

Private Equity Spotlight

November 2007 / Volume 3 - Issue 11

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

Feature Article

page 02

Charles Soullignac, Chairman and CEO of Fondinvest Capital shares his thoughts on the European fund of funds industry, and describes the evolving role of fund of funds in serving the needs of both small and large LPs.

Performance Spotlight

page 06

In this month's Performance Spotlight we examine the ability of fund of funds managers to select top performing funds. Do their claims of selecting the best funds stack up?

Fundraising

page 08

This month's Fundraising Spotlight examines the latest data for buyout and venture funds, and also takes an in-depth look at fund of funds fundraising over 2007.

| No. of Funds on Road | US | Europe | ROW | Total |
|----------------------|-----|--------|-----|-------|
| Venture | 216 | 97 | 104 | 417 |
| Buyout | 146 | 60 | 33 | 239 |
| Fund of Funds | 81 | 49 | 26 | 156 |
| Real Estate | 146 | 66 | 19 | 231 |
| Other | 105 | 44 | 39 | 188 |
| Total | 694 | 316 | 221 | 1,231 |

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Investor Spotlight

page 11

This month we examine the interest and popularity of fund of funds and the key role the fund type plays as a stepping stone into the private equity asset class. Featuring information from the new publication The 2008 Preqin Fund of Funds Review.



Investor News

page 16

All the latest news on investors in private equity:

- AustralianSuper plan is to increase its overseas private equity allocation through fund of funds.
- Private Advisors' latest vehicle Private Advisors Small Company Buyout Fund III seeking funds commitments.
- CalSTRS issues RFP for non-discretionary private equity advisors.
- Brookline Retirement System is looking to add a fund of funds vehicle to its portfolio.
- Richmond Retirement System set to make its maiden commitment to private equity.

OUT NOW

The 2008 Preqin Fund of Funds Review

More information available at:
www.preqin.com/fof



Feature Article: Fund of Funds in Europe

This Month's Feature Article:

The emergence of private equity funds of funds in Europe

At the end of the 1980s in Europe, the majority of investment into private equity funds came directly from institutional investors. Investment teams were very often limited to a maximum of one or two professionals. Except for some London-based teams representing US private equity players, there were about ten people all around Europe working in this business. They had to set up their own analysis methods in terms of risk, potential performance, terms and conditions, and methodology for performance follow up. This was all the more difficult since GPs, except some pioneers from the mid 80s, were first-time teams.

Some "smaller" institutional investors who were attracted by this new asset class made sporadic and highly opportunistic investments. As some fund performances were disappointing and as these investors were seeking rapid access to liquidity, they rapidly regained reason from 1992. Therefore, private equity funds of funds emerged in Europe in 1994 in order to meet the needs of these institutional investors. Around 100 funds of funds management teams were created in Europe by the end of the 90s. They had past experience either in direct investment into unlisted companies or in asset management.

The scope of private equity funds of funds in Europe

Some teams enjoying a favourable cycle and unable to provide performance (i.e. fully disinvested funds of funds) tried to differentiate themselves in terms of marketing by offering vehicles combining primary, secondary, direct investment in companies with or without leverage effect, with or without securitisation.

They could possibly provide specialized vehicles for high net worth individuals or institutional investors. The term "fund of funds" therefore includes different assets, resulting in risk/reward profiles that are likely to be different.

Actually, a fund of funds manager invests in funds at the time of their creation in order to provide the optimal risk/reward ratio, with full transparency, through high quality reporting.

In order to reach a good global performance, the fund of funds manager has to find a balance between two extreme strategies: strongly concentrating investments into a selection of funds on the one hand, and spreading investment over many funds on the other, while taking into account the investment stage.

Funds selection:

Selecting a fund does not only consist of checking whether the track record is good in terms of level and stability. It is also crucial to assess whether the performance will be maintained with a tolerated risk.

This risk depends on many unrestricted factors such as team organization, market trends, competition and terms and conditions.

Focus on the mid-market:

As funds of funds are seeking performance, they naturally focus on European mid-market funds. In general, these funds are more attractive than some large and mega funds because of the long track record of the GPs and the fact that debt is currently disappearing (for some large deals).

“... to reach a good global performance, the fund of funds manager has to find a balance between two extreme strategies”

The contribution of a fund of funds:

Therefore, the contribution of a fund of funds' manager benefits to both:

- Investors - providing them with a selection of fund managers and funds in order to offer the optimal risk/reward ratio. The manager also enables access to some famous funds as well as to some funds difficult to access, with a limited commitment from investors having no significant experience. The manager is also able to provide administrative support and checked reporting.
- Fund managers - The manager provides advisory assistance, in particular when a spin off occurs.

Funds of funds for small but also for large LPs

Fund of funds business is not dedicated only to investors with restricted human and financial resources to be invested in private equity.

Investors with significant experience in private equity also subscribe to funds of funds or entrust a percentage of their assets to private equity through separate accounts.

