

PRIVATE EQUITY SPOTLIGHT

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Volume 1 Issue 8

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.

FEATURE ARTICLES

The Bottom Line – Capital Creation P1

Capital creation is the heart and soul of private equity. Published for the first time this month, PEI's **2005 Carry Review** provides a unique insight into the net value created for LPs and the amounts of carry earned by GPs.

PEI Welcomes Clarity in FOIA Legislation P4

Recent FOIA legislation is a win-win for the industry: sensitive portfolio company information will be protected, while all will benefit from transparency of fund returns data.

PERFORMANCE SPOTLIGHT P6

This month we look at US Early Stage Venture funds and how they have fared when compared to the US Venture market as a whole.

FUND RAISING P8

With \$170 billion raised so far this year, 2005 is well on its way to our projection of \$200 billion. Spotlight keeps you updated with all the latest fund raising activity.

No. of Funds on Road	US	Europe	ROW	Total
Venture	164	66	75	305
Buyout	103	51	27	181
Fund of Funds	49	39	4	92
Other	49	10	13	72
Total	365	166	119	650

INVESTOR NEWS P11

All the latest news on investors in private equity:

- **Lombard Odier Darier Hentsch & Cie starts to raise its third fund-of-funds**
- **Malaysia's Employees Provident Fund (EPF) announces an increase to alternatives**
- **Aegon USA expresses a preference for mezzanine funds**

INVESTOR SPOTLIGHT P12

This month we focus on
Investors in the Benelux region.

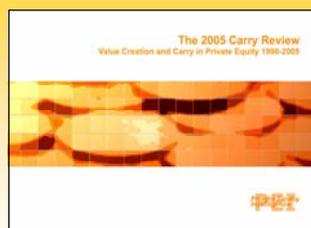
- ⇒ Who are the main investors in the region?
- ⇒ Where are these investors looking to invest?
- ⇒ How are their strategies changing?



NEW

The 2005 Carry Review

For more information & sample pages, please visit www.preqin.com/carry



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PRIVATE EQUITY SPOTLIGHT

Feature Article: The Bottom Line – Capital Creation

Published this month for the first time, the 2005 Carry Review analyses the capital creation performance of funds from vintages 1991 to 2003 – the net value created for LPs worldwide, and the carry earned by GPs. This month's feature article gives highlights.

Private Equity has a tremendous record of delivering added value for LPs, and capital creation for GPs: funds from the vintages 1991 to 2003 have generated a massive \$300 billion of net value added to date for LPs worldwide (please see Fig. 1. Value added for LPs is defined here as total distributions plus unrealized value less contributions).

The vintage years 1994 to 1997 – driven by the tremendous performance of the venture sector -

have delivered the greatest value added to date, averaging around \$40 billion of net gains for LPs per vintage year. However, the industry taken as a whole delivered positive value added even in the worst years around the turn of the millennium, as losses in venture were balanced by gains in buyout and other fund types. The more recent vintages are already looking good, and will surely deliver even greater net value added for their LPs as the funds mature.

The balance of value added by fund type and geography has shifted over the period. Recent years have seen an increasing proportion of the net value added coming from buyout funds, and from real estate, distressed debt and mezzanine funds. Europe has also grown in importance:

European funds delivered only 14% of global value added for LPs in vintages 1991 to 1997, but have grown to 46% for the vintages 1998 to 2003, almost matching the US.

“Funds from the vintages 1991 to 2003 have earned approximately \$54 billion of GP carry to date”

The net value added for LPs is mirrored by the carry earned by GPs. PEI constructed a model to estimate GP carry on a fund-by-fund basis. The key factors are a) the percentage carry that applies to each fund; b) whether a hurdle IRR must be met before the carry applies; and c) whether the carry is calculated on a distributions basis or on a whole fund basis. (We used deliberately conservative assumptions on the carry percentage, taking 20% as the figure for all funds, even though a significant minority of venture funds will be on more than this). We then applied

