

Head Abroad For Vacation From Denominator Effect

By Nancy Gordon

Fundraising is tough all over, but you may find it a mite easier if willing to travel abroad.

As a general rule of thumb, institutional investors outside the United States have newer private equity programs. That's good news for fundraisers since it's less likely that they've been hit with the dreaded denominator effect, in which depressed portfolio valuations push investors over their target allocations. Outside the United States you also run into investors less slavishly devoted to setting and maintaining target allocations to different asset classes; such organizations tend to have more flexibility to open their wallets for commitments when a good opportunity arises.

And finally, the large population of fund-of-funds managers based outside the United States, particularly in Switzerland, represents a significant pool of fresh capital. Many raised their latest funds during frothier times, and still have plenty of dry powder left to deploy. "Some of the funds of funds have multiple sources of capital, such as the balance sheet of a parent company or owner, and don't need to rely purely on the success of their marketing," said **Jennifer Rinehart**, a partner at international placement agency MVision Private Equity Advisers, which markets private equity funds to U.S., Asian, European, Middle Eastern and Australian investors.

Altogether, *Buyouts* Magazine has identified more than 30 potential limited partners that may well be in the market for U.S. private equity funds—see table on page 26. Those that fall into one of the three categories described previously—newer investors, ones following a flexible portfolio approach, and managers of funds of funds—have almost \$2 trillion of assets

under management. Just bear in mind that you may well find many of them lukewarm to U.S. buyout opportunities. As in the United States, the flavors of the month tend to be secondary funds, turnaround funds and mezzanine funds.

Below-Target LPs

Although Europe and Asia boast their share of veteran private equity investors, you still find plenty of newcomers.

"European institutional investors are still allocating to alternatives, particularly in new areas like infrastructure, distressed and highly differentiated strategies," according to a recent study of fundraising produced by placement agency C.P. Eaton Partners. "The denominator effect is less of a factor for European alternatives investors, as the majority still are in the early phases of their allocation programs."

One such example in Europe is the \$20.4 billion **National Pensions Reserve Fund of Ireland**, established in 2001 to meet the costs of Ireland's social welfare and public service pensions starting in 2025. Its private equity program was launched in 2005. Although the target allocation to the asset class is 8 percent, the actual allocation stands at only 3.2 percent, and the LP is expected to commit anywhere from zero to \$50 million this year to U.S. managers, said **Nick Ashmore**, head of private equity. If the pension fund does decide to make new commitments this year in the United States, "it is likely to be late in the year and in a modest way," said Ashmore. National Pensions Reserve Fund of Ireland has an appetite for both buyout and venture funds. Last year it

backed funds managed by mega-firms **Clayton, Dubilier & Rice** and **TPG**; **Montagu Newhall Associates**, a venture capital fund-of-funds manager; and **Oaktree Capital Management**, which invests in distressed debt opportunities worldwide.

Many of the newest investors hail from Asia, where LPs have been looking to diversify beyond their home countries, particularly by backing distressed asset investors in both the United States and Europe.

Indeed, late last year the sovereign wealth fund of the government of China, the \$200 billion **China Investment Corp.**, established in 2007, hired **Zhou Yuan**, former head of Chinese investment banking for UBS, as its head of alternative investments. Already the LP has backed both private equity and hedge fund of funds, in addition to making direct investments in private equity shops. Along with a 12.5 percent stake in **The Blackstone Group**, China Investment Corp. last year supplied 80 percent of a \$4 billion fund managed by financial services specialist **J.C. Flowers & Co.** Last month, the sovereign wealthy fund also pledged \$800 million to a \$6 billion global real estate fund managed by **Morgan Stanley**.

Elsewhere in Asia, the \$110 billion **Pension Fund Association of Japan** hired consultant **Hamilton Lane** last year to help expand its private equity portfolio, although the size of the mandate has not been made public. Before that, the LP had committed to Japanese private equity firms, and also backed some mega-buyout funds through funds of funds. In January, meantime, the \$10 billion **Government Pension Fund of**

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Thailand handed Switzerland-based **Capital Dynamics** a \$330 million mandate to be invested over three years as part of its first overseas private equity program. U.S. buyout funds are being considered as part of the portfolio, according to a Capital Dynamics spokesperson.