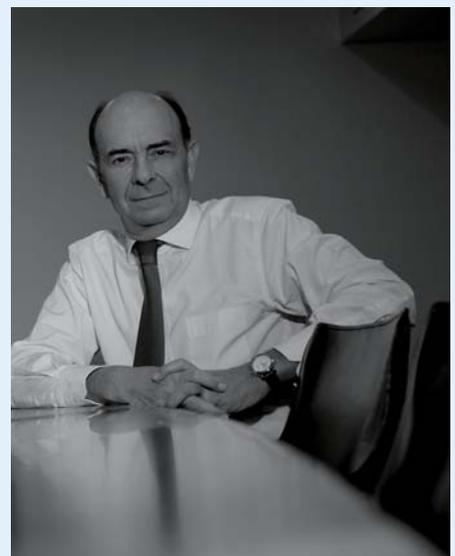
Such investments can be motivated by:

- High unit investments in funds (> €50mn) usually completed, which does not really fit with mid market funds requiring lower amounts (from €10mn to €20mn).
- Access to countries or continents far from home.
- Diversification in terms of segments and sectors.

Fund of funds therefore meet the needs of a great deal of investors, whether they are experienced or not.

Charles Soullignac Chairman & Chief Executive Officer of Fondinvest Capital

Charles Soullignac established Fondinvest Capital in 1994 and has led its growth to become a leader in Private Equity fund of funds management in Europe. From 1989 to 1993, Charles was an investment director at CDC-Participations (now CDC Entreprises) where he managed the Private Equity fund investments made by CDC during the 1980s. He has been instrumental in developing methodologies to measure Private Equity fund performance within the Private Equity industry. He served on the Board of Directors of the European Venture Capital Association as well as on its Investor Relations Committee. Prior to joining CDC-Participations, Charles led the Industrial and Finance Department for Banque Régionale d'Escompte et de Dépôts (BRED) where he focused on mergers and acquisitions and financial engineering. Charles earned an engineering degree from INSA (Institut National des Sciences Appliquées) in Lyon and an MBA from the CPA (Centre de Perfectionnement des Affaires) in Paris.



2008 Preqin Fund of Funds Review: Order Form

The 2008 Preqin Fund of Funds Review is the leading source of information and data on private equity fund of funds vehicles available today:

- Detailed analysis and comprehensive listings for fund of funds fundraising.
- Comprehensive profiles for over 200 fund of funds managers, including sample investments, detailed investment plans for most recent vehicles plus fund by fund performance data for over 300 vehicles, including IRRs and multiples. Extensive analysis on fund performance and GP universe.
- Profiles for over 200 investors in fund of funds, plus analysis on latest trends and section on most important investors to watch in 2008.
- Analysis and listings on fund of funds fund terms and conditions.



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Performance Spotlight: Fund of Funds

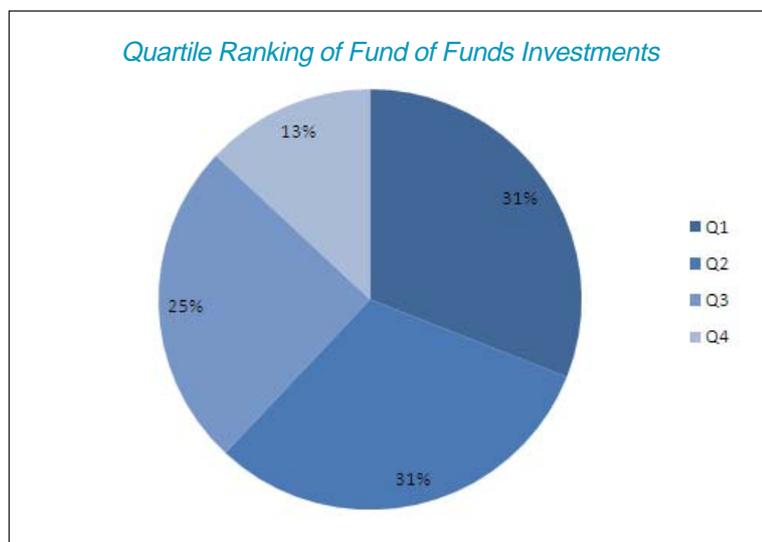
This month's Performance Spotlight looks at the oft-claimed ability of fund of funds managers to select top quartile funds for their portfolios.

Fund of funds managers often make claim to their superior fund selection skills and access to top fund managers. A regular feature in fund of funds marketing is that due to strong relationships with top managers in the industry, as well as an in-depth due diligence process, fund of funds managers are able to compile a portfolio of top performing vehicles.

For many limited partners investing in a fund of funds represents the only way to gain exposure to the most established and renowned private equity firms. Smaller investors may lack the capital and knowledge required to invest in a selection of direct funds, and may struggle to reach the minimum commitment levels demanded by large buyout houses. Some top performing fund managers may simply reject new investors in their funds because they are already over-subscribed. Although investment with a fund of funds manager exposes investors to two levels of fees and carry, superior fund selection skills and access to the best-performing funds could make for an ideal investment solution.

