Private Equity Spotlight

February 2008 / Volume 4 - Issue 2

www.preqin.com

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 issue contains details from our latest publication, The 2008 Global Private Equity Review

Feature Article

page 02

The Private Equity Hotlist - After another record breaking year in terms of fundraising, we identify the fastest growing fund types, and also reveal which fund types have declined in terms of aggregate fundraising between 2006 and 2007.

Performance Spotlight

page 07

In this month's Performance Spotlight we examine cash flows in private equity. Featuring data from our newest publication, The 2008 Preqin Global Private Equity Review.

Fundraising

page 09

In a big month for fundraising news where we can reveal that KKR and Bain have closed their latest funds, we look at the latest data for buyout and venture funds, and also takes an in-depth look at infrastructure fundraising.

No. of Funds on Road	US	Europe	ROW	Total
Venture	240	107	184	531
Buyout	150	63	57	270
Fund of Funds	80	54	34	168
Real Estate	125	85	65	275
Other	76	11	20	107
Total	671	320	360	1,351

Investor Spotlight

page 12

With exclusive information taken from The 2008 Preqin Fund of Funds Review, this month's Investor Spotlight looks at the benefits fund of funds have for large and small investors.

Investor News

page 17

All the latest news on investors in private equity:

- Macquarie Funds Management Group holds final close on clean-tech fund.
- CalSTRS is increasing the proportion of its portfolio allocated to debt related funds.
- Cal Poly Corporation is aiming to increase its exposure to private equity.
- Bank of England Pension Fund is looking to sell its entire private equity portfolio.
- Paris Orléans increases exposure to Asia.

If you would like to receive Private Equity Spotlight each month please email spotlight@preqin.com.

Subscribers to Performance Analyst and Investor Intelligence receive additional information not available in the free version. If you would like further details please email sales@preqin.com

Publisher: Private Equity Intelligence Ltd
Fleet House, 8-12 New Bridge Street, London. EC4V 6AL

Tel: +44 (0)207 822 8500 w: www.preqin.com

Feature Article:
The Private Equity Hotlist

In this month's Feature Article we identify the fastest growing fund types, and also reveal which fund types have declined in terms of aggregate fundraising between 2006 and 2007.

Overall fundraising for the industry has risen consistently and dramatically in recent years. 2007 represented another record-breaking year with our latest data indicating that a total of $543bn was raised over the course of the year, beating the previous record of $518bn from 2006.

This extra capital is coming from both existing investors increasing their allocations to the asset class, and also from new investors making their maiden private equity commitments. Our data shows that this trend is likely to continue in the medium and long term, with 52% of investors polled in our 2008 Investor Survey indicating that they would be increasing their allocations in the next twelve months, and none seeking to decrease their allocations (full report available in the 2008 Preqin Global Private Equity Review).

However, although the headline fundraising figures look encouraging, when the figures are examined in more detail it emerges that not all fund types are experiencing such good times. The level of capital collected by some fund types has fallen between 2006 and 2007 while other fund types have enjoyed a significant rise in fundraising activity.

Fig. 1: The Private Equity Hotlist: Changes in Fundraising, 2006 - 2007

Fund Type	% Change - Aggregate fundraising 2006 - 2007	% Change - No. Funds Raised 2006 - 2007
Distressed Debt	↑ 169%	↑ 19%
Infrastructure	↑ 93.5%	↑ 5.5%
Secondaries	↑ 35%	↓ -33.5%
Venture	↑ 20.5%	↓ -4%
Fund of Funds	↑ 1%	↓ -10%
Buyout	↓ -1.5%	↓ -11%
Real Estate	↓ -3.5%	↓ -15.5%
Mezzanine	↓ -34%	↓ -31%
Overall	↑ 5%	↓ -11%

In this article we identify the risers and fallers, and examine any clues as to likely fundraising performance in 2008.

Fig. 1 shows the change in fundraising between 2006 and 2007 both in terms of the level of capital gained, and in terms of the number of vehicles achieving a final close.

The most striking feature of the table is perhaps the level of red ink indicating the decline in the number of funds achieving a final close between 2006 and 2007. Although overall fundraising is up by 5%, the total number of funds closing actually fell by 11%, with the extra capital coming as the average fund size has increased significantly. Of all the major fund types, only distressed debt and infrastructure saw more funds closed in 2007 than 2006.

The Risers:

Distressed debt saw the highest increase in terms of capital commitments between 2006 and 2007, with aggregate fundraising increasing by a sizeable 169% over 12 months. This increase was not just down to a few mega-sized funds either, as the overall number of vehicles closing also increased by 19%. With conditions for distressed debt players in the current global financial markets looking good, managers hit the road in record numbers in 2007. Investors were keen to commit, evidenced by the fact that distressed funds closed on average 19% above target.

Distressed debt funds are hot property at the moment; with investor enthusiasm running high, and with a good stock of 27 vehicles on the road seeking an aggregate $28.5bn, plus more vehicles certain to hit the road during

... Although overall fundraising is up by 5%, the total number of funds closing actually fell ...

the course of the year, it is likely that distressed debt funds will have another strong fundraising year in 2008.

Another big rise in commitments was seen in the **infrastructure** sector, which experienced fundraising at almost double 2006 levels, with the number of vehicles achieving a final close also increasing by 5.5%. This is the third year in a row that has seen fundraising levels double in this sector, and with a further 44 funds in market seeking an aggregate $47bn, it is possible that 2008 could again see a sizeable growth in fundraising from the already impressive $30bn raised in 2007 by a total of 20 funds.

Secondaries fundraising increased by 35% on 2006 levels, the third biggest increase in the industry. However, it also saw the biggest drop in terms of the number of vehicles that successfully closed. The secondaries sector has become increasingly dominated by a small number of firms raising very large vehicles; in 2007 Coller, Goldman Sachs, AXA and Pantheon all raised funds in excess of $2bn in size. Secondaries are currently extremely popular with investors; on average funds closed 33% over target in 2007.

