

Content Includes:

Preqin Special Report: Making the Case for First-Time Funds

November 2016

Investor Attitudes

Over half of LPs are open to investing in a first-time private capital fund.

Outperformance

First-time funds have outperformed funds of established managers in every year except one over the past 13 years.

Benefits of First-Time Funds

Which LPs have had success selecting first-time funds for investment?

Opportunities for Investors

There are currently 863 first-time private capital funds open to investment, collectively seeking \$155bn.





Foreword

First-time funds have traditionally faced challenges securing capital commitments from LPs due to the nature of traditional closed-end fund due diligence. Most investment professionals (or their external advisors) with responsibility to vet these private capital* funds typically place significant emphasis on the GP's track record, firm and investment history, and the duration of time for which the investment team has worked together. As closed-end funds are long-term and illiquid investments, many LPs do not feel comfortable committing significant capital to unproven managers, especially as many of these first-time funds focus on diverse and innovative, yet unproven, investment ideas.

Every top performing and "brand name" GP has had to raise a fund for the first time. Whether these first-time funds were teams spun off from a balance sheet at an investment bank or insurance company, or individuals leaving a more established GP to start their own firm, there have always been LPs providing capital commitments to back these investment ideas. Many of the LPs that have supported these first-time GPs' initial investment strategies and talents have been rewarded with strong (and in some cases, exceptional) fund performance, increased portfolio diversification, experience with niche strategies and other factors beneficial to their overall investment program.

Covering areas such as first-time fund performance and fundraising, and with examples of LPs that have had success investing in these new managers, LPs reading this report can expect a data-driven overview of first-time fund investing.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

**Throughout this report, Preqin defines closed-end private capital as follows:*

Closed-End Private Capital						
Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources		
Buyout	Direct Lending	Private Equity Real Estate	Infrastructure	Energy		
Venture Capital	Distressed Debt			Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds	Agriculture/Farmland
Growth						Metals & Mining
Turnaround	Mezzanine	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds			Timberland
Other Private Equity	Special Situations			Water		
Private Equity Secondaries	Venture Debt			Natural Resources Fund of Funds		
Private Equity Fund of Funds	Private Debt Fund of Funds	Private Equity Real Estate Secondaries	Infrastructure Secondaries			

Contents

Investor Attitudes towards First-Time Funds	3
The Outperformance of First-Time Funds	4
Benefits of First-Time Fund Investing	6
First-Time Fundraising Market - Opportunities for All Investors	7

All rights reserved. The entire contents of Preqin Special Report: Making the Case for First-Time Funds, November 2016 are the Copyright of Preqin Ltd. No part of this publication or any information contained in it may be copied, transmitted by any electronic means, or stored in any electronic or other data storage medium, or printed or published in any document, report or publication, without the express prior written approval of Preqin Ltd. The information presented in Preqin Special Report: Making the Case for First-Time Funds, November 2016 is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the reader seeks advice rather than information then he should seek an independent financial advisor and hereby agrees that he will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following its use of Preqin Special Report: Making the Case for First-Time Funds, November 2016. While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in Preqin Special Report: Making the Case for First-Time Funds, November 2016 are accurate, reliable, up-to-date or complete. Although every reasonable effort has been made to ensure the accuracy of this publication Preqin Ltd. does not accept any responsibility for any errors or omissions within Preqin Special Report: Making the Case for First-Time Funds, November 2016 or for any expense or other loss alleged to have arisen in any way with a reader's use of this publication.



Investor Attitudes towards First-Time Funds

Fig. 1: Institutional Investor Views on the Difficulty of Sourcing Investment Opportunities Compared to 12 Months Ago



Source: Preqin Investor Outlook: Alternative Assets, H2 2016

With nearly 7,400 unique institutions confirmed by Preqin as actively investing in private capital funds (see page 2 for full definition), competition to access funds being raised by established, top performing GPs is as intense as ever.

Fig. 1 reflects the sentiment of over 400 institutional investors polled in June 2016 regarding the difficulty of finding attractive investment opportunities in the private capital industry. Competition to access the most established managers is set to intensify further; thousands of institutions are currently under allocated to private capital asset classes, and are likely to be looking to put further capital to work in the coming months and years to reach their target allocations (Fig. 2).

