



Fundraising: An Insider's View

Tripp Brower, Partner, Capstone Partners

Interview Conducted by Tim Friedman

TF: How do you go about making sure that the funds you work on are well prepared in the current environment?

TB: The headline issues are setting GP expectations according to market conditions and thorough preparation – it's critical we get these right from the starting point. LPs are generally faced with significant re-ups in 2011 which will take priority and impede consideration of new fund relationships. It's very important to construct a campaign that is built on careful preparation, processing and thoughtful phasing – target the right LPs in the beginning and more will follow as you work into a raise, building momentum and creating scarcity value. The best agents are constantly interacting with a broad base of LPs across a range of mandate types and market conditions, and therefore have a wealth of knowledge that ultimately directly benefits GPs. Combining this knowledge in close working partnership with GPs and careful fundraising execution will produce the best results in a market that is hugely over-supplied with funds and will continue to move slowly over the next 12-24 months.

We know that there are lots of funds out there struggling to find support, but we have also seen some funds executing quick fundraises and above target too. How willing are LPs to commit in the current climate?

Fast raises are the exception in a market where the average raise takes approximately 18 months. LPs are certainly healthier and more open to investing compared to 2009/2010. The public markets have recovered some of the lost ground. Investment professionals and their investment committees are far enough away from the real low point of the industry and depth of their portfolio valuations and are in the position now where they can look up with a clear view and be willing to take on new relationships. That said, bringing a new LP relationship on board requires a long list of qualities, time and

perseverance – the new GP is often replacing a legacy GP relationship. Capital has a way of migrating to the best opportunities, but we remain convinced fundraising timeframes for most of the GP community will remain extended this year.

How important are the relationships that placement agents bring?

LP relationships are our primary currency. Coaching, positioning, writing the materials and guiding a process are all important, but our LP relationships and reach are critical. You're only as good as the quality of the offerings you bring to the LPs time and time again; the way they're presented, written up, all the diligence – it's all got to stack up or you risk diminishing the access to that relationship.

I'm still surprised at the number of GPs that will look across the table at the end of a meeting and say, "That's great, I enjoyed learning about your capabilities and mandates, now tell me who your 20-25 house accounts are that have invested in every fund that Capstone raised?" The answer is honestly zero. These are sophisticated investors who do their own work, make their own decisions and they're buying the GP not the agent. The agent's job is absolutely to be a credible advocate for that GP, to know them inside out and be able to effectively achieve some kind of prioritization for that GP. If we could look inside the office of any active LP around the world, what you would see is a fire hazard of PPMs, way too many for any typically small team of LPs to process. Part of the value proposition of any professional agent is to bring additional credibility to a particular offering and to help an LP understand why they should: a) prioritize consideration; b) commit to meeting the principals; and c) ultimately invest in it.

Presumably you have to be very selective in terms of the GPs you represent, otherwise it will ruin your reputation with LPs?

We've taken a very disciplined, "less is more" approach in the last three years, carrying a somewhat lighter mandate load than in prior years. Good selection is critical to our success and continuing strong LP relationships. Our GP and fund evaluation is 90% the same as that which the LP does; the same boxes, set of reference calls, diligence analysis, and review of prior track records. The 10% delta relates to commercial considerations, i.e. universe of targeted LPs, our confidence in reaching target, timeframe for the raise, and chemistry with the fund management team to name a few. As a pure play placement firm that takes on 8-10 mandates a year, we've got to be very careful in evaluating the 500-600 funds we consider annually to select the eight we engage.

With so many funds out there, how important is past performance as a differentiating factor for potential LPs? How can first-time funds tackle this issue?

Prior track record is very important; the more cash to cash the better, the more compelling the IRRs/multiples the better. That said, we're in a market where, despite a good dose of realizations and distributions over the past year, the average LP looking at the funds coming across in 2011 will have to do a fair amount of deep diligence on a large, unrealized portfolio in most any vintage 2005-2008 funds returning to market. The LP has to analyze the unrealized companies in a GP's portfolio and make judgments about how they're marked, what's the trajectory, and do they have a few realizations coming over reasonable time frames? That workload fuels the time drag that will feed into what can be construed as a very slow fundraising market in spite of some funds getting raised reasonably quickly.

First-time funds can get raised; there are good examples and they happen every year. The requirement is that it's not a first-time principle investing team. The GP must be a high-quality team with a successful track record investing in a compelling investment strategy. We regularly raise first-time funds that possess these qualities.

What are LPs looking for? Are there any trends, specific types, sizes, geographies, etc?

The smaller fund theme is still the headline. Different investors will define them in a variety of ways – sub \$2bn or \$500mn and below. Let's just say that a small fund pursuing less efficient markets is one that has a better chance of producing outsized returns. There is continued interest in the small buyout arena and the distressed space, more so on the controlled distressed/turnaround side of the fence than the distressed debt side. Industry-specific funds in a handful of areas remain topical, particularly with very seasoned investors that have a lot of their core positions already established. Typically, they will include specific geographic or industry concentrations they want a specialist to give them exposure to, for example energy, infrastructure, consumer goods and financial services.

Geographically, there are a couple of emerging markets that are of clear interest, like Brazil. With any emerging market, a big portion of the LP interest is exploratory, and a part is real and will migrate into that region. The question becomes do you invest in Brazil-only funds or do you invest in pan-South America funds, or employ both tactics? Different LPs will opt for different ways of getting exposure. China is still in the spotlight, but it is becoming increasingly difficult to differentiate between the plethora of China-focused funds that have been cropping up. China is a very different market, and depending on what statistics you believe, there are upwards of 500 private equity funds that are China-centric. You have to figure out which, other than the obvious brand names, are the groups to back. It's an area that will continue to attract capital, and it's increasingly hard for LPs from other parts of the world to try to figure out who the winners are.

Do you think we'll continue to see a move away from big funds? Or will they always be ok raising the \$10bn-plus funds?

The well-established brands will continue to raise their money. It's ironic because the surveys show that very few LPs have interest in mega funds, but the Blackstones of the world continue

to show an ability, if they stay in market long enough, to raise capital. The other big brands will have to cast their nets farther geographically and down market into different channels of investors in order to do it, but they will get their funds raised.

In summary, although capital allocated to the PE asset class will likely increase in 2011, there will continue to be a high standard for past fund performance. The bar is high, and LPs will have many viable fund choices across sectors, strategies and cap sizes. Fundraising for most of the GP community will take longer than in prior vintages, and leak into 2012 in many cases. That said, most in the PE community will "take" 2011 over 2009 and 2010 any day.



Capstone Partners

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Partner

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Evolution of Fundraising Market in 2010

By the end of 2010, the private equity industry had witnessed almost 12,000 funds reaching a final close, raising in excess of \$4.1tn in aggregate commitments since 1990. Fig. 5.1 shows private equity fundraising from 1990 to 2010, both in terms of the number of funds and the aggregate capital raised by these funds. As displayed in the graph, there have been two noticeable highpoints for fundraising in this period, one in 2000 and the other in 2007. 2003 marked a low point for private equity fundraising, with the dot-com crash leading to a significant decrease in the amount of new capital committed annually to the asset class after 2000. Between 2003 and 2008, however, private equity fundraising increased 532%, culminating in 1,205 funds raising an aggregate \$666bn in 2008, making it the most successful fundraising year to date. 2007 was the second most successful year, with \$653.2bn committed to a total of 1,295 funds closed in the year. Fundraising has, however, slowed since 2008, with the economic crisis having a lasting effect on the market, resulting in 2010 being the worst fundraising year since 2004 in terms of aggregate capital raised.

Overview of Fundraising Market in 2010

In 2010, there was a total of \$227.8bn in

capital committed to 483 private equity vehicles, compared with the \$295.5bn raised by 684 funds in 2009. 2010 was the second consecutive year that fundraising declined, with aggregate capital decreasing 23% on the level seen in 2009 and 66% on the aggregate amount collected during the peak year of 2008.