Fig 1: Net Value Added for LPs by Vintage Year

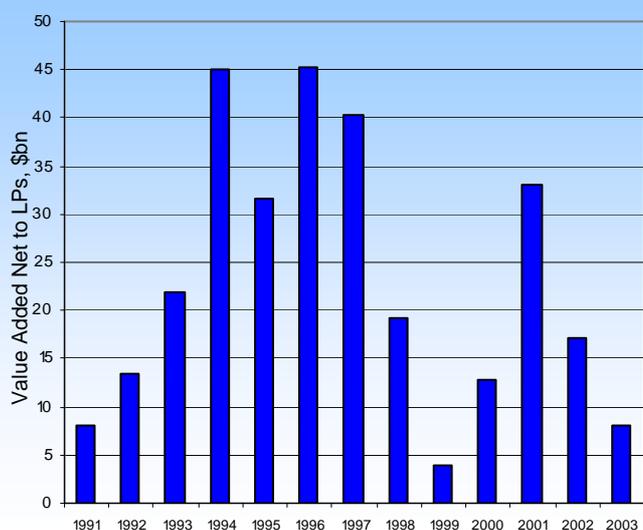
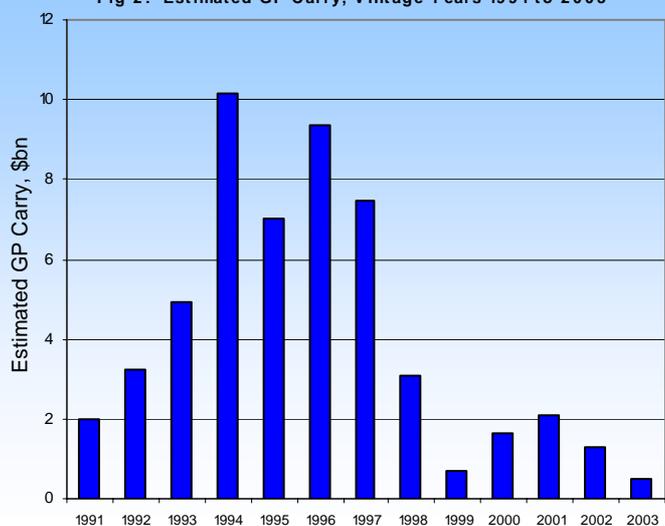


Fig 2: Estimated GP Carry, Vintage Years 1991 to 2003



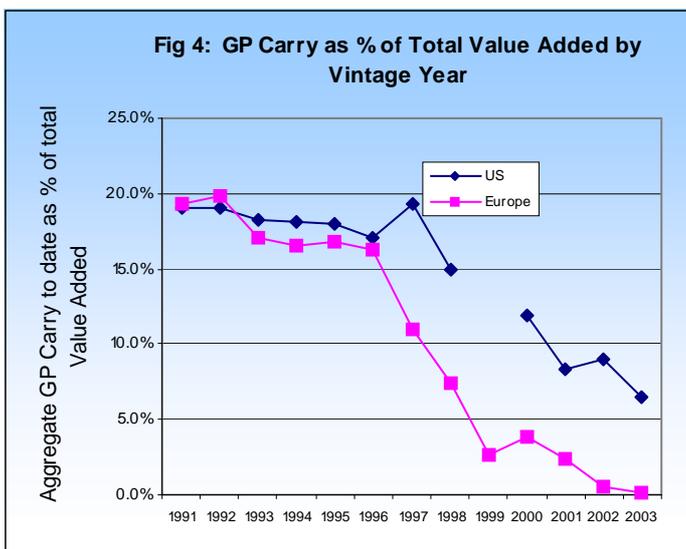
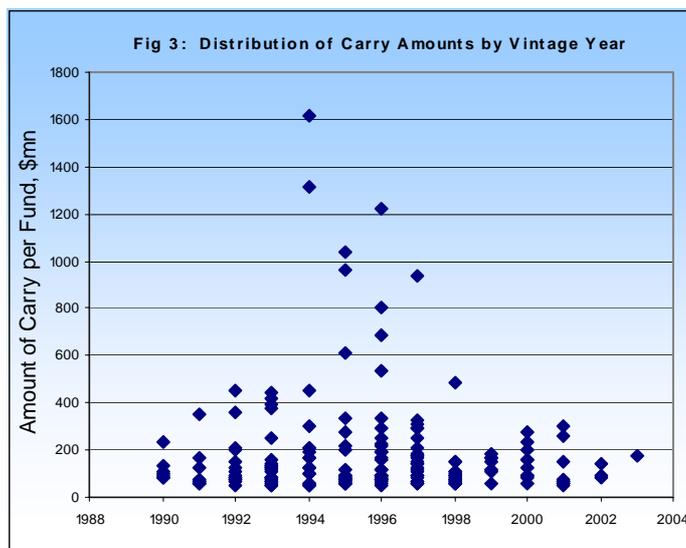
PRIVATE EQUITY SPOTLIGHT

the model to all funds on our Performance Analyst database to estimate the carry earned to date by each fund. (NB the 'to date' figures will grow over time as more distributions are made by each fund – we will track this in future editions of the Carry Review).

The results show that funds from the vintages 1991 to 2003 have earned GPs approximately \$54 billion of carry to date (see Fig. 2), and this figure will clearly increase as the recent vintages make more distributions. As would be expected, most of the LP value added and hence most of the GP carry is concentrated in a relatively few funds – we identified a small handful of funds earning more than \$500 million carry each, and 102 funds that have earned more than \$100 million of carry to date (see Fig. 3, each point represents a fund).

There is currently a lot of comparison made between private equity and hedge funds, and it is interesting to contrast the timing at which private equity GPs and hedge fund managers earn their carry. Hedge Funds are rewarded with an annual carry percentage, while private equity GPs wait until the LPs receive their distributions before earning a carry. The net effect is that private equity LPs will often recognize a gain on their investment (through the unrealized value) long before the GP earns a carry. While this is an eminently sensible and LP-friendly approach, it clearly means that the private equity GP has to wait longer than the hedge fund manager.

