size in each vintage year has generally delivered better value multiples and IRRs than the average fund (please see Fig. 4); and recent research from SCM in Switzerland and the Centre for Management Buyout Research in UK supports this.

The reasons for the superior performance of the largest funds are debatable. One factor may be that there are simply fewer funds that can compete for the largest deals. Fig. 5 shows this for European buyouts – while as many as 30 or 40 firms can bid for companies with enterprise values of less than EUR 1 billion, the number of potential bidders falls rapidly above this threshold. A further reason may of course be the sheer quantity and quality of management talent that can be deployed against the largest investments. Finally, the largest and most experienced private equity firms are able to commit more of their own capital to the fund and to individual deals, strengthening the alignment of interest between GP and LP – e.g. Blackstone committed $200 million to their latest fund and will probably co-invest further sums. This trend is most noticeable in the US, where firms have had longer to build up their asset base through the carry earned on their earlier fund vintages, but will surely emerge also in Europe as firms earn more carry.



The key issue for LPs is not so much whether large buyout funds can continue to deliver a specific level of absolute return over the coming years, but whether they can combine growth in the buyout market with returns that are sustainably better than those available in public equities.

The key point here is that the growth of the buyout industry is being accompanied by declines in listed equities – i.e. there is a steady and long-term shift in the ownership model. As pension funds move towards closer matching of assets against liabilities, they are allocating greater amounts to bonds at the expense of equities – Watson Wyatt calculate that listed equities have declined from 60 per cent of pension fund assets across the 11 leading world economies in 1999 to 51 per cent today. At the same time they are generally increasing their allocations to private equity and other alternatives in the search for 'alpha'. This trend is especially noticeable outside the US where Watson Wyatt forecasts increased allocations

As a result, the Financial Times observed (October 10th) that many Western stock markets have actually shrunk over the past few years, as a result of share buybacks and take-privates. At the same time, private equity has grown.

In conclusion, we believe that the concerns that some commentators have expressed recently about the growth of the buyout industry are over-played. It is not a case of more money chasing the same assets. Rather, it is the same ultimate investors re-directing money from one ownership model (listed equity) to another (private equity) – and the private equity world has several unmatched fundamental advantages: greater investor involvement and commitment to adding value; a longer-term perspective; stronger incentives and alignment between management and investor interests. These advantages will be equally relevant as the new mega funds move up the size scale of the enterprises they acquire.

It would of course be remarkable if 2006 saw quite as much new funds raised as 2005. However, we firmly believe that 2005 is part of a sustainable and profitable long term growth trend, not a flash in the pan.

CHANGE OF ADDRESS

PEI has moved to new and larger offices overlooking St. Pauls. E-mail and web addresses are unchanged, and the new street address and phone-number are listed below:

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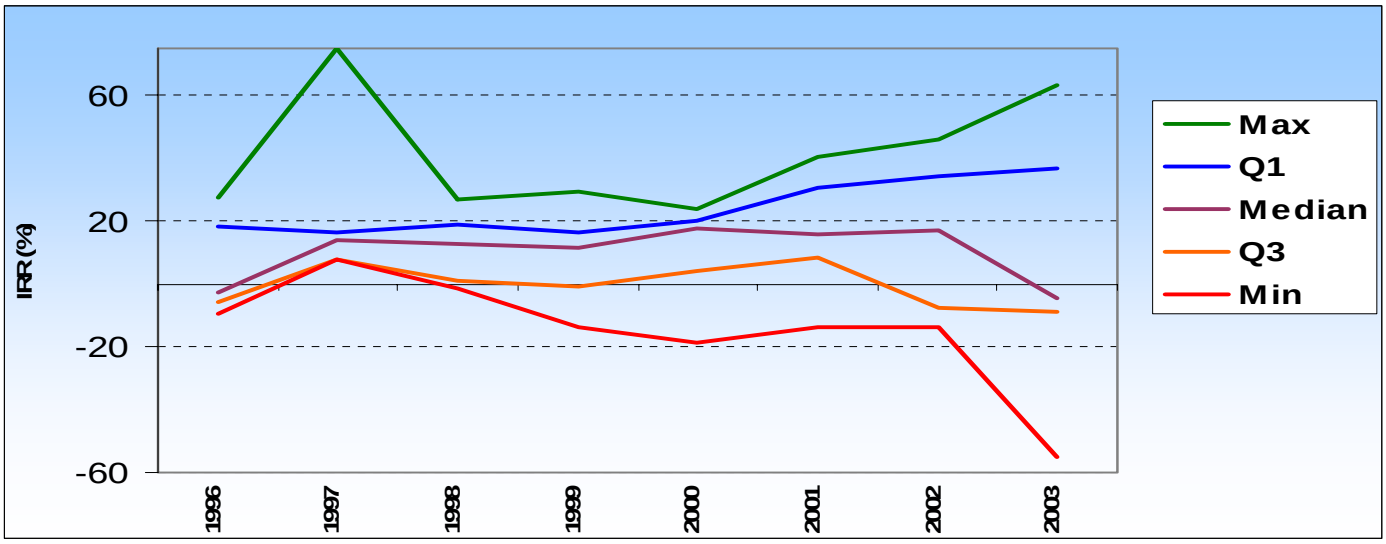
PERFORMANCE SPOTLIGHT

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 EUROPEAN BUYOUT FUNDS



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

PERFORMANCE COMMENTARY

This month Spotlight looks at European Buyouts. These firms are experiencing great success in fund raising, as many investors view European Buyouts as one of the most dynamic and promising sectors of the private equity industry worldwide.