The full effect of the global financial crisis began to show in H2 2008, when fundraising began to decrease significantly from the promising levels raised in the first half of the year. 2010, following the trend seen in 2009, saw the difficulties in the fundraising market continue, with the number of funds reaching a final close and the capital raised decreasing significantly from the previous year. Q4 2010 was the worst quarter for fundraising during the year, with \$32bn in aggregate capital raised, the lowest quarterly total since Q3 2003.

Fundraising by Fund Type

Buyout funds raised the largest amount of capital in the private equity asset class in 2010, with \$70.5bn raised by 89 funds, accounting for 31% of total capital commitments. This, however, was a 38% decrease on the amount of capital raised by buyout funds in 2009, when 105 funds raised \$112.2bn. Fig. 5.2 shows that venture capital funds

were by far the most numerous type of fund raised in 2010, with 140 funds raising \$32bn, marginally up from the \$31.7bn raised in the previous year, and showing a large increase in average fund size from \$168mn in 2009 to \$229mn in 2010. Real estate funds showed a particularly sharp decline, with 88 funds raising a total of \$37.5bn in 2010, down nearly 30% from the 2009 figure, having already fallen by 65% from 2008 to 2009. Despite this, real estate funds raised the second largest amount of capital in the private equity industry as a whole in 2010. Infrastructure funds and distressed private equity funds raised \$27.3bn and \$25.4bn respectively and were the only two areas of the private equity industry to record increases on the levels of aggregate commitments in 2010.

Fundraising by Region

North America continued to lead the private equity fundraising market in 2010, with 243 funds raising aggregate capital commitments of \$136.6bn, accounting for 60% of the global market, an increase on the 59% of the market these funds commanded in 2009. Europe-focused funds lost 8% market share in 2010, making up 22% of capital commitments. Asia and Rest of World-focused funds increased their market presence in 2010, increasing from

Fig. 5.1: Annual Private Equity Fundraising, 1990 - 2010

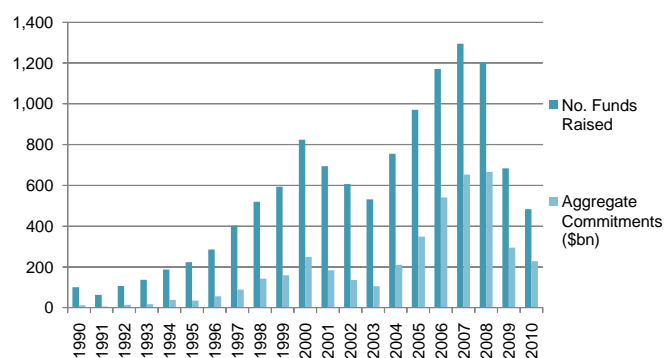
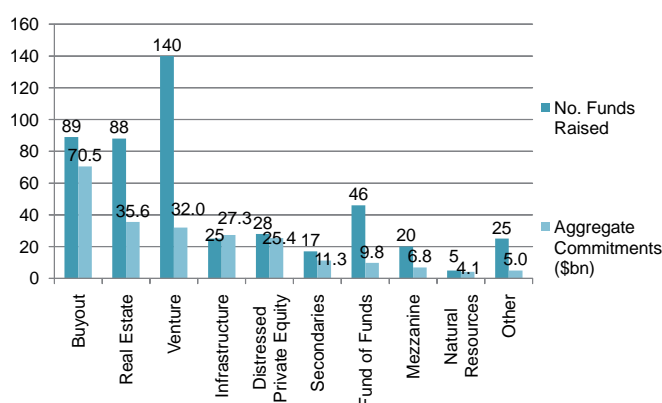


Fig. 5.2: Private Equity Fundraising in 2010 by Fund Type



11% of global fundraising in 2009 to account for 19% of the marketplace in 2010. This increase demonstrates the trend of increasing interest in and focus on emerging markets from the private equity industry, partly as a result of the resilient economic growth in many emerging markets when compared to North American and European economies.

Average Size of Funds

In 2010, only one fund type achieved an average fund size in excess of \$1bn. Infrastructure funds raised, on average, just over \$1bn, an increase of 220% on the average fund size raised by these funds in 2009. Natural resources funds closed in 2010 had the second largest fund size, going from \$2.4bn in the year previous to \$800mn in 2010. Buyout funds followed this decreasing trend, albeit less starkly, with a year-on-year decrease in average fund size of 34%.

Success of Fund Managers in Achieving Target

Fig. 5.5 shows that 50% of all private equity funds that reached a final close in 2010 did so below target, which is down significantly from 61% in 2009. 38% of funds exceeded their original fundraising target, again an increase from the 20% that did so in 2009. Fig. 5.5 shows that the most common proportion of target size raised by funds closing in 2010 was 101-124%, with 23% of funds falling into this category. In 2009, the most common proportion of target size raised was 75-99%, which was achieved by 28% of funds closed during the year.

Notwithstanding the generally depressed fundraising climate, there were notable examples of funds closing above their originally targeted capital amounts, showing there is still demand for a compelling fund proposition. Brookfield Asset Management raised the Brookfield Americas Infrastructure Fund with an initial target of \$1.5bn and eventually gathered a total of \$2.7bn when the fund reached its final close in September 2010. Similarly, Kleiner Perkins Caufield & Byers achieved \$200mn, twice the initial target, for the iFund, a fund raised in conjunction with Apple supporting Apple application developers and related digital media companies.