Several Canadian investors are likely to commit to private equity this year. The **British Columbia Investment Management Co.**, created in 1999, has a target allocation to private equity of 5 percent to 10 percent; as of March 31, 2008 its actual allocation stood at just 5.4 percent of its \$70 billion portfolio. In the year ended March 31, 2008, the LP pledged \$1.4 billion to 16 private equity funds and four co-investments, with about a third of that ending up in the United States. Among U.S. firms the Canadian investor has backed are funds-of-funds manager **Adams Street Partners**; mega-firm **Apollo Management**; tech-focused buyout firm **Francisco Partners**; distressed firms **Oaktree Capital Management** and **Wayzata Investment Partners**; and **Tailwind Capital Partners**, which closed its first fund in 2008.

The \$36 billion **Ontario Municipal Employees Retirement System** invests directly in private companies, in addition to backing buyout, venture capital, mezzanine debt and turnaround funds. OMERS made minor investments in private equity in the past, but its allocation to the asset class really began to grow in late 1990s, said a spokesperson. And although it's now been involved in private equity investing for about a decade, OMERS remains below its target allocation to the asset class of 10 percent, with an actual allocation of 8.2 percent as of Dec. 31, 2008. Significant fund commitments made by OMERS in 2008 included ones to **Onex Partners III LP**, earmarked for large-scale acquisitions of North American businesses; **TowerBrook Investors III LP**, earmarked for investments in mid-sized and large companies based in Europe and North America; and mega-fund **TPG Partners VI LP**.

The \$32.5 billion **Alberta Investment Management Corp.**, established in 2008, has a target allocation to private equity of 5.3 percent, but its actual allocation stands at only 3.5 percent, giving it some room to grow. In fact, the LP expects to commit about \$50 million to U.S.-based private equity managers in 2009, according to a spokesperson, down from \$200 million last year. AIMCo's reduced commitment pace

stems mostly from a greater focus on doing direct private equity deals, said the spokesperson, but the large amount of its undrawn commitments is also playing a role. Pledges have gone to mega-firms **The Blackstone Group**, **The Carlyle Group** and **Hellman & Friedman**; and **Matlin Patterson Asset Management**, a firm that invests in distressed assets.

Flexibility Portfolios

Whether or not a foreign LP will pledge this year partly depends on how much flexibility it has in its private equity program.

The \$90 billion **Canada Pension Plan Investment Board**, a major backer of private equity funds, does not set target allocations to individual assets classes, leaving it freer to invest opportunistically. Although CPP makes no predictions about the amount that might be committed to private equity in 2009, last year it pledged \$3.9 billion to 11 U.S.-dollar denominated funds, including mid-market buyout fund **Lindsay Goldberg III**, earmarked for investments in North American manufacturing, financial services and health care companies.

Great Britain's second-largest pension fund, the \$36 billion **Universities Superannuation Scheme**, has a flexible private equity platform that gives it leeway to be nimble and opportunistic. The LP has no specific private equity target allocation but has about £1 billion (\$1.5 billion) now invested. It expects to commit about £750 million this year, with a focus on distressed debt and secondaries. The pension fund has made no U.S. private equity pledges so far in 2009, but it is likely that more will go to distressed debt than to buyouts, said **Michael Powell**, head of alternatives. The projected commitment pace excludes investments made by **Constitution Capital Partners**, the strategic partner mandated to invest in U.S. mid-market funds on the pension fund's behalf.

Funds Of Funds

Among the still-active funds-of-funds managers is London-based **Hermes Private Equity**, with \$2.4 billion in assets under management. The largest pension fund in the United Kingdom, the \$60 billion **BT Pension Scheme**, owns **Hermes** and is its only client, with a private equity target allocation of 4 percent, according to press reports. Look for **Hermes Private Equity** to commit between between £50 million and

£150 million to U.S.-based managers in 2009, said **Hermes** director **Susan Flynn**. The firm's current captive fund of funds, **HPE 2008**, is a £350 million vehicle that has already made five pledges totaling \$186 million, 75 percent of which went to North American GPs.