The chart above shows the performance to date of European Buyout funds for the vintage years 1996 to 2003. Median IRRs have generally been consistently in the range 15% to 20%, with the exception of 2003, which is still on the downside of the J-curve. Few other sectors have shown such consistency over the period.

Median IRRs are a good indicator of average performance, but by definition 50% of funds will out-perform the median and 50% will fall short of it. The chart therefore also shows the Q1 IRR by vintage year (i.e. all first quartile funds will out-perform this figure) and the Q3 IRR (i.e. all fourth quartile funds performed worse than this) as well as the best and worst IRRs in each vintage year. Like other sectors in private equity, the margin between the top and bottom quartiles for European Buyouts is large. We have argued elsewhere in this month's Spotlight for the promising outlook for continued good returns in the Buyout market. The consistency of European buyout IRRs supports this argument, but even in a booming sector investors must carefully select the right firms and funds to ensure success.

The table below summarizes the net performance of some of the best European Buyout funds from the 1996-2003 vintages – confirming that European Buyout can deliver high returns. (Our Performance Analyst database currently has performance data for 161 European Buyout funds).

Fund	Vintage	Fund Size (Mn)	Called (%)	Distr. (%)	Value (%)	IRR (%)	Multiple	Date
Permira Europe I	1997	890 EUR	83.1	196.4	20.4	74.2	2.17	31-Mar-05
Phoenix Equity Partners IV	2001	374 GBP	54.9	75.0	103.1	40.7	1.78	31-Dec-04
Cinven III	2001	4350 EUR	87.4	48.3	95.2	30.7	1.44	31-Mar-05
Barclays PE European Fund	2002	1250 EUR	79.0	41.0	122.4	46.1	1.63	28-Feb-05
CapMan Equity VII-A	2002	107 EUR	26.2	0	164.5	44.3	1.65	31-Mar-05

Product Spotlight: The 2005 Carry Review

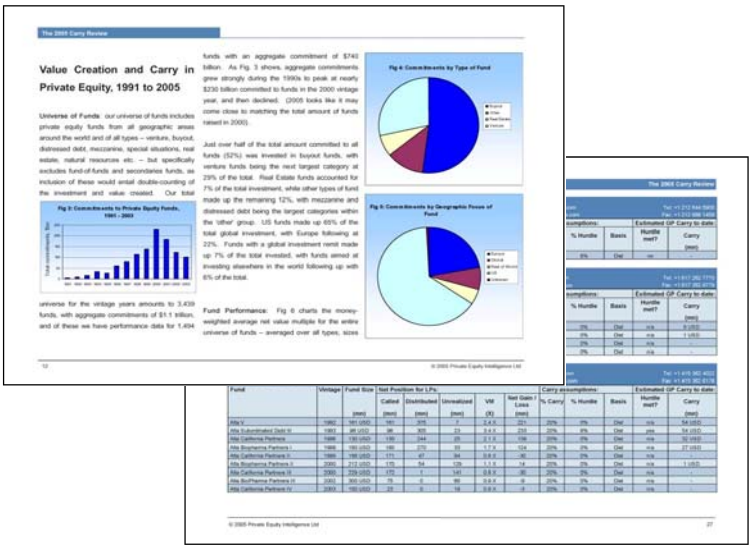
Each month Spotlight takes a closer look at one of the many products and services provided by Private Equity Intelligence, exploring the features offered; how it can help you in your job; who uses it and how you can get it.

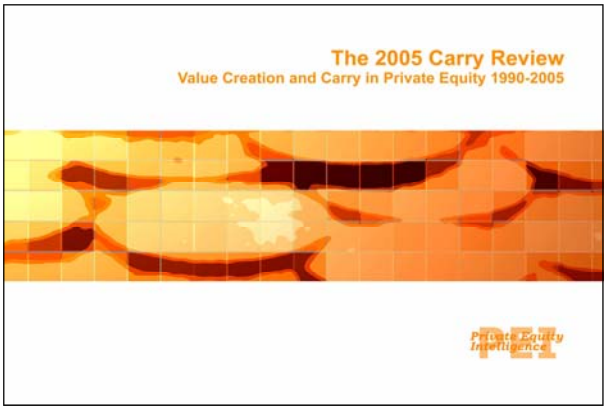
This month: The 2005 Carry Review

The 2005 Carry Review

is a hard copy publication providing, for the first time ever, detailed analysis of private equity's track record in delivering net value added to LPs, and the carry that GPs have earned on these funds. Based upon analysis of 2,400 private equity and venture capital funds, the Carry Review brings you information on:

- $300 billion of net value added for LPs worldwide
- $54 billion of carry earned by GPs
- 102 funds that have earned more than $100 million of carry each, and 10 funds that have earned over $500 million carry each
- which fund types and geographies have delivered the most value added
- what are the key trends
- key fund terms affecting carry and how they vary by fund type
- detailed fund listings for 750 leading funds showing which have delivered the greatest total net value added for LPs, and which funds have earned the most carry for





WHO USES IT AND WHY?