Fig. 5.3: Private Equity Fundraising in 2010 by Fund Primary Geographic Focus

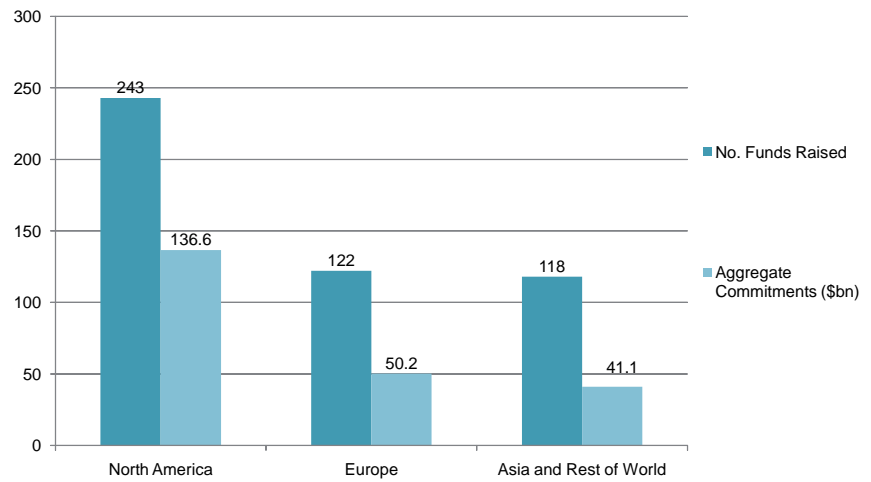


Fig. 5.4: Average Size of Private Equity Funds Closed in 2010 by Fund Type

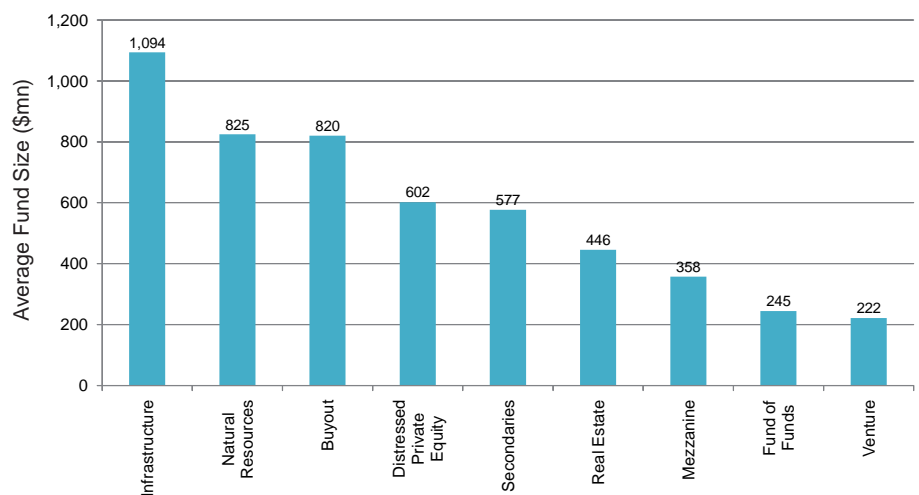
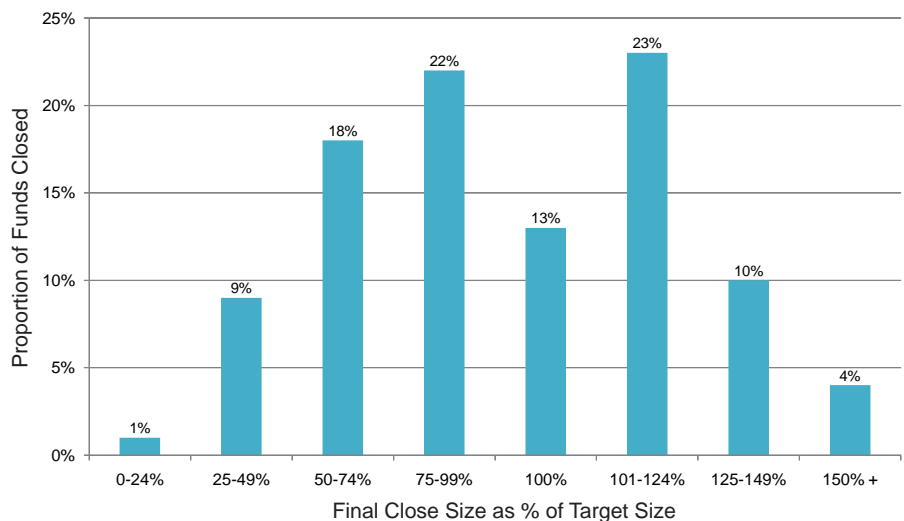


Fig. 5.5: Breakdown of Private Equity Funds Closed in 2010 by Proportion of Target Size Achieved



Time Spent on the Road

As displayed in Fig. 5.6, 10% of funds closed in 2010 managed to hold a final close within six months of their fundraising launch, whereas 4% of funds took more than three years to reach a final close. The average time spent on the road by funds closed in 2010 was 21 months, which is an increase on the figure of 16 months in 2009 and a further increase from 15 months in 2008. 21% of funds reached a final close within a year of beginning fundraising and 68% of funds closed within two years.

Abandoned Funds

Fig. 5.7 outlines the number of funds abandoned in each quarter of 2010. In total, 71 private equity funds abandoned fundraising efforts in 2010, an increase on the 63 fundraising attempts abandoned in 2009. These 70 funds abandoned in 2010 were targeting an aggregate \$27.5 billion in capital, which is a decrease on the \$39 billion sought by funds abandoned in 2009.

Fig. 5.6: Time Spent on the Road by Private Equity Funds Closed in 2010

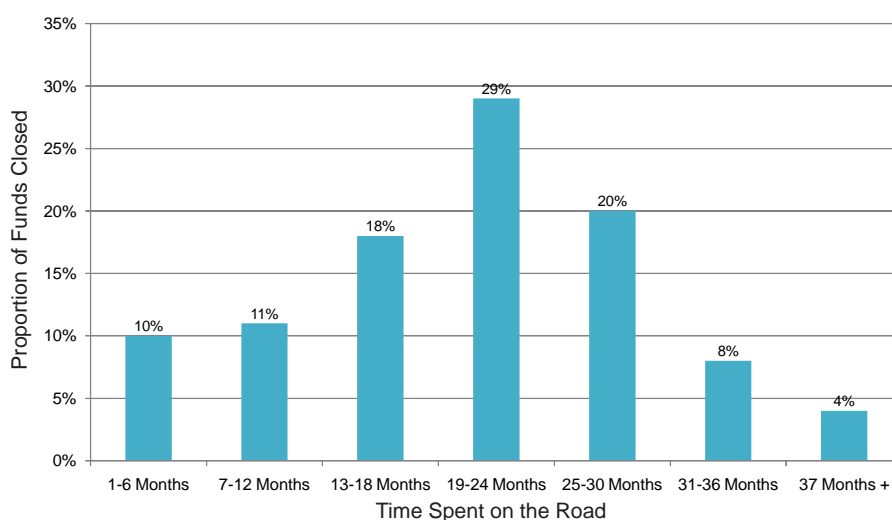
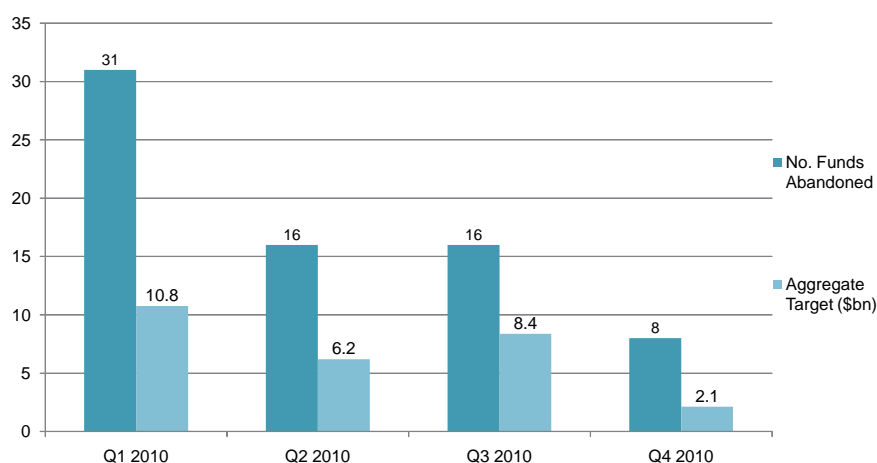


Fig. 5.7: Quarterly Number and Value of Private Equity Funds Abandoned in 2010



Data Source:

Preqin's Funds in Market database contains details of over 1,500 private equity funds on the road seeking capital, plus information on every vehicle that has closed since 2003. For more information about this product and how it can assist you, please visit:

www.preqin.com/fim

Overview of Current Fundraising Market

At the start of 2011 there were 1,594 funds in the market targeting aggregate capital commitments of \$601.8bn. The figure represented a 2% increase in the number of funds on the road and a 14% drop in aggregate capital sought from the beginning of 2010. Fig. 5.8 highlights that, for the second consecutive year, the aggregate capital sought by private equity funds has decreased, falling to 68% of the aggregate sought in January 2009.

Fig. 5.9 reveals that real estate funds are seeking the largest amount of capital of all fund types, with \$144.6bn being targeted by 453 vehicles. Aggregate capital sought by real estate funds in market has decreased 17% from one year ago; however the number of funds on the road has risen by 22%. Buyout funds are seeking the second-largest amount of capital, with \$98bn in commitments being targeted by 180 vehicles. The capital sought is a 32% decrease from the \$143.9bn targeted by 222 funds in January 2010.

The venture capital fundraising market is the largest in terms of number of funds. There are currently 458 funds looking to raise \$89.4bn in capital commitments. This represents a 4% rise in terms of number of funds and nearly a 13% increase in terms of capital sought on the January 2010 figures.

Secondaries vehicles experienced the

largest drop in number of funds on the road compared to the start of 2010. The number of secondaries funds decreased by 40% while the aggregate capital commitments sought dropped by 16% on the previous year.

Regional Focus

As shown in Fig. 5.10, in terms of the primary regional focus of funds currently on the road, 713 North America-focused funds are seeking \$288.5bn in capital commitments. This is a sharp drop from the \$366.8bn targeted by 738 North America-focused funds in January 2010. The aggregate capital sought by primarily European-focused funds has also fallen, to \$142.8bn, 14% lower than the figure at the beginning of 2010, but the number of European funds has remained relatively steady, with 389 such funds on the road in January 2011 compared to 386 in January 2010. As was also the case in 2010 and the preceding year, Asia and Rest of World vehicles outnumber their European counterparts. There

are currently 492 funds focused primarily on Asia and Rest of World targeting an aggregate \$170.6bn, reflecting an increase of 5% and 13% respectively on January 2010 figures.