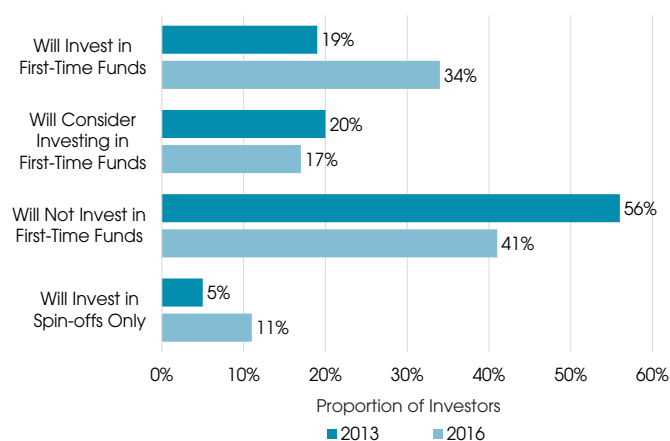
The reality is, not every LP is going to be able to access the largest and most well-regarded GPs. Large LPs with established in-house programs and a multitude of GP relationships will continue to gain access to funds managed by top performers. However, some LPs may not be experienced enough, some may be too small, and some may lack the relationships needed to commit capital to a top manager; they may find this to be a difficult, and sometimes unrealistic, task.

Developing relationships with first-time or spin-off managers may be a pragmatic strategy for less experienced LPs looking to build out their portfolios and foster new GP relationships. For larger or more established LPs, committing to first-time fund managers can supplement

their core portfolio funds with more niche strategies, potentially enhancing portfolio alpha through smaller funds, or establishing long-term relationships with up-and-coming investment talent.

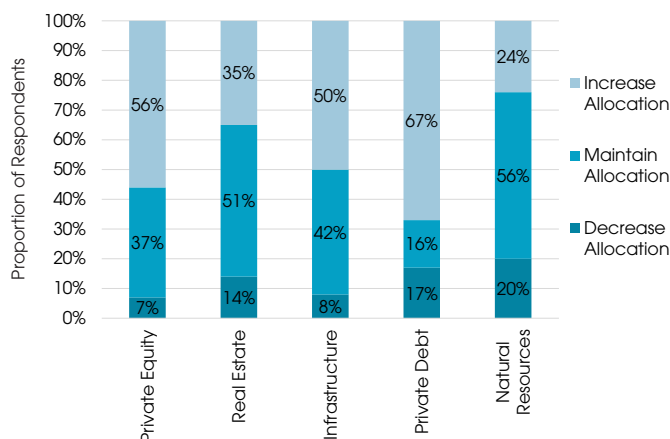
The willingness to look beyond the established managers and towards first-time funds and spin-offs is evident in the evolution of LPs from 2013 to 2016. Preqin data shows that, at present, 51% of LPs will invest, or consider investing, in a first-time private capital fund in 2016 (Fig. 3), a 12 percentage point increase from 2013. In addition to an increased willingness to commit to or consider first-time funds, 11% of LPs claim they would invest in spin-off firms, up from 6% in 2013.

Fig. 2: Investor Attitudes towards First-Time Private Capital Funds, 2013 vs. 2016



Source: Preqin Investor Analyst

Fig. 3: Institutional Investors' Plans for Allocations in the Longer Term



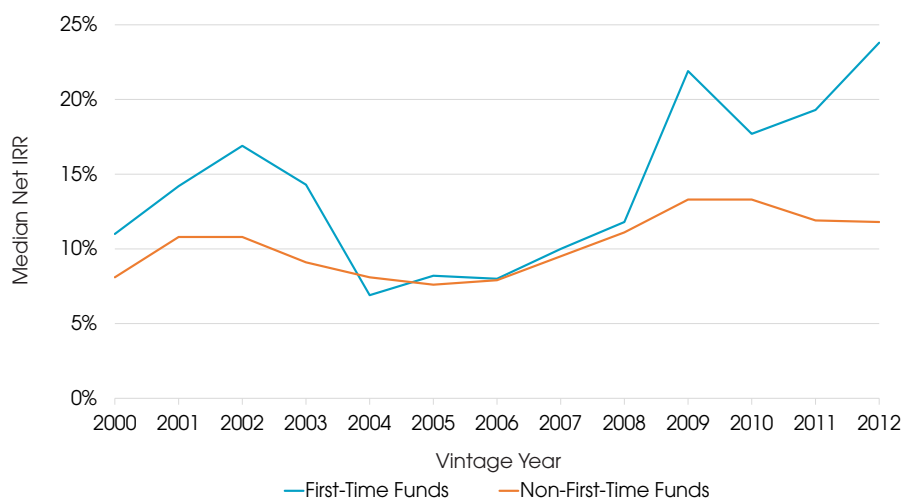
Source: Preqin Investor Outlook: Alternative Assets, H2 2016