The 2005 Carry Review has proven to be hugely popular with a wide range of private equity professionals worldwide:

- LPs use it to track which sectors – and firms – have created the most net value added
- GPs and their placement agents use it to compare carry earned with relevant peer funds
- Advisors use it to track value added and carry earned worldwide: where have the real gains been made?
- Fund-of-Funds use it to track the value creation performance of different primary market sectors and firms.

HOW CAN I GET IT?

The 2005 Carry Review is available at £345/ $595/€495. For more information, including sample pages, and to order, please visit

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Detailed analysis of value added and carry fund-by-fund. See how the private equity industry has created value for LPs and GPs:

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  - See which funds have delivered to most total net value gain for LPs
- GPs have earned **$54 billion** in carry on their 1991 – 2003 vintage funds to date
  - 102 funds have earned over $100 million in carry each *to date* – see which ones
- Listings of net value added for LPs and carry earned by GPs for 750 funds worldwide.

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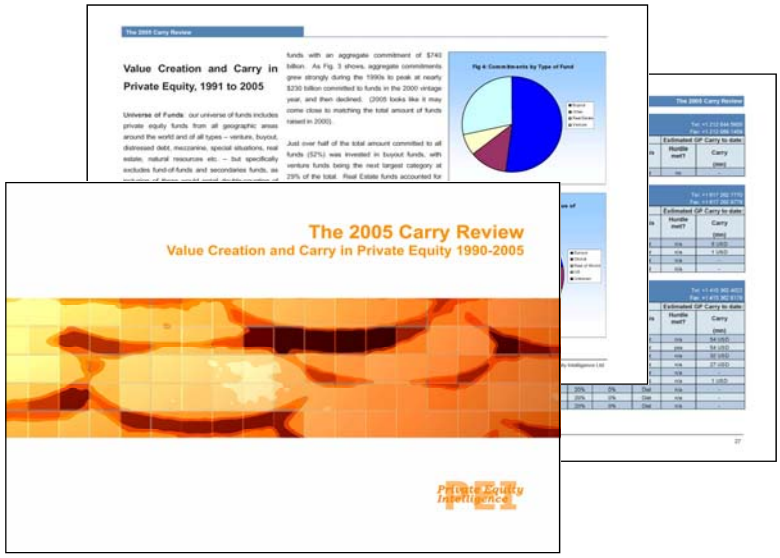

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PRIVATE EQUITY INTELLIGENCE
GLOBAL FUND RAISING UPDATE Q3 2005

The Global Fund Raising Update is a quarterly report providing insight into fund raising activities worldwide. Each quarter we analyse the development of funds closed, funds on the road and funds by type and location.

Number of Funds closed Q3 2005	US	Europe	ROW	Total
Venture	19	6	6	31
Buyout	17	7	6	30
Fund of Funds	4	2	0	6
Other	21	1	2	24
Total	61	16	14	91

Value of Funds closed Q3 2005 (USD bn)	US	Europe	ROW	Total
Venture	4	1	2	7
Buyout	18	18	3	40
Fund of Funds	3	0.1	0	3
Other	14	2	1	17
Total	38.9	21	6.4	66

PEI's 2005 Global Fund Raising Review predicted a record year with around $200 billion of new funds raised. Progress in Q3 2005 confirms that fund raising is set to hit the $200 billion mark, and may well exceed it:

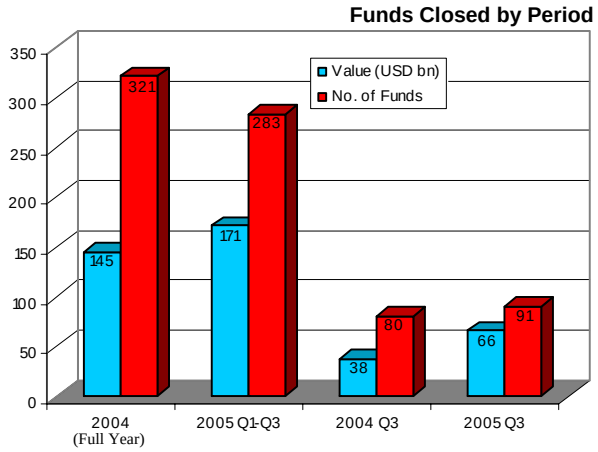
— 91 funds achieved final closes during Q3, raising a provisional $66 billion. (The Q3 figure will grow further as additional information flows though).

