

Keynote Address

Mounir Guen, MVision Private Equity Advisors

Interview with Mounir Guen, CEO, MVision Private Equity Advisors.

Interview conducted by Tim Friedman, 14.01.2009

Preqin:

We have seen a significant decline in private equity fundraising in the second half of 2008, but the number of funds on the road seeking capital has remained high. Why are investors staying away from the market and when do you envisage their return?

MG:

The average US LP will need until the end of May to get updated figures on their investments, which will let them correctly re-evaluate their portfolio position with regards to private equity. January figures will not be fully adjusted due to FASB 157 being new to the US market, so March figures will be the point at which most investors will be able to work with.

The US investors have more mature and complex programs, and their over-commitment strategies can leave them very exposed to over-allocation. As private equity represents a more long-term and integral part of their portfolio, they are likely to have a higher allocation than their European and Rest of World counterparts who may only have a small 2% or 3% allocation with a 5% target. They are now at 4% due to the change in market valuations, but still shy of their long term targets. In the US there are investors with a 10% allocation to private equity experiencing this rising as high as 35% once you account for falling market valuations elsewhere in conjunction with sophisticated over-commitment strategies and co-investment programs.

European and Rest of World investors we predict will need until the end of February in order to calculate their current exposure and position for 2009.

There will be a hiatus on average for at least 2 months while things get worked out, and when investors return they will have significantly less capital available, perhaps up to 50% less, as a result of

changing market conditions.

As a result, not all GPs currently in the market are going to be able to raise capital – at least not at the targets that they originally had in mind, as there is simply not going to be enough capital to satisfy demand.

LPs' reaction to having less capital available to spend will be different for different investors depending upon how they feel towards their current managers, and how they rate their performance. On the one hand you have those LPs who will focus on re-ups to existing fund managers and will not look at new opportunities, but you will also have those that will use the current conditions to purge their portfolio. As investors are forced to be more selective some will choose to abandon relationships with managers that have not outperformed as they may seek to place their limited capital to those with the very best track records or in areas of growth.

Preqin:

So you feel that investors will definitely still be confident enough towards the private equity markets to continue making investments once they have the available capital?

MG:

One good thing about the current market is that it has proven just how adaptable private equity managers are, and we're seeing them demonstrating depth, competence and versatility. For example, when faced with the lack of credit, we are seeing GPs buying companies with large existing debt positions. They are convincing banks to leave the debt in place, and therefore executing investments can still get done at three times debt to equity ratio. Private equity is an adaptable and value driven asset class, and investors remain keen to stay exposed.

Preqin:

In the past two years we have seen a growing interest in niche sectors such as mezzanine, distressed debt and infrastructure, while buyout funds have seen their popularity drop. Is this a trend you see continuing in the future?

MG:

Distressed, mezzanine and credit funds will always have their moments. In the current environment investors are adjusting their remits to include these funds, and some investors are turning to them as there is a lack of brand name buyout product available at the moment to suit their needs. The buyout market will always be there though. Obviously, at the large end it is tougher, and the biggest GPs that are normally able to count on a small number of very large commitments to boost their fund sizes will find that these super-investors are no longer able to write billion dollar plus cheques. At the bottom end, buyout managers will still be able to raise capital in 2009, just not at the same momentum that we've seen over the past couple of years. The local funds in regions such as Australia where fund sizes generally are small to mid cap, the managers can access a vibrant, local investor market in addition to a number of international commitments.

Preqin:

What effect do you see the secondaries market having on fundraising?

MG:

With secondary interests being offered at such significant discounts, in some cases up to 80%, numerous investors are prioritising secondaries over primaries at this time. You might even end up with a situation where an investor is interested in a particular fund manager, and will see if they can gain access to an existing fund at a discount before making a new commitment to the primary market. As a result this is proving to be a distraction,

and has certainly got the potential to affect primary fundraising in a negative way in the short term.

Preqin:

Do you have any further predictions for 2009 and beyond?

MG:

As we already discussed, we are going to be seeing limited capital available from investors. Re-ups will be popular, but fund managers that have not performed so well will have much to fear from investors wishing to put more limited resources to use with only the very best and proven GPs or in growth markets.

I think there will be a trend of reducing US exposure within portfolios, Europe will remain steady, and we will see a growth in Rest of World funds generally. Asia is an area we have highlighted as being especially important, which is why we are scheduled to open a Hong Kong office in reaction to increasing activity – a trend also being seen amongst private equity firms who are ramping up their presence. In the long term we would expect private equity allocations to move towards being split evenly throughout the three main regions of Europe, North America and Asia.

In Europe we expect some continuation of interest in pan-regional funds, but a real focus will be on local funds – the managers with good experience and a strong track record of performing investments in their respective countries. In the US we predict that many investors will have their core aspects of their portfolio accounted for, and will be moving

towards making more additive sector focused investments.

On a global scale we believe that the market will prove to be efficient, and we expect that at some point in 2009 we will hit the bottom, probably later than people believe. We have seen a slowing down in private equity fundraising since June 2008, and it will take at least a couple more years for it to recover. During this time private equity fundraising will be tough, however, once we have moved on from this current crisis, fundraising levels experienced in recent years will be seen once again.

Preqin:

Thanks



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Mounir Guen, CEO, MVision Private Equity Advisers

Mounir Guen founded MVision in 2001. He is a veteran fundraising advisor with over 22 years of experience in the industry and has led the development of MVision to its current position as the world's leading independent international private equity placement agent. The firm's industry-leading team of 50 professionals, with offices in London, New York and Asia Pacific, cover established and new private equity clients in North America, Europe, the Middle East, Asia Pacific and other markets. MVision has advised regularly on landmark fundraisings for leading GP's globally, and is dedicated to working with current and future market leaders in the world's major economies and emerging markets on a long term basis. MVision is in constant contact with top investors globally, working with them to understand their focus and their processes. The company's goal, based on the belief that fundraising is far more than a one-time event, is to assist its clients with the ongoing task of funding their businesses whilst working through the issues of performance, expansion, interaction, positioning, growth and succession.

