SOMERSET CAPITAL

Volume 17
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Private Equity Data Service

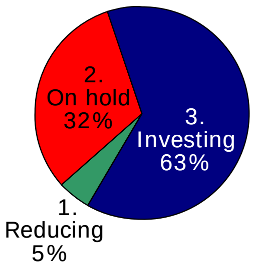
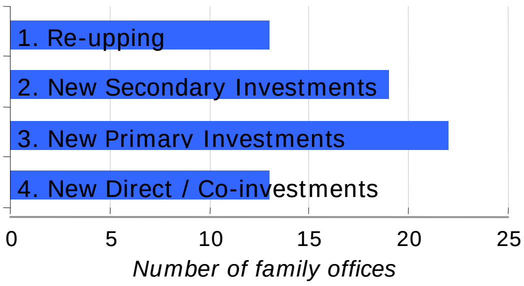
Global Private Equity Fund Raising

2008 was a transition year for private equity fund raising in which the powerful forces driving the market since 2002 went into reverse; shifting the market from a state of acceleration at the start of 2008 to a standstill by year end.

Globally, more than US$400 billion of capital was raised by private equity funds worldwide. Fundraising during the first half of the year was strong, whereas few successful initiatives have been launched since the summer of 2008, and certainly since the collapse of Lehman. The current fundraising situation reflects LPs heightened need for liquidity, the denominator impact on allocations, a lack of distributions and a radically changed risk appetite.

Family Office Investment Plans

Somerset has conducted an informal survey of our top 50 family office investor clients to determine their investment plans for 2009. We asked three questions: 1) What level of investment activity do you have planned for 2009? 2) If you do plan to invest, broadly how do you plan to do it: via primary commitments (new managers or re-ups), via the secondary market or via direct and co-investments? and 3) If you are making new primary commitments, what specific areas do you plan to invest in? A summary of the results of this survey are included below:

1. Family Office - Activity ***Sample: Our top 50 European family offices***	**2. Family Office - Investment Approach** ***Sample: Those 31 European family offices that are "active" in 2009***	**3. Family Office - Primary Investment Focus** ***Sample: Those 22 European family offices making new primary commitments in 2009***
		Areas of interest include: ➢ Special Situations (Distressed debt, Secondary, Mezzanine, Turnaround & Restructuring) ➢ High quality brand name mid-market buyout, growth equity & VC ➢ Growth / emerging markets (India, China)

Outlook for 2009

We expect a number of themes to play out in the course of 2009 as the market plots a course for the future:

- **Secondary Markets.** We expect to see a shift in focus towards the secondary market. Those LPs that remain committed to private equity, and that have capital to invest, are able to average down the price at which they are investing in the market without sacrificing manager quality. Bid / offer spreads are wide for now, but we expect them to narrow over the next couple of years. Some LPs we talk to are putting their entire 2009 allocations into such secondary opportunities.
- **Valuations.** Private market valuations should be less insulated from public market comparables than in previous cycles as a result of fair market valuation policies. This should lead to quicker and more dramatic write-downs of underlying portfolios which could lessen the denominator effect in this cycle and further stimulate secondary activity.
- **Special situations.** Secondary, distressed debt, mezzanine & turnaround funds are all areas where LPs are increasing their exposure in 2009 and where most new commitments are likely to be steered this year.
- **Failures**. We expect to see more and more firms fail to raise capital over the next couple of years, or raise significantly less than in prior fund cycles. Fundraising for first time teams will be extremely tough. This is likely to drive a restructuring of the industry, and lead to spin-outs, downsizing and rationalization.
- **Redefinition of large LBOs.** We expect the LP community to rethink what the appropriate volume of capital supply to the buyout industry should be on an annual basis. This is likely to have an impact on fund sizes, team sizes and investment pace going forward, and is particularly pertinent at the large end of the market. Competition will intensify in the mid-market as larger firms refocus on areas where they have historically been successful.
- **Terms and conditions.** We expect to see increased pressure on large LBO funds to either a) reduce their fund sizes; or b) reduce their fee levels on unfunded commitments. We expect LPs to be prepared to pay for alpha when they can find it, but to be much more skeptical as to whether or not it exists.
- **Flight to quality.** Primary commitments that are made will be the result of significantly extended due diligence periods with established managers that boast long and stable investment track records.
- **Next big thing.** We expect LPs to turn their attention to new horizons in the search for superior risk adjusted returns. Categories that could potentially benefit include those parts of the market that have been **least** impacted by recent events (examples include some emerging markets, insurance, infrastructure and agricultural commodities) as well as those parts of the market that have been **most** impacted (such as financials, deeply discounted mortgage products and deep value credit and equity strategies).