Fig. 4 aggregates the results across the whole industry to show total GP carry earned as a percentage of the aggregate value added by vintage year. The aggregate carry approaches 20% of the total gain as funds mature, but is significantly lower for less mature funds, where more of the value is still held in the portfolio pending distribution. The extended wait for carry is most noticeable in Europe (where carry is generally calculated on a whole fund basis) which results in the carry for European GPs lagging approximately four years behind that for US funds (most of which have carry calculated on a distributions basis).



The excellent progress of recent buyout and other funds and the improving performance in venture suggest that carry will continue to grow strongly as these funds mature. We will track this in future editions of the Carry Review, which gives detailed fund listings and further analysis.

The data in this article is based on the new 2005 Carry Review - your guide to value creation and carry in private equity, 1991 - 2005.

For more information including sample pages

please visit:

www.preqin.com/carry

The 2005 Carry Review

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

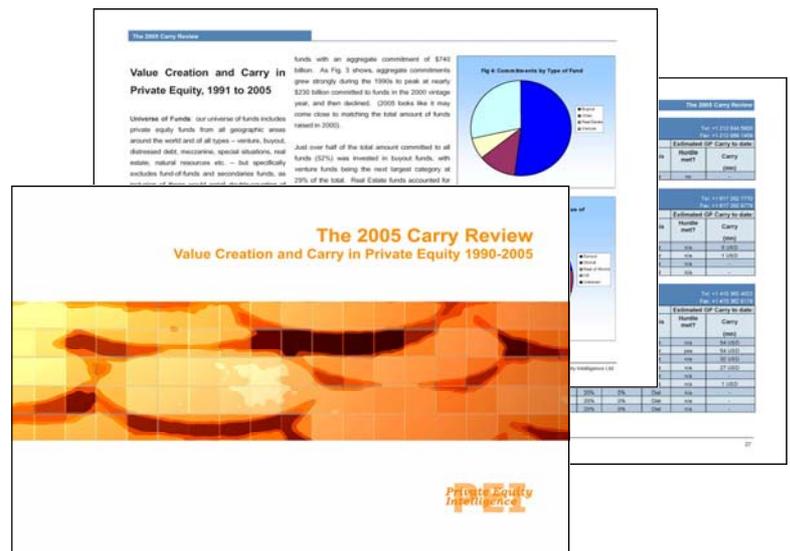
- LPs have seen net value gains of **\$300 billion** from their investments in 1991 – 2003 vintage funds to date
 - See which funds have delivered to most total net value gain for LPs
- GPs have earned **\$54 billion** in carry on their 1991 – 2003 vintage funds to date
 - 102 funds have earned over \$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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PRIVATE EQUITY SPOTLIGHT

PEI Welcomes Clarity in FOIA Legislation

Although FOIA has become something of a hot topic over the past two years, it has actually been around for a long time – e.g. investors like Oregon Public Employees have been publishing fund returns for well over a decade. However, two factors have recently brought FOIA into focus for GPs and LPs:

- Fund-level information: our application of FOIA to gather information on fund returns has provided LPs and GPs with valuable information to help them formulate their strategies; and
- Portfolio company information: despite the general benefits of transparency, the perceived risk that information on individual portfolio companies could be disclosed through FOIA has been of concern to GPs and LPs.

Fund-Level Information: when we started publishing fund-level performance information for private equity funds nearly three years ago, it represented a step-change in the availability of transparent information for the industry. While some were initially skeptical (and indeed some may find the availability of fund returns data casts an unwelcome spotlight on their own performance) it is now widely accepted that this is a

beneficial – and inevitable – development for the whole industry, part and parcel of its continuing growth and maturation. LPs and GPs state this increasingly clearly in their answers to questionnaires (see table below) – and also back it up with their cheque books: we now supply data to more than 400 customers worldwide.

In addition, a growing number of GPs are also sharing data with us on a voluntary basis. They recognize a legitimate desire from LPs to see comparable fund performance data across the industry – a kind of Gold Standard – and want these LPs to have access to the latest and most accurate figures for their funds.

Portfolio Company Information: however, lurking behind FOIA has been the concern that it could possibly be abused to force the disclosure of detailed portfolio company information. It is clear to everyone in the industry that disclosure of this nature would be damaging – and again this is confirmed by the survey findings in the table below.

Until recently, FOIA legislation has been framed in terms of the *process* to be applied – i.e. what generic types of exemption may be applied to prevent the disclosure of sensitive information of any nature. This has left the *interpretation* of the legislation, and hence

decisions on precisely what should and should not be disclosed, to individuals within public bodies and, where appropriate, judges. Now, even though any reasonable interpretation of the exemptions in the various state and national FOIA laws indicates that portfolio company data should be *excluded* from disclosure, GPs have nevertheless been concerned that there could be scope at some time for sensitive records to be disclosed, either by design or possibly by

“What data do you believe should be disclosed?”

