



# The Preqin Quarterly

Private Equity - Insight on the quarter from the leading provider of alternative assets data

Q2 2010 JULY 2010

## Content Includes....

### Latest Fundraising Figures

Lowest aggregate fundraising total since 2003 reveals continuing challenges.

### Performance as of Q4 2009

Latest figures show private equity performance continuing to improve.

### Buyout Deals

Q2 2010 is the strongest quarter for private equity-backed buyout deals in the post-credit crunch landscape.

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Are the ILPA principles being followed? We investigate.



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# Editor's Note

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The second quarter of 2010 represents a turning point for the industry, with the latest data on fundraising, dealflow and institutional investor appetite providing us with some important clues as to the future of the private equity asset class.

Within the buyout sector, we have seen the most active quarter since the onset of the financial crisis. As our report on page 17 shows, \$43bn in new deals has been announced in Q2 2010. A similar surge has been seen in exits, with a total of \$42bn being realized.

While still some way short of the activity levels experienced in 2006 – 2008, this is certainly a positive sign for the industry, and is welcome news for the institutional backers of the asset class.

Fundraising has been exceptionally challenging over the past couple of years, with investor confidence shaken after fund valuations fell dramatically in late 2008 and early 2009. In addition, a lack of capital flowing back to investors in the form of distributions meant many investors were able to maintain their allocations while making very few new commitments.

Many of the bigger fund managers that raised significant vehicles over recent years have delayed their re-entry into the fundraising market, relying on the relatively high levels of dry powder collected during the boom times (see our article on page 21 for more details).

This combined with low levels of investor confidence in the asset class resulted in a dearth of new vehicles achieving a final close. As our report on page eight shows, fundraising reached a new low point during Q2 2010 with only \$41bn raised across all fund types globally – the lowest total since 2003.

With the capital cycle now gathering steam, investors will be receiving more in the way of distributions. After seeing performance for the industry rising significantly in recent quarters (see page 22), investors are slowly showing signs of increased confidence and this is reflected in our LP survey results, which can be found on page six.

Although an improvement in fundraising will not come overnight, heightened levels of deals activity and the improvement in fund performance will lead to a recovery in fundraising, with early 2011 now looking to be the period when activity really picks up as more of the brand name firms embark on the fundraising trail.

The outlook for private equity is looking brighter, although there are still many challenges facing firms investing capital and for those seeking out commitments for new vehicles.

The Preqin Quarterly utilizes data from a variety of Preqin's products and publications in order to give a detailed overview of the latest market conditions. We are also thrilled to have guest articles from leading placement agent Capstone Partners and top law firm Dechert providing further perspectives on the key trends affecting the industry.

We hope that you find the publication to be informative and interesting, and as ever we welcome any feedback and suggestions that you may have.



**Tim Friedman, Editor**

# Capstone Partners



## Interview with Tripp Brower, June 2010

**Despite an apparent rise in confidence amongst LPs, Preqin's second quarter fundraising stats shows new fundraising to be at its lowest point since 2003. When do you see things picking up?**

It will be the first half of 2011 before we start to see a reasonable pick-up in fundraising. Many investors are looking for ways to reduce the overall number of PE relationships, so re-ups are under heavy scrutiny, and the requirements for adding a new GP relationship are high. These decisions often pivot on performance, especially a GP's ability to deliver compelling, consistent cash on cash returns. Although there is a large number of fund managers seeking capital (many of which are high quality teams with interesting strategies), the level of realizations is not as high as the LPs would like.

Many of the brand-name and historically top-performing GPs have delayed fundraising due to limited deal transactions in 2008-09, deeper re-up queues and tight allocations. The fundraising machinery is still "jammed", and even though LPs' balance sheets are healthier, it will take time for this to translate into a significant increase in commitment levels.

We will see a more focused 'priming of the pump' effort later this year from GPs that intend to be in the market by 2011. Our guidance for groups planning to raise capital is to talk to your existing LP base and targeted new investors in the second half of 2010 so that they know you are coming to market. LPs' forward calendars are loaded, so communicating earlier will provide a better shot at getting the right attention.

**So fundraising is certainly becoming a more long-term consideration?**

GPs that excel in fundraising know it's a perpetual effort. Fundraising does take on a different intensity when you actually have an offering in market and are truly raising capital, but routinely the GPs that do fundraising well are treating the LP side of the equation with nearly as much focus as their deal flow generation. Thoughtful GPs systematically communicate news of organizational developments, deals and exits with LPs that did not invest in the last fund but came close and remain interested in following their progress.

**To what extent are LPs' cashflow situations hindering the market?**

LPs have not seen much in the way of capital calls or distributions, certainly primary factors in the slowing of the fundraising market. The tough environment over the past couple of years impeded new investments and exits. We are now starting to see a real pick-up in dealflow, with positive implications for GPs that are selling into that dealflow and able to return capital to their LPs. This can only serve to improve investor confidence and pave the way for LPs to

redeploy this capital either to existing GPs or to others that have made a compelling case for their new vehicle.

**So what areas and strategies are investors interested in right now?**

Certainly areas of market dislocation and disruption are of interest, anywhere there are inefficiencies in markets - where the opportunities for cash on cash return are high and compelling. LPs are generally searching for opportunities in smaller funds, although definitions of small will vary considerably from LP to LP. More specifically, there are some healthy buyout strategies, whether generalist, operationally intensive, or industry focused, that are getting attention. The controlled distressed arena in the small fund category has lots of room to run in terms of LP appetite. Special situations and opportunistic strategies with an edge are generally getting good interest from investors.

**To what extent are fund terms and conditions dictating negotiations between LPs and GPs?**

LPs have power with regards to fund terms in the current market. This is the first time in 20 years that I have seen LPs really driving terms so that they are at least neutral if not LP friendly. On the economic side of the equation, we are talking about management fees, carry waterfalls and transaction fees, and on the governance side, terms like key-man clauses need to have real substance to them. Views are being expressed early on in negotiations and are playing an important part in the overall fundraising process.

LPs have also made it clear that they view the commitments that GPs make to their own funds as an extremely important factor, and those that are able to make oversized commitments can make a big statement and inspire confidence in potential LPs.

**Private equity is in the spotlight on several levels - political, regulatory and fiscal. What is your take on the various initiatives?**

Time and space limitations make addressing this topic difficult at best. Suffice to say that the cost and complexity of running a PE business are on the rise. At the risk of generalizing, much of the regulatory action in the US and Europe is aimed at avoiding systemic risk, enhancing investor protection, increasing transparency and providing regulatory bodies with more power. The recent SEC announcement banning unregistered placement agents from dealings with public pensions strikes us as a constructive regulatory solution to problems created by a few "bad actors" in the placement industry. Given the economic challenges in the US, it's also no surprise that GPs are viewed as one of the means of raising tax revenue via pending changes in the tax treatment of carried interest. In the category of transparency, private equity and hedge fund managers have been preparing for the required SEC registration (still to be approved by both houses of Congress) that at this stage is inevitable. While the additional reporting and compliance requirements will have some benefits, hopefully the various regulatory bodies will resist the temptation to over reach. The best advice is to follow the frequent reporting on FINREG developments, the AIFM Directive, and other initiatives to stay current and prepare for the implications to the private equity industry.

# Dechert



## Investor Strategies to Realize Returns in Troubled Situations, Glenn Siegel & Davin Hall.

2009 was a record year for defaults and restructurings. Ownership of companies changed rapidly and, given the freeze up in capital markets, most of the new capital structures were significantly deleveraged leaving little role for pre-existing sponsors and other equity holders of troubled companies. Halfway through 2010, even though actual bankruptcies have declined, restructuring continues through an amendment and forbearance process that is driven by the potential consequences to stakeholders in a court-supervised restructuring. Private equity and distressed debt funds are active participants in this process as a result of their equity positions in portfolio companies and as active investors.

This article will briefly discuss the way major players in these troubled situations achieve their goals with a particular emphasis on current shareholders and those who wish to become the shareholders at the conclusion of the process. These strategies can be employed by the current equity sponsor on its own or in collaboration with a partner (preferably a senior lender). Alternatively, an interested investor - with the inclination to provide lending and other forms of liquidity during the transition to new ownership - can position itself as the likely acquirer of the business.

Given virtually every distressed business's need for working capital and the inevitable constraints created by the covenants present in most credit agreements, the ability to raise capital provides the willing lender tremendous leverage in the operation of the business and the fate of ownership. Outside of bankruptcy the pre-existing lender will insist that new dollars be put in on a junior basis and, in the case of the sponsor, may insist on a capital contribution.

An interested bidder for the business may seek to benefit from this dynamic by offering to purchase the existing senior debt (at par or at a negotiated discount) coupled with an offer to provide new liquidity. Increasingly, the interested bidder may even be a current lender with the flexibility to own the business or who may have bought into the credit previously allowing for the possibility of an opportunity to own. The existing equity sponsor can also seek to take advantage of this by purchasing the senior secured debt so long as it is not prohibited from doing so by the loan documents. This situation is most likely to exist where there is a second lien and the second lien holders have prohibited the purchase of senior debt by the sponsor.

The cost of this new liquidity may be a forced bankruptcy where the existing senior debt is converted to equity or the assets are sold at auction subject to a senior creditor's right to credit bid. To ensure greater control over the restructuring, a distressed investor can provide debtor in possession financing ("DIP financing") to the company once it commences a chapter 11 case. DIP financing can enable the distressed investor to take control of the negotiations concerning the company's chapter 11 plan or to control

the sale of assets to the DIP lender by conditioning the extension of postpetition credit on the approval of covenants that require any chapter 11 plan or sale of assets must be satisfactory to the DIP lender.