In 2008 large secondaries vehicles such as Lexington Capital Partners VII which is currently seeking $5bn are likely to dominate, although the number of funds on the road has increased. With a total of 23 funds currently seeking an aggregate $20bn, it appears that growth is likely in terms of both the number and value of vehicles closing in 2008.

The **venture** industry continued to recover in 2007, with aggregate fundraising increasing by 20.5% from 2006, although the number of vehicles closing did fall very slightly by 4% on the previous year's level. A number of large funds from firms such as Technology Crossover Ventures and Citigroup helped the total for the year to reach $59bn. The outlook for 2008 looks encouraging too, with 421 funds currently on the road looking to raise $71bn it is likely that 2008 will see a further increase from the $59bn raised in 2007.

Fund of funds registered a very small increase in terms of aggregate fundraising, and a 10% decrease in terms of the number of vehicles raised. It looks like another year of stability for fund of funds in 2008, with a constant churn of new investors to private equity committing to fund of funds replacing those investors previously in fund of funds which have now switched their investment strategy to direct investing.

The Fallers:

The **buyout** sector experienced a fall in fundraising of 1.5% from 2006, with the number of vehicles 11% lower than in the previous 12 months. If it had not been for the KKR 2006 fund achieving a final close on December 31st 2007, the drop would have been even more pronounced at over 9% from 2006 levels. Although there was a drop in fundraising, it must be remembered that 2006 levels were exceptionally high, and that the aggregate $231bn raised by the industry still represents an excellent fundraising year in relative terms.

Although the credit crunch has affected a small number of investors' attitudes towards private equity, the reality is that investors are still keen on buyout funds, and that the fund type is likely to continue to see healthy levels of fundraising in 2008, although our prediction is one of stability rather than growth.

What should concern fund managers seeking investment is that although investor appetite has remained stable, the number of managers on the road has risen dramatically. The aggregate target value of funds on the road rose by 55% between 2007 and 2008, and this increased competition means that only those managers with the most focused of fundraising strategies will enjoy success in 2008.

After numerous years of continual growth, **real estate** fundraising also registered a drop between 2006 and 2007, with aggregate commitments garnered falling by 3.5%, and the number of vehicles achieving a final close declining by 15.5%. Conditions

Feature Article:
The Private Equity Hotlist

in 2008 are likely to remain challenging for real estate managers; although the credit crunch may not have turned investors off from the fund type, there is certainly evidence of increased trepidation.

Like the buyout sector, the number of vehicles and the aggregate capital sought has increased dramatically between 2007 and 2008, with current levels around 250% higher than just one year ago. Although such an enormous increase is more indicative of an insufficient level one year ago rather than an excessive build up now, it is still certain that times are going to be more challenging for real estate managers in 2008.

Sitting at the bottom of the list is **mezzanine**, which saw a disappointing year with commitments down by 34%, and the number of vehicles closing falling by 31%. It is likely that mezzanine fundraising in 2008 is going to increase dramatically from 2007 levels, principally due to the existence of the potentially record-breaking GS Mezzanine Partners V, which is currently on the road seeking $20bn. Other funds also on the road increase the total being sought to $30bn (compared to the $14.5bn raised in 2007). Although the Goldman Sachs vehicle will no doubt lead to a rise in aggregate commitments, there are only 35 vehicles on the road in total, and managers may find conditions to be challenging in 2008.

Tim Friedman

2008 Preqin Global Private Equity Review

2008 has brought interesting times for the private equity industry. Our latest data shows that 2007 was a record year for fundraising, with $518bn raised over the course of the year. However, challenging lending conditions and the threat of recession has resulted in uncertainty and trepidation within the private equity industry, both amongst investors and fund managers.

The 2008 Preqin Global Private Equity Review features stats, data, expert commentary and analysis on every aspect of the industry; ensuring that you understand the latest developments affecting the asset class.

However, the Review is not just an overview of current conditions. Also included in this information-packed publication are countless statistics, league tables and pieces of useful analysis on the history of the private equity industry.

The 2008 Preqin Global Private Equity Review is a vital tool that will stay on your desk throughout the year. Plus at the low price of $195 / £95 / €140 per copy, and with significant discounts for multiple purchases, you can ensure that everyone else at your firm stays up to date too.

- Interviews and articles from the most important people in the industry today, including MVision, CVC, CD&R, Coller plus many more.
- Detailed analysis on every aspect of the industry with a review of 2007, and predictions for the coming year.
- All fund types covered and examined individually, including buyout, venture, real estate, fund of funds, distressed debt, mezzanine, infrastructure, secondaries, energy funds...
- Analysis, stats and commentary both on a global scale, and by individual regions: US, Europe, Asia and Rest of World.
- Comprehensive source of stats on private equity - including fundraising, performance, deals, GPs, investors, placement agents, advisors, law firms...
- Numerous reference guides for different aspects of the industry - Who is the biggest? Where are the centres of activity? How much has been raised? Where is the capital going? Who is investing? What are the biggest deals? What is the outlook for the industry?
- Results of questionnaires with different groups on the state of the industry - what do LPs really think about private equity? What effect has the credit crunch had? What is going to happen to the industry in coming years?
- Plus much more...

The 2008 Global Private Equity Review is available now to order for only $195 / £95 / €140 per copy, with significant discounts for multiple copy purchases. Please see our order form (page 6) for further details.

www.preqin.com/pereview

2008 Preqin Global Private Equity Review

The 2008 Preqin Global Private Equity Review is the most comprehensive review of the private equity industry ever undertaken, and is a must have for anyone involved in private equity, or looking to learn more about this growing asset class.