A	None	16%
B	Fund Performance	62%
C	Fund Performance and Partnership Terms	19%
D	Fund Performance, Partnership Terms and Portfolio Company Information	3%

Source: Independent Survey of GP and LP views

PRIVATE EQUITY SPOTLIGHT

mistake. This perceived risk has been of concern to GPs.

(We hope that it is clear that PEI has never, and will never, ask for portfolio company information to be disclosed. It may also be of interest to note that in our entire experience of making FOIA requests – approximately 1,877 requests over the past three years in the US and UK – we have never been given such information in error.)

Specific Exemptions for Private Equity: the legislators have recognized these concerns, and have been making efforts to bring clarity to the situation. In a growing number of cases – most recently Texas (May 2005) and California (September 2005) – the FOIA legislation has been changed from the historic process approach to one that defines, in a private equity context, precisely what records should be disclosed and which ones should not be disclosed. In both cases the new legislation has confirmed what had been the emerging consensus anyway – basically fund information OK, portfolio company information

absolutely not – but the real value of the new laws is to give everyone clarity moving forwards.

The new laws have been widely welcomed in the industry, and appear to have laid to rest GPs' earlier concerns: e.g. Austin Ventures (who had previously said that it would not allow public Texas institutions into its ninth fund) said after the new Texas laws came into force, *"Austin Ventures would be open to working with all Texas pension funds that have private equity allocations and were interested in investing with us."*

The new laws in Texas and California are a win-win for the industry. They give GPs confidence that sensitive portfolio company information will not be disclosed; and by clarifying what should be disclosed, they are increasing the availability of fund-level performance information: Two years ago, Performance Analyst covered 1,089 funds, today the figure is 2,385 and it continues to increase every month.

We expect that the welcome trend to greater clarity in the legislation will continue throughout the US, and will also develop in the UK as precedent develops there.

Benefits of sharing Fund Returns Data:

- ⇒ Ensure LPs have access to recent and accurate data on your funds
- ⇒ Join the 2,400 funds already on our database
- ⇒ Get FREE access to PEI's performance benchmarks
- ⇒ Easy to do: all we need is contributions, distributions, and unrealized value

Contact us for more information:

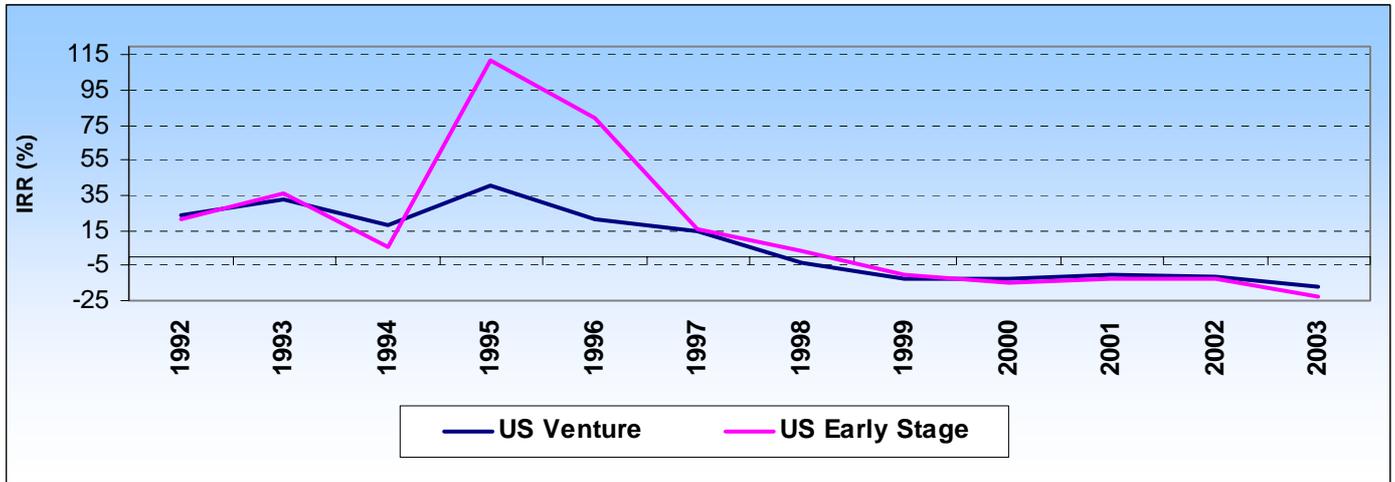
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Tel: +44(0)20 7566 0055

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 US EARLY STAGE VENTURE 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 US Early Stage Venture funds. Early Stage funds are understandably one of the most risky segments of the Private Equity industry. High Risks are generally linked to potential high returns but also with substantial risk of major losses. As a whole, US Early Stage funds seem to have generated the high returns but do not appear to have been significantly riskier than Venture as a whole.

