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The European Private Equity Data Service provides monthly coverage on the European private equity market, records fund launches, developments and closings in the European and Israel markets.

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Editorial – "What price terror?"

October 2001 is likely to go on the record as one of the quietest months in European private equity market history. This is in large part a result of the September 11th terrorist attacks in New York and Washington, which have injected an additional measure of uncertainty into the markets. There has been much speculation as to what impact this will have on private equity fund raising. The following details the various investor groups within the market, and gives our view as to what the likely impact will be for each.

Insurance companies (13% of Market [1].): While the total insurance loss from the destruction of the World Trade Centre remains uncertain (estimates range from $15 bn. to $75 bn. The current record was Hurricane Andrew at $20bn), what is sure is that the industry will have to dig deep into capital. This is likely to have a severe impact on the ability of those insurance groups most seriously affected to participate in the private equity market in the medium term. Within the European industry Munich Re, Swiss Re, Allianz, Generali, AXA, Zurich Financial, Hannover Re, Royal Sun Alliance, SCOR, and CGNU have all acknowledged exposure to substantial claims.

Fund of funds (11.5% of Market): Two main themes are visible in the Fund of fund market at present: fund-raising delays and an increased focus on secondaries. In terms of fund raising, groups that rely heavily on private investors are in many cases out of the market, waiting for sentiment to return. Groups that are fund raising from institutions appear to be dealing with postponed decision making such that capital is not flowing freely through this channel. On the investment side, fund of fund groups are complaining that the high profile issuers are absent from the market at present and are instead turning their attention to the secondary market, where opportunities are available to invest at deep discounts in funds which in some cases may qualify as primary investments owing to their relative youth.

Banks (22% of Market): The banking sector represents a cross-section of groups that have been impacted by September 11th in differing ways. Most salient is possibly the investment banking sector, struck to the core by the attacks and suffering already from weak M&A and equity markets.

Pension Funds (24% of Market): As a group the main issue facing Pension Funds with an appetite for private equity is asset allocation, where the private equity element of a portfolio lies above the target allocation as a result of a drop in the value of quoted holdings. For groups with substantial private equity holdings this was already an issue prior to September 11th. Nonetheless, according the BVCA, UK and European pension fund allocation to private equity has risen three-fold in the last year, which counter balances allocation concerns, and should have the effect of making European private equity groups less reliant on the US as a source of capital.

Private Individuals (7.5% of Market): Certain elements of this market may be "terror proof", which we believe will make such private investors, including foundations, an increasingly important component of private equity groups fund-raising strategy. Overall private investors are taking a wait and see approach.

Corporates (11% of Market): While many of the woes of the corporate sector pre-date September 11th there are certain groups that have been particularly hard hit, not least airlines, travel and leisure sectors.

All of this said there are reasons for cheer. According to the latest 3i/PWC MoneyTree Survey 2001 is likely to be the third biggest year in US venture capital history – a surprise to many. Also, on a long-term note, the news on European pension fund allocations is extremely positive. If asset allocation levels continue to rise in this way a tidal wave of European money will be released into private equity, making Europe an established global player, and a must-visit destination for all US funds of the future.

"We're all in the gutter, some of us are looking at the stars!"

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News and Developments from European Fundraisers Active in the Market

Status	Fund Name	Manager	Region	Stage	Sector	Target (Em/bn)	Close (Em/bn)
FIN	Gilde Buyout Fund II	Gilde Investment Management	France, Germany, Benelux	Mid-Market	Not defined	na	530
FIN	Argnor Wireless Ventures I	Argnor Wireless Ventures	Scandinavia	Early Stage	Wireless Technology	na	58
FA	Entertainment Equity Pool I	Ergo Equity Partner	Europe, US	Expansion	Entertainment, Media technology	150	0
FA	Vontobel Early Stage Ventures	Vontobel	Western Europe	Early Stage	Technology	na	0
FA	Vontobel Late Stage Ventures	Vontobel	Western Europe	Later-Stage	Technology	na	0

Status Key: FA - Fund Announced; 1st - 1st Close; 2nd - 2nd Close; 3rd - 3rd Close; Fin - Final Close; P - Pulled

Target Key: na - not available; ns - not set, Includes funds with a target size over E25m

Source: Somerset Capital

[1] *Source: European Private Equity and Venture Capital Association 2000. Sources of private equity capital by type of investor. The remaining 11% includes Government Agencies (6%) and Other (including capital market, universities and n/a) 5%.*