Intended for use as both a vital source of information about the current market, and also as an information-packed reference guide, this year's edition includes:

- Interviews and articles from the most important people in the industry today, including GPs, investors, placement agents and more.
- Detailed analysis on every aspect of the industry with a review of 2007, and predictions for the coming year.
- Comprehensive source of stats on private equity - including fundraising, performance, deals, GPs, investors, placement agents, advisors, law firms...
- Numerous reference guides for different aspects of the industry - Who is the biggest? Where are the centres of activity? How much has been raised? Where is the capital going? Who is investing? What are the biggest deals? What is the outlook for the industry?
- Results of questionnaires with different groups on the state of the industry - what do LPs really think about private equity? What effect has the credit crunch had? What is going to happen to the industry in coming years?
- Plus much more...

2008 Preqin Global Private Equity Review Order Form - Please complete and return via fax, email or post

I would like to purchase the 2008 Global Private Equity Review:

1 copy: ☐ \$195 / £95 / €140

2 copies: ☐ \$300 / £150 / €220 (\$150 / £75 / €110 per copy)

5 copies: ☐ \$600 / £300 / €450 (\$120 / £60 / €90 per copy)

10 copies: ☐ \$1000 / £500 / €750 (\$100 / £50 / €75 per copy)

+10 Copies: ☐ \$1000 / £500 / €750 then \$100 / £50 / €75 per additional copy. Please state total number of copies: ☐

Please select currency for payment:

☐ US Dollars (\$) ☐ GB Pounds (£) ☐ Euros (€)

Shipping Costs: \$25 / £8 / €18 for single publication
\$12 / £4 / €9 for each additional copy

Name:

Firm: Job Title:

Address:

City: Post / Zip Code: Country:

Telephone: Email:

PAYMENT OPTIONS:

☐ Cheque enclosed (please make cheque payable to 'Private Equity Intelligence') ☐ Please invoice me

Credit Card ☐ Visa ☐ Amex ☐ Mastercard

Card Number: Expiration Date:

Name on Card:

Private Equity Intelligence - Fleet House, 8 - 12 New Bridge Street, London, EC4V 6AL
w: www.preqin.com / e: info@preqin.com / t: +44 (0)20 7822 8500 / f: +44 (0)87 0330 5892 or +1 440 445 9595

Performance Spotlight:
Cash Flows in Private Equity

Most private equity funds are structured as limited partnerships with finite lifetimes, most commonly of ten years. Once the LP has made a commitment to a new fund, these commitments are then usually called up over a period of four to six years for investments, and the proceeds of realizations are then distributed back to the LP over the remaining lifetime of the fund. As a result, the LP experiences a cash flow that will be a reflection of both the cash flow performance of each individual fund in its portfolio, and of the maturity profile of its private equity portfolio, with younger funds generally tending to draw down cash, and older funds tending to distribute it.

Contributions and Distributions:

It is instructive to look at the pattern of cash calls and distributions across the private equity industry as a whole, as this can be a key factor in LPs' decisions to make commitments to new funds, and also reveals a great deal about the ability of private equity firms to 'put to work' the commitments made by their LPs. Fig. 2 shows the aggregate cash called up from LPs to private equity funds around the world, and compares this with the net distributions made back to them over the period since 2003 to the first six months of 2007. The industry has not only grown hugely since 2003, it has also evolved significantly, and can be divided into three periods:

- 2003 to 2004 H1: the asset class was recovering from the downturn after the millennium, with contributions growing rapidly as private equity firms found attractive investments at reasonable valuations. Interestingly, distributions were growing even more quickly, albeit from a low base. Contributions were ahead of distributions in this phase.

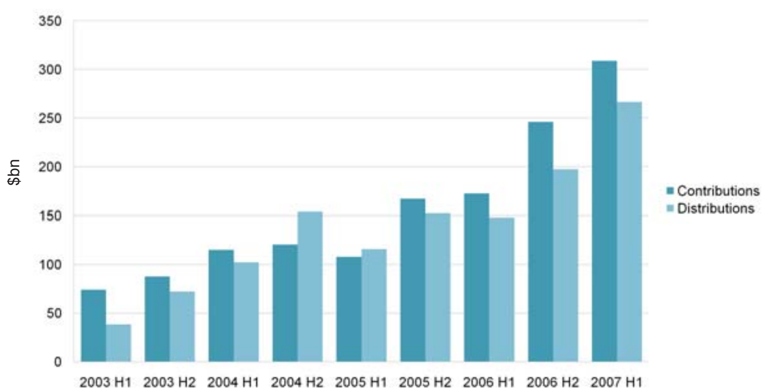
- 2004 H2 to 2005 H1: distributions continued to grow rapidly, and in fact actually overtook contributions during this period – a remarkable state of affairs for a growing asset class. By this time it had become clear that private equity funds were performing very well, and that the troubles of the turn of the millennium were behind it. LPs were more inclined to commit to new funds, and the fact that distributions overtook contributions led a 'double whammy' for fundraising: as fast as the LPs committed to new funds, they were finding that distributions were keeping pace with or exceeding contributions, so many of them were not getting any closer to their target allocations. This laid the foundations for the extremely strong fundraising markets of 2006 and 2007.

- 2005 H2 to 2007 H1: distributions and contributions continued to grow strongly, although contributions drew ahead of distributions again – back to a more normal situation.

Capital Overhang:

The other aspect of cash flow is that it gives a good indication of whether GPs have been able to find good investment opportunities for the funds that they have raised. 2005 to 2007 have been very strong years for fundraising (most notably in the buyout segment, but also more broadly across the private equity industry as a whole), and some commentators have questioned whether all the funds raised can be put to work over a reasonable period, or

Fig. 2: Private Equity Cash Flows, 2003 to 2007



Figures show aggregate global cash calls made fromLPs to private equity funds and cash distributions made back to them, taken across all types of private equity fund, with the exception of fund of funds.

