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In the public spotlight

BY WIETSKJE BLEES

Last year's flirtation with listed funds by the private equity market will prove more than just a flash in the pan. But additional listings will prove complementary to a robust market, not indicate any fundamental change.

Despite unprecedented LP demand for traditional private equity funds, last year saw a number of buyout funds entering the public realm. May 2006 saw KKR launch its three-times oversubscribed €5bn KKR Private Equity Investors fund on Euronext Amsterdam, a move swiftly followed by Apollo Management.

“Ever since KKR launched its KKR Private Equity Investors (KKR PEI) fund, we have been inundated with requests and plans for similar listings,” says Robert ten Have of Freshfields Bruckhaus Deringer, who provided legal advice to the bookrunners and coordinators of both KKR and Apollo. “We were able to subsequently structure Apollo Management’s AP Alternative Assets and took on about a dozen other mandates, but demand from private equity and hedge funds was so high at the time that it outstripped our capacity. We have continued to work on multiple mandates ever since.”

This is interesting as quoted vehicles are in fact nothing new. In Europe, for example, 3i is quoted on the London Stock Exchange, while GIMV is listed on Euronext Brussels. It is the size of KKR’s oversubscription – resulting in a €5bn fund – that brought the issue into the spotlight and spurred the interest of the larger players.

To the outside world it may have appeared



‘In deteriorating market conditions, it is always the liquid investments which are sold off first’

Mounir Guen
MVision

as though last year’s hype was short-lived – both funds traded at substantial discounts and Doughty Hanson was forced to scrap plans for a €1bn listing altogether. But these appear to have been temporary blips in a trend that sees buyout houses take advantage of a new source of liquidity.

While for instance many observers blamed Doughty’s failure on KKR PEI having taken the liquidity out of the market and that the stock market in general took a nosedive in summer 2006. “With uncertainty of the implications of current developments in North Korea and Iraq, indexes were stagnating and a number of listings were cancelled around that time,” says Aad de Winter, director of listings at Euronext Amsterdam. “The timing to launch a vehicle last summer was quite simply wrong.”

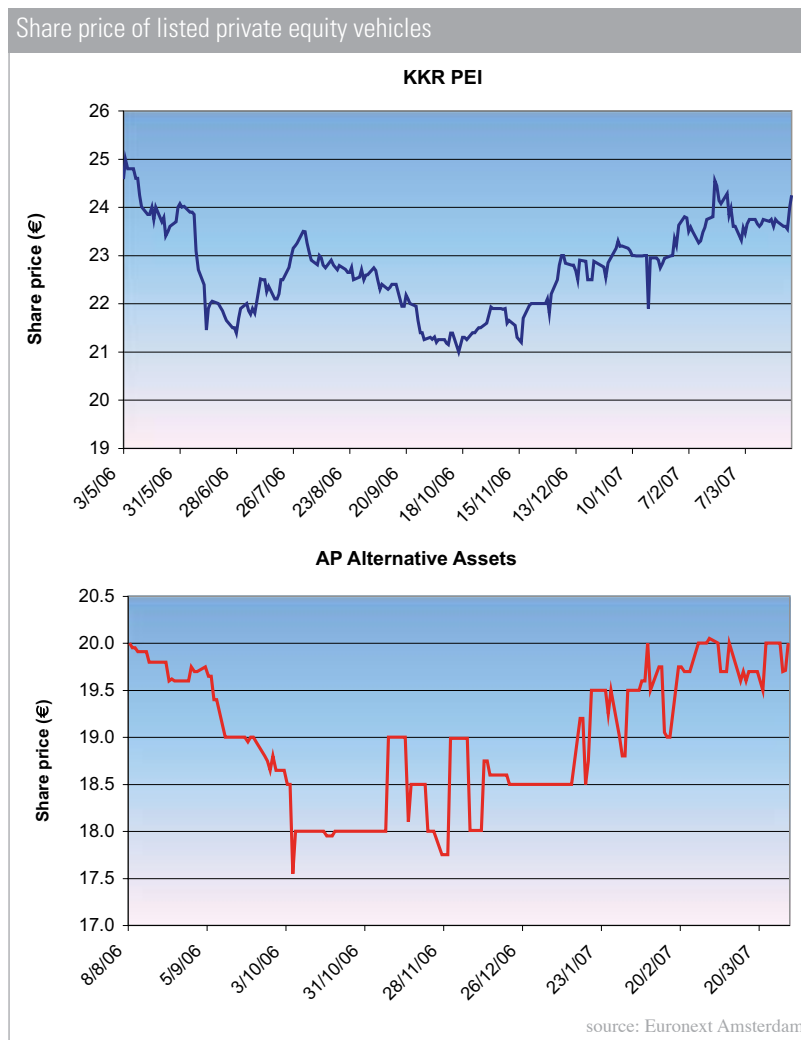
Now, as graph 1 indicates, share prices for both KKR and Apollo are back up to their offering price and, as de Winter points out: “There are a number of planned listings in the pipeline that are likely to materialise within the coming months.”