The chart above compares US Early Stage funds with the US Venture category as a whole. Generally US Early Stage appears to have outperformed the performance of the US Venture segment when the market was favourable to the industry and shown relatively similar performances to the rest of the Venture funds during difficult periods. Early Stage funds did particularly well in the vintage years 1995 and

1996, when they clearly outperformed the performance of the overall US Venture segment.

Early Stage investing is however higher risk in one important respect: fund selection risk. The variability between the best and the worst Early Stage funds - as measured by standard deviation - is 91%, compared to 55% for Venture as a whole (source: Performance Monitor 2005). Clearly Early Stage funds offer LPs the prospect of the biggest rewards - but the need for good historic returns information is paramount.

The table below summarizes the net performance of some of the best US Early Stage funds from the 1995-1996 vintages – confirming that Early Stage investment can create colossal returns for investors willing to take extra risks. (Our Performance Analyst database currently has performance data for 769 Venture funds focused on the US, including 197 US Early Stage funds.)

Fund	Vintage	Fund Size (Mn)	Called (%)	Distr. (%)	Value (%)	IRR (%)	US Venture Benchmark (IRR)	Diff.	Date
Mohr Davidow Ventures IV	1995	n/a	100	1,357	n/a	108.4	41	67.4	31-Dec-04
Columbia Cap. Partners I-B	1995	90 USD	100	479	4	192.3	41	151.3	31-Dec-04
New Enterprise Associates VII	1996	311 USD	100	301.3	24.3	63.9	21.2	42.7	30-Sep-04
Apex Fund III	1996	58 USD	100	512.1	10.4	97.1	21.2	75.9	31-Dec-04
Sequoia Capital VII	1996	150 EUR	100	1,513	125.5	174.5	21.2	153.3	31-Mar-05

Product Spotlight: Performance Analyst

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: Performance Analyst

WHAT IS PERFORMANCE ANALYST?

Performance Analyst is a powerful and flexible analytical online database service allowing private equity professionals to:

- View performance data for nearly 2,400 private equity funds
- Compare funds of all types including venture, buyout, mezzanine, real estate and more
- View and assess key performance data for each fund, such as size, vintage, type, % called, % distributed, unrealised value, value multiple and IRR
- Get access to the latest data through monthly updates
- Select, compare and analyse funds by type, size, vintage year and more
- Keep an eye on each firm's long-term track record through quartile analysis
- Download data to spreadsheets for further analysis
- Create tailored peer groups of funds for comparative purposes

Fund	Vintage	Called (%)	Dist. (%)	Unreal. (%)	TVPI	DPI	IRR (%)	Rank	Q1	Q2	Q3	Q4
1.000000 Fund 1	2000	100	100	0	1.00	1.00	15.0	100	100	100	100	100
2.000000 Fund 2	2000	100	100	0	1.00	1.00	15.0	100	100	100	100	100
3.000000 Fund 3	2000	100	100	0	1.00	1.00	15.0	100	100	100	100	100

WHO USES IT AND WHY?

Performance Analyst has proven to be hugely popular and an essential tool for a wide range of Private Equity Professionals:

- LPs use it to see the real long-term track records of over 700 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

HOW CAN I GET IT?

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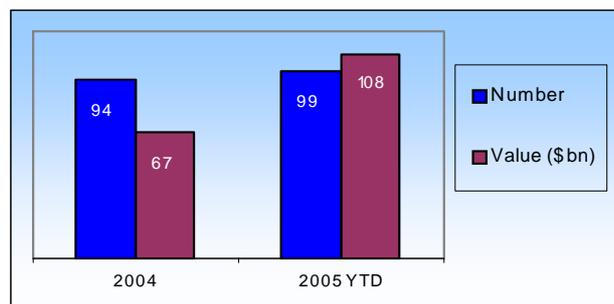
Market	Vintage	Called (%)	Dist. (%)	Unreal. (%)	TVPI	DPI	IRR (%)	Rank	Q1	Q2	Q3	Q4
1.000000	2000	100	100	0	1.00	1.00	15.0	100	100	100	100	100
2.000000	2000	100	100	0	1.00	1.00	15.0	100	100	100	100	100
3.000000	2000	100	100	0	1.00	1.00	15.0	100	100	100	100	100

FUNDS in MARKET—Buyout

BUYOUT FUNDS ON THE ROAD

	US	Europe	ROW	Total
No. on Road¹	105	52	27	184
Total Target Value (\$bn)	83	17	7	106
Average Target Size (\$mn)	790	323	241	578

FINAL CLOSES BAROMETER



¹Funds listed by location of GP. Many US funds will make significant investments in Europe.