- **Overall it's going to be a tough and challenging year for the industry, during which the value proposition for all sectors of the private equity ecosystem (fund of funds, GPs and advisors) is re-examined critically by our ultimate LP clients, redundancy is stripped out of the business and many in the market are forced to evolve, or become extinct.**

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U.S. Fund Raising

- *U.S. private equity funds raised $265 billion in 2008, 18% below the record level of $325 billion raised in 2007.*
- *For the first time in many years, buyout firms' proportion of fund-raising declined, from 75% in 2007 to 68% in 2008.*
- *Venture funds raised $25 billion in 2008, down 25% from $33 billion in 2007. The year marked the lowest fundraising total for the venture industry since 2004.*
- *Mezzanine fundraising hit record heights (up 351% in 2008 compared to 2007) although one fund, Goldman Sachs Capital Partners Mezzanine, contributed almost 50% of the amount raised in this sector. Mezzanine fundraising looks set to have another strong year in 2009.*
- *Fund of funds and secondary funds posted weak totals; down 55% and 36%, respectively in 2008 compared to 2007.*

Source: NVCA, Private Equity Analyst (PEA)

European Fund Raising

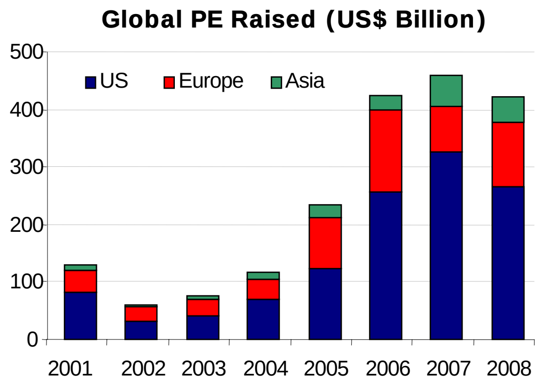
- *The European fundraising total for 2008 was up 10% at $106 billion from $97 billion raised in 2007. The year on year increase in Europe is a result of successful fundraising continuing further into the year than in the US.*
- *The majority of investment continued to go to buyout funds, which raised a record $91 billion (~86% of overall fundraising). This figure was aided by distressed and restructuring firms which raised $6.2 billion in 2008, almost 3x the amount raised in 2007.*
- *European venture capital funds raised $6 billion in 2008, the highest since 2005.*
- *CVC European Equity Partners V LP was the largest fund raised in 2008 with $10.97 billion in capital commitments followed by KKR at $8.2 billion and Nordic Capital at $5.9 billion.*
- *Fundraising in Central and Eastern Europe fell to $5.2 billion in 2008 from $14.3 billion in 2007.*

Source: EVCA, EMPEA, PEA

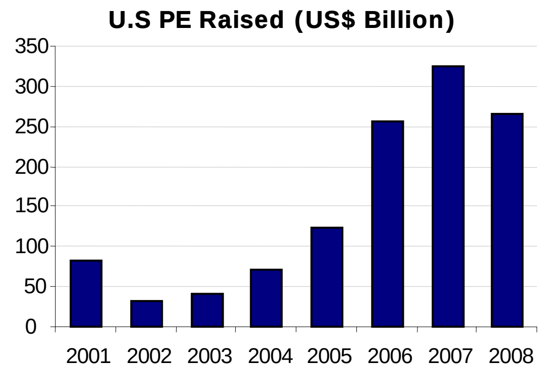
Asian Fund Raising

- *Total funds raised in the region dropped by ~25% to $42.1 billion in 2008 from $55.4 billion in 2007 according to ACVJ.*
- *During 2008, the biggest fall has been in funds raised for buyouts. Funds of funds and special situation fundraising also fell.*
- *Regions that have taken a major hit include Australasia (down to $2.1 billion from $6.5 billion); North Asia (down to $4.8 billion from $7.3 billion) and South-east Asia (down to $1.3 billion from $6.8 billion).*
- *Fund of funds focused on Asia proved popular in 2008 attracting ~$4 billion of capital. These groups include Partners Group (raised $1.1 billion), Alternatives Management ($950 million); Pantheon Ventures ($800 million) and Sigular Guff ($577 million).*
- *India and China are expected to continue to be the most attractive markets for LPs, followed by the developed economies of Japan and Australia.*

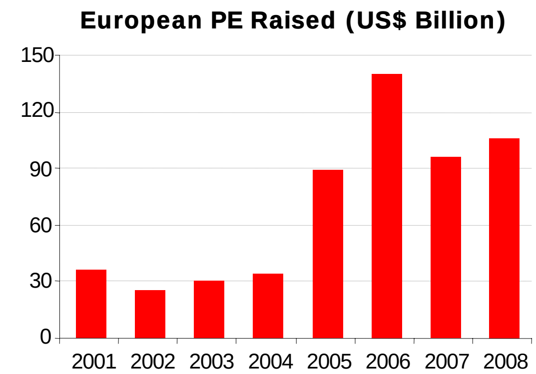
Source: APER, ACVJ



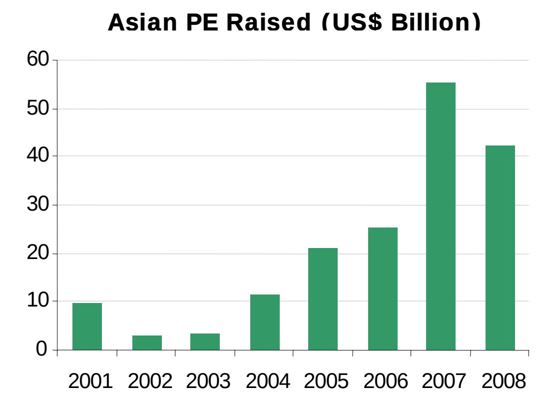
Source: PEA, NVCA, EVCA, APER, AVCJ



Source: NVCA, Private Equity Analyst for 2006, 2007 and 2008



Source: EVCA, Private Equity Analyst for 2007 and 2008



Source: APER, AVCJ for 2007 and 2008