“Private equity appears to be the flavour of the month,” says Francois Joly, director at Probitas Partners. “For general partners, a listing is a way to take advantage of the current strength of the market in order to gain access to an additional source of liquidity.”

This additional source of liquidity is substantial: listed vehicles open the private equity market up to a whole new set of investors. “Quoted vehicles allow investors

that are unable to invest outside of listed vehicles to have exposure to private equity, giving them the potential to increase the diversification of their investments,” says Mounir Guen, chief executive at MVision. Although short-term investment strategies are unlikely to book great successes, investors that may wish to exit from investments before the traditional lifespan expires can be attracted by the liquidity that comes with having the potential to trade shares.

To the casual observer, a trend of going public may seem at odds with the operating principles of private equity, where being private is considered an advantage. This is not wholly untrue: going public involves more costs of compliance and regulatory reporting obligations to ensure transparency on performance and valuation processes, which are considerably larger than the private model requires.



But against this burden, investing from a quoted vehicle removes the need to raise new closed-end funds at regular intervals, making it not only less resource intensive, but also more permanent than a traditional private equity model. While in the current liquid climate general partners experience few problems attracting limited partners to their funds, at times when the cycle is less benign, having permanent capital is an undeniable advantage.

However, there are some substantial concerns that these funds will not give investors the returns that are commonly expected of private equity. Most noticeable has been the fact that both KKR and Apollo’s shares took a dive to considerable discount levels immediately upon their debut. This was partly due to the structure of these funds, which suffered from the J-curve and cash-drag effects combined, and saw the costs of the respective IPO’s being born from the proceeds of the listing. But, as Joly points out, even for those funds that have been around longer and where the J-curve no longer rules, shares have historically traded at discounts. “The current climate is very favourable to private equity and share prices paint a positive picture, but should the situation become less benign, these discounts will grow larger again,” he says. Mounir agrees: “In deteriorating market conditions, it is always the liquid investments which are sold off first.”

Different strokes

The truth is that the private equity model requires a patience that is unlikely to be found on the stock exchange. The operating principle of private ownership is that it shields companies from the short termism and regulatory burden of the stock market. Not only does going public involve

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regulatory reporting obligations, a short-termist approach to investing quite simply does not marry well with a strategy that sees value creation occur after four to six years.

“Private equity investments are long-term, illiquid investments and provided you can invest outside of listed investments, traditional limited partnerships are the better option,” says Guen. “The number of investors is limited and the alliance between the general partner and its limited partners is much stronger, the level of disclosure and communication is extremely detailed.”

By contrast, for newer investors, or those who are unsure about the valuation of their private equity investments,

the option of investing in these funds and the availability of public information can be very interesting. As Joly points out: “The availability of publicly listed information makes it easier for limited partners to evaluate their private equity investments.” And in any case, for those funds that are unable to invest in non-listed entities, listed funds offer the possibility to at least gain some exposure to the asset class.

For the traditional private equity model, the availability of a listed alternative appears to be without major implications, as most observers insist the traditional model is here to stay.