Swiss funds-of-fund-manager **LGT Capital Partners**, with more than \$17 billion of hedge fund and private equity assets under management, manages the assets of more than 200 institutional investors from North America, Europe and the Asia Pacific region, in addition to overseeing the alternative investments of the **LGT Group**, the family office of the Princely House of Liechtenstein. The LP does not disclose planned allocations to private equity segments, like U.S. private equity, but the firm commits more than \$1 billion per year to managers globally, said **Tycho Sneyers**, partner. **LGT Capital Partners** has made pledges to mid-market buyout shops **Arsenal Capital Partners**, **Heritage Partners**, **Odyssey Investment Partners** and **Wynnchurch Capital Partners**; mega-firm **Bain Capital**; and distressed firm **Oaktree Capital Management**.

Dutch funds-of-funds manager **AlpInvest Partners**, Europe's largest investor in private equity funds, with \$53 billion in assets under management, commits exclusively to private equity on behalf of two Dutch pension funds, **ABP** and **PFZW**. **AlpInvest Partners** became the exclusive private equity manager for these funds in 1999 and has full discretionary power regarding investment decisions. The firm also manages commitments from Canadian and European pension funds. **AlpInvest** has committed \$4 billion to \$6.5 billion annually over the past few years, but expects to be on the low end of that range in 2009, said partner **Helen Lais**. "We do not plan too tightly on an annual basis, to allow for accommodation of the fundraising cycle," said **Lais**. It pledges on average almost half of its annual allocation to U.S.-based managers. In 2009, the LP expects to be active in U.S. distressed, secondaries and mezzanine strategies via funds, co-investments and secondary opportunities. Pledges have gone to emerging manager **Huntsman Gay Capital Partners**, which invests in middle-market LBOs, growth equity deals and mid-cap public companies, and to **Investcorp Technology Partners**, which acquires small and mid-sized technology companies. ❖

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Foreign LPs With Interest In U.S. Private Equity