The Outperformance of First-Time Funds

One of the key reasons LPs around the globe have become increasingly interested in or open to including first-time fund managers in their portfolios stems from the historical performance of first-time private capital funds. Preqin data shows that first-time funds not only deliver returns comparable to established GPs, but many times they outperform experienced managers. Fig. 4 uses a sample set which spans across 13 vintage years (2000-2012), and compares median net IRRs of first-time funds against those of established fund managers. 2004 is the only vintage year in which non-first-time funds have outperformed first-time funds.

Fig. 4: Private Capital - Median Net IRRs by Vintage Year: First-Time Funds vs. Non-First-Time Funds



Source: Preqin Private Equity Online

Top Performing First-Time Funds

The following tables list the top performing first-time private capital funds. Six of the top 10 performing first-time funds of all time are classified as venture capital funds with mid-1990 vintages, possibly realizing these exceptional returns from the abnormal market conditions created by the Tech Bubble (Fig. 5). Despite the homogeneity of fund types depicted in this initial list, both subsequent tables (Figs. 6 and 7) represent the diversity of top performing first-time funds across criteria such as type, geographic focus, size and vintage year.

Preqin Investor Network

If you are an institutional investor or other accredited investor, you can access detailed information on all alternative asset funds currently open to investment for free on **Preqin Investor Network**, which is used by over 7,800 investment professionals worldwide.

For more information, please visit:

www.preqin.com/pin

Fig. 5: Top 10 Performing First-Time Private Capital Funds (All Vintages)

Rank	Fund	Firm	Vintage	Fund Size (mn)	Type	Geographic Focus	Net IRR (%)	Date Reported
1	AMWIN Innovation Fund	CHAMP Ventures	1998	42 AUD	Early Stage	Australasia	1,015.7	31-Dec-14
2	Aravis Energy I	Aravis	2009	47 EUR	Infrastructure	Europe	448.0	30-Jun-16
3	Crescendo I	Crescendo Ventures	1995	13 USD	Venture Capital (All Stages)	US	447.4	30-Jun-16
4	Morgan Stanley Leveraged Equity Fund I	Morgan Stanley Global Private Equity	1986	56 USD	Buyout	US	279.7	30-Jun-16
5	Auctus Fund I	Auctus Management	2003	38 EUR	Buyout	Europe	239.8	30-Jun-16
6	Focus Ventures I	Focus Ventures	1997	106 USD	Venture Capital (All Stages)	US	213.0	30-Jun-16
7	Columbia Capital Equity Partners I-A	Columbia Capital	1989	73 USD	Venture Capital (All Stages)	US	198.5	30-Jun-16
8	Birchmere Ventures I	Birchmere Ventures	1996	12 USD	Venture Capital (All Stages)	US	133.9	30-Jun-16
9	Nitzanim Fund (1993) Ltd.	Infinity Group	1993	20 USD	Venture Capital (All Stages)	Middle East & Israel	121.4	30-Jun-16
10	Walnut Growth Partners	THCG	1997	30 USD	Venture Capital (All Stages)	US	120.7	30-Jun-16

Source: Preqin Private Equity Online



Fig. 6: Top 10 Performing First-Time Private Capital Funds (Vintage 2001-2005)

Rank	Fund	Firm	Vintage	Fund Size (mn)	Type	Geographic Focus	Net IRR (%)	Date Reported
1	Auctus Fund I	Auctus Management	2003	38 EUR	Buyout	Europe	239.8	30-Jun-16
2	Development Partners Fund	Development Principles Group	2005	79 USD	Growth	Asia	105.5	30-Jun-16
3	CDH China Fund	CDH Investments	2002	102 USD	Growth	Asia	93.0	30-Jun-16
3	DP Fund	Ocean Equity Partners	2005	78 USD	Growth	Asia	93.0	30-Jun-16
4	Resilience Fund I	Resilience Capital Partners	2002	26 USD	Special Situations	US	89.6	30-Sep-15
5	Strukturfonden	Inter IKEA Investments	2001	10 EUR	Turnaround	Europe	70.0	30-Jun-16
6	Union Square Ventures	Union Square Ventures	2004	125 USD	Early Stage	US	67.0	31-Dec-15
7	STAG Investments I (SCP Green)	STAG Industrial	2004	50 USD	Real Estate	US	63.3	30-Jun-16
8	Ant Bridge No.1	Ant Capital Partners	2003	2,500 JPY	Direct Secondaries	Asia	59.2	30-Jun-16
9	Platinum Equity Capital Partners Fund I	Platinum Equity	2004	700 USD	Buyout	US	58.1	30-Sep-15