In order to assess the fund selection skills of fund of funds managers, we analysed the portfolios of 76 fund of funds managers using our online Investor Intelligence database of LPs. The database contains information on more than 3,200 known investments made by fund of funds managers, including 2,512 individual investments for which we have underlying performance information and at least 10 sample investments per fund of funds manager.

The chart below displays which quartile these underlying funds were ranked in. The results clearly confirm that fund of funds are doing a great job at selecting the best performing funds as nearly two-thirds (62%) of the fund of funds known investments are ranked as either first- or second-quartile. Fund of funds managers clearly display skill in identifying the best fund managers, and also excel at avoiding the worst performing funds, with only 13% of known investments made being ranked in the bottom quartile. This is a real achievement for fund of funds managers, confirming their skill and talent in selecting top managers, which in turn provides strong returns to their LPs.



*The information in this month's Performance Spotlight is an example of one of the many vital analyses that can be found in our newest publication, **The 2008 Preqin Private Equity Fund of Funds Review**. For more information please visit:*

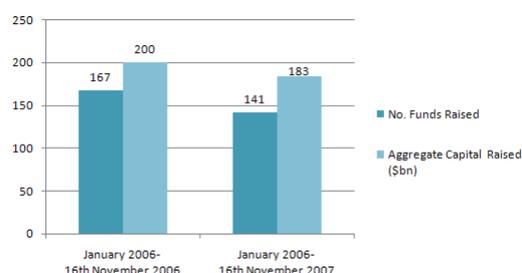
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Fundraising Spotlight: Buyout

BUYOUT FUNDS ON THE ROAD

| Funds on Road | US | Europe | ROW | Total |
|----------------------------|-------|--------|-----|-------|
| Number | 146 | 60 | 33 | 239 |
| Total Target Value (\$bn) | 182 | 58 | 15 | 255 |
| Average Target Size (\$mn) | 1,246 | 967 | 466 | 1,069 |

FINAL CLOSES BAROMETER



BUYOUT FUNDS ON THE ROAD

| Fund | Manager | Target Size (mn) | GP Location |
|------------------------------------|-------------------------------|------------------|-------------|
| KKR Fund 2006 | Kohlberg Kravis Roberts | 18,000 USD | US |
| Apollo Investment Fund VII | Apollo Management | 15,000 USD | US |
| Carlyle Partners V | Carlyle Group | 15,000 USD | US |
| Apax Europe VII | Apax Partners | 10,000 EUR | UK |
| KKR European Fund III | Kohlberg Kravis Roberts | 8,000 EUR | US |
| Bain Capital Fund X | Bain Capital | 10,000 USD | US |
| Silver Lake Partners III | Silver Lake | 8,000 USD | US |
| Thomas H Lee VI | Thomas H Lee Partners | 8,000 USD | US |
| PAI Europe V | PAI Partners | 5,000 EUR | France |
| Morgan Stanley Capital Partners VI | Morgan Stanley Private Equity | 6,000 USD | US |

RECENTLY CLOSED BUYOUT FUNDS

CCMP Capital Investors II

Manager: CCMP Capital Advisors

Target Size (mn): 3,500 USD

Final Close (mn): 3,400 USD (Oct-2007)

Geographic Focus: North America, Europe, Asia, Global

Industry Focus: Telecoms, Healthcare, Industrial, Retail, Consumer Services, Media, Financial Services

Placement Agent: Credit Suisse Private Fund Group

Sample Investors: JP Morgan Chase

Mid Europa Fund III

Manager: Mid Europa Partners

Target Size (mn): 1,500 EUR

Final Close (mn): 1,500 EUR (Oct-2007)

Geographic Focus: Europe, East Europe, Central Europe

Industry Focus: Telecoms, Healthcare, Transportation, Media, Construction, Agriculture, Utilities, Logistics, Infrastructure

Placement Agent: MVision Private Equity Advisers

Lawyer: Kirkland & Ellis

Navis Asia Fund V

Manager: Navis Capital Partners

Target Size (mn): 1,000 USD

Final Close (mn): 1,000 USD (Oct-2007)

Geographic Focus: Asia

Industry Focus: Any

Placement Agent: Campbell Lutyens

Lawyer: Debevoise & Plimpton

Sample Investors: Pennsylvania PSERS, Adams Street Partners, BVT Holding, CDC Group

KRG Capital Fund IV

Manager: KRG Capital

Target Size (mn): 1,000 USD

Final Close (mn): 1,960 USD (Nov-2007)

Geographic Focus: North America, West Europe

Industry Focus: Healthcare, Distribution, Consumer Services, Manufacturing, Financial Services, Life Sciences

Placement Agent: Kirkland & Ellis

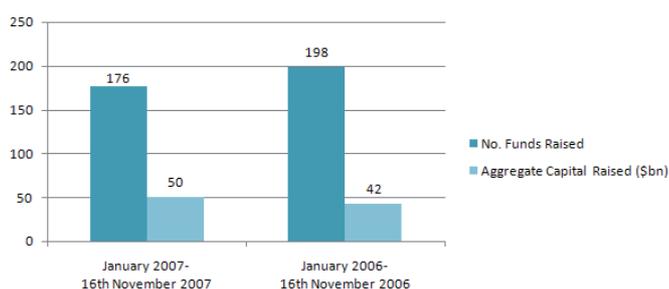
Sample Investors: New York State TRS, Pennsylvania PSERS, Virginia Retirement System