Recent fundraising data highlights the continued challenging fundraising environment. As a result we have seen the average target fund size drop by 16% to \$405mn from \$482mn at the start of 2010. Nonetheless, it is worth noting that 42% of private equity funds currently seeking capital, representing an aggregate target of \$270.4bn, have already achieved at least one interim close, which demonstrates that there is still a flow of capital commitments entering the marketplace.

Fig. 5.8: Private Equity Funds in Market over Time, 2007 - 2011

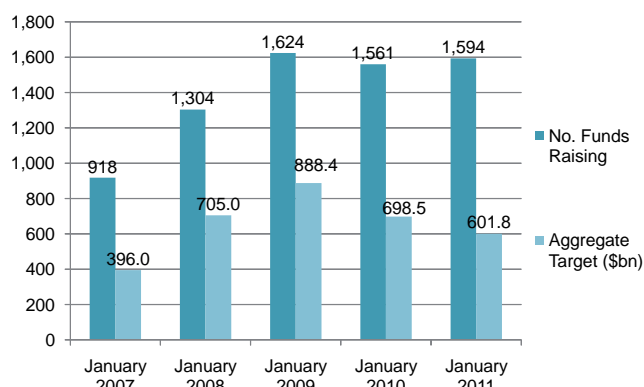


Fig. 5.10: Composition of Current Fundraising Market by Fund Primary Geographic Focus

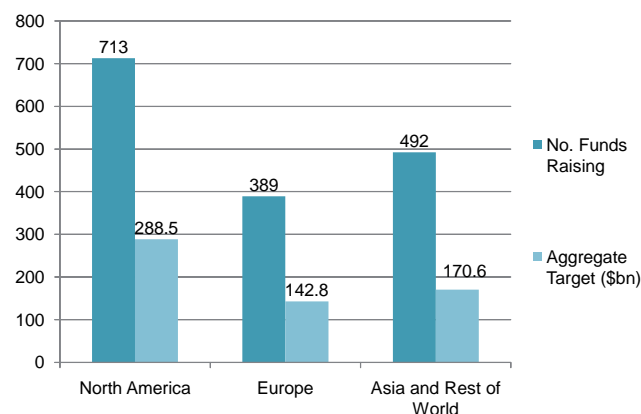
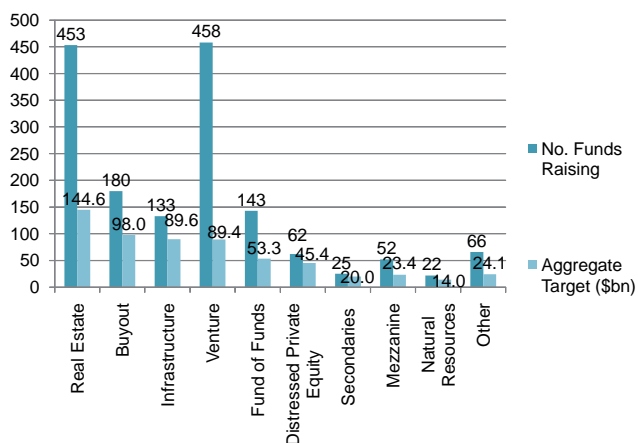


Fig. 5.9: Composition of Current Fundraising Market by Fund Type



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North America Fundraising

Overview

In 2010, 243 North America-focused funds reached a final close, raising an aggregate \$137bn, a decrease from the \$174bn committed to 324 funds in 2009. Despite the evident decrease in both funds closed and capital raised, North America-focused funds accounted for almost 60% of all private equity capital raised globally.

Breakdown by Type of Funds

Buyout funds primarily focused on investing in North America achieved the largest share of capital commitments targeting this region in 2010, with 45 funds attracting over \$40bn, accounting for nearly 30% of the total capital raised across all North America-focused funds. In terms of aggregate capital, this represents a 38% decrease from 2009, when 52 North America-focused buyout vehicles raised \$65bn in commitments.

Real estate funds primarily focused on North America garnered the second largest share of capital commitments targeting this region in 2010, with 51 funds raising an aggregate \$24bn. Real estate funds targeting investments in North America that closed in 2009 raised \$28bn in aggregate capital from a total of 81 funds. Despite a 17% decrease in the amount of capital raised by real estate funds focusing on North America in 2010, it is evident that the average

size has increased for funds closed during the year compared to funds closed in 2009.

Infrastructure funds targeting investments in North America saw a sharp incline, both in number and aggregate capital raised. In 2010, eight infrastructure funds raised approximately \$17bn, accounting for 13% of all North American private equity capital raised in 2010, whereas in 2009 total commitments to infrastructure funds focused on North America amounted to \$1bn.

Venture funds targeting opportunities in North America maintained a similar level of fundraising in 2010, securing commitments of \$16bn across 61 funds. The previous year saw the closing of 91 North America-focused venture funds raising a total of \$16.5bn, demonstrating an increased average size for venture funds closed during 2010 targeting investments in North America.

Fund Size Breakdown

The average size of private equity funds targeting North America that closed in 2010 was \$599mn, representing a 1.5% increase from the average fund size in 2009 of \$590mn. In 2010, 31 North American-focused funds recorded a final close of \$1bn or more. These funds accounted for 62% of all North American private equity capital during 2010. In

2009, there were 42 North America-focused funds that recorded a final close at or above the \$1bn threshold. Fig. 5.12 shows that the largest fund to close in 2010 focusing on North America was the \$13.5bn Blackstone Capital Partners VI, accounting for 10% of all capital raised by funds primarily targeting North America. Although Blackstone Capital Partners VI was no longer officially in market at the turn of year, the fund was seeking to attract additional commitments from its existing investors.

Predictions for 2011

The economic downturn has had a huge impact on the North American fundraising market over the last two years. In 2010, both the number of funds and the aggregate capital committed decreased compared with previous years. Fundraising was particularly bad in the fourth quarter of the year, with aggregate capital committed decreasing by more than 26% compared with the fourth quarter of 2009.

As we move into 2011, there are 713 North America-focused private equity funds on the road seeking \$289bn. Fundraising figures from the last quarter suggest that, going into 2011, fundraising will still be difficult and many managers currently seeking capital may be forced to postpone their scheduled close dates or abandon fundraising altogether.

Fig. 5.11: Annual North America-Focused Fundraising, 2005-2010

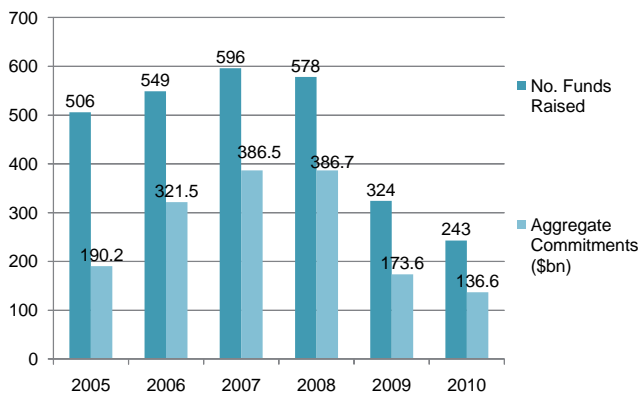


Fig. 5.12: 10 Largest North America-Focused Funds Closed in 2010

Fund	Fund Type	Amount Closed (\$mn)
Blackstone Capital Partners VI*	Buyout	13,500
Real Estate Turnaround Consortium	Real Estate	5,565
OCM Opportunities Fund VIII	Distressed Debt	4,400
Energy Capital Partners II	Infrastructure	4,335
Madison Dearborn Capital Partners VI	Buyout	4,100
Alinda Infrastructure Fund II	Infrastructure	4,097
Trident Fund V	Buyout	3,500
OCM Principal Opportunities Fund V	Distressed Debt	3,331
GSO Capital Solutions Fund	Distressed Debt	3,250
GS Infrastructure Partners II	Infrastructure	3,100

*Blackstone Capital Partners VI was no longer officially in market at the turn of year; however, the fund was attempting to attract higher commitment levels from its existing investors.