LARGEST BUYOUT FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
Blackstone Capital Partners V	Blackstone Group	12500 USD	US
Apollo Investment Fund VI	Apollo Management	10000 USD	US
Thomas H Lee VI	Thomas H Lee Partners	7500 USD	US
Candover 2005	Candover Partners	3670 EUR	Europe
Vestar Capital Partners V	Vestar Capital Partners	3500 USD	US
Welsh Carson Anderson & Stowe X	Welsh, Carson, Anderson & Stowe	3500 USD	US
Clayton Dubilier & Rice VII	Clayton Dubilier & Rice	3500 USD	US
KKR European Fund II	Kohlberg Kravis Roberts	3500 USD	Europe
Francisco Partners II	Francisco Partners	3000 USD	US
The Resolute Fund II	The Jordan Company	2500 USD	US

SAMPLE BUYOUT FUNDS CLOSED DURING SEPTEMBER 2005

Oak Hill Capital Partners II:

Manager: Oak Hill Capital Partners
Target Size (mn): 1750 USD
First Close (mn): 1300 USD (Dec-2004)
Final Close (mn): 2500 USD (Sept-2005)
Geographic Focus: North America
Industry Focus: Any

Sample Investors: American Beacon Advisors, California Public Employees' Retirement System (CalPERS), GIC Special Investments, New Jersey State Investment Council, Oregon State Treasury, American Beacon Advisors, CalPERS.

Asia Opportunity Fund II

Manager: CCMP Capital Asia (Formerly JP Morgan Partners Asia)
Final Close (mn): 1575 EUR (Sept-2005)
Geographic Focus: Asia
Industry Focus: Chemicals, Materials
Placement Agent: Lazard Private Fund Advisor Group
Sample Investor: Alliance Trusts Savings

Audax Private Equity Partners II

Manager: Audax Group
Final Close (mn): 700 USD (Sept-2005)
Geographic Focus: North America
Industry Focus: Technology, Healthcare, Consumer Products, Manufacturing, Communications, Media, Financial Services, Internet, Energy, Defence, Aerospace
Sample Investors: CalPERS, Commonfund Capital, GIC Special Investments, Maryland State Retirement and Pension System, Pennsylvania State Employees' Retirement System

Sterling Investment Partners II

Manager: Sterling Investment Partners
Target Size (mn): 400 USD
Final Close (mn): 542 USD (Sept-2005)
Geographic Focus: North America
Industry Focus: Distribution, Manufacturing, Media, Education / Training, Business Services, Marketing,
Sample Investors: Boston City Retirement System, Citigroup Alternative Investments, Merrill Lynch

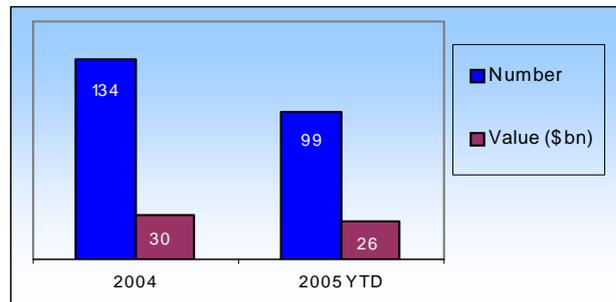
FUNDS in MARKET—Venture

VENTURE FUNDS ON THE ROAD

	US	Europe	ROW	Total
No. on Road¹	165	67	75	307
Total Target Value (\$bn)	24	10	7	41
Average Target Size (\$mn)	145	142	97	133

¹Funds listed by location of GP. Many US funds will make significant investments in Europe.

FINAL CLOSES BAROMETER



LARGEST VENTURE FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
Spectrum Equity Investors V	Spectrum Equity Investors	1500 USD	US
Whitney VI	Whitney & Co	750 USD	US
Austin Ventures IX	Austin Ventures	525 USD	US
Atlas Ventures VII	Atlas Venture	500 USD	US
ABS Capital V	ABS Capital Partners	500 USD	US
United States Power Fund II	Energy Investors Funds Group	500 USD	US
Burrill Life Sciences Capital Fund III	Burrill & Company	400 USD	US
Schroder Ventures Intl Life Sciences IV	SV Life Sciences	400 USD	US
Baring Private Equity Asia III	Baring Private Equity Asia	400 USD	Asia
Lightspeed Venture Partners VII	Lightspeed Venture Partners	400 USD	US

SAMPLE VENTURE FUNDS CLOSED DURING SEPTEMBER 2005

Sigma Partners VII

Manager: Sigma Partners
Final Close (mn): 400 USD (Sept-2005)
Geographic Focus: North America
Industry Focus: Technology

Aberdare Ventures III

Manager: Aberdare Ventures
Target Size: 125 USD
First Close (mn): 60 USD (Jan-2005)
Second Close (mn): 113 USD (Feb-2005)
Final Close (mn): 154 USD (Sept-2005)
Geographic Focus: North America
Industry Focus: Healthcare, Biotechnology, Medical Instruments, Biomedical
Sample Investors: California Public Employees' Retirement System (CalPERS), DuPont Pension Fund, Princeton University Investment Company (Princo)