Private to public

In a market where private equity is increasingly contemplating the merits of going public, Blackstone is taking the initiative yet another step further. The firm’s announcement to seek a listing, believed to be around 10% of the company, could value the firm at around \$40bn. This could provide the firms original founders with a lucrative way to exit the business gracefully.

Founders will naturally want to cash in on the firm they built. Pete Peterson, now 80 years old, and Steve Schwarzman, who celebrated his 60th birthday with a bash in New York in February, set up the firm as a Wall Street boutique investment group in 1985.

Today the firm has more than \$50bn of assets under management. “It would be difficult to establish the amount of compensation these founders should receive for the value they have created,” says Guen. “An IPO is one of the easiest ways to do so.”

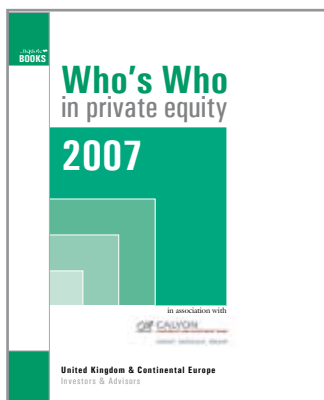
But not everyone is comfortable with the recent announcement. As one observer commented: “This IPO

pretty much makes a mockery of all the arguments why it is better to be private.” He has a point, given that as late as December, Schwarzman was quoted as saying that the web of regulation, disclosure and quarterly earnings requirements was a brake on American public companies. Other observers wonder whether we are witnessing an opportunistic move on the part of the founders to extract value before the private equity bubble bursts.

What is certain is that any such IPO is sure to generate more than substantial interest. Those who buy Blackstone’s stock will be able to share in those fees, which are directly tied to the success of the firm’s investments, and will receive quarterly dividend payments. And while much of the information about Blackstone remains private, some of the figures which have been circulated suggest that the firm could not have picked a better moment. This could trigger a wave of buyout firms following suit.

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The road to independence

BY JULIEN HALL

Setting up shop in the private equity world is no easy task. There are people to convince, tough choices to make and dangers to avoid. On the bright side, there are encouraging signs for those thinking of trying their luck.

The most common criteria given by LPs when deciding whether to commit to a first-time fund (FTF) is the readability of the track record. Such clarity in a track record is of course achieved much more easily by entire teams spinning-off together from an established private equity firm. "Because of the work-load involved, it is much easier for LPs to systematically decline investing in first-timers of any type," comments Patrick Petit, founder of placement agent Global Private Equity. These hurdles are made worse when the FTF is made up of a first-time team: when professionals from several firms set up together. This was the case with Vitruvian Partners, where investment professionals from Apax, BC Partners and Bridgepoint each needed to secure documentation proving the extent of their involvement in the four stages of their previous transactions: origination, negotiation, value creation and exit. This can prove difficult, especially in the context of acrimonious break-ups. FTFs must also prove their quality in relation to other players in the market. "The due diligence pack prepared for the benefit of potential investors must outline the team's individual and collective merits, show where they stand in relation to their peers and demonstrate an ability to give real enhancement to the investee companies," explains John Campbell, co-founder of placement agent Campbell & Lutyens. Every bit of information must be compiled in this pack. As well as returns, new GPs must have figures showing EBITDA and turnover increases in their portfolio companies. Personal references and explanations of decision-making processes are also needed, as are accounts of failures and explanations about why mistakes were made. How the team works together can also be revealing. "Group dynamics during the team's pitches are important as they are a reflection of the relationships between

'The consensus is that university endowments and family offices are considered the most likely investors in first-time funds, as they have less of a box-checking approach to investment and tend to be more entrepreneurial in their investment judgements'

partners," explains Kelly Deponde of placement agent Probitas Partners.

Another significant success factor in setting up a new fund is the investment strategy. "Articulating your philosophy and process clearly is a fundamental first step in establishing a constructive relationship with an LP," says Mounir Guen of placement agent MVision. However, innovative philosophies are not easily identified in the increasingly mature European market. "The investment strategy must be clearly linked with the team's competencies," adds Campbell.