At the conclusion of the restructuring (whether out of court or in court), new financing extended by the distressed investor can be converted into equity or exit financing of the restructured company, and additional liquidity for the target business can be raised through a rights offering. Below we briefly discuss a few recent, relevant bankruptcy cases to illustrate potential acquisition strategies and attendant risks for distressed investors.

**Acquisition of Company by DIP Lender** - In the Delphi Corporation case, the company sought to sell substantially all of its assets to a third party private equity firm where the sale proceeds would have been insufficient to pay the DIP lenders in full. Notwithstanding this attempt, the bankruptcy court recognized the rights of the DIP lenders to credit bid and eventually the company supported a sale of most of its business to the DIP lenders.

**Acquisition by Conversion of Senior Debt to Equity and Rights Offering** - In the chapter 11 restructuring of Lyondell Chemical, the lenders sponsored a plan of reorganization whereby they would contribute their claims for new equity in reorganized Lyondell, as well as backstop a rights offering of new stock and new notes, using the proceeds of the rights offering to partially pay down their debt claims.

**Acquisition by Second Lienholders by Reinstatement of Senior Debt** - In Charter Communications, a balance sheet restructuring of the company around subordinated bondholders was made feasible through the reinstatement of the company's senior credit facility. This was possible because the reorganized company had the capacity to service the existing first lien debt and the court found that the restructuring did not otherwise violate the loan documents.

**Attempts to Block the Right of Secured Creditors to Credit Bid** - In the Philadelphia Newspapers case, the Third Circuit held that while a secured creditor has the right to credit bid in stand-alone sale of assets to a third party, the court could confirm a plan of reorganization over the objection of a secured creditor that was not allowed to credit bid. In reaction to this decision, the secured creditors of Philadelphia Newspapers bid cash at the auction and were the successful bidders. This strategy was easy for these creditors to implement since they had the available liquidity and knew they would receive the first cash from closing as the senior lienholder.

**Disallowance of Vote of Creditor Which Purchases Its Claim with the Goal of Buying the Business** - In DBSD North America, the bankruptcy court did not count the vote of a strategic competitor which purchased debt with the expectation of acquiring the company's assets to the exclusion of every other restructuring alternative.

In the current environment, investors can take advantage of depressed valuations to acquire businesses with the potential for substantial returns or increase their ownership stakes in existing portfolio companies at favorable valuations. In order to maximize their chances of succeeding, investors must be willing to provide short-term liquidity as a bridge to ownership while keeping in mind that they always run the risk of being outbid.

# Investor Survey Results

The financial crisis has clearly had a significant impact on private equity fundraising over the past 18 months. Funds that reached a final close during 2009 secured \$279bn in capital commitments, a far cry from the \$643bn secured by the funds that closed the year before. Investor confidence in private equity also suffered as fund valuations fell during 2009 and the lack of dealflow in the industry left many investors over-committed to the asset class with a shortage of capital for new investments.

Despite increasing fund valuations and evidence of improving investor appetite for private equity seen towards the end of 2009, fundraising in early 2010 still fell below levels seen the previous year: in Q1 2010, 97 funds closed having raised \$60bn, compared to the 174 funds which closed in Q1 2009 having raised \$77bn. Furthermore, our December 2009 LP survey showed that the proportion of investors seeking to reduce their private equity allocations over the coming year had reached a considerable 13%, though perhaps this was a reflection of the fact that many LPs found themselves over-allocated to the asset class at this time.

## Investor Attitudes to Private Equity in Mid-2010

In June 2010, Preqin spoke to 100 of the most prominent institutional investors across the globe in order to assess their current appetite for the asset class. Despite the slow start to fundraising in 2010, the results of the survey show continuing improvement in investor attitudes towards private equity, with 54% of respondents already having made at least one commitment during the first half of the year.

Almost two-thirds (65%) of respondents told us they intend to make their next commitment to a private equity fund during the second half of 2010. A further 19% anticipate doing so in 2011. In December 2009 a quarter of investors were uncertain when they would next be active in the asset class, but just 12% of respondents in June 2010 had yet to decide on the timing of their next commitment.

For many investors, the amount of capital they will set aside for new commitments in 2010 will be greater than the amount they pledged to vehicles in 2009. As shown in Fig. 1, 44% of investors intend to use more capital for new commitments in 2010 than they did in 2009 and a further third intend to commit the same amount. An investment company in the Middle East declared that it will “definitely

Fig. 1: Investor Intentions: 2010 vs. 2009

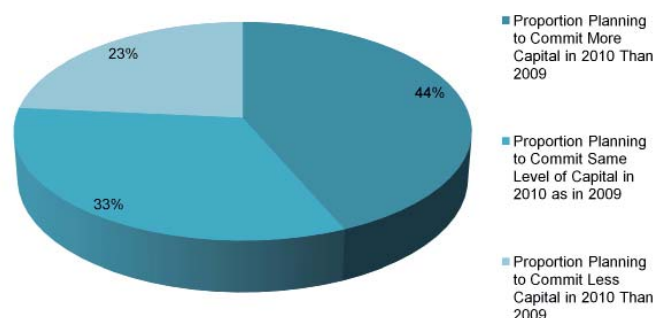
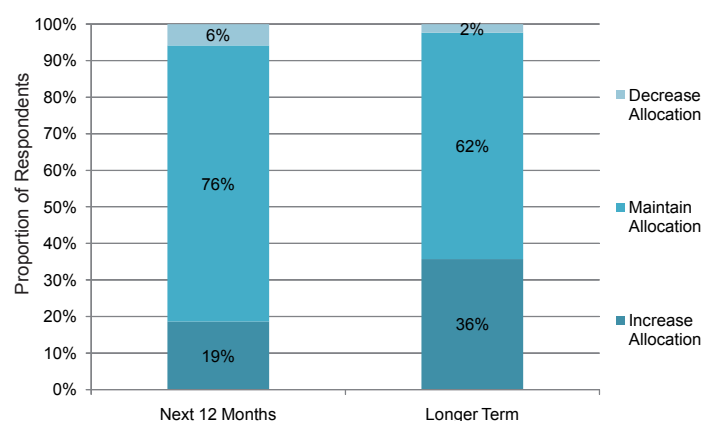


Fig. 2: Investors' Intentions for Their Private Equity Allocations



invest more in 2010; 2009 was a ‘wait and watch’ year.” It is worth noting, however, that in June 2010, almost a quarter (23%) of respondents anticipated committing less capital in 2010 than in 2009, compared to just 8% that anticipated such a decrease in December 2009, showing that LPs have perhaps been less active in the asset class this year than they had initially planned.

The vast majority (88%) of LPs plan to either increase the amount of capital set aside for new commitments in 2011 compared to 2010 or invest capital at the same rate. During 2011, just under half (49%) of investors expect to commit the same level of capital as in 2010 and a significant 39% of respondents intend to increase the amount of capital set aside for new commitments. The remaining 12% intend to reduce the amount of capital they commit that year.

Fund managers can be encouraged by the longer-term plans of LPs, as illustrated by Fig. 2. Few intend to cut back their allocations and in fact many foresee the size of their allocations rising over the next few years. In our December 2009 survey, 11% of respondents told us they anticipated reducing their allocations to private equity over the next three to five years. In June 2010, however, just 2% of respondents expected to do so and a considerable 36% intend to increase their allocations (Fig.2). Investors' plans in the short term have also improved: 6% of respondents intend to reduce their exposure to private equity over the following 12 months compared to 13% in December 2009.

### Areas of Investor Interest

The results of our survey point towards a gradual increase in the amount of capital available for new commitments in the coming months, although perhaps not as great an increase as many would have hoped. But what is this capital likely to be used for? Without prompting with pre-defined answers, we asked LPs which types of funds they intended to make commitments to during 2010/11. The results displayed in Fig. 3 indicate the areas of the market that are attracting the most investor attention at present. It is important to note that Fig. 3 only shows the responses from LPs that intend to make further commitments to private equity funds during 2010/11.

A considerable 65% of investors that are set to be active in 2010/11 intend to commit to small to mid-market buyout funds and 28% have identified distressed private equity funds as a strategy they will be seeking to invest in during the next 18 months.

We have also seen emerging markets continue to attract a significant degree of attention from institutional investors. In December 2009, 67% of respondents to our survey stated that they will consider investing in emerging markets. In June 2010, this had risen to 72%, showing a gradual increase in investor appetite for emerging markets. When asked which countries or regions in emerging markets are currently presenting the best opportunities, 56% of LPs named Asia and 37% named China specifically, as shown in Fig. 4.