Fundraising Spotlight: Venture

VENTURE FUNDS ON THE ROAD

| Funds on Road | US | Europe | ROW | Total |
|----------------------------|-----|--------|-----|-------|
| Number | 216 | 97 | 104 | 417 |
| Total Target Value (\$bn) | 43 | 18 | 16 | 77 |
| Average Target Size (\$mn) | 396 | 319 | 265 | 354 |

FINAL CLOSES BAROMETER



VENTURE FUNDS ON THE ROAD

| Fund | Manager | Target Size (mn) | GP Location |
|--|--|------------------|-------------|
| Cyrte Investments TMT Fund | Delta Lloyd Group | 1,500 EUR | Netherlands |
| Pine Brook Road Partners I | Pine Brook Road Partners | 2,000 USD | US |
| Bertelsmann | Bertelsmann Capital Ventures | 1,000 EUR | Germany |
| China-Singapore Hi-tech Industrial Investment Fund | China-Singapore Suzhou Industrial Park | 1,330 USD | China |
| Invention Development Fund I | Intellectual Ventures | 1,000 USD | US |
| Sai Fu Growth Venture Capital | Softbank Asia Infrastructure Fund Advisors | 1,000 USD | China |
| DIB Media & Telecommunications Fund (TMT) | Dubai Islamic Bank | 1,000 USD | UAE |
| Southgate Alternative Partners | Southgate Alternative Investments | 1,000 USD | US |
| Patenterprise Energy Fund I | Patenterprise | 1,000 CHF | Switzerland |
| Russia Partners III | Siguler Guff & Co | 750 USD | US |

RECENTLY CLOSED VENTURE FUNDS

Syndicated Communications Ventures V:

Manager: Syncom Capital Corp

Target Size (mn): 300 USD

First Close (mn): 110 USD (May-2006)

Final Close (mn): 275 USD (Oct-2007)

Geographic Focus: US, North America

Industry Focus: Communications, Digital Media

Placement Agent: Wetherly Capital Group

Sample Investors: Banc of America Equity Partners, San Francisco City & County ERS, Aldus Equity Partners

New Leaf Venture II:

Manager: New Leaf Venture Partners

Target Size (mn): 400 USD

Final Close (mn): 450 USD (Oct-2007)

Geographic Focus: US, North America

Industry Focus: Healthcare, Biotechnology, Biomedical, Medical Devices

Placement Agent: Not Used

Sample Investors: BVT Holding, Enam Group

Village Ventures II:

Manager: Village Ventures

Target Size (mn): 125 USD

Final Close (mn): 104 USD (Oct-2007)

Geographic Focus: US

Industry Focus: Technology, Life Sciences

Sample Investors: New Mexico State Investment Council, Cimarron Capital Partners

Carlyle Venture Partners III:

Manager: Carlyle Group

Target Size (mn): 700 USD

First Close (mn): 283 USD (Sep-2006)

Final Close (mn): 605 USD (Oct-2007)

Geographic Focus: US, North America

Industry Focus: Technology, Telecoms, Healthcare, Transportation

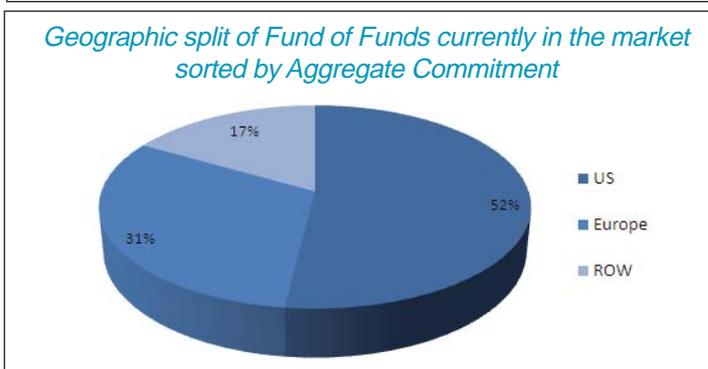
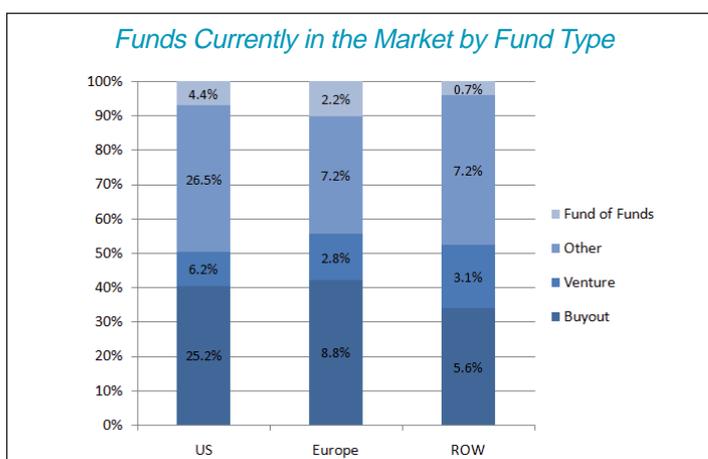
Lawyer: Simpson, Thacher & Bartlett