Source: Preqin Private Equity Online

Fig. 7: Top 10 Performing First-Time Private Capital Funds (Vintage 2006-2013)

Rank	Fund	Firm	Vintage	Fund Size (mn)	Type	Geographic Focus	Net IRR (%)	Date Reported
1	Aravis Energy I	Aravis	2009	47 EUR	Infrastructure	Europe	448.0	30-Jun-16
2	Glilot Capital Partners I	Glilot Capital Partners	2011	30 USD	Early Stage	Middle East & Israel	92.2	31-Mar-16
3	Nordika I	Nordika	2011	45 EUR	Real Estate	Europe	78.0	31-Dec-15
4	Foresite Capital Fund I	Foresite Capital	2012	100 USD	Expansion/Late Stage	US	70.8	31-Mar-16
5	LionBird I	LionBird	2013	20 USD	Early Stage: Start-up	Middle East & Israel	66.0	31-Dec-14
6	EIV Capital Fund I	EIV Capital	2009	50 USD	Natural Resources	US	62.0	31-Dec-15
7	Atlantic Street Capital I	Atlantic Street Capital	2008	42 USD	Special Situations	US	61.4	30-Jun-15
8	Legacy Capital	Legacy Partners	2011	175 USD	Fund of Funds	Asia	58.5	30-Sep-14
9	Courage Credit Opportunities Fund I	Courage Capital Management	2009	80 USD	Distressed Debt	US	54.9	30-Jun-16
10	Consonance Capital Partners	Consonance Capital Partners	2013	500 USD	Buyout	US	52.9	30-Sep-15

Source: Preqin Private Equity Online

Interested in Accessing Free Alternative Assets Data and Research Tools?

Covering private equity, hedge funds, real estate, infrastructure, private debt and natural resources, Preqin's **Research Center Premium** is a free online service providing access to up-to-date charts and league tables, research reports and newsletters, fund performance benchmarking tools and slide decks from recent Preqin presentations at conferences.

All subscribers to **Preqin Investor Network** have access to Research Center Premium at no additional cost. For more information, please visit:

www.preqin.com/pin



Benefits of First-Time Fund Investing

One key benefit of first-time fund investing is the potential to form strong LP-GP relationships over the long term. These tend to lead to positive outcomes for LPs over time for a variety of reasons, including the ability to commit to successor funds that GPs raise before other LPs, seats on LP advisory boards and committees, increased co-investment opportunities alongside the GP, and sometimes more attractive and flexible fund terms and conditions.

Two of the institutions with the most top performing first-time private capital funds as part of their portfolios, CalPERS and CalSTRS, have benefitted from instituting in-house emerging manager investment programs. These emerging manager programs not only focus on mitigating the risk of overlooking

potentially talented first-time managers due to lack of track record, but also place emphasis on investing in more diverse strategies and funds. These programs enable LPs to allocate capital commitments to socially impactful funds that are often underrepresented in the private capital industry, such as minority or women-owned funds.

Successful First-Time Fund Selection

Fig. 8 shows sample LPs that have been successful in their evaluation and selection of first-time funds. These LPs have been able to add several top- and second-quartile funds to their respective portfolios due to their willingness to invest in first-time fund managers. LPs committing to first-time funds may have an advantage gaining access to

subsequent fund offerings from these GPs over competing institutions due to the already established relationship. First-time funds can be beneficial for a variety of portfolios and investment mandates. Of the 10 sample LPs listed in Fig. 7, there are six different types of asset-owners represented: public pension funds, private sector pension funds, endowment plans, funds of funds, insurance companies and foundations.

The diversity across LPs actively investing in first-time closed-end funds remains strong in the present fundraising market. Fig. 9 lists five notable first-time funds that closed in 2016, along with sample investors for each fund. These funds span a variety of sizes and fund types, and focus on a variety of geographic regions.