Region	Investor	Total Assets	Target Allocation to Private Equity	Actual Allocation to Private Equity	Insights	Contacts
Africa	Old Mutual Investment Group (South Africa)	\$40 billion	N/A	N/A	Will be investing in private equity over the next three years. Regarding the U.S., the areas of interest are venture and growth equity. 2009 may see modest investment in U.S. groups.	Old Mutual Investment Group (South Africa) (Pty) Limited P.O. Box 878 Cape Town 8000 +27-21-509-5022
Asia	Bank of China	\$900 billion	N/A	N/A	Recently began diversifying its private equity investments globally.	Jeric Loh, Head of Fund Investments Bank of China Group Investment 23/F, Bank of China Tower 1 Garden Road Central, Hong Kong +852-2200-7572
Asia	China Investment Corp. (SWF of China)	\$200 billion	N/A	N/A	CIC has contacted about 100 foreign asset management firms and has designed an asset allocation strategy with seven major asset classes and 16 investment strategies, including private equity and hedge funds.	Zhou Yuan, Head of Alternative Investments No. 1 Chaoyangmen Beidajie New Poly Plaza, 17th Floor Dong Cheng District Beijing, 100010 China +86-(10)-6408-6167
Asia	GIC Special Investments (a SWF of Singapore)	US\$247 billion	Commits only to private equity.	N/A	Investments include buyouts, venture capital, growth capital, mezzanine financing, distressed, infrastructure and special situations. It has backed Advent, Hellman & Friedman, Jordan Co. and TPG.	Cityspire, 156 West 56th St. 19th Floor New York, NY 10019 212-468-1900
Asia	Government Pension Fund of Thailand	\$10 billion	3 percent (\$330 million)	None yet outside of Thailand	In January, Capital Dynamics received Thailand's first private equity mandate outside the country. The \$330 million will be pledged over three years.	Capital Dynamics Bahnhofstrasse 22 6301 Zug+G6 Switzerland +41-41-748-84-44
Asia	Hong Kong Monetary Authority	\$163 billion	N/A	N/A	The LP is staffing up and becoming active.	Hong Kong Monetary Authority Investment Portfolio 55/F, Two International Finance Centre, 8 Finance St. Hong Kong 2878-8263
Asia	Korea Investment Corporation	\$24.7 billion	N/A	N/A	The LP is staffing up to invest in overseas funds and has hired a head of alternative investments, who will create the alternative investment strategy to include global private equity and real estate.	Dong-ik (Don) Lee Head of Alternative Investments 16F Seoul Finance Center 84 Taepyungro 1-ga Jung-gu Seoul 100-768, Korea +822-2179-1000
Asia	Pension Fund Association (Japan)	\$110 billion	N/A	N/A	Last year, it hired Hamilton Lane to set its private equity allocation target, conduct due diligence on funds and make recommendations.	Hamilton Lane One Presidential Blvd., 4th Fl. Bala Cynwyd, PA 19004 610-934-2222
Asia	Temasek Holdings, an investment arm of the Singapore government	US\$134 billion, as of March 31, 2008	N/A	N/A	Temasek Holdings has backed such firms as Affinity Equity Partners, Candover Partners and Madison Dearborn Partners.	60B Orchard Road #06-18 Tower 2 The Atrium@Orchard Singapore 238891 +65-6828-6828
Australia	AMP Capital Investors Ltd.	\$67.4 billion	N/A	N/A	StepStone Group is the private equity adviser for the Future Directions Private Equity Fund. StepStone will help AMP Capital build a portfolio and select outside managers. StepStone expected the fund to make its initial commitments in 1Q09.	Stepstone Group 8910 University Center Lane, Suite 615 La Jolla, CA 92122 858-558-9700