### Outlook for Fundraising

The results of our survey indicate that there is likely to be a gradual increase in the amount of capital available for fresh private equity commitments during the next 18 months. This is encouraging news for GPs set to enter the market with their latest fund offerings. Despite the increase in the amount of capital investors are setting aside for new commitments, however, it will still fall far short of the amounts seen prior to the financial downturn. Fundraising

Fig. 3: Types of Funds that Active LPs are Seeking to Invest in During 2010/11

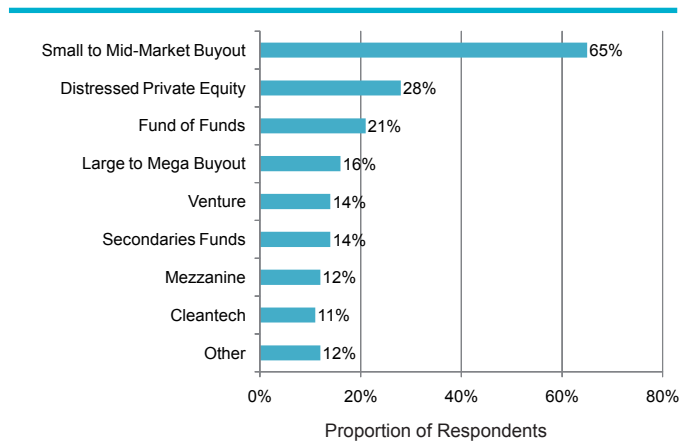
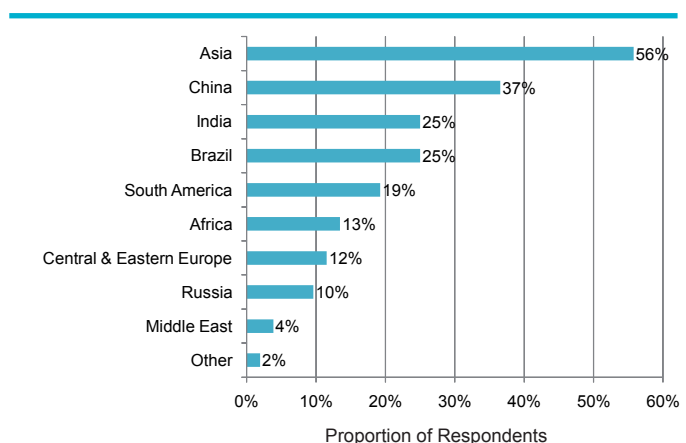


Fig. 4: Regions and Countries within Emerging Markets Viewed by LPs as Presenting the Best Opportunities in the Current Financial Climate



is consequently set to remain challenging over 2010 and into 2011, although some improvement in the overall amount of capital secured by funds is likely to occur.

Fund managers must be prepared to listen to what LPs want in order to improve their chances of securing commitments. Investors are set to remain cautious in their future private equity investments and will continue to scrutinize the terms and conditions of prospective funds more closely than before the financial crisis. A recent Preqin survey of investor attitudes towards fund terms and conditions found that 42% of investors disagree that interests are properly aligned between GPs and LPs. When coupled with the fact that a considerable 81% of LPs feel that they have seen a definite shift in the balance of power between GPs and LPs at fund negotiations, we are likely to continue to see LPs push for more concessions over the next few months, a fact that GPs must be prepared for in the current fundraising environment.

# Fundraising Overview

Private equity quarterly fundraising reached its lowest level since 2003 in Q2 2010, with 82 vehicles reaching a final close raising an aggregate \$41.3bn. Many in the industry, including Preqin, had anticipated a recovery in the market following an increase in fundraising in the first quarter of the year, but these figures show that the difficult fundraising conditions experienced during the economic crisis are yet to ease, with fund managers still struggling to gain investor commitments and many of the funds that are closing doing so below target.

The \$41.3bn raised by private equity funds in Q2 2010 represents a 32% decrease in capital raised from the previous quarter, when \$60bn was raised. This new low point in fundraising shows that the effects of the financial crisis are still very much affecting the industry's ability to raise new capital.

Of the funds that are closing, many are doing so below target, and after having spent a substantial amount of time on the road. As can be seen in Fig. 6, 39% of the funds closed in Q1 2010 had been in market for 19-24 months. A further 24% of funds had been in market for longer than this, with 3% having spent over three years on the road. For each year between 2004 and 2008 the average time spent in market by a private equity fund never exceeded 18 months; however, in 2010 to date the average time taken by a fund to reach a final close has been 19.8 months as shown in Fig. 6.

In terms of fund type, the most capital was raised by buyout funds during Q2 2010, with 14 such vehicles raising an aggregate \$13.9bn (Fig.7). Infrastructure funds raised the second-largest amount of capital, with five such funds raising a combined \$6.1bn and accounting for 15% of the capital raised in the quarter. Venture funds were the most numerous, with 24 such vehicles closing having raised \$4.4bn. Real estate funds were the second most numerous and raised the third-largest amount of capital, with 15 such funds raising \$5.9bn and accounting for 14% of capital raised in the quarter. This shows a significant decline from the previous quarter when 12 real estate vehicles raised an aggregate \$9.8bn.

The table on page 10 shows details of the 10 largest funds to close during Q2 2010.

Fig. 5: All Private Equity Fundraising by Quarter: Q1 2003 - Q2 2010

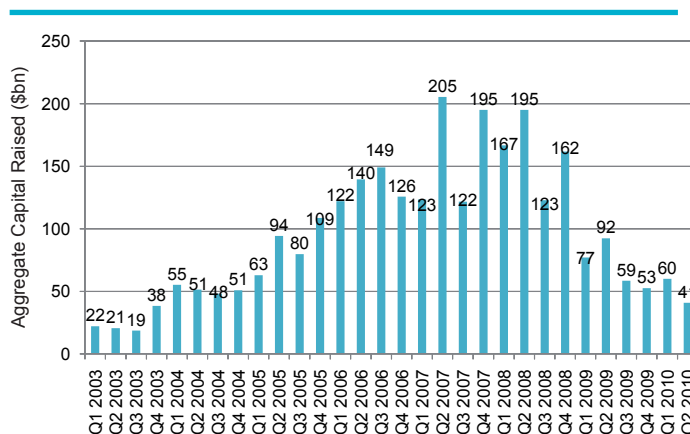


Fig. 6: Time Spent on the Road for Funds Closed in Q2 2010

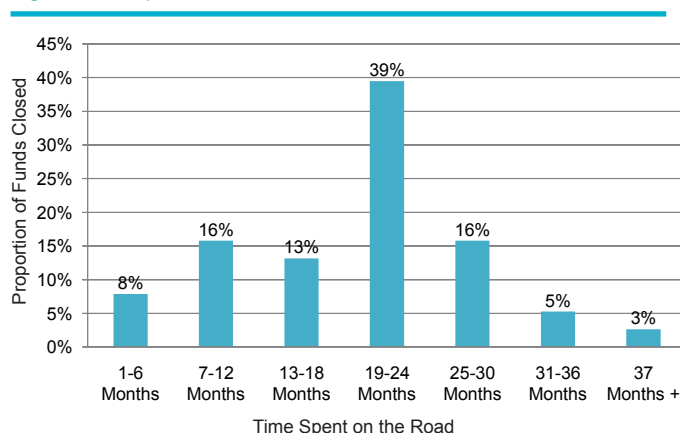
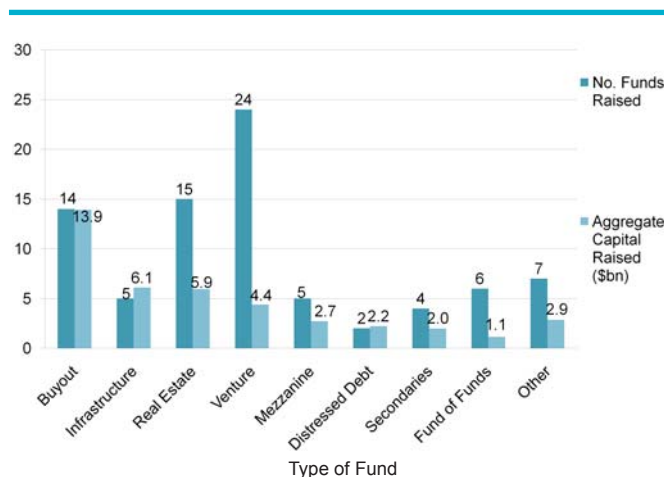


Fig. 7: Q2 2010 Private Equity Fundraising by Type



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Top Ten Funds Closed During Q2 2010 by Final Close Size

| Fund                                       | Manager                            | Type            | Final Size (mn) | Industry Focus                                                                                                       | Geographic Focus                                                        |
|--------------------------------------------|------------------------------------|-----------------|-----------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Madison Dearborn Capital Partners VI       | Madison Dearborn Partners          | Buyout          | 4,100 USD       | Diverse                                                                                                              | North America                                                           |
| GS Infrastructure Partners II              | GS Infrastructure Investment Group | Infrastructure  | 3,100 USD       | Infrastructure                                                                                                       | North America, Europe                                                   |
| Carlyle Asia Partners III                  | Carlyle Group                      | Buyout          | 2,550 USD       | Diverse                                                                                                              | Australia, China, India, South Korea, Asia                              |
| Starwood Global Opportunity Fund VIII      | Starwood Capital Group             | Real Estate     | 1,800 USD       | Property                                                                                                             | North America, South America, Europe, Asia, Africa, Global, Middle East |
| Advent Latin American Fund V               | Advent International               | Buyout          | 1,650 USD       | Consumer Products, Retail, Consumer Services, Financial Services, Aerospace, Education / Training, Business Services | Argentina, Brazil, Mexico, South America, Central America               |
| Macquarie Infrastructure Partners II       | Macquarie Capital Funds            | Infrastructure  | 1,600 USD       | Infrastructure                                                                                                       | Canada, Mexico, US                                                      |
| CDH China Fund IV                          | CDH China Management Company       | Buyout          | 1,428 USD       | Diverse                                                                                                              | China                                                                   |
| Crown Global Secondaries II                | LGT Capital Partners               | Secondaries     | 1,200 USD       | Diverse                                                                                                              | China, US, North America, Europe, Global                                |
| ICG Recovery Fund 2008                     | Intermediate Capital Group         | Distressed Debt | 843 EUR         | Diverse                                                                                                              | Europe                                                                  |
| Carlyle Global Financial Services Partners | Carlyle Group                      | Distressed Debt | 1,100 USD       | Financial Services, Insurance                                                                                        | US, Global                                                              |