Sequoia Capital Growth III

Manager: Sequoia Capital
Target Size (mn): 475 USD
First Close (mn): 186 USD (Jun-2005)
Final Close (mn): 500 USD (Sept-2005)
Geographic Focus: North America/Israel
Industry Focus: Consumer Services, Software, Hardware, Semiconductors, Computer Services

Formative Ventures Emerging Technologies Fund

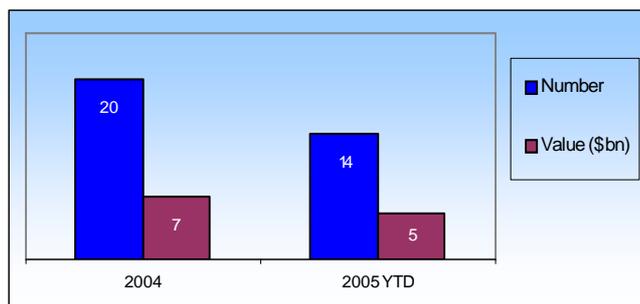
Manager: Formative Ventures
Target Size: 100 USD
Final Close (mn): 77.5 USD (Sept-2005)
Geographic Focus: North America
Industry Focus: Communications, Semiconductors
Sample Investors: Harvard Management Company, University of Virginia Investment Management Company

FUNDS in MARKET—Mezzanine

MEZZANINE FUNDS ON THE ROAD

	US	Europe	ROW	Total
No. on Road	20	8	2	30
Total Target Value (\$bn)	4	2	<1	6
Average Target Size (\$mn)	245	247	100	197

FINAL CLOSES BAROMETER



LARGEST MEZZANINE FUNDS CURRENTLY ON ROAD

Fund	Manager	Target Size (Mn)	Location
Citigroup Mezzanine Partners	Citigroup Alternative Investments	800 USD	US
Blackstone Mezzanine Partners II	Blackstone Group	667 USD	US
GSC European Mezzanine Partners II	GSC Partners	500 EUR	Europe
Ares Capital	Ares Management	450 USD	US
Carlyle Mezzanine Fund	Carlyle Group (The)	400 USD	US
AEA Mezzanine Fund	AEA Investors	400 USD	US
IFE Fund II	IFE Conseil	300 EUR	Europe
Indus Mezzanine Partners	Indus Capital Partners	250 USD	US

SAMPLE RECENT MEZZANINE FUNDS CLOSED

OCM/GFI Power Opportunities Fund II

Manager: Oaktree Capital Management
Target Size (mn): 750 USD
First Close (mn): 736 USD (May-2005)
Final Close (mn): 1020 USD (Aug-2005)
Geographic Focus: UK
Industry Focus: Power, Utilities
Sample Investors: Pennsylvania State Employees' Retirement System, Pennsylvania State University Endowment and The University of Texas Investment Management Company

Duchess IV

Manager: Babson Capital Europe
Target Size (mn): 400 USD
Final Close (mn): 525 USD (May-2005)
Geographic Focus: Europe

BlackRock Kelso Capital

Manager: BlackRock Kelso Capital
Final Close (mn): 530 USD (Aug-2005)
Geographic Focus: North America
Industry Focus: Any
Sample Investors: Virginia Retirement System

SW Pelham Fund II

Manager: Smith Whiley & Company
First Close (mn): 70 USD (Jan-2003)
Second Close (mn): 115 USD (Aug-2003)
Final Close (mn): 200 USD (Aug-2005)
Geographic Focus: North America
Industry Focus: Technology, Healthcare, Consumer Products, Industrial, Beverages
Placement Agent: Potomac Investment Services

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 mezzanine funds. A full list of the over 600 funds currently being raised can be viewed on our online database, Funds in Market.

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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@preqin.com

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 Benelux region.

INVESTOR NEWS

Finland's EUR 550 million **Central Fund of the Church** is considering an increased allocation to alternatives. At the moment, 2.8% of the total portfolio is placed in alternatives. During the course of 2005, however, there will not be any significant changes in allocation. In 2004, investments by the fund yielded a return of 9.5 per cent.

Lombard Odier Darier Hentsch & Cie has begun raising its third fund-of-funds vehicle, Euro Choice III. LODH focuses on the mid-market sector as it believes this has the best risk/reward ratio. It focuses on funds with national or regional deal flow that target companies with an enterprise value between EUR 50-300 million. At this time it invests solely in Europe. The general rule of LODH is not to invest with first-time managers.

New Mexico's **Educational Retirement Board (ERB)** is currently determining a new investment plan that could see it invest up to USD 400 million in private equity funds. ERB, with total assets of approximately USD 7.5 billion, could begin investing in alternative assets as early as the next 12 months. Although only in its initial stages, the plan is to commit up to 15% of total assets to private equity, real estate and hedge funds. The decision to pursue alternative investments follows a change in guidelines which until early 2005 have limited investments by New Mexico's pension systems to mainly stocks and bonds. New England Pension Consultants was appointed to the role of advisor last month.