European Fundraising

Overview

Fundraising for Europe-focused funds was challenging in 2010, with 122 funds raising an aggregate \$50bn, down from \$82bn raised by 189 funds in 2009.

Breakdown by Type of Funds

Europe-focused private equity fundraising was led by buyout funds, with 28 buyout vehicles raising over \$16bn and accounting for nearly a third of capital raised by funds focusing on the region in 2010. Aggregate capital commitments to Europe-focused buyout funds fell by nearly 40% from the previous year, although the number of funds raised has seen only a marginal decrease.

Venture funds focusing on the region saw the highest number of final closes of the fund types in 2010. Despite the number of final closes dropping from 49 in 2009 to 29 in 2010, venture funds still accounted for 24% of all private equity funds primarily targeting Europe. In terms of aggregate capital, venture vehicles raised over \$5bn in 2010, a slight decrease from just over \$6bn raised in 2009.

Not as abundant as venture funds, but holding a larger share in terms of capital

raised, were infrastructure funds. The number of Europe-focused infrastructure vehicles closing increased significantly from four in 2009 to 13 in 2010, and the aggregate capital raised by the funds increased from \$2.6bn to \$8bn.

Fund Size Breakdown

The average size of private equity funds targeting Europe in 2010 was \$436mn, a decrease on the average size in 2009 of \$487mn. In 2010 there were 13 funds primarily focusing on Europe that recorded a final close of \$1bn or more, accounting for nearly 50% of the aggregate capital raised by funds focused on Europe. The largest fund was Pantheon Global Secondary Fund IV, which closed on just over €2.3bn and accounted for 6% of the capital raised by all Europe focused funds in 2010.

Predictions for 2011

Europe-focused fundraising generally decreased over the four quarters of 2010, from over \$19.5bn raised in the first quarter to approximately \$6.5bn in the fourth quarter. Despite the unfavourable fundraising climate over the past two years, there are signs there could be an upturn in 2011. There are currently 391 European-focused funds on the road seeking nearly \$147bn in

capital and nearly half of these have already had at least one interim close, indicating a certain level of momentum in the market.

Data Source:

Preqin's Funds in Market database contains details of over 1,500 private equity funds on the road seeking capital, plus information on every vehicle that has closed since 2003. For more information about this product and how it can assist you, please visit:

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Fig. 5.13: Annual Europe-Focused Fundraising, 2005 - 2010

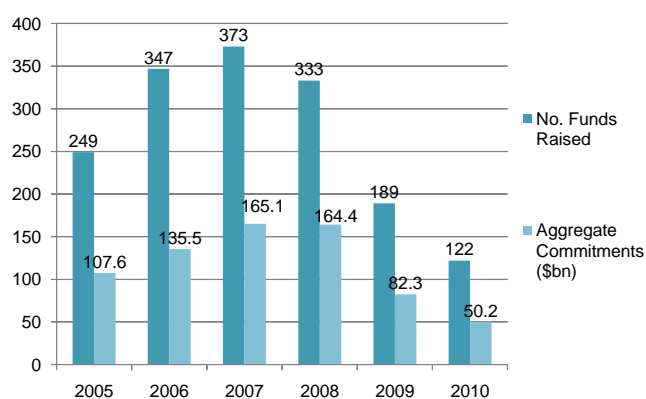


Fig. 5.14: 10 Largest Europe-Focused Funds Closed in 2010

Fund	Fund Type	Amount Closed (€mn)
Pantheon Global Secondary Fund IV	Secondaries	2,311
Triton Fund III	Buyout	2,250
HgCapital 6	Buyout	2,180
Apollo European Principal Finance Fund	Distressed Debt	1,400
3i Growth Capital Fund	Growth	1,200
Macquarie European Infrastructure Fund III	Infrastructure	1,200
Antin Infrastructure Fund	Infrastructure	1,100
Cube Infrastructure Fund	Infrastructure	1,080
ATP Private Equity Partners IV	Fund of Funds	1,000
Crown Global Secondaries II	Secondaries	954

Asia and Rest of World Fundraising

Overview

Asia and Rest of World-focused funds had a relatively positive fundraising year compared to the global fundraising efforts of 2010. Although the total capital raised by private equity funds globally in 2010 was down by approximately 23% from the previous year, aggregate capital raised by Asia and Rest of World vehicles increased by just over 9% on that raised in 2009. 118 funds primarily focusing on Asia and Rest of World closed with aggregate capital commitments of \$41bn. Asia and Rest of World funds accounted for 18% of the total capital raised by private equity funds closed in 2010.

Breakdown by Type of Funds

As with 2009, venture capital funds accounted for the largest share of the Asia and Rest of World market in terms of number of funds closed, accounting for 50 (42%) of the region's total of 118 funds. The aggregate capital raised by venture funds was a little over \$10bn, up from \$7bn in 2009.

Buyout funds raised the largest amount in terms of total capital, with just over \$14bn in aggregate capital commitments made to buyout funds focused on this region in 2010. This equates to 34% of

the total capital raised by Asia and Rest of World-focused funds closed in 2010. In terms of the total number of funds, buyout funds accounted for 14% of the vehicles primarily targeting the region that closed in 2010, which is the same proportion as in 2009.

A further 22% of the funds focused on Asia and Rest of World were real estate funds, which acquired a total of almost \$10bn in 2010 and accounted for 24% of the total capital raised. Real estate funds were down over 30% in terms of total capital raised from 2009, when 27 funds raised more than \$14bn.

Fund Size Breakdown

The average size of funds focused on Asia and Rest of World that closed in 2010 was \$354mn, a substantial increase from 2009, when the average fund size for the region was \$231mn. Of the funds closed in 2010, there were nine that held a final close on \$1bn or more, with a further 11 that closed above \$500mn. Morgan Stanley Real Estate Fund VII Global, a real estate fund that has a major focus on developed countries in Asia and emerging markets, secured the most capital with \$4.7bn. The largest buyout fund was the \$2.6bn Carlyle Asia Partners III, a vehicle primarily targeting investments in India,

China and South Korea. The ten largest funds closed in 2010 focusing on Asia and Rest of World accounted for almost 45% of all the capital raised.

Predictions for 2011

At the start of 2010, there were 437 Asia and Rest of World-focused funds in market seeking capital, with a combined target of \$163bn. In January 2011, there were 491 funds actively fundraising and targeting a total of \$171bn, showing continued interest in private equity activity in the region. With a large amount of private equity firms based in Europe and US creating foreign currency-denominated funds throughout Asia and Rest of World during the latter half of 2010, it appears that fund managers are placing greater importance on investment opportunities in the region.

Fig. 5.15: Annual Asia and Rest of World-Focused Fundraising, 2005-2010

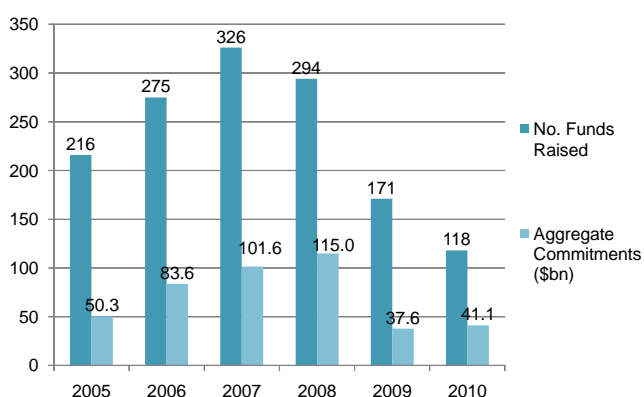


Fig. 5.16: 10 Largest Asia and Rest of World-Focused Funds Closed in 2010

Fund	Fund Type	Amount Closed (\$mn)
Morgan Stanley Real Estate Fund VII Global	Real Estate	4,700
Carlyle Asia Partners III	Buyout	2,550
Southern Cross Latin America Fund IV	Buyout	1,680
Advent Latin American Fund V	Buyout	1,650
CHAMP Buyout III	Buyout	1,463
CDH China Fund IV	Buyout	1,458
SAIF Partners IV	Growth	1,300
Navis Asia Fund VI	Buyout	1,200
GP Capital Partners V	Buyout	1,100
Axiom Asia II	Fund of Funds	950

Buyout Fundraising

Overview

89 buyout funds achieved a final close in 2010, attracting \$70.5bn in capital commitments. This is a decrease of 37% in total capital raised compared to the \$112.7bn raised in 2009, and reflects a sharp drop in buyout fundraising following the financial crisis. As shown in Fig. 5.17, 2007 remains the most successful year for buyout fundraising, when 231 funds raised \$246.2bn.