# Regional Fundraising

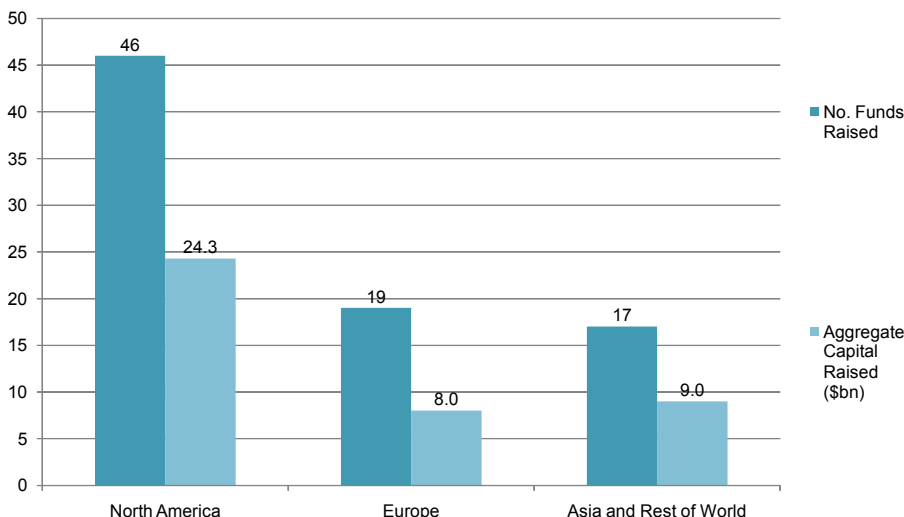
Of the 82 vehicles closed during Q2 2010, over half (56%) are primarily focused on making investments in North America, with a similar proportion of the aggregate capital raised accounted for by such funds. It is unsurprising that North America-focused funds account for such a large proportion of fundraising, but what is notable is that primarily Asia and Rest of World-focused funds have raised more capital than their Europe-focused counterparts in the quarter.

As can be seen in Fig.8, in Q2 2010 17 funds focused primarily on Asia and Rest of World closed with \$9bn in commitments, accounting for 22% of the aggregate capital raised in the quarter. This is a marked increase from the same time last year, when such funds raised \$2.5bn and accounted for just 3% of the aggregate capital raised in the quarter. However, it represents a decrease from Q1 2010 when such vehicles raised \$14.5bn and accounted for 29% of all capital raised in the quarter.

Funds focused primarily on Europe accounted for the lowest amount of capital raised in the quarter with 19 vehicles raising \$8bn, which represents 19% of the total. This marks a substantial shift in regional fundraising compared to both the previous quarter and the same period last year. In Q2 2009 23 Europe-focused funds raised \$24.7bn, accounting for a more sizeable 31% of capital raised. Similarly in Q1 2010 Europe-focused funds accounted for 29% of capital raised during the quarter, with 21 vehicles having garnered \$14.6bn.

A total of 46 funds primarily focused on North America closed during Q2 2010, raising an aggregate \$24.3bn. This is a significant decrease from the same time last year, when 91 vehicles primarily investing in the region closed, having raised an aggregate \$102.1bn. There has been a significant reduction in the amount of capital raised by North America-focused funds over this period; however, this has been in line with the decrease that has been seen across private equity globally. Primarily North America-focused funds still account for the largest proportion of capital raised by private equity funds worldwide and many of the largest funds closed in the quarter will be investing in this region.

Fig. 8: Q2 2010 Private Equity Fundraising by Primary Geographic Focus



# Buyout & Venture Fundraising

In Q2 2010 14 buyout funds closed having raised an aggregate \$13.9bn, which accounted for 34% of the capital raised by all private equity funds in the quarter. This represents a decrease in capital raised by buyout funds compared to the previous quarter, when 22 buyout vehicles raised \$17.3bn although their share of the market has remained relatively consistent.

The largest buyout fund to close in Q2 2010 was Madison Dearborn Capital Partners VI, a North America-focused vehicle targeting management buyouts, growth equity financings, recapitalizations and acquisition-orientated financing transactions. It closed on \$4.1bn in May 2010, short of its original target of \$7.5bn. The second-largest buyout fund to close in the quarter was Carlyle Asia Partners III, which raised \$2.55bn. It too closed short of its original target of \$3bn.

Venture fundraising was down considerably from Q1 2010, with 24 vehicles closing in Q2 2010 having raised an aggregate \$4.4bn, compared to 30 funds closing in Q1 2010 having raised \$11.6bn. As a result, venture funds accounted for a smaller proportion of the total capital raised, with commitments to such funds accounting for 11% of the total in Q2 2010, compared to 23% in the previous quarter.

Columbia Capital Equity Partners V was the largest venture fund to close in Q2 2010, closing short of its original target on \$441mn in April 2010. The fund will focus on investments in the US media and technology sectors.

Fig. 9: Private Equity Buyout Fundraising by Quarter: Q1 2008 - Q2 2010

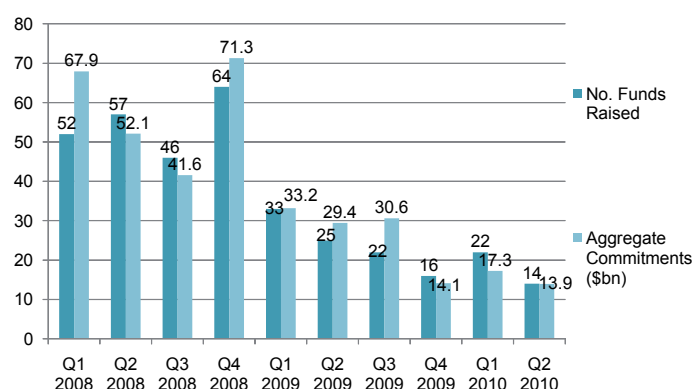


Fig. 10: Private Equity Venture Fundraising by Quarter: Q1 2008 - Q2 2010

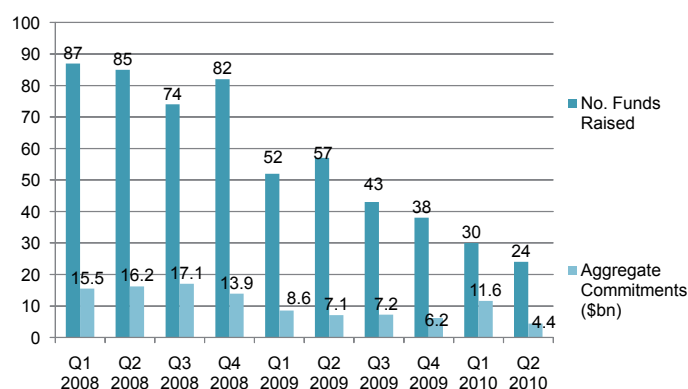


Fig. 11: Five Largest Buyout Funds Closed in Q2 2010

| Fund                                 | Fund Manager                 | Size (mn) |
|--------------------------------------|------------------------------|-----------|
| Madison Dearborn Capital Partners VI | Madison Dearborn Partners    | 4,100 USD |
| Carlyle Asia Partners III            | Carlyle Group                | 2,550 USD |
| Advent Latin American Fund V         | Advent International         | 1,650 USD |
| CDH China Fund IV                    | CDH China Management Company | 1,428 USD |
| Gilde Buyout Fund IV                 | Gilde Buy Out Partners       | 800 EUR   |

Fig. 12: Five Largest Venture Funds Closed in Q2 2010

| Fund                               | Fund Manager           | Size (mn) |
|------------------------------------|------------------------|-----------|
| Columbia Capital Equity Partners V | Columbia Capital       | 441 USD   |
| CX Partners                        | CX Partners            | 515 USD   |
| Drug Royalty II                    | DRI Capital            | 701 USD   |
| SV Life Sciences Fund V            | SV Life Sciences       | 523 USD   |
| Avigo SME Fund III                 | Avigo Capital Partners | 240 USD   |

# Private Equity Fundraising: Other Types

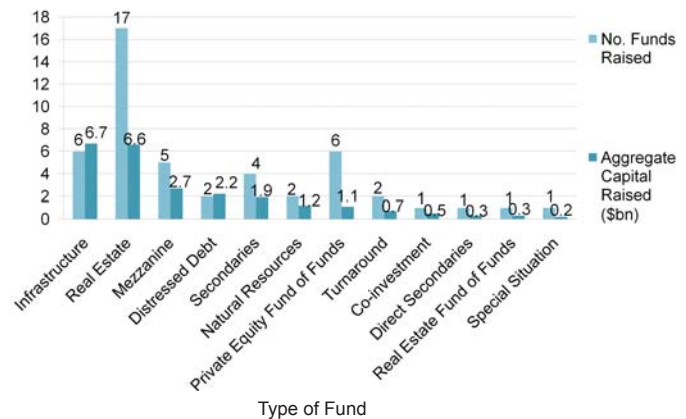
**B**uyout and venture funds raised just under half of all private equity capital in Q2 2010, with the remaining 56% raised by other types of vehicles. Of these funds, infrastructure and real estate funds raised the most capital, although real estate fundraising is down by 40% from the previous quarter.

As can be seen in Fig. 13, infrastructure funds raised the most capital out of all other types of funds, with six such funds raising a combined \$6.7bn and accounting for 16% of the total capital raised in the quarter. This is an increase from the previous quarter when five vehicles raised \$5.9bn.

Real estate funds raised the second-largest amount of capital and were the most numerous, with 17 real estate funds raising \$6.6bn and accounting for 16% of the capital raised in the quarter. However, real estate fundraising is down from the previous quarter when 18 such funds raised \$9.8bn and represented 16% of the fundraising market. Starwood Global Opportunity Fund VIII was the largest real estate fund to close in the quarter, raising \$1.8bn to invest globally in a range of property.

Six private equity fund of funds vehicles reached a final close in Q2 2010, raising an aggregate \$1.1bn. This marks a decrease of 50% in fundraising for funds of funds compared to Q1 2010, when nine such funds raised \$2.2bn. One real estate fund of funds reached a final close in Q2 2010 on \$300mn.