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Region	Investor	Total Assets	Target Allocation to Private Equity	Actual Allocation to Private Equity	Insights	Contacts
Australia	Future Fund (Australian SWF)	US\$44 billion	Private equity is part of the equities portfolio, which has a target of 35 percent.	1.8 percent as of Dec. 2008.	The LP has committed to nine private equity firms, including Adams Street, Apax, HarbourVest, Oaktree and Towerbrook.	Steve Byrom Head of Private Equity Future Fund Level 44, 120 Collins Street Melbourne VIC 3001 Australia +61-3-8656-6431
Australia	Queensland Investment Corp.	A\$65 billion as of March 31, 2009 (US\$45 billion)	A\$2.0 billion invested by 2011	A\$668 million as of Dec. 31, 2008	The estimated commitments to U.S.-based private equity managers in 2009 is US\$100 million plus. The LP is the largest institutional investment manager in Australia and is growing its private equity, infrastructure and international real estate teams.	Level 6 Central Plaza Two 66 Eagle Street GPO Box 2242 Brisbane Queensland Australia 4001 +61-7-3360-3800
Canada	Alberta Investment Management Corp. (AIMCo)	C\$39.4 billion (US\$32.5 billion)	5.3 percent	3.5 percent	Expected commitment to U.S.-based private equity managers in 2009 is US\$50 million. The private equity program has a global mandate and invests in externally managed funds and directly in assets alongside funds or within equity consortia.	9515 - 107 St. Terrace Bldg. Edmonton, AB T5K 2C3 Canada 1-780-427-3087
Canada	British Columbia Investment Management Co.	C\$85 billion (US\$70 billion), as of March 31, 2008	5 percent to 10 percent	5.4 percent, as of March 31, 2008	In the year ended March 31, 2008, the LP pledged \$1.4 billion to 16 private equity funds and four co-investments. 31.1 percent of private placements are in the U.S.	Lincoln Webb, Vice President, Private Placements Sawmill Point, 2940 Jutland Road, Victoria, B.C. V8T 5K6 Canada 250-356-0263
Canada	Caisse de dépôt et placement du Québec	\$95 billion	N/A	8.2 percent in 2007	The private equity team invests directly in manufacturing, distribution, media, telecommunications, natural resources, financial services, energy and infrastructure. The team also invests in specialized investment funds and senior corporate debt.	CDP US Inc. 1540 Broadway, Suite 1600 New York, NY 10036 212-596-6300
Canada	Canada Pension Plan Investment Board	C\$109 billion, as of Dec. 31, 2008 (US\$90 billion)	There are no target allocations to private equity or to any asset class within the CPP Fund.	Public and private equities make up about 57.5 percent of the investment portfolio.	Pledged US\$3.9 billion to U.S. funds in 2008.	One Queen Street East Suite 2600, P.O. Box 101 Toronto, Ontario M5C 2W5 Canada 1-866-557-9510
Canada	Ontario Municipal Employees Retirement System	C\$43 billion (US\$36 billion)	10 percent	8.5 percent, as of Dec. 31, 2008	Invests directly in private companies and in global large/mega buyout, venture and distressed situation funds.	OMERS Private Equity Royal Bank Plaza South Tower, Suite 2010 200 Bay Street, P.O. Box 6 Toronto, Ontario, M5J 2J2 Canada 416-864-3200
Canada	Ontario Teachers' Pension Plan	C\$87.4 billion as of Dec. 31, 2008 (US\$72 billion)	There is no target for private equity. The allocation target for equities (both public and private equities) is 40 percent.	N/A	Accesses the U.S. market directly but also via private equity managers. It does not allocate a specific amount to invest with U.S. managers each year, but is an opportunistic and global investor. The private equity portfolio is 16 percent Canadian and 84 non-Canadian.	375 Park Avenue, Suite 3508 New York, NY 10152 212-888-5799
Europe	Adveq (FOF)	\$4 billion	Commits only to private equity.	N/A	Its technology fund of funds invests in U.S. venture capital and technology buyouts. Its opportunity program invests in U.S. private equity funds that pursue unique investment strategies beyond venture capital and buyouts.	100 Park Ave., Suite 2800 New York, NY 10017 212-488-5330
Europe	Allianz Private Equity Partners (FOF)	Several billion euros under management	Commits only to private equity.	N/A	Invests in funds with substantial private equity experience, a unique or strong position in their target market, a demonstrated ability to create value at the portfolio level and a track record of successful exits.	114 Avenue of the Americas 31st floor New York, NY 10036-7703 212-739-3400
Europe	AlpInvest Partners	€40 billion (\$53 billion)	Commits only to private equity; average annual allocation to U.S. managers is 45 percent.	N/A	Expects to invest more in distressed, secondaries and mezzanine in 2009. Manages private equity investments for two of the world's largest pension funds, ABP and PFZW. Will likely commit \$4 billion in the U.S. this year.	630 Fifth Avenue, 28th Floor New York, NY 10111 212-332-6240