Quarterly fundraising figures show the number of buyout funds that reached a final close in 2010 decreased quarter on quarter throughout the year, with 25 vehicles achieving a final close in Q1 2010, down to 19 funds in Q4. The largest amount of capital was raised in Q3 when buyout funds closed in that quarter attracted \$23.3bn in capital commitments. This was largely due to Blackstone Group closing Blackstone Capital Partners VI to new investors in July 2010 having raised \$13.5bn. Although the fund was no longer officially in market entering 2011, Blackstone Group was still attempting to attract additional commitments from its existing investors.

The number of buyout funds on the road in Q1 2010 has decreased by 19% from the same time last year, from 222 vehicles being raised in January 2010 to 180 funds being raised currently. The

aggregate capital commitments targeted by buyout funds on the road at the start of 2011 stood at \$98bn, a 32% decrease on the capital sought by buyout funds in early 2010.

Geographic Breakdown

Despite generally poor fundraising figures in terms of both number of fund closures and aggregate capital raised in 2010, the breakdown of the geographic focus of buyout funds reflects a pattern similar to that seen in previous years. Primarily North America-focused buyout funds once again led the buyout market, accounting for 57% of the aggregate buyout capital raised globally, as they did in 2009. Nonetheless, there has been a shift in the market share allocation for the remaining parts of the world. 28 buyout funds primarily focused on Europe secured \$16.1bn in capital commitments and accounted for 23% of the total buyout capital raised in 2010, down from 33% in 2009. 16 Asia and Rest of World-focused vehicles garnered \$14.1bn in capital commitments, which represented 20% of the buyout capital raised globally in 2010, up from 9% in 2009.

Fund Size Breakdown

The average size of buyout funds has decreased by 31%, from \$1.2bn in 2009 to \$820mn in 2010. Over the course of

2010, 18 funds closed at \$1bn or more. These funds raised \$47bn in aggregate capital, which represents 67% of the total capital attracted by buyout funds last year. Nearly a fifth of the buyout funds closed in 2010 raised between \$500mn and \$1bn, which amounted to a total of \$11.5bn and represented 16% of the buyout industry's total capital.

Notable Funds

The largest buyout fund to close in 2010 was Blackstone Capital Partners VI, which reached a final close on \$13.5bn. The fund targets investment opportunities globally and takes a generalist approach in terms of its industry focus.

The second-largest buyout fund was raised by Madison Dearborn Partners. Madison Dearborn Capital Partners VI closed on \$4.1bn, below its initial target of \$10bn and revised lower target of \$7.5bn. The fund targets a balance between structured equity investments and buyouts, with individual investments of between \$100mn and \$500mn.

The third-largest buyout vehicle to close last year was Trident Fund V raised by Stone Point Capital. The fund closed in December 2010 on \$3.5bn. It targets investments in the financial services sector.

Fig. 5.17: Annual Buyout Fundraising, 2005 - 2010

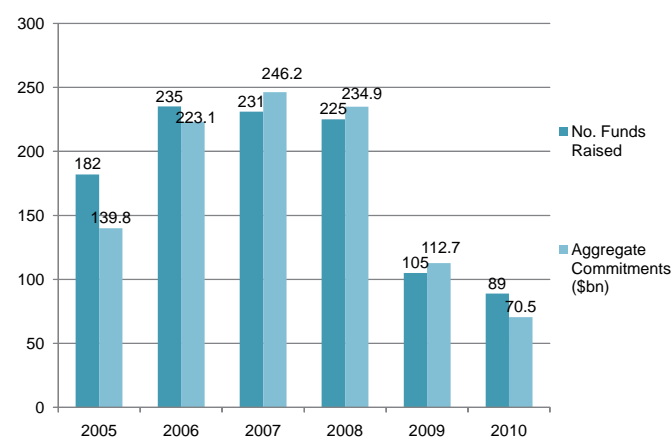


Fig. 5.18: 10 Largest Buyout Funds Closed in 2010

Fund	Firm	Amount Closed (mn)
Blackstone Capital Partners VI*	Blackstone Group	13,500 USD
Madison Dearborn Capital Partners VI	Madison Dearborn Partners	4,100 USD
Trident Fund V	Stone Point Capital	3,500 USD
Triton Fund III	Triton	2,250 EUR
HgCapital 6	HgCapital	1,900 GBP
Carlyle Asia Partners III	Carlyle Group	2,550 USD
Francisco Partners III	Francisco Partners	2,000 USD
Avista Capital Partners II	Avista Capital Partners	1,800 USD
Southern Cross Latin America Fund IV	Southern Cross Group	1,680 USD
Advent Latin American Fund V	Advent International	1,650 USD

*Blackstone Capital Partners VI was no longer officially in market at the turn of year; however, the fund was attempting to attract higher commitment levels from its existing investors.

Distressed Private Equity Fundraising

Overview

2010 was an active year in terms of fundraising for distressed private equity, which includes distressed debt, turnaround and special situations vehicles. Both the number of funds raised and the total capital committed have increased since last year, showing that despite subdued fundraising across the industry as a whole, investors are willing to commit capital to distressed private equity as they feel that opportunities still exist for fund managers employing such strategies. During 2010, 28 distressed funds raised a total of \$25.4bn, only four more funds than 2009 but \$15.5bn more in aggregate commitments.

Geographic Breakdown

North America-focused distressed private equity funds once again dominated this niche sector, managing to attract \$20.3bn, accounting for 80% of the total capital committed to these types of funds in 2010. During 2010, Europe-focused funds represented 19% of the market, attracting \$4.9bn in capital commitments. Two funds focusing on Asia and Rest of World held final closes, raising a total of \$186mn. This represents 1% of the total global capital committed to distressed private equity funds.

Fund Size Breakdown

2010 saw a number of large North America-focused distressed debt vehicles closing, resulting in the average fund size for these funds equating to just over the \$1bn mark. Europe-focused funds had an average size of \$706mn, an increase of 73% on the 2009 figure which stood at \$407mn. Nine of the 28 distressed private equity funds raised globally achieved a final close above \$1bn. These funds totalled \$20bn, which represents 79% of the total fundraising market for distressed private equity in 2010.