Fig. 8: Sample Institutional Investors with Successful First-Time Private Capital Fund Selection*

Investor	Type	No. of Top-Quartile First-Time Funds in Portfolio	No. of Second-Quartile First-Time Funds in Portfolio
CalPERS	Public Pension Fund	29	34
UTIMCO	Endowment Plan	19	7
Pennsylvania Public School Employees' Retirement System (PSERS)	Public Pension Fund	14	16
Travelers Companies	Insurance Company	12	6
John D. and Catherine T. MacArthur Foundation	Foundation	11	4
CalSTRS	Public Pension Fund	11	12
MetLife Insurance Company	Insurance Company	11	7
Oregon State Treasury	Public Pension Fund	10	14
AT&T Pension Plan	Private Sector Pension Fund	9	16
Adams Street Partners	PE Fund of Funds	9	8

Source: Preqin Private Equity Online

Fig. 9: Notable Institutional Investors in Recently Closed First-Time Private Capital Funds

Fund	Firm	Fund Size (mn)	Type	Geographic Focus	Sample Investors
BCP Energy Services Fund	Bernhard Capital Partners	750 USD	Natural Resources	Canada, North America, US	Louisiana State Employees' Retirement System, University of Michigan Endowment
Geodesic Capital Fund I	Geodesic Capital	335 USD	Expansion/ Late Stage	North America, US	Bank of Tokyo-Mitsubishi UFJ, Development Bank of Japan, Mitsubishi Corporation, Mitsubishi Heavy Industries, Sampo Japan Nipponkoa Insurance, Sumitomo Mitsui Banking Corporation, Toho Bank
Lonsdale Capital Partners Fund I	Lonsdale Capital Partners	110 GBP	Buyout	Europe, UK	LGT Capital Partners, Adams Street Partners, Wilshire Private Markets
1315 Capital	1315 Capital	203 USD	Growth	N. America, US	Los Angeles City Employees' Retirement System, Los Angeles Fire and Police Pension System, Mount Holyoke College Endowment, Maryland State Retirement and Pension System

*Quartiles assigned in accordance with Preqin's performance data and benchmarks; data points are based on known LP portfolio commitments.

Source: Preqin Private Equity Online

First-Time Fundraising Market - Opportunities for All Investors

Despite the challenges faced by first-time GPs in terms of receiving capital commitments from LPs, 158 first-time funds have been able to hold a final close so far in 2016. In terms of the current fundraising market, Fig. 12 below shows the largest first-time private capital funds that are currently seeking capital.

With 863 funds currently open to investment, LPs looking to add first-time funds to their portfolio will be able to find opportunities of all fund types, sizes and geographic foci in the current first-time fundraising environment.

Our Products and Services

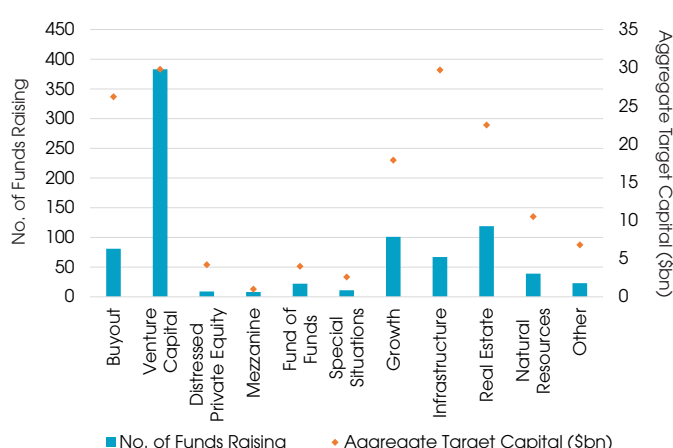
Preqin's data and intelligence is available through a range of different mediums:

- Industry-leading online databases
- Premium publications
- Data feeds and API
- Complimentary research reports, accessible through our Research Center

For more information on how Preqin can help you, please contact:

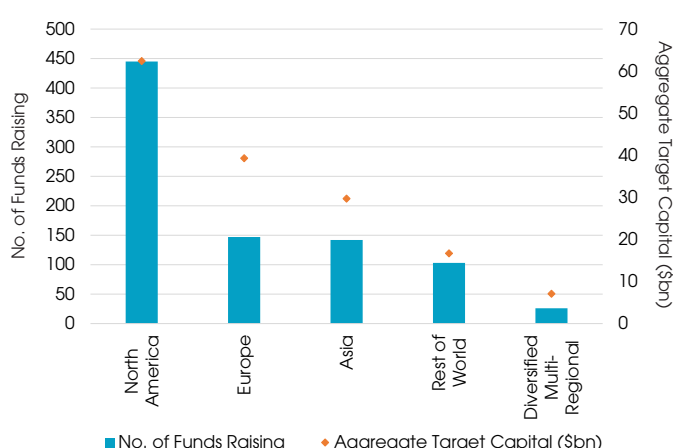
info@preqin.com

Fig. 10: First-Time Private Capital Funds in Market by Fund Type (As at October 2016)