Performance Spotlight:
Cash Flows in Private Equity

whether there is a 'capital overhang' in excess of the pool of good investment opportunities. We believe that the evidence does not indicate any 'capital overhang' – on the contrary, it appears that private equity firms have been able to call up and invest their new funds more quickly than ever before.

Fig. 3: Rate of Call-Up of Buyout Funds, 2000 to 2006 Vintages

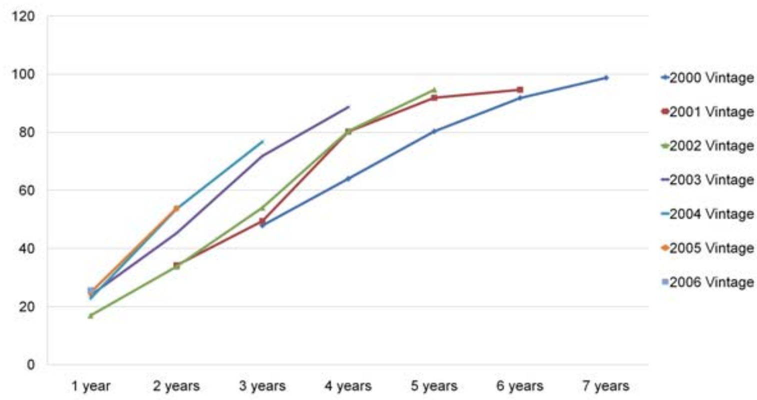


Fig. 3 shows the rate of call up of buyout funds from vintages 2000 to 2006 over the period 2003 to 2007, i.e. for between the first year and the first 7 years of the fund's lifetime. It is clear from the chart that successive generations of funds have been called up and put to work progressively more quickly – and indeed this is reflected in the tendency of private equity firms to return to the fundraising trail after much shorter intervals than used to be the case.

There is no evidence of an unusable capital overhang from these figures – although to be fair, the latest reliable cash flow data available dates from 2007 Q2, before the credit crunch hit.

Mark O'Hare

This article is taken from the 2008 Preqin Global Private Equity Review, which is packed full of the latest information, trends and expert opinion on the state of the private equity LP universe, along with countless other information packed sections.

At only $195 / £95 / €135 The 2008 Preqin Global Private Equity Review is an absolute must-buy for anyone involved in the private equity industry. This year's edition examines every aspect of the global private equity market and is available to order now. For more details including sample pages and information on ordering your copy, please visit:

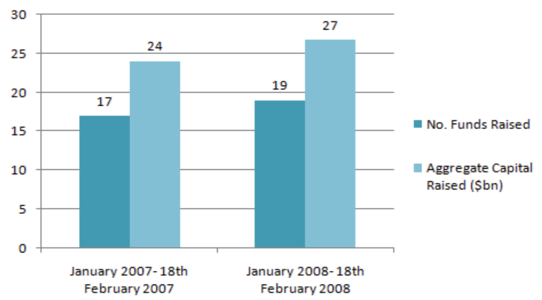
www.preqin.com/pereview

Fundraising Spotlight: Buyout

BUYOUT FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	150	63	57	270
Total Target Value ($bn)	176	90	34	300
Average Target Size ($mn)	1,635	645	1,272	1,221

FINAL CLOSES BAROMETER



BUYOUT FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
Blackstone Capital Partners VI	Blackstone Group	20,000 USD	US
Texas Pacific Group Partners VI	TPG	18,000 USD	US
CVC European Equity Partners V	CVC Capital Partners	11,000 EUR	UK
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
Madison Dearborn Capital Partners VI	Madison Dearborn Partners	10,000 USD	US
Silver Lake Partners III	Silver Lake	8,000 USD	US
PAI Europe V	PAI Partners	5,000 EUR	France

RECENTLY CLOSED BUYOUT FUNDS

KKR Fund 2006
Manager: Kohlberg Kravis Roberts
Target Size (mn): 18,000 USD
Final Close (mn): 18,500 USD (Dec-2007)
Geographic Focus: North America, Europe, Asia, Global
Industry Focus: Any
Lawyer: Linklaters
Sample Investors: CalPERS, Equitrust, Fort Washington Capital Partners, HarbourVest Partners, WSIB

Bain Capital Fund X
Manager: Bain Capital
Target Size (mn): 10,000 USD
Final Close (mn): 10,000 USD (Feb-2008)
Geographic Focus: North America, Europe, Global
Industry Focus: Telecoms, Distribution, Manufacturing, Communications, Energy
Sample Investors: Adams Street Partners, Conversus Asset Management, Kensington Capital Partners, Maryland State Retirement and Pension System

TPG Asia V
Manager: TPG
Target Size (mn): 5,000 USD
Final Close (mn): 4,250 USD (Jan-2008)
Geographic Focus: Asia
Industry Focus: Any
Lawyer: K&L Gates
Sample Investors: CalPERS, Conversus Asset Management, New Mexico PERA, Partners Group

Resolute Fund II
Manager: Jordan Company
Target Size (mn): 3,500 USD
Final Close (mn): 3,600 USD (Feb-2008)
Geographic Focus: North America
Industry Focus: Consumer Products, Manufacturing
Placement Agent: Credit Suisse Private Fund Group
Lawyer: Mayer Brown Rowe & Maw
Sample Investors: Absolute Private Equity, CPP Investment Board, Dancap Global Asset Management, LACERA.