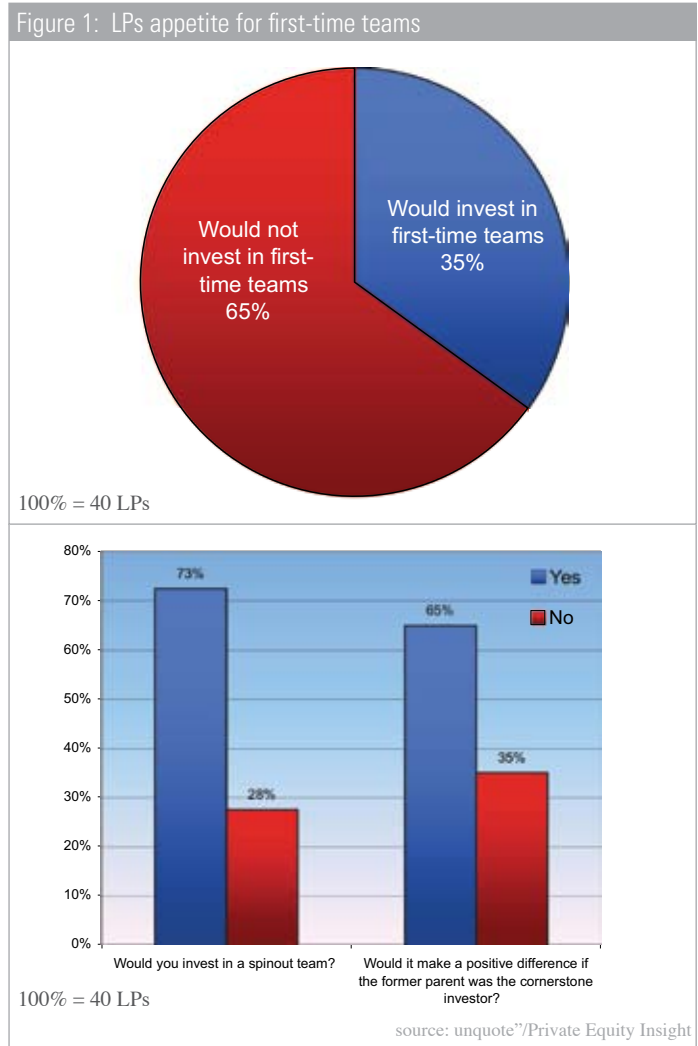
Limiting your partner selection

Once the documentation and strategy are in place, there are decisions to be made regarding the LPs to be contacted. Campbell recommends focusing your search, self-evidently, on those who are most likely to invest. "But the art and the science is knowing who those investors are. That requires experience, but it is also based heavily on trust in the placement agent and its prior record." The consensus is that university endowments and family offices are considered the most likely investors in first-time funds, as they have less of a box-checking approach to investment and tend to be more entrepreneurial in their investment judgements. One exception is sector-specific or other highly specialised strategies, which may attract interest from large institutions or businesses in the relevant market. Some FTFs have gone one step further than simply matching investors to a predetermined strategy, by creating a strategy that would suit a specific set of investors. One such example was a FTF in the infrastructure space with a 25-year investment period specifically aimed at pensions funds wishing to invest longer-term.

The quality of your LPs is another important factor to bear in mind, with those offering the best subscription terms and conditions usually the least reliable in a market downturn. On top of having to rely on LPs, which are less loyal, new GPs have to put up with stricter

subscription conditions. “In most cases, cause divorce and no-fault divorce clauses are more favourable to LPs, deal-by-deal carried interest payments are impossible and there are limitations on management fees,” says Arnaud David of law firm SJ Berwin. It is a delicate balancing act for LPs, who have to be careful not to strangle GPs with small fees, demotivating them in the process.

LPs, cornered between a rock and hard place, behave in a flock-like way. They will often ask to see the list of existing investors before they commit themselves. If a large and well-established investor has chosen to trust a FTF, others are more likely to follow. “A new investor group or secondary fund-of-funds will usually consider a commitment if a fund is already 20-30% invested,” comments Guen. This is why many new teams consider accepting a cornerstone investor as an anchor – but it comes at a price.