Sample Investors: CalPERS, Teachers' Retirement System of the State of Illinois, Montana Board of Investments, YMCA Retirement Fund

Fundraising Spotlight: Fund of Funds Raising

2007 has seen more funds hitting the road than at any other time; there are currently 1,231 funds in the market, with an aggregate target of \$642 billion. Fund of funds currently represent 13% of the total number of funds on the road with 156 vehicles, targeting an aggregate \$47 billion. The decrease in the number of US focused fund of funds closing is offset by a strong showing for US focused fund of funds in the market with 61% having the US as their primary focus. Europe retains a strong presence with 30% of funds set to target European-based vehicles while those fund of funds with a primary focus on Asia and the rest of world account for the remaining 9%.

- BlackRock Diversified Private Equity Program IV (which has a target of \$1 billion) follows the same strategy of its predecessors, it will make between 25 and 35 investments focusing on up to 80% of the fund on buyout funds and the remaining 20% on venture funds. The fund looks to invest between \$15 and 60 million in each fund (mainly in the US) with between 60-70% of the fund investable in the area. The remaining 30-40% looks set to be invested in Western Europe.
- Siguler Guff BRIC Opportunities Fund II is targeting a \$1billion close and will target investments in BRIC countries. Its investment strategy will follow the trend set by its predecessor which closed on \$600 million. The fund will have a primary emphasis on India and China, allocating approximately 80% of the fund in these regions alone and will not invest in first-time funds.
- H21 PEP IV is targeting a €600million close, it is expected that the majority of the fund (60-80%) will be focused on the buyout sector, with the remainder of the fund (20-40%) split between venture secondaries, co-investments and expansion funds. H21 PEP IV is set to make 36 investments over a 3 year period earmarking around 40% of the fund for European investment, 40% for the US and 20% set for Asia Pacific. The investments are set to range from €10 to €40 million.



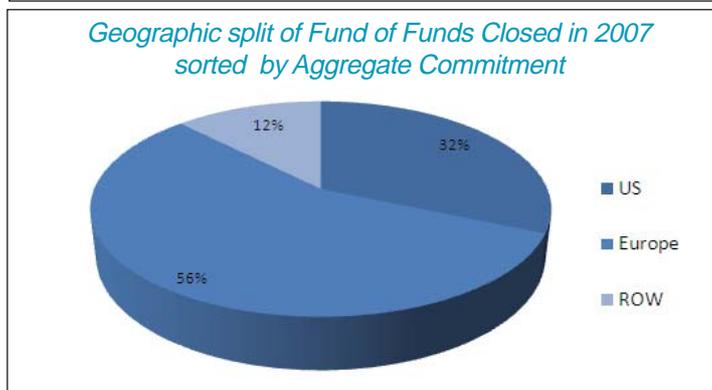
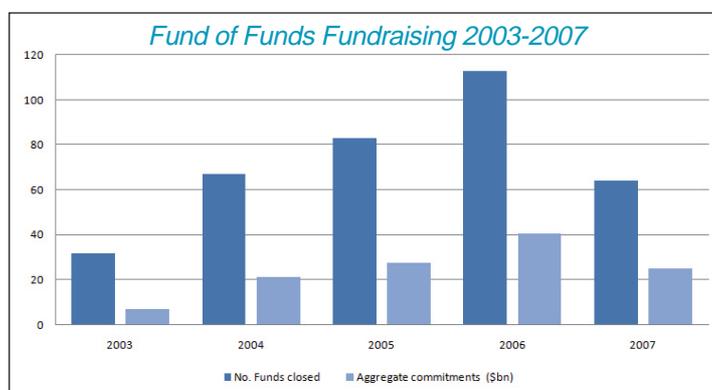
FUND OF FUNDS CURRENTLY ON THE ROAD

| Fund | Manager | Target Size (mn) | Fund Focus |
|---|-----------------------------------|------------------|------------|
| Generali Global Private Equity | AMB Generali Asset Managers | 2,700 EUR | Europe |
| HarbourVest Partners VIII - Buyout | HarbourVest Partners | 2,500 USD | US |
| HarbourVest Partners VIII - Venture | HarbourVest Partners | 2,000 USD | US |
| Pantheon USA Fund VII | Pantheon Ventures | 2,000 USD | US |
| BlackRock Diversified Private Equity Program IV | BlackRock Private Equity Partners | 1,000 USD | US |
| Horsley Bridge International IV | Horsley Bridge Partners | 1,000 USD | US |
| Siguler Guff BRIC Opportunities Fund II | Siguler Guff & Co | 1,000 USD | ROW |
| Siguler Guff Distressed Opportunities Fund III | Siguler Guff & Co | 1,000 USD | US |
| TL Ventures | TL Ventures | 1,000 USD | US |
| Horsley Bridge Fund IX | Horsley Bridge Partners | 1,000 USD | US |