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Region	Investor	Total Assets	Target Allocation to Private Equity	Actual Allocation to Private Equity	Insights	Contacts
Europe	Arcano Capital	\$450 million	Commits only to private equity.	N/A	This Spanish private equity funds-of-funds manager invests in North American and European buyout, distressed debt and turnaround funds. In February 2009, Arcano Global Opportunity Fund II was planning on making eight new fund commitments over the next 12 months.	Lopez de Hoyos 42, Madrid, 28006, Spain +34-91-700-3880
Europe	AP7 (Swedish pension fund)	\$7.2 billion	N/A	8 percent to 10 percent	Hamilton Lane manages a customized portfolio of at least 15 funds including venture, buyout and mezzanine. AP7 is in two of HarbourVest's funds of funds, one of which invests in U.S. funds.	Seventh National Pension Fund Box 100 101 21 Stockholm +46-8-412-26-60
Europe	Axa Private Equity (FOF)	\$26 billion	Commits only to private equity.	N/A	The U.S. office specializes in primary, early secondary and secondary funds of funds. \$7 billion is invested in the U.S. via funds of funds.	1370 Avenue of the Americas New York, NY 10019 212-641-8604
Europe	Hermes Private Equity (FOF)	£1.6 billion (\$2.4 billion)	Commits only to private equity.	N/A	Commitments to U.S.-based managers in 2009 will be between £50 million (\$75 million) to £150 million (\$225 million).	Lloyds Chambers 1 Portsoken St. London E1 8HZ UK +44-(0)-20-7680-2240
Europe	LGT Capital Partners (FOF)	\$13 billion	Commits only to private equity.	N/A	The LP does not disclose planned allocations to private equity segments, such as U.S. private equity, but the firm commits more than \$1 billion per year to private equity managers globally.	1133 Avenue of the Americas New York, NY 212-336-0699
Europe	National Pensions Reserve Fund (Ireland)	€15.5 billion (\$20.4 billion)	8 percent	3.2 percent	Possible commitment to U.S. managers is zero-\$50 million. 2008 pledges included Oaktree Capital Management Opportunities VIIb; Montagu Newhall IV; CVC Fund V; Clayton, Dubilier & Rice Fund VIII; TPG Fund VI.	Nick Ashmore Head of Private Equity Treasury Building Grand Canal Street Dublin 2, Ireland +353-1-6640800
Europe	Partners Group (FOF)	\$16 billion	N/A	N/A	Partners Group is one of the largest private equity asset managers worldwide.	Zugerstrasse 57 6341 Baar-Zug, Switzerland, +41 41 768-85-85
Europe	Universities Superannuation Scheme (England)	£24 billion (\$36 billion)	There is no specific private equity target allocation but about \$1.5 billion is now invested.	4.2 percent	Britain's second-largest pension fund is growing its private equity platform and expects to commit about \$1.1 billion this year, with a focus on distressed debt and secondaries. This excludes commitments made by Constitution Capital Partners for U.S. mid-market funds.	Michael Powell, Head of Alternatives, London Investment Office 13th Floor 99 Bishopsgate London EC2M 3XD 020-7972-0300
Europe	Zurich Alternative Asset Management	\$5.8 billion	N/A	38 percent	Manages investments in private equity funds and related direct investments, including small, mid and large market buyouts; industry focused buyouts; growth capital; turnaround/distressed; venture capital; and fund of funds.	Zurich Alternative Asset Management, LLC 105 E. 17th Street New York, NY 10003 212-871-1500
Middle East	Abu Dhabi Investment Authority (ADIA), SWF of Abu Dhabi	\$627 billion	2 percent to 8 percent	N/A	Does not have a geographic focus, but focuses on managers' track record when considering new investments. Co-invested in TPG's purchase of TXU in 2007 and KKR's buyout of Alliance Boots in 2007. Bought stakes in Apollo, Ares and Citi.	Hareb Masood Al Damaki, Executive Director, Private Equity 211 Corniche Street P.O. Box 3600 Abu Dhabi United Arab Emirates +971-(0)2-415-0000
Middle East	Clal Insurance Pensions and Finance Group	\$15 billion	N/A	N/A	As of March 2008, planned to pledge \$1 billion to private equity over three years. In 2006, hired Hamilton Lane to identify middle and small market U.S. buyout firms. Pledges have gone to AIG Highstar Capital, American Securities Capital and Silver Lake.	Hamilton Lane One Presidential Blvd., 4th Fl. Bala Cynwyd, PA 19004 610-934-2222 Rubinstein House 37 Menahem Begin Road Tel Aviv 65220, Israel Tel: 972-3-5653501
UN	United Nations Joint Staff Pension Fund	\$32 billion	3 percent (\$1 billion)	None Yet	The private equity program will likely include buyout, venture capital, mezzanine, restructuring, and distressed strategies, with a significant global focus. The LP is searching for a private equity consultant.	Chief of Operations United Nations Joint Staff Pension Fund United Nations P.O. Box 5036 New York, NY 10017 212-963-6931

Source: Reuters Buyouts