It is important to weigh out all the benefits and disadvantages of welcoming a sponsor in your midst. “We didn’t look for a sponsor because of the restrictive demands they tend to make and because they can be a source of instability and inflexibility, given their weight in the fund,” says Fausto Boni of Franco-Italian venture investor 360 Capital Partners. One example is the disruption caused by the withdrawal, halfway through fundraising, of Innovacom 5’s sponsor France Telecom. Furthermore, the market is generally suspicious of banking or institutional sponsors, which are thought to be seeking more than just the investor’s share of carried interest. Overriding participation by such sponsors into the carried interest earned by the managers on all investors’ capital, or participation in the management fees in order to create a corporate profit centre, or exerting influence over investment decisions can create difficulties.

But these can be surmountable if there is evidence of sponsor-added value. Acceptable sponsors are those whose name and contacts genuinely add value to dealflow and that enhance market knowledge. Unacceptable motives for the cornerstone investor would be attempts to gain prioritised access to portfolio companies which it deems to be appropriate acquisition targets, to influence the investment policy of the portfolio, or to bring pressure on a non-arms-length basis to supplying additional dealflow for their banking or structured finance departments. More frequently, a sponsor will negotiate for an equity stake in the firm managing the fund, or could insist on being offered direct co-investment opportunities on a significant proportion of the fund’s transactions. Despite this, one must bear in mind that beyond simply serving to reassure smaller investors, a sponsor can have other benefits. “A good sponsor brings enough added value to a fund to make up for its share in carried interest and participation in management fees,” summarises Campbell. This value often takes the shape of a network that will help the GP with transactional due diligences and origination.

LP behaviour

A common frustration felt by GPs, and more specifically those trying to establish a new fund, is the sometimes odd and frankly inefficient habit that some LPs have of favouring established or institution-backed funds, even if their performance is not stellar, emphasising stability over track record. “Inertia is common among LPs, which often prefer to re-invest in fund after fund despite the frequent slip in performance witnessed with fifth- or sixth-generation funds,” says Bertrand Fesneau of French mid-cap buyout house CIC LBO Partners.

LPs’ sophistication, both through the methodology and resources employed to make investment decisions, has changed considerably over the past 5-10 years. “Nowadays, due diligence by LPs is much more thorough across the board,” comments Deponde. But they have to keep up with the rapid expansion of the industry. In this context, it is no

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surprise that often under-resourced investors choose to go with the flow by investing in line with major trends. “No-one will be sacked for investing in a fund backed by xxx,” reflects Campbell, naming one of the world’s leading investment banks.

‘Brand-consciousness’ is fairly common for LPs, who prefer to invest in funds structured by the region’s most reputable law firm, especially in France where SJ Berwin has a significant market share. According to one GP, the ‘brand’ of the law firm is important, but it should not detract from selecting someone you feel comfortable with. Choosing the right placement agent is also important. Placement agents have a crucial role in opening LP doors, which would remain shut for most individual GPs, and can save private equity partners a lot of time in some circumstances.

It is said that large, integrated placement agents prefer to focus on placing established funds, rather than first-timers. This is because the bulk of the rewards for these agents will usually come on the second- or third-generation of a fund, and there is little guarantee that the agent itself will still be employed by the placing firm at that time. For a FTF, a good agent will tailor the information to fit the requirements of every LP it approaches, rather than sending out random mail-shots. “The lesson for FTFs – whether they are very small or medium-sized – is to very carefully assess the investment proposition, ensure that it is differentiated and then present that opportunity with clarity to those investment institutions that are prepared to exercise real judgement,” says Campbell.