Fundraising Spotlight: Fund of Funds Closed in 2007

Since 2003 there has been a steady increase in the number of fund of funds closing, and in the aggregate commitments they have gathered. To date, 2007 has seen 64 fund of funds vehicles achieve a final close with aggregate commitments of \$25.3 billion. This is a decrease from 2006, where 113 fund of funds vehicles attracted \$40.6 billion in investments over the course of the whole year. However, further closes are still expected in 2007, as Q4 traditionally witnesses the highest number of closes. In 2006, Q4 closes accounted for \$16.1 billion (39% of the year's total commitments) suggesting that the total for 2007 could still rise significantly. 2007 has seen Europe become the most popular primary target for fund of funds, overtaking the US in terms of aggregate commitments. Funds with a primary focus on the US have significantly decreased, from \$19.1 billion in 2006 to \$7.98 billion in 2007, with only 28 funds closed this year as opposed to 56 in 2006.

- HarbourVest International V Partnership was the largest fund of funds that closed in 2007. The fund which launched in 2005 closed on \$4.5 billion with investments from the Australia Post Superannuation Scheme, California Healthcare Foundation and the Foreign & Colonial Investment Trust. 80% of the fund has been earmarked for European investments. The fund will invest 85% of its capital in buyout funds, with average investments expected around \$60 million. The remainder of the fund is being targeted at venture funds with an average investment per fund of \$25 million.
- Lehman Crossroads Series XVIII closed on \$1.5 billion exceeding its target of \$750 million with help from commitments from Army & Airforce Exchange Service Pension Fund (US), Indiana Public Employees' Retirement Fund and the New Jersey State Investment Council. The fund (which is expected to make investments of around \$20 million dollars in underlying vehicles) will invest in buyout, venture and special situations funds with the aim of making 35 investments in total.
- European Strategic Partners 2006 fund exceed its €600million target to close on €900 million and will focus on European buyout funds. It plans to invest between €20million and €260 million per underlying fund, making 20 fund commitments and 15 to 20 co investments. The fund received commitments from City of London Corporation Pension Fund, Falkirk Council and the Massachusetts Pension Reserves Investment Management Board. A follow-on fund is already expected in 2008.

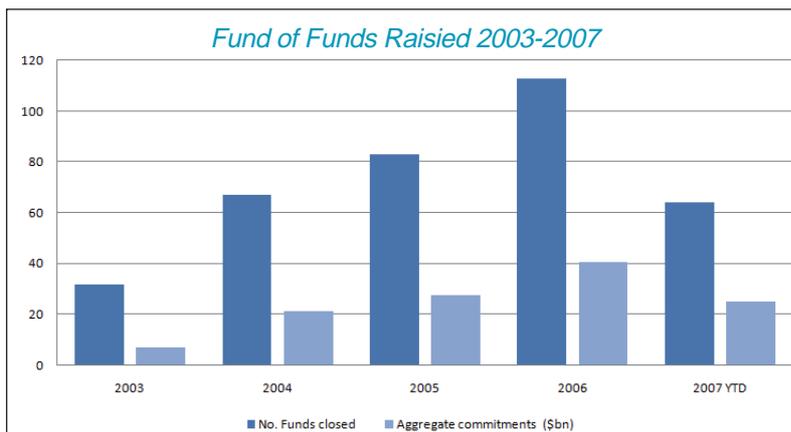


FUND OF FUNDS CLOSED IN 2007

| Fund | Manager | Target Size (mn) | Fund Focus |
|---|----------------------------|------------------|------------|
| HarbourVest International V Partnership | HarbourVest Partners | 3,100 EUR | Europe |
| Lehman Crossroads Series XVIII | Lehman Brothers | 1,500 USD | US |
| European Strategic Partners 2006 | SL Capital Partners | 900 EUR | Europe |
| Crown European Buyout Opportunities II | LGT Capital Partners | 800 EUR | Europe |
| SVG Diamond III | SVG Advisers | 700 EUR | Europe |
| Investure Private Partners III | Investure | 747 USD | US |
| Euro Choice III | LODH Private Equity | 493 EUR | Europe |
| Pathway Private Equity Fund V-C | Pathway Capital Management | 703 USD | US |
| Altamar Buyout Global | Altamar Private Equity | 420 EUR | Europe |
| Fonds France Investissement (FFI) | CDC Entreprises | 406 EUR | Europe |

Investor Spotlight: Investors in Fund of Funds

Private equity fund of funds managers are an integral part of the private equity industry. Private Equity Intelligence's Investor Intelligence database contains profiles for over 3,700 institutional investors that are actively investing in private equity. Although fund of funds managers account for only 8% of this total in terms of number, they provide a much higher share of the aggregate capital allocated to private equity worldwide, and are an essential source of capital for fund managers of all types.