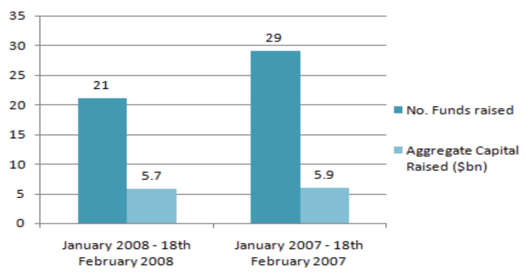
Manuel Carvalho

Fundraising Spotlight: Venture

VENTURE FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	240	107	184	531
Total Target Value ($bn)	42	18	27	87
Average Target Size ($mn)	204	197	165	566

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
Macquarie Global Opportunities Partners	Macquarie Direct Investment	2,000 USD	Australia
Pine Brook Road Partners I	Pine Brook Road Partners	2,000 USD	US
Summit Partners European Fund	Summit Partners	1,000 EUR	US
China-Singapore Hi-tech Industrial Investment Fund	China-Singapore Suzhou Industrial Park	1,330 USD	China
Essex Woodlands Health Ventures VIII	Essex Woodlands Health Ventures	1,250 USD	US
Sai Fu Growth Venture Capital	Softbank Asia Infrastructure Fund Advisors	1,000 USD	China
Millennium Private Equity Media & Telecommunication	Millennium Private Equity	1,000 USD	United Arab Emirates
Invention Development Fund I	Intellectual Ventures	1,000 USD	US
Yucaipa Corporate Initiatives Fund II	Yucaipa Companies	800 USD	US

RECENTLY CLOSED VENTURE FUNDS

Canaan Equity VIII:
Manager: Canaan Partners
Target Size (mn): 650 USD
Final Close (mn):650 USD (Feb-2008)
Geographic Focus: US, North America
Industry Focus: Technology, Healthcare
Sample Investors: San Francisco City & County Employees' Retirement System

Lereko Metier Capital Growth Fund:
Manager: Lereko Metier Capital
Target Size (mn): 3000 ZAR
First Close (mn): 1000 ZAR (Oct-2006)
Final Close (mn): 3500 ZAR (Dec-2007)
Geographic Focus: Africa, South Africa
Industry Focus: Consumer Products, Retail, Manufacturing, Communications, Construction, Electronics, Food
Placement Agent: Not Used

Benchmark Capital Partners VI:
Manager: Benchmark Capital
Target Size (mn): 500 USD
Final Close (mn): 500 USD (Feb-2008)
Geographic Focus: US, North America, Europe
Industry Focus: Technology

Northern Light II:
Manager: Northern Light Venture Capital
First Close (mn): 236 USD (May-2006)
Final Close (mn): 350 USD (Oct-2007)
Geographic Focus: Greater China, China
Industry Focus: Technology, Telecoms, Consumer Products, Consumer Services, Media
Sample Investors: Greylock Partners, New Enterprise Associates, Princeton University Investment Company (Princo)

Mihai Catalin Ghiorghies

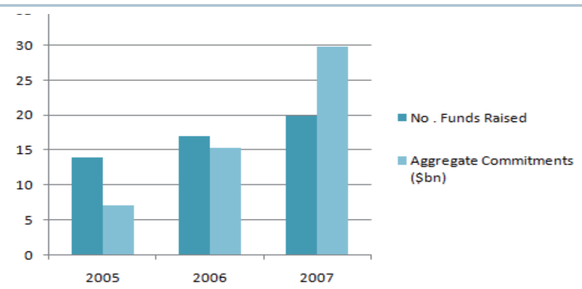
preqin

Fundraising Spotlight: Infrastructure

INFRASTRUCTURE FUNDS ON THE ROAD

Funds on Road	US	Europe	ROW	Total
Number	13	9	28	50
Total Target Value ($bn)	23	7	20	50
Average Target Size ($mn)	1746	827	729	1000

FINAL CLOSES BAROMETER



INFRASTRUCTURE FUNDS ON THE ROAD

Fund	Manager	Target Size (mn)	GP Location
Global Infrastructure Partners I	Global Infrastructure Partners	3,500 USD	US
Merrill Lynch Infrastructure	Merrill Lynch	3,500 USD	US
Citi Infrastructure Investors	Citigroup Infrastructure Investors	3,000 USD	US
Morgan Stanley Infrastructure	Morgan Stanley	3,000 USD	US
Abraaj Infrastructure and Growth Capital Fund	Abraaj Capital	2,000 USD	United Arab Emirates
Gulf One Infrastructure Fund I	Gulf One	2,000 USD	Bahrain
ICICI India Infrastructure Fund	ICICI BANK	2,000 USD	India
JPMorgan & Chase India Infrastructure Funds	JP Morgan Real Estate and Infrastructure	2,000 USD	US
Babcock & Brown North American Infrastructure Fund	Babcock and Brown - Private Equity	2,000 USD	Australia
Infracapital Partners Fund	Prudential M&G	1,000 GBP	UK

RECENTLY CLOSED INFRASTRUCTURE FUNDS

AIG Highstar Capital III
Manager: AIG Investments
Target Size (mn): 3,000 USD
Closings (mn): Final Close: 3,500 USD (Oct-2007)
Geographic Focus: US
Placement Agent: Merrill Lynch, AIG Equity Sales Corp.
Lawyer: Debevoise & Plimpton
Sample Investors: San Bernardino County Employees' Retirement Association

Meridiam Infrastructure Fund
Manager: Meridiam Infrastructure
Target Size (mn): 600 EUR
Closings (mn): Final Close: 600 EUR (Dec-2007)
Geographic Focus: North America, Europe
Industry Focus: Transportation, Environmental Services
Placement Agent: Campbell Lutyens
Sample Investors: PREDICA Assurances de Personnes, Crédit Agricole Private Equity

Carlyle Infrastructure Fund
Manager: Carlyle Group
Target Size (mn): 1,000 USD
Closings (mn): Final Close: 1,150 USD (Nov-2007)
Geographic Focus: US
Industry Focus: Transportation, Utilities, Infrastructure
Sample Investors: Scotiabank Private Equity Investments, TAQA New World, Wells Fargo and Company Pension Plan, Chicago Police Pension Fund, BAE Systems Australia Superannuation Fund