— Comparing Q3 2005 with Q3 2004, an increase in both the number and aggregate value of funds can be seen: number of funds up by 14%, aggregate value up by 74%. The average fund size in Q3 2005 is $725 million, a 53% increase on the $475 million average in Q3 2004.

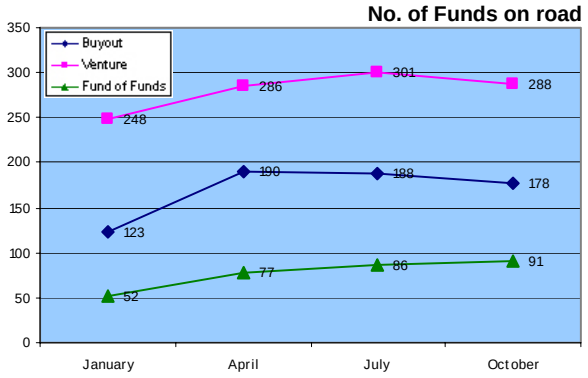
— The pace of fund raising is remaining stable during 2005 with the 627 funds currently on the road having an aggregate target of $199 billion, which is a slight decrease in the number of funds on the road, and a $6 billion increase in aggregate target since July.

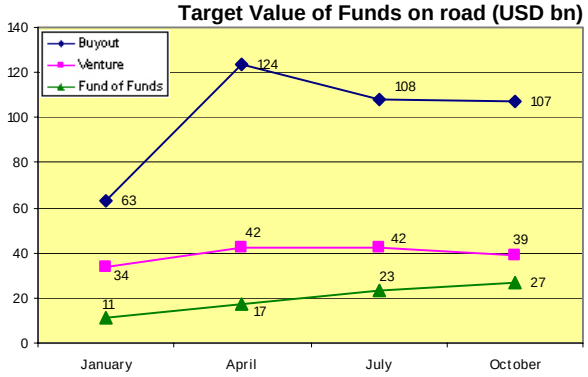
— European buyout funds in particular have been successful in their fund raising efforts. Helped by a number of high profile closes the European buyout market has raised an equal amount of capital as the US market for Q3 2005, at around $18 billion.

Fund-Raising Barometer

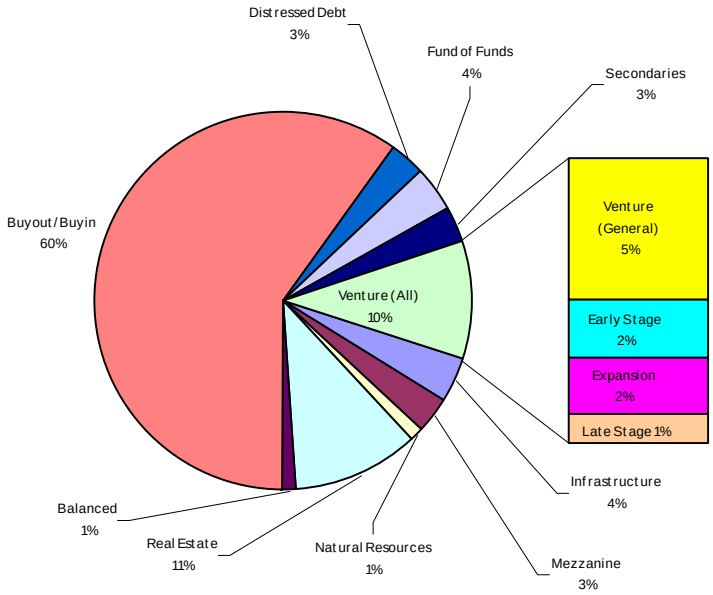


Funds on the Road





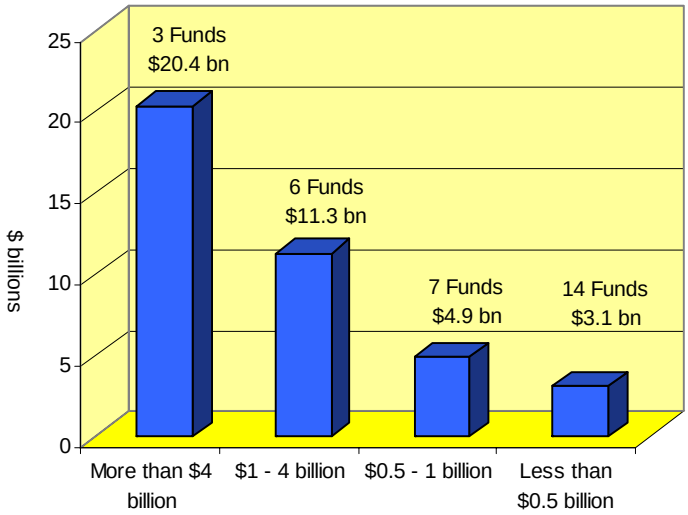
Q3 2005 Funds Closed by Type (Sorted by % of Value)



This Data was compiled using our **"Funds in Market"** product, a comprehensive database of all new private equity funds being raised worldwide. Subscribers to Funds in Market receive the Global Fund Raising Update Quarterly Reports. For more information contact us on info@preqin.com

GLOBAL FUND RAISING UPDATE Q3 2005: BUYOUT

Q3 2005 Buyout Funds Closed by Fund Size



Buyouts accounted for 60% of the value of all new funds raised during Q3 2005, with 30 funds achieving final closes totaling $39.7 billion.