Fig. 13: Q2 2010 Private Equity Fundraising (Excluding Buyout and Venture Funds) by Fund Type



There are two distressed debt funds in the table in Fig. 14, the only two such funds to reach a close in the quarter. Between them these vehicles raised an aggregate \$2.2bn and accounted for 5% of the capital raised in the quarter. This marks a 69% decrease from the previous quarter in terms of capital raised.

Crown Global Secondaries II was the largest secondaries fund to close in the quarter, with the \$1.2bn collected accounting for over half of the capital raised by such vehicles in the quarter.

Fig. 14: 10 Largest Other Types of Funds Closed in Q2 2010

| Fund                                        | Fund Manager                       | Fund Type         | Size (mn)  |
|---------------------------------------------|------------------------------------|-------------------|------------|
| GS Infrastructure Partners II               | GS Infrastructure Investment Group | Infrastructure    | 3,100 USD  |
| Starwood Global Opportunity Fund VIII       | Starwood Capital Group             | Real Estate       | 1,800 USD  |
| Macquarie Infrastructure Partners II        | Macquarie Capital Funds            | Infrastructure    | 1,600 USD  |
| Crown Global Secondaries II                 | LGT Capital Partners               | Secondaries       | 1,200 USD  |
| ICG Recovery Fund 2008                      | Intermediate Capital Group         | Distressed Debt   | 843 EUR    |
| Carlyle Global Financial Services Partners  | Carlyle Group                      | Distressed Debt   | 1,100 USD  |
| Starwood Capital Global Hospitality Fund II | Starwood Capital Group             | Real Estate       | 965 USD    |
| Sankaty Middle Market Opportunities Fund    | Sankaty Advisors                   | Mezzanine         | 904 USD    |
| Fortress Japan Opportunity Fund             | Fortress Investment Group          | Real Estate       | 75,000 JPY |
| White Deer Energy I                         | White Deer Energy                  | Natural Resources | 821 USD    |

# Funds on the Road Overview

Following four years of annual increases in both the number of private equity funds in market and the aggregate capital sought, 2010 marked the first year in which there was a decline. At the start of 2010 1,582 private equity vehicles were targeting capital commitments of \$691bn, a 21% decrease in aggregate capital sought from Q1 2009. As 2010 has progressed this figure has declined even further and, as of Q3 2010, there are 1,510 vehicles on the road targeting \$557bn.

Since the beginning of the year there has been a decrease of 5% in the number of private equity vehicles on the road and a 19% reduction in the aggregate capital targeted by such vehicles, as illustrated in Fig. 15. These figures show that the difficult fundraising conditions experienced throughout the financial crisis are yet to ease. As a result, many fund managers are having to reduce their fundraising targets, and this is reflected in the significant decrease in the average target size of funds on the road. In Q1 2009 the average fund in market was targeting \$547mn, this figure now stands at \$369mn, representing a decrease of nearly one-third.

A large proportion of the funds in market are primarily focused on North America, with 697 such vehicles targeting an aggregate \$291.7bn, as shown in Fig. 16. Primarily North America-focused funds account for 46% of the number of funds in market and over half of the aggregate target capital. Such funds also have the largest average target size out of all funds in market, with the average fund target of a North America-focused fund standing at \$419mn, compared to \$346mn for Europe-focused funds and \$311mn for Asia and Rest of World-focused funds.

The largest fund currently in market is primarily North America-focused Blackstone Capital Partners VI. The buyout fund is targeting \$15bn, having already held its third interim close on \$8.8bn in August 2009 and is likely to hold a final close later this year. Like many of the primarily North America-focused funds on the road, the vehicle will also consider making investments in other regions.

Asia and Rest of World-focused funds are targeting the second-largest amount of capital. 443 such vehicles are seeking \$137.8bn in aggregate commitments, accounting for 29% of the number of funds and 25% of the aggregate targeted capital of all funds in market.

Fig. 15: Funds in Market by Quarter

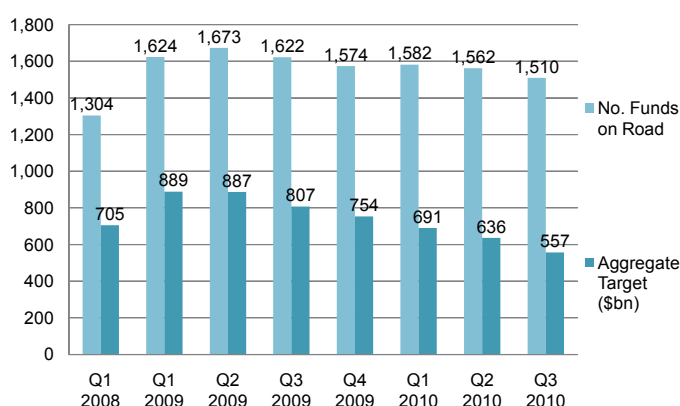
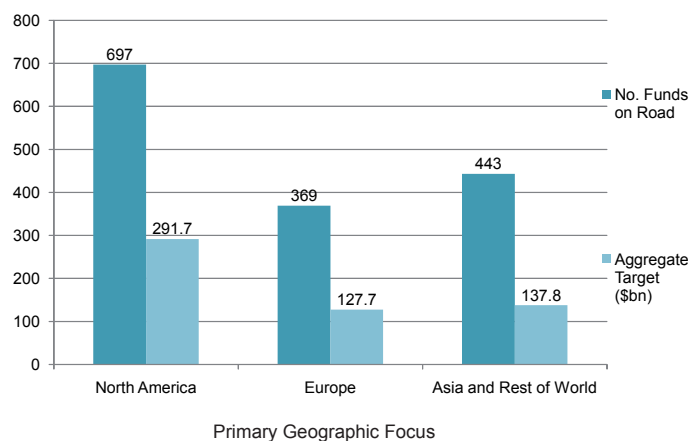


Fig. 16: Composition of Funds in Market by Primary Geographic Focus



There are currently 369 primarily Europe-focused funds on the road targeting an aggregate \$127.7bn in investor capital. Europe-focused funds account for 23% of the global targeted capital and 24% of the number of funds on the road.

# Funds on the Road by Type

**R**eal estate funds are targeting the largest amount of capital of all funds in market, accounting for 24% of all the commitments being sought by funds in market worldwide. There are 378 private equity real estate vehicles currently on the road targeting an aggregate \$133bn in investor commitments. This is a decrease in both the number and aggregate target from the same period last year, when 403 such funds were targeting a combined \$191bn. This represents a 30% decrease in the aggregate capital sought by real estate vehicles.

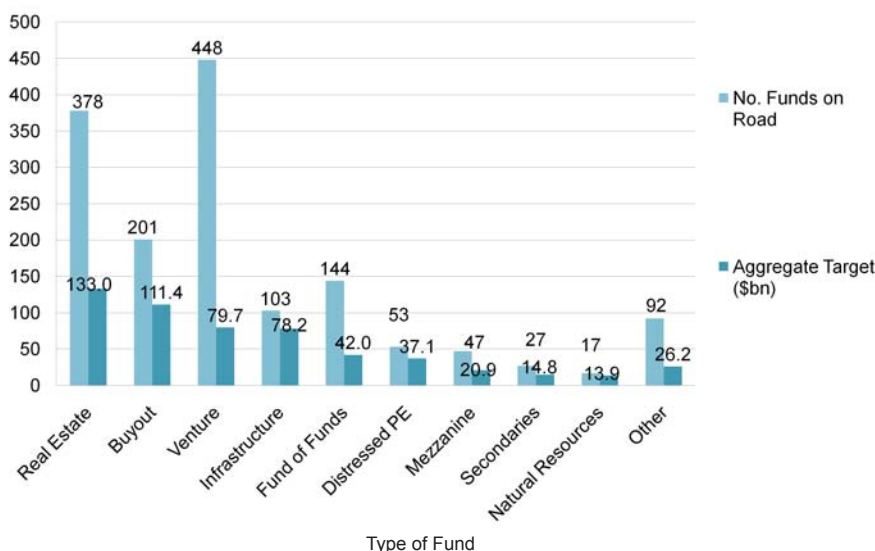
There has been a similar decline in the number and aggregate target of buyout vehicles on the road since the same time last year. In Q3 2009 235 buyout funds were on the road seeking an aggregate \$168bn in capital commitments. A year later 201 buyout vehicles are in market with an aggregate target of \$111.4bn, which represents a decrease in targeted capital of 32%. Buyout funds currently account for 20% of the aggregate targeted capital and 13% of the number of funds in market.

Venture funds are the most numerous type of fund in market, with 448 such vehicles currently on the road representing 30% of the total number of funds in market. Such vehicles are targeting the third-largest amount of capital, with an aggregate target of \$79.7bn. This represents a relatively small decrease in aggregate capital targeted compared to last year, with 4% less capital being sought in Q3 2010.

The fourth-largest amount of capital is being targeted by infrastructure funds, with 103 such vehicles seeking \$78.2bn in aggregate commitments and accounting for 14% of the capital targeted. Infrastructure vehicles have the largest average target size of fund types, with the average infrastructure fund seeking \$759mn in investor commitments. This is significantly lower than at the same point in 2009 when the average target size of an infrastructure fund in market was \$933mn, representing a decrease of 19%.

Funds of funds, distressed private equity funds, and secondaries funds all account for a significant proportion of the funds in market. Funds of funds represent 8% of all capital sought by funds in market, with 144 funds targeting \$42bn. There are 53 distressed private equity funds targeting \$37.1bn, accounting for 7% of the total targeted capital. Secondaries funds account for 2% of the number of funds in market and 3% of all capital targeted.