Babcock & Brown European Infrastructure Fund
Manager: Babcock and Brown - Private Equity
Target Size (mn): 1,500 EUR
Closings (mn): Final Close: 2,170 EUR (Dec-2007)
Geographic Focus: Portugal, Europe
Industry Focus: Transportation, Energy, Utilities, Infrastructure
Placement Agent: UBS Investment Bank Private Equity Funds Group
Sample Investors: ScottishPower Pension Scheme

Richard Stus

Investor Spotlight:
Fund of Funds: Benefits for Large and Small Investors

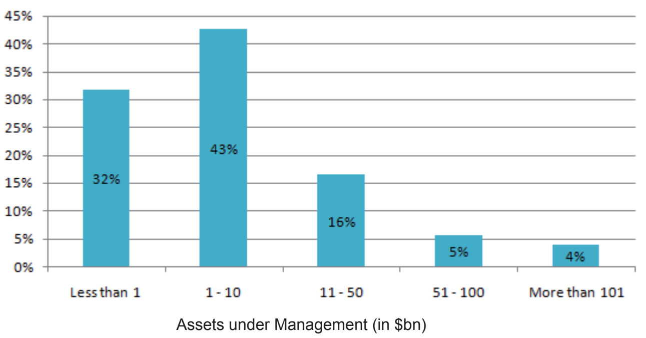
When compiling our in-depth publication on the fund of funds sector: The 2008 Preqin Fund of Funds Review, we spoke with a large number of both small and large investors who were committing to fund of funds vehicles. In this month's Investor Spotlight we examine some of the ways that fund of funds can benefit investors of different sizes, and look at some specific examples.

A wide spectrum of institutions use fund of funds vehicles as a means of investing in private equity. Such vehicles are not solely used by investors with relatively small levels of assets under management. As shown in Fig. 4, taken from The 2008 Preqin Fund of Funds Review, whilst the majority of investors in fund of funds would be classed as relatively small investors, around one-quarter of all fund of funds investors actually have over $10 billion in assets under management. Naturally, those investors with greater levels of assets under management carry an increased significance due to the large amounts of capital they invest. One example is the Japan-based Daido Life Insurance which has a 2.5% current allocation to private equity. Despite having only a very small proportion of this allocation targeted at fund of funds, Daido may still commit up to $90 million to such vehicles during 2008.

Large Investors:

Large investors utilise fund of funds in a number of different ways. Some, like Daido Life Insurance, will invest in them opportunistically, looking at opportunities on a case-by-case basis as part of their normal private equity allocations. This can be a good way for investors to enlarge and add extra diversification to their portfolios. British Airways Pension Fund and Ohio Police and Fire Pension Fund are further examples of large investors following this sort of strategy. Examples of their fund of funds investments, made alongside their direct fund investments, include Knightsbridge Venture Capital VI and Park Street Capital Private Equity Fund VIII respectively.

Fig. 4: Split of Investors in Fund of Funds by Assets under Management (in $bn)



Another strategy employed by some large investors is to use fund of funds vehicles so they do not have to maintain too many relationships with fund managers, whilst still receiving exposure to a large number of funds. Investing in fund of funds in this way is a method of outsourcing the handling of fund manager relationships and the due diligence process.

The recent strategy of Orange County Employees' Retirement System (OCERS) is a prime example of this. OCERS has a long history of investing in private equity. Historically, it tended to invest small amounts of capital in a large number of funds. More recently, however, it has stated a preference for fund of funds and has been making larger commitments to fund of funds managers, such as its $60 million commitment to Mesirow Partnership Fund IV, which gave OCERS exposure to a variety of funds including Apax Europe VII, Battery Ventures VIII, Draper Fisher Jurvetson IX, Kelso Investment Associates VIII and Providence Equity Partners VI. This year, OCERS has resolved to commit $50 million to Adams Street Partners and $75 million to Abbott Capital Management in a continuation of this strategy.

The UK's Coal Pension Trustees Services utilises fund of funds similarly: despite having a large amount of assets under

Investor Spotlight:
Fund of Funds: Benefits for Large and Small Investors

management, it has a small investment team, so approximately half of its private equity investments are in fund of funds vehicles. OP Bank Group Life & Pensions of Finland is another to use fund of funds as a method of outsourcing and has previously invested with French fund of funds manager Access Capital Partners.

It is common for large investors to utilise fund of funds vehicles when seeking to invest in particular fund types or geographic regions where they might lack expertise. By investing in a fund of funds, they can utilise the knowledge of a manager who has experience in the specific field, and perhaps use information acquired during this first foray into the field to move to direct fund investing in that field in the future.

Delta Lloyd Insurance uses fund of funds vehicles in this way. In the past, it invested with managers such as Private Advisors and Spur Capital Partners to gain experience in the US, whilst investing directly into funds in Europe. Using the knowledge gained through investing in fund of funds Delta Lloyd now invests directly into fund opportunities in the US, and has switched its fund of funds focus to Asia. It invested with Asia Alternatives Management, whose team is known for its local experience. Through its maiden fund of funds vehicle, the $515 million Asia Alternative Capital Partners, it invested in funds such as Capital Today China Growth Fund, Clearwater Capital Partners Fund III, MBK Partners I and Nexus India Venture Fund.

New Jersey State Investment Council uses fund of funds vehicles for exposure to venture funds, whilst making direct fund investments in other fund types. One recent example is its investment in Lehman Crossroads Series XVIII, where its commitment will only be invested in the venture and growth capital segments of this diversified fund of funds vehicle. The pension fund chose Lehman Brothers due to its ability to access top venture and growth funds, and negotiated to only receive exposure to these types of vehicles. One example of a venture fund this fund of funds committed to is Catamount Ventures Fund III.