— Mega-funds have continued to be a notable feature: funds above $4 billion raised 51% of all capital in Q3.

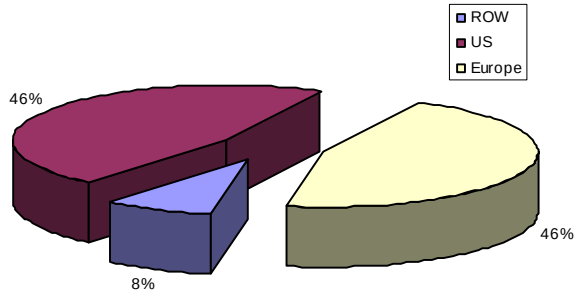
— With clear evidence that the largest buyout funds have historically out-performed smaller funds, more firms are likely to hit the road with mega funds.

— Warburg Pincus IX was the largest buyout fund closed during Q3 2005 at $8 billion. Of the ten largest funds closed during Q3, five were European, three were US based, and 2 were Asian.

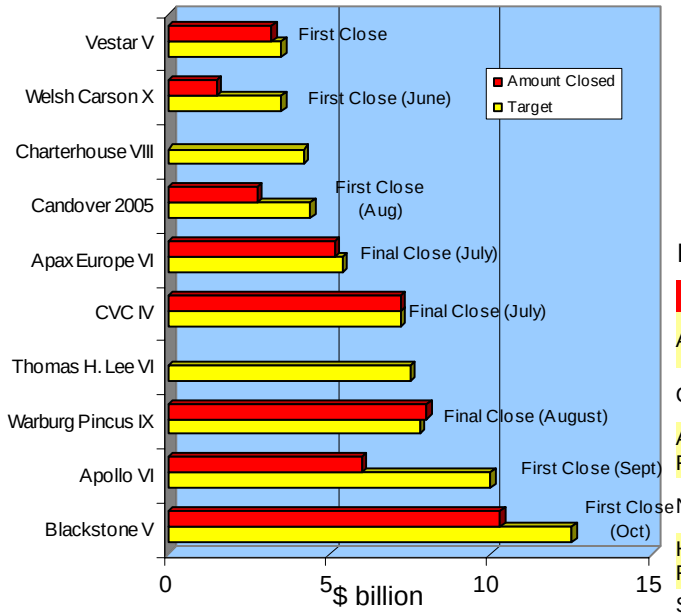
— Europe and US each shared around 46% of capital raised during Q3. European was boosted by the final closes of a number of European mega funds, such as CVC IV and Apax Europe VI.

Q3 2005 Buyout Funds Closed by Location

(Sorted by % of Value)



Mega Buyout Funds: Market Overview



Buyout Funds Closed outside US/Europe Q3 2005

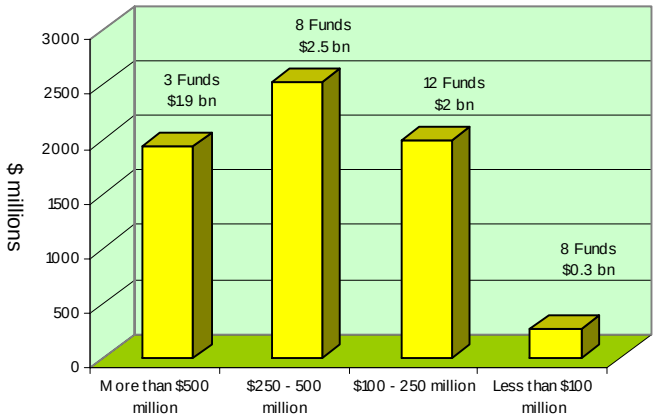
Fund Name	Manager	Size	Regional Focus
Asia Opportunity Fund II	CCMP Capital Asia	1575 USD	Asia
CHAMP 2	CHAMP Private Equity	950 ASD	Australasia
Advent Latin American Fund III	Advent International	375 USD	Latin America
Navis Asia Fund IV	Navis Capital Partners	315 USD	Asia
H&Q Asia Pacific Korea Fund	H&Q Asia Pacific	300 USD	Korea
Shuaa Partners Fund I	Shuaa Capital	200 USD	Middle East
GW Capital India Fund II	GW Capital	150 USD	India

Largest Buyout Funds Closed Q3 2005

Fund Name	Manager	Size (Mn)	Location
Warburg Pincus Private Equity IX	Warburg Pincus	8000 USD	US
CVC European Equity Partners IV	CVC Capital Partners	6000 EUR	Europe
Apax Europe VI	Apax Partners	4300 EUR	Europe
Montagu III	Montagu Private Equity	2260 EUR	Europe
Oak Hill Capital Partners II	Oak Hill Partners	2500 USD	US
Elevation Partners	Elevation Partners	1800 USD	US
Asia Opportunity Fund II	CCMP Capital Asia	1575 USD	Asia
Electra European Fund II	Electra Partners	1260 EUR	Europe
Lehman Brothers Merchant Banking III	Lehman Brothers	1200 USD	US
European Capital I	European Capital	700 EUR	Europe

GLOBAL FUND RAISING UPDATE Q3 2005: VENTURE

Q3 2005 Venture Funds Closed by Size



Venture Funds accounted for 10% of the value of all new funds raised during Q3 2005, with 31 funds achieving final closes totaling $7 billion.