Fig. 17: Composition of Funds in Market by Fund Type



# Fundraising Future Predictions

**A**lthough institutional investors are growing in confidence as a result of deals activity picking up and private equity fund performance recovering following the big drops we saw last year, fundraising remains an extremely challenging prospect.

As our LP survey on page six shows, most investors (76%) are simply looking to maintain allocations in the next 12 months. While in previous years maintaining an allocation would require significant reinvestment of distributed capital from existing investments, the fact that distributions to investors have been so low means that investors have not had to invest in new funds at the same rate in order to keep their allocations steady. This has clearly impacted upon fundraising in Q2 2010, which saw the lowest aggregate total raised since 2003.

The length of time required to raise a fund from launch to final close has extended to a record 19.8 months, with the increasingly challenging market causing many firms to hold multiple interim closes before reaching a final close. With market conditions improving, the churn of capital is starting to pick up, and this will have a positive impact on new fundraising as investors seek to reinvest distributed capital. This extra capital may allow some of the firms that have already held multiple interim closes to achieve a final close on vehicles that have been in market for some time. Another important factor to consider is that while there are still lots of funds on the road, and amongst them offerings from some top-quality managers, many of the brand-name and best-performing managers have delayed the launch of their next funds due to the current climate and the fact that they still have available capital from older vehicles.

Now that dealflow has started to pick up, there will be an increased need for a significant number of these big name fund managers to launch new offerings towards the end of this year and into next year. We are already seeing the levels of dry powder begin to fall, and this trend will continue until fundraising picks up. Many managers will also see themselves in a better position to raise capital now that their fund NAVs have improved, and they have more positive news to communicate to existing and potential new LPs on the deals front.

It is therefore likely that we will see a real pick-up in fundraising activity as we move into 2011, helped by the plans of more than a third of investors to increase allocations in the longer term. In the short term, it is likely that we are going to see a number of bigger firms entering the fundraising market in pre-marketing mode before launching in earnest in 2011. The next six months are likely to remain at relatively low levels, but if the market for deals and exits continues to improve, things are likely to improve significantly in 2011, with quarterly totals for next year potentially reaching the \$100bn mark once again.

The one sector that could continue to struggle into and beyond 2011 is private equity real estate, where we have not seen the same kind of pick-up in activity and improvement in fund performance as elsewhere in the industry. With PERE collecting amongst the highest levels of capital of all fund types aside from buyout funds in recent years, this will have an impact on the absolute levels of capital that the overall industry is able to garner.

Fig. 18: Possible Follow-On Funds to Be Launched in Short to Medium Term

| Firm Name                  | Available Capital Position                                                                                             |
|----------------------------|------------------------------------------------------------------------------------------------------------------------|
| Goldman Sachs PE Group     | Last major buyout fund (2007 vintage) 40% called as of December 31st 2009                                              |
| Carlyle Group              | Last major US- and Europe-focused vehicles are 2007 vintage (40% and 33% called respectively as of December 31st 2009) |
| Kohlberg Kravis Roberts    | KKR Fund 2006 is now 80% called up, although more recent European and Asian funds still have ample dry powder          |
| Warburg Pincus             | Last major 2007 vintage fund 45% called as of March 31st 2010                                                          |
| Permira                    | Last major fund is 2006 vintage and was 65% called as of March 31st 2010                                               |
| First Reserve Corporation  | 2008 vintage fund 40% called as of March 31st 2010                                                                     |
| Providence Equity Partners | Last major buyout fund (2007 vintage) 70% called as of March 31st 2010                                                 |
| AXA Private Equity         | Last LBO fund (2007 vintage) 50% called as of March 31st 2010                                                          |
| Thomas H Lee Partners      | 2006 vintage buyout fund 55% called as of December 31st 2009, firm has done three additional deals since               |
| Avenue Capital Group       | Most recent US fund is 100% called, most recent European fund is over 80% called                                       |

# Deals Overview & Deals by Region

**G**lobal dealflow in Q2 2010 represents the strongest quarter for private equity-backed buyout deals in the post-credit crunch landscape, with a total of 411 private equity buyout deals announced with an aggregate value of \$43.3bn (Fig. 19). This represents a 60% increase in aggregate deal value from the previous quarter, when 356 deals were announced with an aggregate value of \$27.1bn.

The buyout industry witnessed a significant decline in dealflow moving into 2009, with the aggregate deal value reaching its lowest point in Q1 2009, when it stood at \$11bn. Dealflow began picking up momentum in Q4 2009, when 382 deals were announced with an aggregate value of \$40.4bn. Despite a disappointing first quarter in 2010, when aggregate deal value fell by a third from the previous quarter, Q2 2010 shows that the environment has improved for buyout deals.

As shown in Fig. 20 aggregate deal value in Q2 2010 in North America increased sharply in comparison with the previous quarter with 175 deals accounting for \$26.7bn. Dealflow in this quarter was stronger in terms of aggregate value than for any quarter since 2008, proving that buyout funds focused on North America are actively completing deals. Nine of the 10 largest deals completed in Q2 2010 took place in North America, with these deals accounting for a considerable \$16.5bn, or 38%, of the aggregate deal value in this quarter.

Dealflow in Europe has remained relatively stable. 169 deals were announced in Q2 2010 with aggregate deal value of \$11bn compared to the \$10.3bn in deal value seen in the previous quarter. The sixth-largest deal worldwide in the quarter, the \$1.4bn recapitalization of Avolon by Cinven, CVC Capital Partners and Oak Hill Capital Partners, took place in Ireland.

Asia and Rest of World witnessed increased deal activity in Q2 2010 with 67 deals announced with an aggregate deal value of \$5.6bn. This represents a 40% increase in aggregate deal value in comparison to Q1 2010, when 39 deals with an aggregate deal value of \$4bn were announced.

Fig. 19: Number and Aggregate Value of Buyout Deals by Quarter

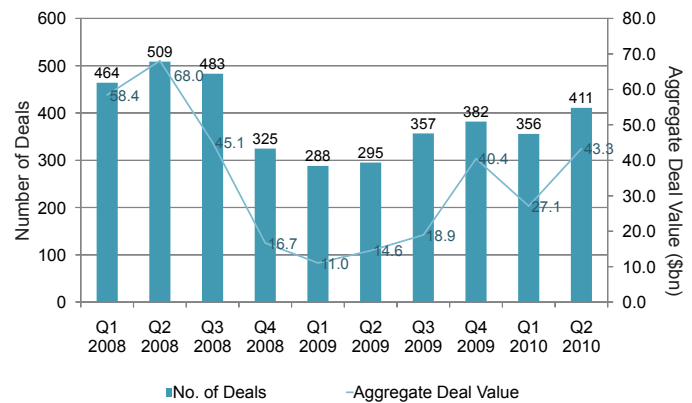
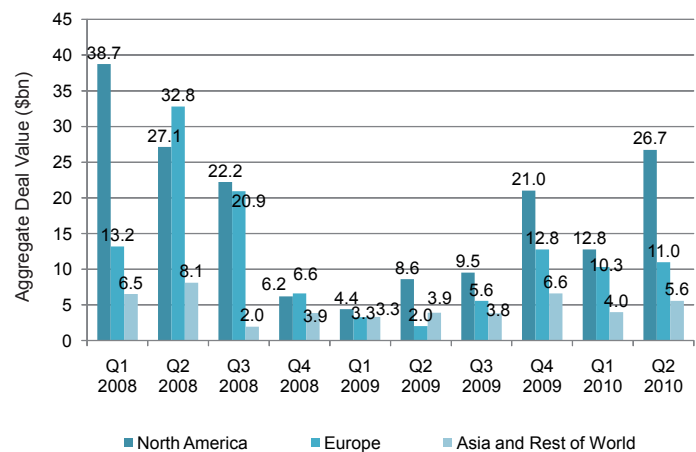


Fig. 20: Aggregate Deal Value in Quarter by Regional Focus



# Deals by Type, Value & Industry

Almost half of all private equity-backed deals announced globally in Q2 2010 were leveraged buyouts, accounting for 54% of the aggregate deal value worldwide during the quarter (Fig. 21). This is down from the previous quarter when such deals accounted for 60% of the aggregate deal value.

Growth capital investments accounted for 23% of deals announced during Q2 2010, with such deals representing 7% of the aggregate deal value. A total of 3% of deals announced in Q2 2010 were public to private transactions with these large deals representing 24% of the global aggregate deal value. Significant public to private deals announced in Q2 2010 include the \$3.4bn acquisition of Interactive Data Corporation by Warburg Pincus and Silver Lake, and the announced privatization of DynCorp International in a \$1.5bn transaction by Cerberus Capital Management.

In terms of industry, the highest dealflow in Q2 2010 was in the industrial sector with a quarter of all global buyout deals and 15% of the aggregate deal value globally accounted for by this sector (Fig. 22). The consumer and retail sector was the most prominent sector in terms of aggregate deal value, accounting for 26% of aggregate deal value and 18% of the number of deals announced in Q2 2010. This marks an increase from the previous quarter when deals in the sector accounted for 20% of the aggregate deal value announced in the quarter. The business services sector, which includes business, financial and legal services, accounted for 15% of all deals announced globally and 23% of aggregate deal value in Q2 2010.

Mid-market and large deals represent the majority of buyout capital deployed globally by fund managers, with deals valued at \$500-999mn and over \$1bn representing 23% and 46%, respectively, of total aggregate deal value in the quarter. As shown in Fig. 23, 50% of buyout deals globally in Q2 2010 were valued at less than \$100mn, with deals in this value band representing only 5% of the aggregate deal value globally.