Alfred I. duPont Testamentary Trust is another investor that uses fund of funds overseas, whilst investing directly in funds at home. It feels managers that are based near to the underlying fund managers are better placed than itself to perform due diligence. Its fund of funds investments include Axiom Asia I, managed by the Singapore-based Axiom Asia Private Capital, and Euro Choice III, from the Swiss-based LODH Private Equity. This year, the foundation is looking to commit a total of $50 million to two fund of funds vehicles, one in Asia and one in Europe.

Often, niche and specialist funds requiring small commitments can be too small for a large investor wishing to commit large amounts of capital to each of its funds of choice. The resources required in terms of due diligence and monitoring are too high with regard to the level of investment for a direct commitment to be viable. Specialist funds, such as emerging manager funds for example, may also be considered of higher risk. Therefore large investors can use fund of funds vehicles as a way to access these types of funds. Muller & Monroe's M2 Private Equity Fund of Funds is an example of a vehicle operating in this space. It targets small, emerging and niche funds in the US and has received commitments from investors such as Illinois Municipal Retirement Fund, Public School Teachers' Pension & Retirement Fund of Chicago and State Universities Retirement System of Illinois.

Large investors can also approach fund managers with a proposal to set up a bespoke vehicle to meet their specific investment needs. California Public Employees' Retirement System (CalPERS) has used such vehicles in this way. PCG International Emerging Markets Fund Investments is managed by PCG Asset Management on behalf of CalPERS and is mandated to invest in emerging markets including South America, Africa, Central and Eastern Europe and Asia. ESP Golden Bear Europe Fund is managed by SL Capital Partners on behalf of CalPERS and invests in small- to mid-market buyout funds in Europe. New York State Common Retirement Fund gave a $375 million mandate to Aldus Equity Partners for Aldus NY/Emerging Fund. Its focus was on emerging managers in the US and its investments included

Investor Spotlight:
Fund of Funds: Benefits for Large and Small Investors

Pharos Capital Fund II, NGN BioMed Opportunity Fund I, GF Capital Private Equity Fund, ICV Partners II and Wedbush Capital Partners I.

Small Investors:

Investors with a relatively small amount of assets under management seeking exposure to private equity will often look to fund of funds vehicles as a method of achieving diversification across the asset class. A commitment to a fund of funds manager will provide exposure to a number to underlying funds that the investor would not have the capital to commit to individually.

Community Foundation in Jacksonville is one such investor. With only around $118 million in assets under management, it invests in private equity solely through fund of funds and secondaries, and has approximately $14 million committed to the asset class. Through its investment in Portfolio Advisors Private Equity Fund IV, it receives exposure to around 50 underlying funds of various types, including TA X, Avenue Special Situations V, Vivo Ventures Fund VI, Bain Capital Asia and MatlinPatterson Global Opportunities III.

University of Dayton Endowment is another such investor. With $620 million in assets under management, it invests in private equity through fund of funds and has approximately $47 million committed to the asset class. It has previously invested with managers such as Abbott Capital Management, BlackRock Private Equity Partners, Commonfund Capital, Fort Washington Capital Partners and JPMorgan Asset Management, thus giving it a much larger number of underlying portfolio funds than it would have via direct fund investments. This year, it is hoping to commit to three or four fund of funds vehicles and typically invests around $5 million per vehicle.

Another major reason small investors use fund of funds vehicles is to gain access to funds that otherwise they would not be able to directly themselves. Dorset County Council Pension Fund (DCCPF) cites this as a reason for using fund of funds and has therefore built relationships with two well-known players, the US-based HarbourVest Partners and the UK-based SL Capital Partners. Through its investment in HarbourVest Partners VIII – Buyout it receives exposure to funds including Blackstone Capital Partners V, Golder Thoma Cressey Rauner IX, KKR Fund 2006 and Thomas H Lee VI. Due to the size of some of these funds, DCCPF would not have been able to commit to them directly. Due to the demand of others, again it would have had no direct access. For example, 98% of capital committed to Golder Thoma Cressey Rauner IX came from investors in the manager's previous funds.

Outsourcing of the due diligence and monitoring processes is a utilisation of fund of funds that small investors have in common with large investors. Those with small investment teams find this aspect of fund of funds particularly useful. One small investor that prefers to outsource the due diligence process is Schindler Pensionskasse. The private pension fund with approximately CHF 1.5 billion in assets under management looks to invest in one or two vehicles each year and has previously invested with Partners Group and Avadis Anlagestiftung. Somerset County Council Pension Fund is a newcomer to private equity and is looking for a fund of funds manager to handle its maiden £30 million allocation, also to save time on the due diligence and monitoring processes.

Both large and small investors that are newcomers to the asset class often share characteristics as to why they choose fund of funds vehicles for their early allocations. Naturally, gaining experience of the asset class is a profuse reason, as is access to top-tier funds. The $6.2 billion Sacramento County Employees' Retirement System has set a maiden target allocation to private equity of 5%, which will be invested in fund of funds as it looks to learn about the asset class. Another factor in its decision was its small investment team. The $120 million Indiana Historical Society is looking to commit $8 million to a fund of funds manager for its first move into the asset class and is seeking a manager

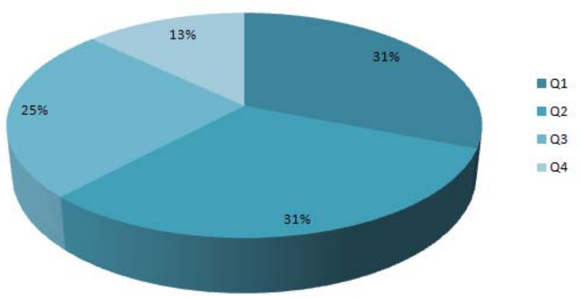
Investor Spotlight:
Fund of Funds: Benefits for Large and Small Investors

that can provide it with access to top-performing underlying funds worldwide.