Lincoln National Life Insurance Company is preparing to make a series of new private equity fund investments. This follows its sale on the secondary market of approximately USD 60 million worth of shares in private equity funds during the summer. Amongst the funds in which Lincoln sold its shares were vehicles managed by Carlyle Group and Capital Z. The motive behind the sale was Lincoln's decision to focus on newer funds by clearing out some of the older investments from its portfolio. Pre-sale, Lincoln had roughly USD 200 million invested in private equity funds, equating to less than 1% of total assets. The forecast is that Lincoln's

allocation to the asset class will continue to increase although the time scale and amount have not yet been determined. Lincoln will, however, be looking to commit to a number of buyout funds, as well as some later stage venture funds. New commitments made by Lincoln in 2005 include that to mezzanine fund, Praesidian Capital I.

Malaysia's **Employees Provident Fund (EPF)** has announced that it intends to pursue an investment program that will see the fund invest 5% of total assets (equating to over USD 3 billion) in alternatives. EPF currently has approximately USD 280 million invested in 14 private equity funds and as of September 2005 had permission from the Ministry of Finance for another billion dollars worth of investment.

Aegon USA has expressed a preference for mezzanine funds. The giant US insurer, with USD 100 billion under management, commits approximately USD 300-400 million to private equity funds per year. Aegon's portfolio is weighted 80% towards buyout funds. These, along with mezzanine funds will be the investment vehicles of choice for the future. Aegon does, however, view the mezzanine market as somewhat difficult at the current time. Enthusiasm for mezzanine funds is shared by Aegon's European affiliate, **Aegon N.V.**

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INVESTOR SPOTLIGHT

Private equity heavyweights in the Benelux region are gearing-up for an increase in commitments to funds further afield.

The Investor Intelligence database identifies a significant number of investors across the region who are becoming increasingly international in their outlook. One such Dutch investor is the EUR 21 billion Pension Fund for Metalworking and Mechanical Engineering. The fund, with over EUR 1 billion already committed to private equity, considers all locations for investment and its portfolio includes several fund investments in Asia. Similarly, Shell's Dutch pension fund is also active in Asia as well as in Central and Eastern Europe. Moreover, the pension fund is increasing its allocation to private equity from 4.3% to 7%.

Also domiciled in the Benelux region is Alpinvest Partners, one of the largest private equity investors in the world. Alpinvest's global outlook was extended in 2005 with its intention to invest USD 200 million in funds focusing on Asia, Central Europe and other emerging markets. Indeed, commitments by Alpinvest to new partnerships so far this year have included Malaysia's Navis Asia Fund IV. The firm's allocation to funds in the emerging market area can comprise between 5-25% of the overall portfolio. Another native of the Benelux region to show enthusiasm for investment further afield is Quilvest of Luxembourg. Similarly to Alpinvest, this year Quilvest has also committed to Navis Asia Fund IV. Quilvest began investing in private equity funds in 1972 with TA Associates and makes approximately 15 commitments per year.

Another Dutch investor with a long-standing history in the private equity asset class is Aegon N.V. Although at this time it would not invest with first-time fund managers or in emerging markets, Aegon N.V. follows a global investment strategy. For the next 18 months, Aegon will not be making many new private equity fund investments essentially due

to the FTK - a regulatory change forming the Netherlands' new financial assessment framework. It is thought the FTK will have some major consequences for most institutional investors in the Netherlands, especially for pension funds and insurers as many may be forced to revamp their asset and liability management techniques. In the long term, however, Aegon N.V. believes it is more likely than not that it will increase its target allocation to private equity and the FTK may well lead to greater portfolio diversification.

Last year, Belgium-based investment company, Damacor International, shifted its investment focus more towards US funds, having previously focused on European opportunities. With over EUR 2 billion allocated to private equity, Damacor is always looking to make new fund investments and most recently has been looking to newly developed Asia. Another Belgian investor keen to diversify its portfolio geographically is KBC Pensioenfond. Although a smaller player in the asset class, in Q2 2005 KBC was considering increasing its allocation to private equity funds to 5% of total assets, equating to EUR 32 million. Belgium's family owned holding company, the IKANO Group, is also set to continue its global investment strategy within the private equity asset class. Although without a specific target allocation, IKANO considers every investment opportunity that adheres to the company's investment strategy.

Thus, across the Benelux region there is clear evidence of enthusiasm for increased investment on an international scale.

Largest investors in the Benelux

Investor Name	Country	Total Assets under Management (EUR)	Private Equity Allocation (EUR)
Alpinvest Partners	Netherlands	21,746	21,746
Groupe Bruxelles Lambert	Belgium	8,889	1,800
EIF	Luxembourg	4,000	2,045
Damacor International	Belgium	25,000	2,000
GIMV	Belgium	1,200	1,200
Pension Fund for Metalworking and Mechanical Engineering	Netherlands	21,000	1,050