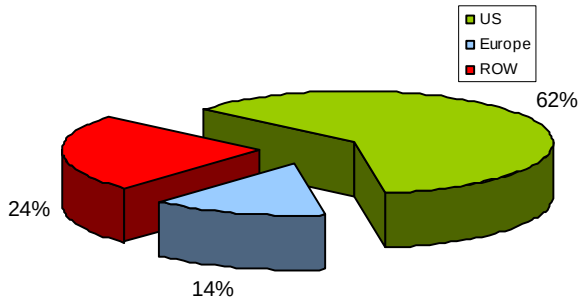
— Balanced Venture funds dominated, accounting for 5% of capital raised. Early stage and expansion account for 2% each, and late stage funds make up 1%.

— Once again the venture market is dominated by US funds, with the European market falling behind the Asian market, which saw its market share increase from 11% in Q2 to 24% for Q3 2005.

— Notable closes in Q3 2005 include AIG Highstar Capital II ($800 million), and Softbank's second Asian Investment fund ($643 million). In Europe Accel's second European fund closed on €375 million.

Q3 2005 Venture Funds Closed by Location

(Sorted by Capital Value)



Early-Stage Venture Funds: Current Situation

Highland Capital Partners VII Focus: Healthcare, Communications, IT	800 mn USD	Raising
Atlas Venture Partners VII Focus: Services, Communications, IT, Life Sciences, Bio-technology	500 mn USD	Raising
Lightspeed Venture Partners VII Focus: Technology, Software, Semiconductors, Computer Services	400 mn USD	Raising
BlueRun Ventures III Focus: Technology, Telecoms	350 mn USD	Interim Close
Syndicated Communications Ventures V Focus: Communications, Digital Media	300 mn USD	Raising
MTI V Focus: Technology	150 mn GBP	Raising

Venture Funds on the Road

Fund Name	Type	Focus	Target
Technology Crossover Ventures VI	Late Stage	US	1250 USD
TowerBrook investors II	Venture (General)	US	1000 USD
Highland Capital Partners VII	Early Stage: Other	US	800 USD
ABS Capital V	Late Stage	US	500 USD
Atlas Ventures VII	Early Stage: Seed	US	500 USD
Burrill Life Sciences Capital Fund III	Venture (General)	US	400 USD
Schroder Ventures Intl Life Sciences IV	Venture (General)	US	400 USD
Baring Private Equity Asia III	Venture (General)	Asia	400 USD
Lightspeed Venture Partners VII	Early Stage: Other	US	400 USD
CDC Enterprises III	Venture (General)	Europe	300 EUR

Largest Venture Funds Closed Q3 2005

Fund Names	Manager	Size (Mn)	Location
AIG Highstar Capital II	AIG Global Investment Group	800 USD	US
SAIF Asia Investment Fund II	Softbank Asia Infrastructure Fund Advisors	643 USD	Asia
Sequoia Capital Growth III	Sequoia Capital	500 USD	US
Accel Europe II	Accel Partners	375 EUR	Europe
Sigma Partners VII	Sigma Partners	400 USD	US
HealthCare Ventures VIII	HealthCare Ventures	375 USD	US
Granite Global Ventures II	Granite Ventures, LLC	350 USD	US
Actis India Fund 2	Actis	325 USD	Asia
CDH China Growth Capital Fund II	CDH China Holding Management Co. Ltd.	310 USD	Asia
Sprout Healthcare	Sprout Group	310 USD	US

Global Fund Raising Update Q3 2005: Other

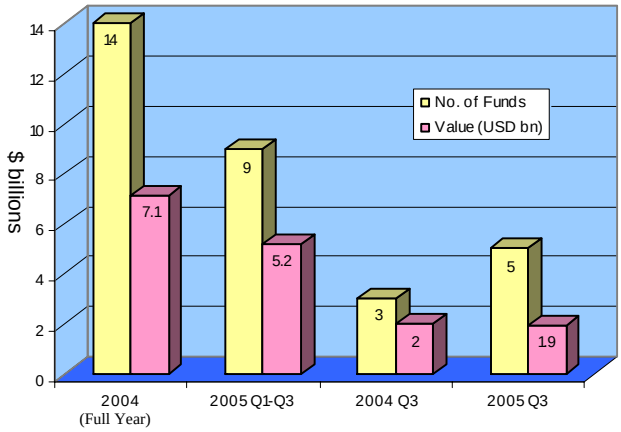
Secondaries Funds Closed in Q3 2005

Fund Names	Size (Mn)	Location
Pomona Capital VI	821 USD	US
Lexington Middle Market Investors	550 USD	US
Montauk Triguard III	300 USD	US
Permal Private Equity Holdings 2004	149 USD	US
Saints Capital V	100 USD	US