The statistics would suggest that first-time investors are wise to seek out fund of funds managers for guidance when it comes to gaining experience and the selection of funds. The Preqin Performance Analyst database shows that managers do well at selecting the best performing funds. As shown by Fig. 5, taken from the 2008 Preqin Fund of Funds Review, 62% of known investments by fund of funds managers are ranked as either top- or second-quartile funds. Fund of funds managers are also good at avoiding the worst performing, with only 13% of investments ranked as bottom-quartile funds, compared to 31% ranked top-quartile.

Sam Meakin

Fig. 5: Split of Underlying Fund Investments made by Fund of Funds Managers sorted by Fund Quartile Ranking



2008 Fund of Funds Review:
Order Form

The 2008 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.

www.preqin.com/fof

2008 Fund of Funds Review Order Form - Please complete and return via fax, email or post

I would like to purchase the 2008 Fund of Funds Review:

☐ £775 + £10 Shipping ☐ $1,495 + $40 Shipping ☐ €1,150 + €25 Shipping

Additional Copies

☐ £95 + £5 Shipping ☐ $180 + $20 Shipping ☐ €135 + €12 Shipping

(Shipping costs will not exceed a maximum of £15 / $60 / €37 per order)

Name:

Firm: Job Title:

Address:

City: Post / Zip Code: Country:

Telephone: Email:

PAYMENT OPTIONS:

☐ Cheque enclosed (please make cheque payable to ‘Private Equity Intelligence’) ☐ Please invoice me

☐ Credit Card ☐ Visa ☐ Amex ☐ Mastercard

Card Number: Expiration Date:

Name on Card:

Private Equity Intelligence - Fleet House, 8 - 12 New Bridge Street, London, EC4V 6AL
w: www.preqin.com / e: info@preqin.com / t: +44 (0)20 7822 8500 / f: +44 (0)87 0330 5892 or +1 440 445 9595

Investor Spotlight: News

California State Teachers' Retirement System (CalSTRS) is increasing the proportion of its portfolio allocated to debt related funds from 5% to 15% at the expense of its venture allocation which would decrease from 15% to 5%. Also at this time, CalSTRS's board agreed to a three month extension to the contracts of the USD 173 billion pension fund's two consultants, Cambridge Associates and Altius Associates. The extension was granted as CalSTRS is still in the process of going through responses to an RFP for new alternative investment advisors service issued in Q4 2007.

Macquarie Funds Management Group has held a final close on Macquarie Clean Technology Fund on USD 205 million. The vehicle focuses on funds that will invest in firms looking to lower the cost and reduce the negative environmental impact of energy use. 50-70% of capital will be invested in North American funds, 20-40% in European funds and 0-10% in Asian funds. Buyout funds will take approximately 50% of capital, with 30% to expansion funds and 20% to venture funds. Investors in the fund include **Christian Super**, an Australian superannuation scheme.

The Canadian-based **Claridge Inc** has formed a new strategy which will see it invest in funds focused on emerging markets for the first time. Since it began investing in private equity funds around 1998 it has built up a portfolio of approximately 60 partnership investments which have been based mainly in North America and Europe. Most of its private equity investments have also been made on an opportunistic basis to buyout, distressed debt and mezzanine funds. This new strategy will see it gain exposure to funds run largely by Asia-based managers.

Bank of England Pension Fund is looking to sell its entire private equity portfolio. The pension fund has decided to stop investing in the asset class and will be selling its existing interests on the secondary market. It has hired a broker to assist with the sale. Capital raised by the sale will not be re-invested in alternatives. Funds that the pension fund has stakes in include Candover 2001 & 2005, Legal & General Ventures 2, 3, 4 & 5, Close Brothers PE Fund VII, Merlin Biosciences Fund III, Aberforth Partnership Fund and ECI 7.

The USD 82.2 billion **New Jersey State Investment Council** will invest USD 2 billion in private equity by June 2008. It plans to make larger commitments to funds but reduce the number of relationships it has with fund managers. It will focus increasing its exposure to several key investment strategies, including distressed debt, clean technology and energy sector-focused funds. It already has a number of distressed debt investments in its private equity portfolio but this is one of several strategies that it is aiming to focus on more heavily in the future. New Jersey State Investment Council has also recently made its maiden investments in Asia-focused funds, having committed USD 600 million to three funds.

Cal Poly Corporation is aiming to increase its exposure to private equity by increasing its target allocation. Cal Poly Corporation is responsible for managing the endowment fund of the California Polytechnic State University. Although it has only been investing in the private equity asset class since 2005 it is already looking to increase a target allocation of 2% of its total assets at some point during 2008. The USD 175 million endowment is entirely focused on fund of funds raised by Commonfund Capital, which is the only manager it has so far invested with.

Pension Fund Association for Local Government has decided to hire Hamilton Lane to advise its private equity fund investments on a non-discretionary basis. The USD 123 billion Japan-based pension fund will ask Hamilton Lane to draw up a shortlist of single manager funds that it can invest in and in this way it will be able to reduce its exposure to international fund of funds which has been the focus of its investment strategy in the asset class.

Paris Orléans is looking to increase its exposure to Asian private equity in 2008. As of Q4 2007 the EUR 1 billion private equity firm had committed EUR 400 million to the asset class. It sees Asia as particularly attractive at present as it feels that its economy is booming. It is also looking to make further investments in buyout and mezzanine funds focusing on the small- to mid-cap market in Europe, primarily in France. It also anticipates making further investments in the US towards the end of 2008.

Jennifer Ho

Each month Spotlight provides a selection of the recent news on institutional investors in private equity.
More news and updates are available online for Investor Intelligence subscribers.
Contact us for more information - info@preqin.com