Interest in fund of funds has increased dramatically over the past few years. Aggregate capital raised by fund of funds that reached a final close in 2006 amounted to \$40.6 billion, compared to just \$7.1 billion raised in 2003. Furthermore, with 156 fund of funds currently on the road seeking aggregate commitments of \$46.7 billion, it is not unreasonable to expect current high levels of fundraising to be maintained in the near future.

This increase in the popularity of fund of funds can be explained in part by the upsurge of interest in private equity as a whole; large numbers of institutions are making their maiden investments in the asset class each year, with a significant proportion of these new LPs entering the asset class via the funds of funds route.

An investor looking to enter the private equity asset class for the first time faces a number of difficult obstacles when trying to create a balanced portfolio. Private equity funds often impose large minimum commitment requirements on investors. In order to create a portfolio diversified against risk an investor must make a number of different fund investments, and such high minimum commitment requirements would make this task impossible for an investor with limited resources. Fund of funds, with their

smaller minimum commitment sizes and the access they provide to balanced and diversified portfolios of funds, can provide the perfect solution to this problem.

Example 1: Indiana Historical Society has set an initial target allocation to private equity of 7% of assets, equating to \$8.4 million. To create a portfolio diversified against risk, an investor would need to commit to a variety of funds targeting different sectors and geographies. Such a small allocation to private equity would make this impossible, and therefore the endowment chose to invest in a fund of funds. It will start looking for a manager in January 2008 with the help of its advisor Hirtle, Callaghan & Co.

Lack of experience, resources and knowledge of investing in the asset class can act as another deterrent to a potential investor in private equity. It is likely to be uneconomical for such an investor to hire a suitable team of private equity investment professionals, particularly if its first foray into private equity will only equate to a small percentage of its overall investment portfolio.

Investor Spotlight: Investors in Fund of Funds

However, fund of funds can provide a viable alternative to the costly hiring of staff. Fund of funds managers are industry specialists and limited partners in their funds are in essence outsourcing the due diligence of funds and monitoring of their private equity portfolio to an external team of experts in private equity fund investing.

Example 2: Sacramento County Employees' Retirement System (SCERS) felt that it had insufficient staffing to commence investment directly in private equity funds itself, and instead opted to invest indirectly via a fund of funds, thereby also gaining in knowledge of the asset class.

In fact, many fund of funds managers offer limited partners in their funds advice and guidance that may be particularly useful to them as they gradually begin investing directly in funds.

Example 3: West Midlands Pension Fund, an experienced private equity investor, sees the advice it receives as one of the benefits of maintaining relationships with fund of funds managers.

Fund of funds managers can also claim to offer their limited partners exposure to certain funds, particularly those raised by long-established and experienced private equity firms, that would otherwise be inaccessible to new investors. Barclays Private Equity, for instance, only accepted commitments for its \$2.4 billion buyout fund, Barclays Private Equity European Fund III, from limited partners in its previous vehicles, and indeed this is increasingly the case with big-name mega buyout funds.

Example 4: Many recent investors in private equity, like Canadian asset manager ATB Investment Management, see fund of funds as an essential method of gaining exposure to these strong, frequently inaccessible underlying funds, particularly those with large minimum commitment sizes, which would place them out of reach of smaller investors.

For an investor that has created its first allocation to private equity, it will take a number of years to build up an extensive and diversified portfolio of funds.

Example 5: Somerset County Council Pension Fund recognises that investing via a fund of funds manager will mean an additional layer of fees; however, it sees this as more than compensated for by the fact that it will gain exposure to a diverse portfolio of investments far quicker than it would have had it invested directly in the underlying funds over a period of years.

To increase diversification, investors aim to have funds of a variety of vintage years represented in their portfolios. However, for a recent entrant to the asset class, this would be difficult to achieve. Offerings from secondary fund of funds managers provide limited partners with the opportunity to gain exposure to funds of various vintages whose interests were purchased on the secondary market. A large proportion of primary fund of funds also have a secondary element, often allocating a certain percentage to opportunistic purchases on the secondary market. BlackRock Diversified Private Equity Program IV, for example, has the potential to allocate up to 30% of its \$1 billion target to secondary purchases.

Investor Spotlight: Investors in Fund of Funds

Whilst the reasons set out above make fund of funds particularly attractive to inexperienced investors looking to enter the asset class, many of these reasons cease to apply as investors in fund of funds become more knowledgeable, and therefore additional expenses incurred through investing indirectly become increasingly unjustifiable. As a result, investors will often gradually reduce their exposure to fund of funds and will begin to invest directly in funds, taking due diligence and fund selection into their own hands and thereby assuming more control over their portfolio.

Despite this, it is not uncommon for more experienced investors to make commitments to fund of funds in unfamiliar regions and industries.

Example 6: AP-Fonden 3 uses fund of funds as a way of outsourcing its investment activities in certain geographies and investment stages. It has used fund of funds to gain exposure to US and European venture funds, mid-market buyout funds in Europe and Asia-focused funds. It has sufficient knowledge of Scandinavia and hence invests directly in funds in this region. In this way, fund of funds can remain a useful tool for experienced investors, helping them to gain knowledge of other areas including emerging markets, and therefore supporting the growing private equity industry in these regions.