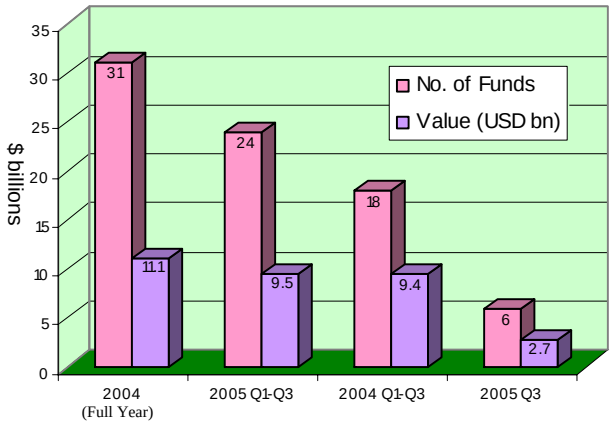
Fund of Funds Closed in Q3 2005

Fund Names	Size (Mn)	Location
Horsley Bridge Fund VIII	1000 USD	US
Paul Capital Top Tier Investments III	620 USD	US
IFM International Private Equity Fund II	513 USD	US
Commonfund Capital Venture Partners VII	500 USD	US
Westport European Private Equity V	20 GBP	Europe

Q3 2005 Secondaries Funds Closed by Period



Q3 2005 Fund of Funds Closed by Period



Other Funds Closed in Q3 2005

Fund Names	Manager	Type	Size (Mn)	Location
Lehman Brothers Real Estate Partners II	Lehman Brothers	Real Estate	2400 USD	US
Macquarie European Infrastructure Fund	Macquarie Funds Management Group	Infrastructure	1500 EUR	Europe
L.S. Power Fund I	L. S. Power	Infrastructure	1200 USD	US
Lehman Brothers Real Estate Mezzanine Partners	Lehman Brothers	Real Estate	1100 USD	US
OCM/GFI Power Opportunities Fund II	Oaktree Capital Management	Mezzanine	1020 USD	US
LaSalle Asia Opportunity Fund II	LaSalle Investment Management	Real Estate	1000 USD	Asia
WLR Recovery Fund III	WL Ross & Co	Distressed Debt	1000 USD	US
Carlyle Realty Partners IV	Carlyle Group (The)	Real Estate	950 USD	US
Tenaska Power Fund	Tenaska Capital Management	Natural Resources	838 USD	US
Praedium Fund VI	Praedium Group	Real Estate	700 USD	US
GSC Partners CDO Fund V	GSC Partners	Distressed Debt	600 USD	US

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 analyze investors in a specific region - this month we look at the Central and Eastern Europe.

INVESTOR NEWS

US giant **CalPERS** has expanded its exposure to emerging markets with a commitment to Advent Latin American Private Equity Fund III. The fund, which received a USD 50 million commitment from the giant US pension fund, will invest primarily in companies in Mexico, Brazil and Argentina. CalPERS is active in a number of other emerging markets; it is looking to broadly diversify across Asia and Europe and has announced that it will increase its exposure to the Indian private equity market. With USD 196 billion in total assets, CalPERS will invest USD 3 billion a year in private equity in order to maintain its 6% allocation to the asset class.

AlpInvest Partners is set to focus on its primary and secondary private equity fund activities following the spin-off of its EUR 550 million direct buyout arm. The buyout division is to be re-named Taros Capital and will become fully independent from January 1st 2006. AlpInvest, with over EUR 20 billion already committed to private equity funds, was a key player in one of the largest secondary transactions of 2005. Alongside Lexington Partners, AlpInvest acquired the private equity portfolio of DPL (the parent company of Dayton & Power and Light). The portfolio of around 46 private equity funds was purchased for USD 850 million and included around USD 1.2 billion in fund commitments.

Dorset County Council Pension Fund has put out a request for proposals for private equity fund-of-funds managers for a mandate worth GBP 40 million. The pension fund may appoint more than one manager. This allocation to private equity represents 4% of the pension fund's total assets. For the long-term, the performance expectation is approximately 300-500 basis points above public markets, net of fees.

Iceland's Western Province pension fund, **Vesturlands Lifeyrissjodur**, is set to consider increasing its target allocation to alternative assets. Vesturlands Lifeyrissjodur is a new and to-date small player in the private equity asset class, investing solely in fund-of-funds. The pension fund's asset base is, however, set to increase from EUR 200 million to EUR 500 million following its anticipated merger with Lifeyrissjodur Sudurlands, Iceland's Southern Province pension fund. With a larger portfolio, the pension fund may well make additional commitments to private equity funds. The fund is also currently evaluating the possibility of investing in hedge funds.