Fig. 21: Aggregate Deal Value in Quarter by Type

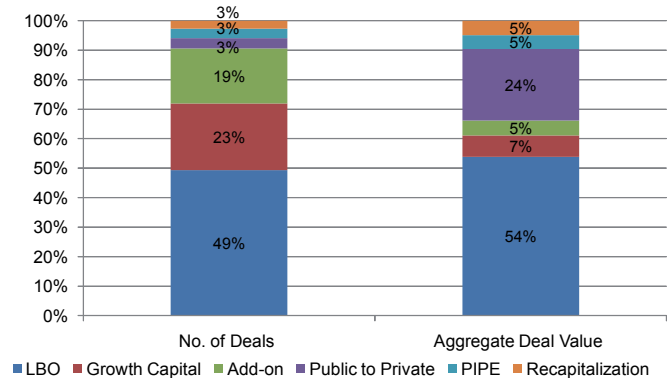


Fig. 22: Aggregate Deal Value in Quarter by Industry

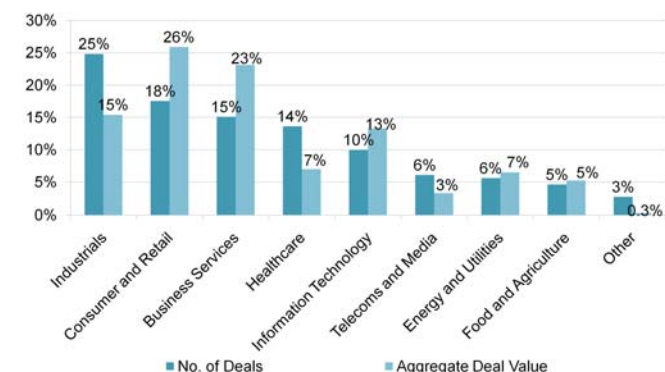
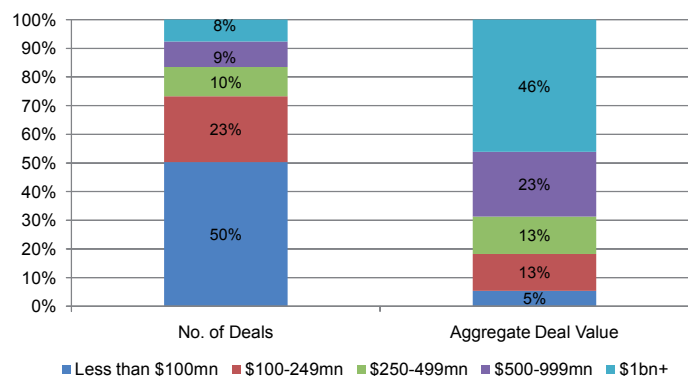


Fig. 23: Aggregate Deal Value in Quarter by Deal Size



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# Largest Deals & Notable Exits

Fig. 24: 10 Largest Deals in Quarter

| Company Name                 | Date   | Deal Value | Investment Type   | Acquiror/Financial Sponsor                                     | Location | Industry           |
|------------------------------|--------|------------|-------------------|----------------------------------------------------------------|----------|--------------------|
| Extended Stay                | May-10 | USD 3.9bn  | Buyout            | Blackstone Group, Centerbridge Capital Partners, Paulson & Co. | US       | Hotels             |
| Interactive Data Corporation | May-10 | USD 3.4bn  | Public to Private | Silver Lake, Warburg Pincus                                    | US       | Financial Services |
| Michael Foods, Inc.          | May-10 | USD 1.7bn  | Buyout            | Goldman Sachs Private Equity Group                             | US       | Food               |
| DynCorp International        | Apr-10 | USD 1.5bn  | Public to Private | Cerberus Capital Management                                    | US       | Business Services  |
| Vertafore, Inc.              | Jun-10 | USD 1.4bn  | Buyout            | TPG                                                            | US       | IT                 |
| Avolon                       | May-10 | USD 1.4bn  | Recapitalization  | Cinven, CVC Capital Partners, Oak Hill Capital Partners        | Ireland  | Transportation     |
| American Tire Distributors   | Apr-10 | USD 1.3bn  | Buyout            | TPG                                                            | US       | Distribution       |
| Kroll                        | Jun-10 | USD 1.1bn  | Add-on            | Altegrity, Providence Equity Partners                          | US       | Business Services  |
| Sedgwick CMS                 | Apr-10 | USD 1.1bn  | Buyout            | Hellman & Friedman, Stone Point Capital                        | US       | Business Services  |
| InVentiv Health              | May-10 | USD 1.1bn  | Public to Private | Thomas H Lee Partners                                          | US       | Healthcare         |

Fig. 25: 5 Notable Exits in Quarter

| Company Name        | Date Acquired | Firms Investing                                                       | Transaction Size | Exit Type             | Date   | Sold To                                 | Exit Transaction Size |
|---------------------|---------------|-----------------------------------------------------------------------|------------------|-----------------------|--------|-----------------------------------------|-----------------------|
| Cognis              | Nov-01        | Goldman Sachs Private Equity Group, Permira, Schroder Ventures        | EUR 3bn          | Trade Sale            | Jun-10 | BASF plc                                | EUR 3.1bn             |
| Vertafore, Inc.     | Nov-04        | Hellman & Friedman, JMI Equity                                        |                  | Secondary Buyout Sale | Jun-10 | TPG                                     | USD 1.4bn             |
| Michael Foods, Inc. | Nov-03        | Thomas H Lee Partners                                                 |                  | Secondary Buyout Sale | May-10 | Goldman Sachs Private Equity Group      | USD 1.7bn             |
| Sedgwick CMS        | Jan-06        | Evercore Partners, Fidelity National Financial, Thomas H Lee Partners | USD 635mn        | Secondary Buyout Sale | Apr-10 | Hellman & Friedman, Stone Point Capital | USD 1.1bn             |
| Amadeus             | Jul-05        | Air France, BC Partners, Cinven, Deutsche Lufthansa, Iberia           | EUR 4.3bn        | IPO*                  | Apr-10 | n/a                                     | EUR 1.3bn             |

\* Partial Exit

# Dry Powder

The amount of dry powder available to fund managers of all private equity funds grew at a significant rate in the years preceding the financial crisis, but since December 2008 dry powder levels have stopped their growth and started to decline.

As can be seen in Fig. 26, the amount of dry powder available has decreased across all fund types with the exception of real estate funds and, as of June 2010, is lower than it was in 2008. The most significant decrease has been for distressed private equity funds, with the level of uncalled capital available to such funds decreasing by 12% between December 2008 and June 2010. The dry powder reserves of mezzanine funds have decreased by 9% in this period.

In terms of geography, the amount of dry powder available to funds primarily focused on North America has decreased by 7% since December 2008 and now stands at \$580bn. In the same period funds primarily focused on Europe have seen a decrease of 3%, and vehicles primarily focused on Asia and Rest of World a decrease of 4%.

The decline in dry powder is a result of the significant slowdown in private equity fundraising over the past 18 months, during which time very little fresh capital has been committed to the asset class. As the number of deals being done has also slowed, dry powder has still remained at a relatively high level, although a recent upturn in activity is likely to lead to a more dramatic decline in the coming months before fundraising has a chance to recover.

Fig. 28 shows the amount of capital invested and dry powder remaining for buyout funds of vintages 2004-2009. The median investment period for buyout funds is five years, which means that vintage 2006 and 2007 funds will be nearing the end of their investment period over the next few years. Vintage 2006 funds, which will typically be reaching the end of their investment periods in 2011, still have \$70bn of dry powder at their disposal, while vintage 2007 funds have \$148bn. It is likely that fund managers will be keen to deploy this capital over the next two to three years, a factor contributing to the recent increase in activity, helped by improving market conditions.

Fig. 26: Dry Powder by Fund Type: 2003- 2010 YTD

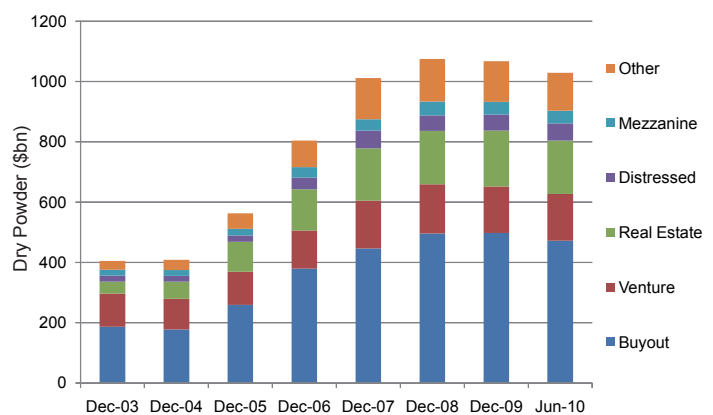


Fig. 27: All Private Equity Dry Powder by Regional Focus: 2003-2010 YTD

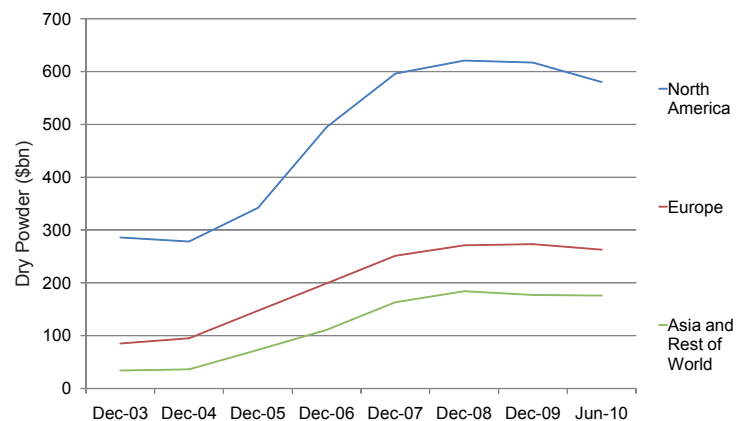
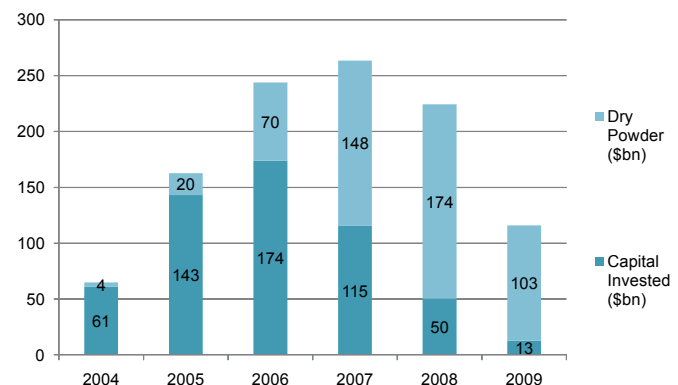


Fig. 28: Buyout Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of 31st December 2009



# Performance Update

Data to Q4 2009 is now in, and shows that fund performance is continuing its recovery, with net asset values increasing from Q3 2009 by 5.6% during the fourth quarter of 2009. NAVs increased by 13.5% over the course of 2009 compared to a decrease of 15.8% in 2008.