Source: Preqin Private Equity Online

Fig. 11: First-Time Private Capital Funds in Market by Primary Geographic Focus (As at October 2016)



Source: Preqin Private Equity Online

Fig. 12: 10 Largest First-Time Private Capital Funds in Market (As at October 2016)

Fund	Firm	Target Size (mn)	Fund Type	Geographic Focus
Georgian Co-investment Fund	GCF Partners	6,000 USD	Buyout	Georgia
China Aviation Investment Fund	Civil Aviation Investment Management Company	20,000 CNY	Infrastructure	China
Glorax Capital Fund	Glorax Group	3,000 USD	Hybrid	Russia
Powering Australian Renewables Fund	AGL Energy	3,000 AUD	Natural Resources	Australasia
Bastion Infrastructure Fund I	Bastion Infrastructure Group	2,000 USD	Infrastructure	Europe, Global, North America, OECD
Paulson Strategic Partners Fund	Paulson & Co.	2,000 USD	Distressed Debt	US, West Europe
Lippo Tsinghua Holdings Fund	Lippo Capital Advisors	10,000 CNY	Growth	China, Far East
SummitView IC Industry Fund	Summitview Capital	10,000 CNY	Venture Capital (All Stages)	China, Global
GIB Offshore Wind Fund	UK Green Investment Bank	1,000 GBP	Infrastructure	UK
QIC Global Infrastructure Fund	QIC Global Infrastructure	2,000 AUD	Infrastructure	Global, OECD

Source: Preqin Private Equity Online



Preqin Special Report: Making the Case for First-Time Funds

November 2016

Preqin: Global Data and Intelligence

With global coverage and detailed information on all aspects of alternative assets, Preqin's industry-leading online services keep you up-to-date on all the latest developments in the alternative assets industry.

How does Preqin help Limited Partners?

With almost 4,500 closed-end funds currently raising capital, navigating through the global private capital fundraising market to identify the best and most attractive opportunities can be a challenge for any investment professional.

Preqin's data and tools have been helping CIOs, portfolio managers and investment analysts with their private capital fund screening, first-step due diligence, benchmarking, market research, portfolio monitoring and evaluation workflow activities since 2003.

Identify potential fund investment opportunities

View in-depth profiles for all private capital funds currently in market, including information on investment strategy, geographic focus, key fund data, service providers used and sample investors.

Find active fund managers in alternatives

View detailed profiles for all closed-end funds and managers active in alternative investments. View information on key contacts, firm fundraising/AUM and performance history, key investment preferences, known investors and more.

Compare yourself against your peers

Use Preqin's Investor Analyst service to compare your own asset class allocations, preferences, future plans and fund manager relationships against those of other LPs. Generate custom visual reports comparing your institution against a tailor-made peer group.

Benchmark performance

Identify which fund managers have the best track records, with customizable fund performance benchmarks and performance details for over 8,200 individual named private equity, real estate, infrastructure, private debt and natural resources funds.

Examine fund terms

See the typical terms offered by funds of particular types, strategies and geographical foci, and assess the implications of making changes to different fees.

*If you want any further information,
or would like a demo of our
products, please contact us:*

New York:

One Grand Central Place
60 E 42nd Street, Suite 630
New York
NY 10165

Tel: +1 212 350 0100

Fax: +1 440 445 9595

London:

3rd Floor
Vintners' Place
68 Upper Thames Street
London
EC4V 3BJ

Tel: +44 (0)20 3207 0200

Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green, #11-02
Singapore 049246

Tel: +65 6305 2200

Fax: +65 6491 5365

San Francisco:

One Embarcadero Center
Suite 2850
San Francisco
CA 94111

Tel: +1 415 316 0580

Fax: +1 440 445 9595

Hong Kong:

Level 9, Central Building
1-3 Pedder Street
Central, Hong Kong

Tel: +852 3958 2819

Fax: +852 3975 2800

Manila

Pascor Drive
Sto. Niño
Parañaque City
Metro Manila 1700
Philippines

Find out how Preqin's products and services can help you:

www.preqin.com

Email: info@preqin.com

Web: www.preqin.com