An encouraging trend is the emergence in the US of specialist funds-of-funds dedicated to emerging managers

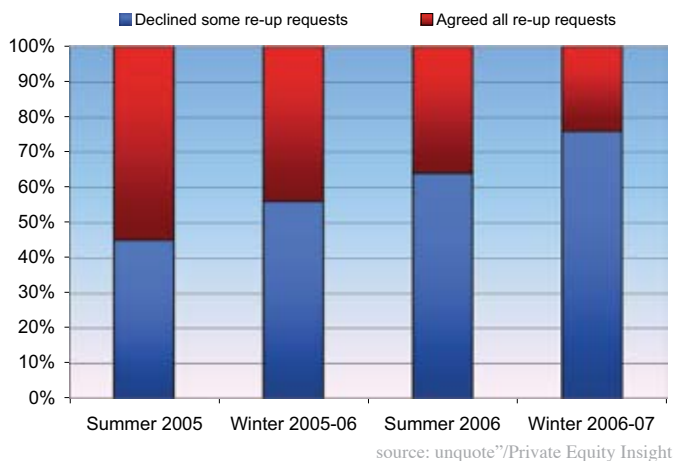
Signs of improvement

An encouraging trend is the emergence in the US of specialist funds-of-funds dedicated to emerging managers. Some major US and Canadian pension funds have also begun allocating a share of their private equity money to FTFs and to emerging managers. Frequently, this is carried out through dedicated sub-portfolios invested on a discretionary basis by organisations such as Grove Street or EM Alternatives. CalPERS and New York State Common Retirement Fund in the US have both developed sub-funds of this nature. In Canada, two major pension plans – Ontario Teachers Pension Plan and CPP Investment Board – recently combined to sponsor Actera, an FTF in Turkey. “These LPs are seeking to both diversify their assets and to find the winners of tomorrow. Everyone is seeking out the new frontier,” says Campbell.

“This is something which European LPs may start doing soon,” predicts Petit. The over-subscription of a larger number of funds and the fact that investors that fail to invest early on will increasingly fail to invest at all will no doubt help this come true.

Although heralding the dawn of a new era of equal opportunities for GPs may be a little premature, there are some indications that raising a first-time fund, although still very difficult, may become a little easier.

Figure 2: LP loyalty



LP loyalty

There is some hope that LPs will start to become more proactive in restructuring their portfolios. The proportion of LPs that have declined to re-invest with one or more of their GPs has grown steadily over the last couple of years, from less than half (45%) of LPs in summer 2005, to 76% in winter 2006-2007, according to Coller Capital’s Global Private Equity Barometer*. These statistics, although particularly true in North America, suggest LPs are moving away from a ‘box-ticking’ mentality, where a fund with no ‘demerits’ is considered investable, to a more competitive environment in which LPs have the capacity to switch funds according to performance.

*Data gathered from 100 LPs (40 based in North America, 40 in Europe and 20 in Asia).



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Agent for change

BY ANGELICA MARI

With an increasingly competitive private equity market, placing agents are diversifying their services to remain a necessary tool in times of change.

Historically, placing agents have primarily played the role of matchmaker on behalf of GPs. However, the past couple of years have witnessed a sea change: while LPs fight for a space to commit a slice of their ever-increasing capital to the most desirable funds, market sophistication has mitigated the need for a pure introduction service. Additionally, fears of an imminent credit crunch have led these professionals to reinvent themselves in order to stay ahead of the curve.

LPs' insatiable appetite for mega-funds trickles down into other GPs. Getting a PPM on top of an investor's pile, however, is not an easy task. "Fund managers have to be ultra compelling and offer something that will exceed LPs' existing investments," says Jonathan Leinmuller of Probitas Partners.

As far as placing agents are concerned, this is a fresh challenge. Investors are quickly re-deploying money on a larger scale than before and dealing directly with their favourite GPs, but their need for focus and geographic diversification gives agents a chance to expand their own activity. Increased LP globalisation can feed mandates to these professionals, as well as opportunities within niches such as turnaround, infrastructure, country funds and secondaries.

"Whether working for a spinout or with a fund with an established investor base, the value of a placing agent has shifted from simply introducing investors to GPs to a more specialised approach," says Andrew Bentley of Campbell Lutyens.



'Most institutional investors face huge difficulty in reaching the target exposure they have set for private equity; that could imply that there is still considerable scope for fundraising and this can favour several different niches; the only thing that could stop that is a market contraction'

Charles Cecil
Helix Associates

If a country fund is looking to venture into uncharted territory, for example, it can use agents to introduce them to new backers abroad, on so-called 'partial mandates'. Follow-up services are also included in the package: as portfolios mature, the backer who had previously refused to subscribe may agree to provide capital years later.