Looking at the change in net asset value between consecutive quarters in recent years shows that fund valuations registered almost no change in Q1 and Q2 2008, decreased steeply between Q3 2008 and Q4 2008 due to the effects of the financial downturn and implementation of FASB 157 mark-to-market accounting standards, and started recovering in Q2 2009. The weighted quarterly change, which takes into account fund size, shows that the biggest quarter-on-quarter decline in net asset value came in Q4 2008, with a fall of 14.0%. In the first quarter of 2009 the decrease in NAV continued but at a much slower rate. Fund valuations started to recover in the second quarter of 2009 and the largest NAV improvements happened in Q3 2009, with valuations increasing by 6.7%.

The discrepancy between the weighted and the non-weighted changes in NAV shows that larger funds have seen wider variations in their valuations. Larger funds were the most affected by the financial crisis but have also recovered faster.

The overall private equity horizon IRR for the one-year period to December 31st, 2009 stands at 13.8%, an improvement on the -9.2% posted at September 30th, 2009. All private equity strategies are now posting positive one-year returns as at Q4 2009. With a horizon IRR of 16.7%, buyout is posting the highest returns. Venture capital shows a one-year return of 5%, mezzanine 2.3% and funds of funds 0.2%.

Private equity three-year horizon IRRs are just above 0% for all fund types except mezzanine, which stands at 6.5%. Long-term returns remain strong, with private equity posting an annualized 17.5% over the five-year period. With a horizon IRR of 21.8%, buyout funds are posting the strongest returns over the five-year period.

As Fig. 30 shows, over the past year the industry has fallen short of the returns posted by all of the major listed indices shown. However, it is important to consider the long-term nature of private equity, and over a longer time period the asset class has achieved out-performance over listed equities – beating all but the MSCI emerging markets over three years, and exceeding all indices over a five-year period.

Fig. 29: All Private Equity Change in NAV by Quarter

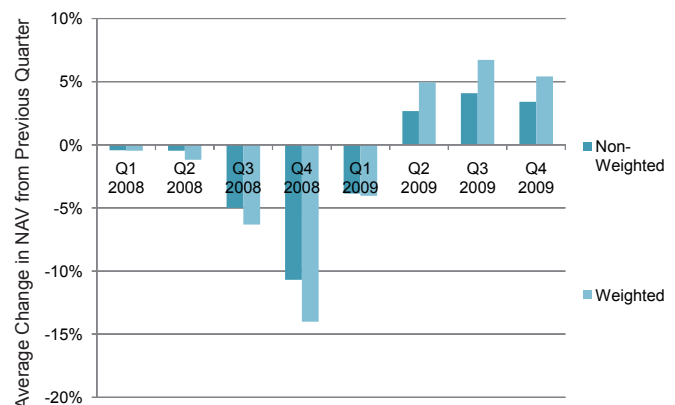
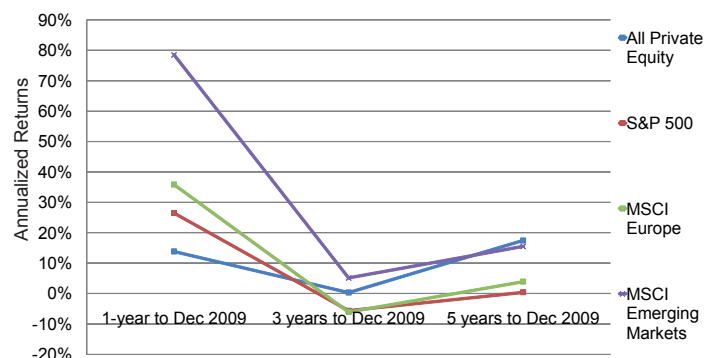


Fig. 30: Private Equity Horizon IRR vs. Public Indices, as of 31 December 2009



Portfolio companies were significantly marked down in the second half of 2008 but fund valuations and private equity performance have improved steadily since the second quarter of 2009. Private equity performance has still not reached the level seen prior to the financial crisis but is on a strong path to recovery.

# Fund Terms & Conditions

## Are the ILPA Principles Being Followed?

Following extensive discussion, surveying and roundtable meetings, the Institutional Limited Partners Association (ILPA) released its best practice guide to private equity fund terms and conditions, the Private Equity Principles, in September 2009. ILPA currently has over 100 organizations endorsing the practices outlined in the document.

Using Preqin's extensive data on terms and conditions taken from the newly released 2010 Preqin Fund Terms Advisor publication, it is possible to assess the level to which new funds are adhering to a selection of quantifiable ILPA 'best practices'.

### Deal-by-Deal vs. Whole Fund Carry

**ILPA:** A standard all-contributions-plus-preferred-return-back-first model should be recognized as best practice.

**Preqin:** 62% of funds closed in 2009, 2010 and currently raising utilize a whole fund structure

Although the majority of funds are adhering to a whole fund carry structure, 38% continue to work on a deal-by-deal basis. Within Europe, whole fund structures are the norm, with only 7% of vehicles focusing on the region using a deal-by-deal structure. In the US, half of all funds are still distributing proceeds on a deal-by-deal basis.

### Management Fees Post-Investment Period

**ILPA:** Management fees should step down significantly upon the formation of a follow-on fund and at the end of the investment period.

**Preqin:** Only 3% of funds maintain the original management fees upon the completion of the investment period.

This is an area where the vast majority of fund managers are adhering to the Principles, although there is a wide range of different methods used for reducing fees, with the savings for LPs varying considerably. For buyout funds, 99% of funds will reduce the fees, but 61% still charge the same rate applied only to the invested capital. 25% of funds go further, reducing the rate and applying to invested capital only.

### Transaction and Monitoring Fees

**ILPA:** All transaction, monitoring, directory, advisory, and exit fees charged by the general partner should accrue 100% to the benefit of the fund.

**Preqin:** 39% of the most recent funds rebate 100% of such fees back to the fund.

There has been considerable movement towards rebating fees to the fund in recent years, but the majority of funds still retain a proportion of such fees for the GP. Only 1% of recent vehicles rebate less than 50% of fees, but a considerable 28% rebate only 50% - 60%.

### No-Fault Divorce Clause

**ILPA:** No fault rights upon a two-thirds in interest vote of limited partners for the following: Removal of the general partner; Dissolution of the Fund.

**Preqin:** Less than 4% of the most recent funds comply with this statement. 80% in interest is the most common supermajority.

Although only a small minority of funds set the supermajority as low as the 67% identified by ILPA, it is now commonplace to have a no-fault divorce clause in place. 58% of funds set an 80% supermajority, while 34% require a 70% - 79% supermajority.

### GP Contributions

**ILPA:** The general partner should have a substantial equity interest in the fund to maintain a strong alignment of interest with the limited partners.

**Preqin:** 39% of funds have a GP contribution of 1-1.99%; 22% of funds have a GP contribution of 2-2.99%; 10% of funds have a GP contribution of 5-5.99%; 14% have a GP contribution of 10% or more.

A GP making a substantial commitment to their own vehicle is an excellent way to align interests in the GP - LP relationship, and has been noted by placement agents as one of the best ways that GPs can make a statement of intent when seeking commitments for new vehicles in the current market. We have seen a notable increase in the level of GP capital being committed to funds, with 54% of the most recent funds having above 1% commitment levels, and 14% of new vehicles seeing GP contributions of 10% or higher.

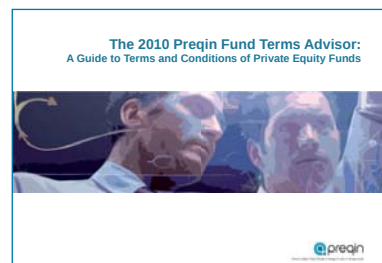
### Summary

With investors having significantly less capital to deploy into new vehicles than in previous years, and with a large number of vehicles still on the road, it is clear that the balance of power has swung towards LPs in fund terms negotiations. With over 100 firms already endorsing the Principles, it is important that firms are aware of these best practices, and have considered them when assembling PPMs. Preqin's data shows that while some areas of the Principles are being followed, other areas are not enjoying such widespread support, with the continued prevalence of deal-by-deal carry funds in the US perhaps the most notable area where GPs continue to resist change. Although only a minority of LPs polled in a recent Preqin survey would not dismiss a fund based solely on their non-adherence to the Principles (13%), the majority would see this as a reason to consider not investing (58%). As a result it is especially vital that those managers which maintain non-best practice terms are able to communicate exactly why this is to an increasingly terms and conditions-sensitive LP universe.

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