Fund of funds can therefore be seen to have an important dual purpose within the industry: helping new investors to gain initial exposure and helping experienced investors to access funds targeting regions that they are not yet ready to invest in directly themselves. The cycle of new investors committing to fund of funds, gaining in knowledge and experience and then committing directly to funds is at present constant and ongoing, with new investors continuously replacing investors who have now moved on to commit directly to funds. In this way, fund of funds help to drive the industry forward, increasing the number of investors in private equity, and supporting the growth of the asset class in less traditional markets, for example Asia or Eastern Europe.

With overall fundraising in the private equity market beginning to level out, the growth in the fund of funds market seen in recent years is likely to be replaced by a period of sustained fundraising rather than further growth. However, the importance of fund of funds as a stepping stone for new investors seeking access to the private equity market means that they are set to remain a key part of the industry for the foreseeable future.

The information in this month's Investor Spotlight is an example of one of the many vital analyses that can be found in our newest publication, **The 2008 Preqin Private Equity Fund of Funds Review**.
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Product in Spotlight: Investor Intelligence

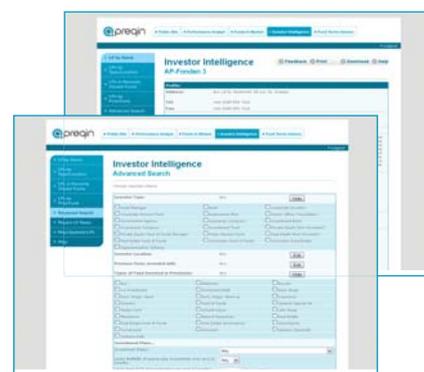
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Investor Spotlight: News

The USD 8.3 billion **William & Flora Hewlett Foundation** is looking to sell around USD 200 million worth of interests in largely buyout and venture funds which represent the majority of its private equity investments. It is likely to use the secondary sale to streamline existing relationships with managers but it is then expected to focus on investing with a select band of managers. Cogent Partners has been advising the foundation on the sale.

AustralianSuper plans to invest in fund of funds over 2008 as it aims to increase of its overseas private equity investments, including emerging markets. Its plan is to increase its overseas private equity allocation and subsequently improve the diversification of its investment portfolio. Historically the AustralianSuper Superannuation Scheme's portfolio has predominantly featured funds focused on Australian investment.

Richmond Retirement System announced in Q1 2007 that it had decided to set its maiden allocation to private equity. It is now planning to look for a fund of funds manager to handle its allocation to the asset class. It is seeking to commit between 3% and 5% of its total assets to a fund of funds manager. The commitment forms part of a plan to increase the diversification of the pension fund's investment portfolio.

OP Bank Group Life & Pensions is looking to make fund of funds investments. In the next 12 months, the insurance company is planning to commit around EUR 40 million in approximately two fund of funds vehicles. It has previously invested with seven fund of funds managers and has about 40% of its private equity allocation committed to fund of funds vehicles.

Private Advisors' latest vehicle Private Advisors Small Company Buyout Fund III, targeting USD 350 million, is seeking to invest in 5-10 buyout funds in the next twelve months with typical investments in the region of USD 5-10 million. Private Advisors has a preference for North American funds with less than USD 500 million in committed capital.

California State Teachers' Retirement System (CalSTRS) has issued a request for proposals for non-discretionary private equity advisors following the expiry of its contracts with Cambridge Associates and Altius Associates. The public pension fund is seeking assistance and advice for its private equity portfolio on partnerships and due diligence. A decision is expected to be made in Q1 2008. The pension fund is seeking a maximum of three advisors to assist with its global investment activity.

Brookline Retirement System is looking to add a fund of funds vehicle to its portfolio. The public pension fund will be conducting a search over the next few months to find a manager to invest around USD 5 – 10 million into a fund of funds vehicle. It generally looks to make a new fund of funds investment every 1 – 3 years to maintain its portfolio's level of commitment to private equity and to have effective diversification by vintage year.

After its second close in July 2007, **Mesirow Partnership Fund IV** is almost 50% committed. The vehicle focuses mainly on US-based funds and sets aside 15% for pan-European funds, more likely to be based in Western Europe. The fund is more heavily weighted towards US buyouts which account for 40% of the partnership with 30% reserved for US venture funds. The fund of funds aims to invest in 35 to 40 private equity funds, seeking between 12 and 15 funds each year. As of Q4 2007, Mesirow Partnership Fund IV had committed to 18 private equity funds.

Australia Post Superannuation Scheme is looking to invest around AUD 400 million in 5 to 6 fund of funds vehicles in the next 12 months. It is seeking new managers that would have to displace one of the managers it periodically invests with. It currently invests in fund of funds vehicles managed by Adams Street Partners, HarbourVest Partners, Pantheon Ventures, Lexington Partners, Montauk Triguard and Drum Capital Management.

*Each month Spotlight provides a selection of the recent news on institutional investors in private equity.
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