



## Fundraising outlook for 2007

The year ahead is set to be busy

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2007 is upon us and as we leave 2006 we note the regular themes which we hear about every year: too much money in the market, how can the performance continue, and next year will be quieter. As private equity continues to make headlines and main stream press, there will be nothing quiet about private equity in 2007.

Private equity is an exciting and vibrant asset class, where all the right qualities of execution, ownership and entrepreneurialism are applied with a sense of urgency, conviction and profitability. The industry brings efficiency to the markets and is an area where different general partners can make attractive returns in their respective niches, countries, regions and sectors. As a result, companies are taken on a journey towards globalisation, whereby they pass through a number of hands, each one taking the company one step further and making it more efficient. By default, as companies grow they can become inefficient with numerous divisions that need to be sorted - thus creating new opportunities for others. These are opportunities that can be addressed by private equity.

In this dynamic asset class, the number of investors and the allocations continue rising almost exponentially. All the investors, new and old, from around the globe seek the best performing general partners for their investment programs and increasingly, they are found in Europe. Despite all investors seeking the 'alpha' GPs, each has a slightly different investment program,

hence the depth of interest in a broad range of strategies and GPs. From small cap to mega-funds, they all attract interest.

The net effect is that we expect 2007 to be another busy year in Europe for fundraising, with vehicles being raised at both local and regional levels, and also with large global players raising European funds. The investment pace of many GPs shows no sign of abating so we expect many groups to come to market earlier than anticipated.

The investors' processes will remain thorough, but they are all pre-positioning with targeted GPs – hence beginning their due diligence processes earlier and earlier so that it is already 90% complete when formal fundraising begins. This further accelerates the fundraising process. Investors should, however, exercise caution in these circumstances, because the correlation between fundraising and performance is not necessarily there: a swift fundraise does not necessarily mean the fund will be the best-performing, as these funds are more likely to be operating in a popular, buoyant or overheated environment. The inverse, a slow fund raise may indicate that the strategy is out of favour, indicating that it may actually be the best time and most favorable environment for that particular fund to be investing to produce top-decile returns. Buyout groups are now raising capital every 18 months, whereas six to seven years ago venture groups were raising capital every 18 months. Mark Twain once said: 'History doesn't repeat itself, but it does rhyme.'

### Buyouts

In buyouts expect activity at the mega end as groups come to market and invest rapidly - we await the first 15 billion Euro fund. Also, expect a regular flow of activity in the European mid market and smaller where most funds are expected to be 50% to 200% larger than their last ones.

### Mezzanine

Mezzanine will have an equal number of groups in the market next year.

### Distress/turnaround

Distress and turnaround funds are very sought after, with very little product in the market generally.

### Venture

Venture generally will continue to be a more difficult fund raise, with a few exceptions, who will raise their funds at record speeds. European venture may, however, prove to be outstanding vintage years for investing, as the asset class is still not in favor.

### Geography

In terms of countries and regions – on the whole they are all performing in Europe with a good number of GPs on offer every year - the only exception is Central Europe, where the selection is more limited at this time.

### LPs

European private equity will continue to attract a lot of interest from new investors from countries like Australia, Canada and Japan becoming more active – and on the flip side, European investors will focus more attention on emerging private equity regions in Asia Pacific as they seek to differentiate their portfolios in the markets where the returns are attractive and buyout markets emerging.

### Terms

Expect some innovation to come into the market, like investors willing to pay incentives for extra performance (ie 25% carry on portfolio performance in excess of a 3.5x gross return). Investors really want the GPs to focus on driving returns.