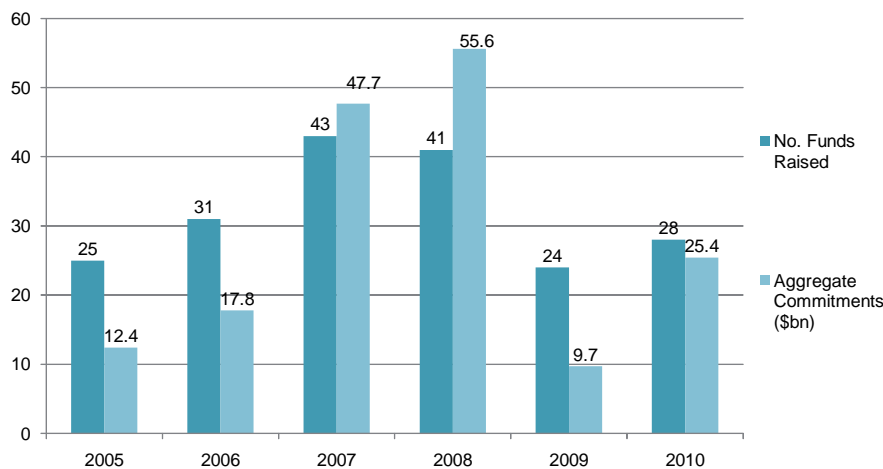
Notable Funds

During 2010, the largest fund to hold a final close was the \$4.4bn OCM

Fig. 5.19: 10 Largest Distressed Private Equity Funds Closed in 2010

Fund	Manager	Amount Closed (mn)
OCM Opportunities Fund VIII	Oaktree Capital Management	4,400 USD
OCM Principal Opportunities Fund V	Oaktree Capital Management	3,331 USD
GSO Capital Solutions Fund	Blackstone Group	3,250 USD
GS Opportunity Partners	Goldman Sachs Merchant Banking Division	2,600 USD
Apollo European Principal Finance Fund	Apollo Global Management	1,400 EUR
ICG Recovery Fund 2008	Intermediate Capital Group	843 EUR
AG Capital Recovery Partners VII	Angelo, Gordon & Co	1,100 USD
H.I.G. Bayside Loan Opportunity Fund II	Bayside Capital	1,100 USD
Carlyle Global Financial Services Partners	Carlyle Group	1,100 USD
Sator Private Equity Fund A	Sator	500 EUR

Fig. 5.20: Annual Distressed Private Equity Fundraising, 2005 - 2010



Opportunities Fund VIII from Oaktree Capital Management which held a final close in August. The second largest distressed private equity fund to close in 2010 was the OCM Principal Opportunities Fund V, again managed by Oaktree Capital Management. It held a final close on \$3.3bn in February, surpassing its original \$3bn target. Blackstone Group's GSO Capital Solutions Fund hold a final close in June, breaking its \$2bn target and raising a total of \$3.25bn.

Outlook

Distressed private equity fundraising has remained resilient during the

fundraising downturn and its prospects look promising in 2011. Nine of the 28 distressed private equity funds to hold a final close in 2010 collected more capital at their final close than was initially targeted, which further highlights the interest investors currently hold for these types of funds. As of January 2011, there are 62 funds in the market attempting to raise \$45.4bn in aggregate capital commitments.

Mezzanine Fundraising

Overview

2010 saw 19 mezzanine funds secure nearly \$7bn in aggregate capital. This was a decrease in aggregate capital raised of 11% from the \$7.6bn raised by 22 mezzanine vehicles in 2009, with both years far below pre-crisis levels. The market share of total private equity fundraising held by mezzanine funds was similar in 2010 to 2009, with aggregate commitments to mezzanine funds representing 3% of total private equity fundraising.

Geographic Breakdown

One outcome of the difficult fundraising in 2010 was that the geographic diversity of the mezzanine market altered dramatically from that seen in 2009. Primarily North America-focused mezzanine funds garnered 83% of all mezzanine capital in 2010, up from 40% in 2009, through 15 funds raising nearly \$6bn. Just one fund primarily focusing on Europe closed in the year, raising €553mn (\$687mn), compared to the \$4bn raised in 2009. As a result, the market share of Europe-focused vehicles fell from 55% in 2009 to 10% in 2010. Four Asia and Rest of World-focused mezzanine funds held a final close in 2010, raising \$440mn, slightly

more than the \$414mn raised by two funds in 2009.

Fund Size Breakdown

In 2009, one mezzanine fund raised more than \$1bn, and a further six funds raised more than \$500mn. In 2010, no funds attracted commitments above the billion dollar benchmark; however, seven mezzanine funds closed with more than \$500mn.

With an absence of larger funds, the average size of a mezzanine fund has marginally decreased, from \$361mn in 2009 to \$358mn in 2010. This contrasts considerably with the average size of a mezzanine-focused fund in 2008 of \$870mn. The one mezzanine fund focusing on Europe raised €553mn (\$687mn), while the average size of North America-focused funds was \$405mn, up from \$252mn in 2009. The average size of an Asia and Rest of World-focused mezzanine fund in 2010 was \$110mn.

Notable Funds

The largest mezzanine fund to close in 2010 was Sankaty Middle Market Opportunities Fund, which attracted \$904mn in commitments. The vehicle

received funding from large public pension funds including Pennsylvania Public School Employees' Retirement System, San Francisco City and County Employees' Retirement System and South Carolina Retirement Systems. Partners Group European Mezzanine 2008 was the only Europe-focused fund to close, closing in June with €553mn (\$687mn) in aggregate commitments.

Outlook

Following exceptional levels of mezzanine fundraising from 2006 to 2008, the following two years have seen a significant drop in capital raised. Nevertheless, there are 52 mezzanine funds on the road targeting \$23bn in commitments as of January 2011. Mezzanine fundraising looks likely to improve in 2011, with 58% of funds in market having already recorded at least one interim close. Moreover, there are seven funds on the road targeting more than \$1bn in capital, the largest being GSO Capital Opportunities Fund II, which is looking to raise \$3bn.

Fig. 5.21: Annual Mezzanine Fundraising, 2005 - 2010

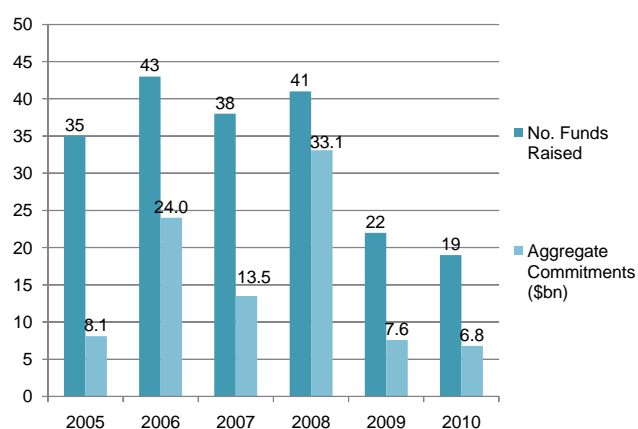


Fig. 5.22: 5 Largest Mezzanine Funds Closed in 2010

Fund	Firm	Amount Closed (mn)
Sankaty Middle Market Opportunities Fund	Sankaty Advisors	904 USD
ABRY Senior Equity III	ABRY Partners	750 USD
Partners Group European Mezzanine 2008	Partners Group	553 EUR
LBC Credit Partners II	LBC Credit Partners	645 USD
Merit Mezzanine Fund V	Merit Capital Partners	612 USD

Natural Resources Fundraising

Overview

In comparison to the previous year, natural resources fundraising decreased significantly during 2010, in terms of both number of funds and aggregate capital raised. In 2010, a total of five natural resources funds attracted \$4bn in commitments. This represents an 80% decrease in aggregate capital raised compared with 2009, when nine natural resources vehicles raised \$20.5bn in aggregate capital.

Geographic Breakdown

All of the five natural resources funds that recorded a final close in 2010 were primarily North America focused, although one fund will also invest a portion of its capital on a global scale. Of the nine natural resources funds to close in 2009, six were primarily North America focused, accounting for 91% of the global natural resources fundraising. Over the course of 2009, two Asia and Rest of World-focused and one Europe-focused natural resources funds held a final close.

Fund Size Breakdown

2010 saw a range of fund sizes across the five natural resources funds that reached a final close during the course of the year, with two funds recording a final close at or above the \$1bn threshold. The two largest funds accounted for nearly 70% of the aggregate capital raised in the year. The average fund size in 2010 was just over \$800mn, a decrease from 2009's average fund size of \$2.3bn.