Also in Iceland, **Sveittarfeljaga Lifeyrissjodur Starfsmanna**, is currently planning to increase its target allocation to private equity funds. The hybrid fund, with approximately EUR 181 million in total assets, has committed EUR 1.6 million to two Icelandic private equity fund-of-funds managers, which invest in Europe and North America.

In Australia, the **University of Melbourne Endowment Fund** has appointed Victoria Funds Management Corporation (VFMC) to oversee a private equity program worth approximately ASD 40 million. Earlier this year VFMC took on the role of reviewing the place of private equity in the endowment's portfolio. Also this year, VFMC was appointed to oversee a private equity program worth approximately ASD 160 million on behalf of Melbourne-based **Transport Accident Commission (TAC)**.

INVESTOR SPOTLIGHT

The emerging markets of Central and Eastern Europe are finding increased favour amongst institutional investors.

The Investor Intelligence database can identify 41 investors who have previously invested in a Central or Eastern European fund and an additional 27 institutions have expressed an interest in the region for future investments.

Amongst these institutional investors showing enthusiasm for Central and Eastern Europe are private equity heavyweights AlpInvest Partners and Ontario Teachers' Pension Plan (OTPP), both of whom have committed this year to funds focusing on the region. Indeed, both are limited partners in Advent Central & Eastern Europe III (ACEE III) which held a final close in the second quarter of this year on over EUR 300 million.

Dutch-based AlpInvest, with over USD 20 billion committed to private equity funds, allocates 5-25% of its portfolio to emerging markets. For 2005, its strategic asset allocation stated that USD 200 million would be invested in funds focusing on Central Europe and other emerging markets including Asia.

Fellow investor OTPP is Canada's largest public pension fund, with over CAD 80 billion in total assets. The bulk of fund investments to date have been focused on the UK and North America, however, for the future OTPP is interested in less crowded regions and is keen to diversify further geographically. It believes the European market will stay strong for the immediate future. Through ACEE III, AlpInvest and OTPP will have exposure to investments in Poland, Hungary, the Czech Republic, Slovakia, Romania, and Turkey. The fund may also invest selectively in Slovenia, Croatia, Bulgaria, Serbia, Latvia, Lithuania, and Estonia, and, with specific advisory board approval, in Russia.

Substantial US-based investors that consider Central and Eastern European focused funds include Harvard Management Company (HMC). HCM has a target allocation of just under USD 3 billion to private equity funds, of which approximately 5% is invested in emerging market funds. Similarly, perennial investor CalPERS (California Public Employees' Retirement System) is also looking to broadly diversify across Europe.

Significant Investors with an interest in Central & Eastern Europe

Investor Name	Country	Investor Type	Private Equity Allocation (USD Mn)
Pacific Corporate Group	US	Private Equity Fund of Funds Manager	32,000
AlpInvest Partners	Netherlands	Private Equity Fund of Funds Manager	26,000
CalPERS	US	Public Pension Fund	24,700
Performance Equity Management	US	Corporate Pension Fund	6,000
Partners Group	Switzerland	Private Equity Fund of Funds Manager	6,000
LGT Capital Partners	Switzerland	Private Equity Fund of Funds Manager	642
Danica Pension	Denmark	Public Pension Fund	273

In Europe, French-based Groupe IDI is particularly optimistic about emerging markets such as Eastern Europe, believing that they are the most attractive place in terms of growth and returns. As well as its Eastern European fund investments, Groupe IDI holds investments in Chinese and Indian-focused private equity funds. Similarly, City of Zurich Pension Fund, with EUR 10 billion in total assets, is another European investor looking to opportunities within Central and Eastern Europe. The Swiss-based pension fund is looking to increase it allocation to private equity funds from 1.9% of total assets to 5% and is evaluating emerging markets including Eastern Europe.

Danish pension fund, Danica, is particularly interested in Eastern Europe, however, it has not invested in a fund focusing on the region to date. It will consider allocating up to 10% of its new investments to Eastern Europe. Danica has approximately EUR 227 million already committed to private equity funds.

Fund-of-funds managers are also looking towards Central and Eastern Europe. Swiss-based Proventure is one such manager to consider emerging markets and is currently looking to invest in Eastern European regions that include recent additions to the European Union, such as Poland. Proventure may in the future carry out investments in the CIS (Commonwealth of Independent States) including countries such as Moldova, Belarus and Armenia. Fellow fund-of-funds manager, PCG Corporate Group, is similarly interested in Central and Eastern Europe. Earlier this year US-based PCG announced the formation a new PCG International Division to focus solely on non-traditional private equity markets namely in Eastern Europe, Asia and Latin America. PCG has a growing volume of European activity, both in terms of providing service to its European clients, as well as investing in European funds.

Another Swiss-based fund-of-funds manager to take an optimistic outlook on Central and Eastern Europe is LGT Capital Partners. Although LGT's main focus is on investments in the US and Europe, it also considers emerging markets such as Eastern Europe and Asia. LGT has a specialist dedicated to the Eastern European region and is very open to further investment in the area. LGT invests with first-time fund managers both in Europe and in the US.