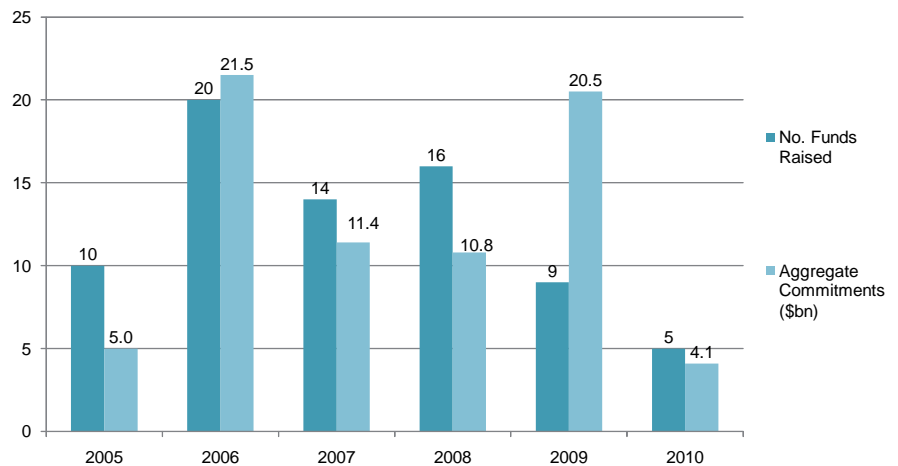
Notable Funds

The largest natural resources fund to close in 2010 was Sheridan Production Partners II, which closed in November 2010 on \$1.8bn. The fund closed above target and raised more than its predecessor fund, Sheridan Production Partners, which closed on \$1.3bn in August 2007. Both funds focus on making investments in mature oil and natural gas properties.

Fig. 5.23: Five Natural Resources Funds Closed in 2010

Fund	Manager	Amount Closed (\$mn)
Sheridan Production Partners II	Sheridan Production Partners	1,800
Resource Capital Fund V	Resource Capital Funds	1,000
White Deer Energy I	White Deer Energy	821
KERN Energy Partners Fund III	KERN Partners	430
Foundation Energy Fund III	Foundation Energy Company	73

Fig. 5.24: Annual Natural Resources Fundraising, 2005 - 2010



Resource Capital Fund V closed in May 2010 on \$1bn; the fund focuses primarily on the US but will make investments globally, seeking investment in projects within the mining, mineral and mining support industries.

be raised. The funds to watch in 2011 will be NGP Global Adaptation Partners, which is targeting \$3bn, and EnCap Energy Capital Fund VIII, aiming to raise \$2.5bn.

Predictions for 2011

2010 was the worst year for natural resources fundraising since 2005 in terms of both number of funds closed and aggregate capital raised, as shown in Fig. 5.24.

As we move into 2011 there are 22 natural resources funds on the road seeking \$14bn. 50% of these vehicles have held at least one interim close, therefore it is likely that 2011 will be a better year for natural resources fundraising, in terms of both number of funds to close and aggregate capital to

Venture Fundraising

Overview

140 venture funds achieved a final close in 2010, attracting \$32bn in capital commitments. This is a slight increase in total capital raised compared with the \$31.8bn collected in 2009.

Quarterly fundraising figures in 2010 fell in each quarter over the year. Q1 and Q2 saw aggregate capital of \$12.7bn and \$7bn raised through 37 and 46 funds respectively. In Q3, 30 funds closed with \$6.6bn in commitments. The final quarter of 2010 saw \$5.7bn gathered by 27 funds, less than half of the total raised in Q1.

In January 2011, there were 458 venture funds in market seeking an aggregate \$89.4bn in commitments. This is 19 more funds than at the same point in 2010, with \$10.4bn more in capital being sought.

Venture funds with no particular investment stage focus were the most prevalent venture fund type in 2010, with 57 funds raising \$13.8bn. Having garnered \$11.6bn in capital from 38 vehicles, growth funds secured the second-largest amount of capital in the venture market. Early stage funds were relatively large in number, with 39 funds reaching a final close, attracting \$4.1bn

in aggregate commitments, while late stage venture funds attracted \$2.5bn across six funds during the year.

Geographic Breakdown

North America-focused venture funds accounted for 50% of global venture fundraising in 2010, with 61 funds raising \$16bn. While the capital raised is slightly greater than the \$15bn raised last year, the market share of funds focusing on North America has declined by five percentage points from 2009. Asia and Rest of World-focused venture funds raised the second-largest amount of capital, with 50 venture funds focused on the region holding final closes with \$10.8bn in aggregate commitments. This represents 34% of all venture commitments, a nine percentage point increase on the region's share of the market in the previous year, and is an increase of \$3.8bn on the total raised by Asia and Rest of World-focused funds in 2009. Europe-focused funds amassed \$5.2bn in capital commitments from 29 vehicles, representing 16% of the total capital committed to venture funds in 2010.

Fund Size Breakdown

The average size of venture funds closed in 2010 was \$228mn, up from

\$160mn in 2009. Venture funds focused on late stage investments had the largest average size of all venture funds, at \$420mn. Growth stage-focused venture funds, whose average size was the largest in 2009 at \$233mn, had the second-largest average fund size in the venture universe in 2010 at \$313mn. Venture funds with no specific stage focus had the next largest with \$246mn and early stage-focused funds were characteristically small, with an average of \$118mn in commitments being collected.

Notable Funds

There were three venture funds that held a final close in 2010 with more than \$1bn in commitments, as shown in Fig. 5.24. The largest was New Enterprise Associates XIII, which secured \$2.48bn during its fundraising effort. The venture fund with no particular investment stage preference focuses on investment in the IT, energy, technology and healthcare sectors in North America. The fund closed in January 2010 \$20mn under its original fundraising target but still gained commitments from large LPs such as California State Teachers' Retirement System.

Fig. 5.25: Annual Venture Fundraising, 2005 - 2010

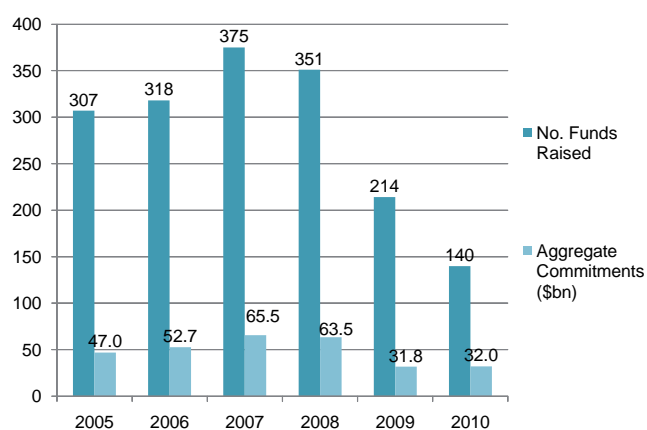
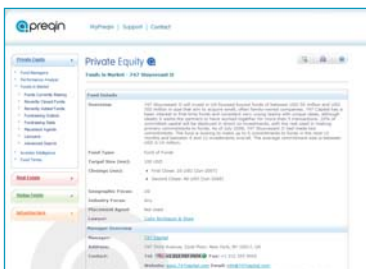


Fig. 5.26: 10 Largest Venture Funds Closed in 2010

Fund	Firm	Amount Closed (mn)
New Enterprise Associates XIII	New Enterprise Associates	2,480 USD
3i Growth Capital Fund	3i	1,200 EUR
SAIF Partners IV	SAIF Partners	1,300 USD
JMI Equity Fund VII	JMI Equity	875 USD
Gimv-XL Fund	Gimv	609 EUR
Battery Ventures IX	Battery Ventures	750 USD
Institutional Venture Partners XIII	Institutional Venture Partners	750 USD
New Horizon Capital Fund III	New Horizon Capital	750 USD
Oak Investment Partners XIII	Oak Investment Partners	750 USD
Drug Royalty II	DRI Capital	701 USD

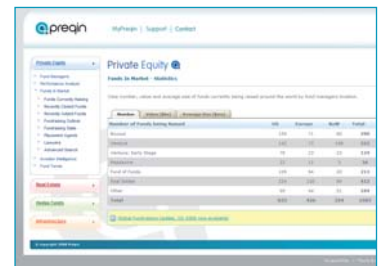
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