Time is money

Time is also on the agent's side. While GPs with solid track records may not need an agent to raise money, time to worry about the subtleties of the process is often limited, so in the past couple of years they have outsourced project management services, also referred to as 'back office'. An important source of activity for agents in the past two to three years, this normally includes preparation of due diligence packs, market intelligence and dealing with LP resolution issues.

While performing project management and looking for gaps in GPs' investor bases may be a way of securing long-lasting relationships, some agents will sign contracts for three, sometimes four funds straightaway, which will bind the parties for better and for worse. "It is an expensive lesson; we are now paying an agent for the third time when we could have done the whole thing by ourselves and hired an IR team dedicated to our fund only, instead of 40 others," says one fund manager.

"Placing agents will not represent follow-on funds forever. When we do excellent work, just as parents are good at parenting, the relationship will mature at a certain point and the children leave home to do their own thing," says Mounir Guen of MVision.

"What keeps a business going is to introduce new high quality clients, who work with us for help in growing their businesses and

then mature over time into their sweet spot. These are the real success stories,” adds Guen.

No sure thing

In a survey that may surprise many, LPs have said that they are not necessarily focused on re-ups on follow-on funds with GPs with whom they already had a relationship. The statistics originate from the study carried out by Probitas Partners, involving 396 European, Asian and North American investors. Out of those respondents, roughly 45% of them were targeting 50% or more of their 2007 allocations to new GP relationships.

“The bulk of institutional investors face huge difficulty in reaching the target exposure they have set for private equity,” says Charles Cecil of Helix Associates. “That could imply that there is still considerable scope for fundraising and this can favour several different niches; the only thing that could stop that is a market contraction,” he says.

The LP window is not yet shut, but it is a common belief that the industry is reaching its cyclical peak – the equivalent for the buyout market of what happened during the tech boom. “The market is certainly a bit too hot,” says Antoine Dréan of Triago. “Private equity seems to win all the time, but there will be some casualties and when they happen, LPs will start getting more cautious.” Cecil concurs: “I am sure there will be some high profile failures and that the debt levels will be cut back. It may happen later this year or sometime in 2008.”

In the event of a major liquidity crunch, what would be the contingency plan of placing agents? The question seems to provoke mixed reactions, but the common action plan is to stick to the diversification guns, concentrate on outsourced work and help GPs broaden their investor base.

Widespread opinion is that when times are tough, agents will prove even more necessary. “If capital sources dry up, managers will need the help of placing agents more than ever to capture investors’ attention,” says Vincent Le Hodey of Deloitte Fund Placement Advisory.



‘Lowering our 2% fee is completely out of question. We had a couple of GPs bargaining the commission rate, but they fail to understand that they are not hiring a travel agent. Fund managers looking for quality work have no issues in paying the full fee’

Antoine Dréan
Triago

Leinmuller agrees, adding that in a downturn, agents may provide services in the secondary arena to LPs looking to offload their assets.

Ambiguous euphoria

In the past couple of years, placement houses have increased their headcount significantly to cope with the increased project management workload. Although a ‘sit and wait period’ is described by agents as generally positive, payrolls should get leaner.

“If the investment cycle turns down, there will be an inevitable shake-out of some placing agents and this could also mean some cut backs for certain players,” says Cecil. “Firms have hired a lot recently, but will fire a lot if there is a contraction,” echoes Guen.

Among possible perils, in-house investor relations (IR) functions have become increasingly popular as a way to bypass ‘extortionate fees’, as the unnamed GP points out. It is also understood that some placing agents have lowered fees for services such as project management and re-ups by more than one percentage point in order to fence off competition, especially from investment banks, considered to be the boutiques’ main source of grief.

Dréan says that lowering his 2% fee is completely ‘out of question’. “We had a couple of GPs bargaining the commission rate, but they fail to understand that they are not hiring a travel agent,” he says. “Fund managers looking for quality work have no issues in paying the full fee.”

He may be right – even though the role of the placing agent has changed, there is still space for those who are ready to accept changes and quickly adjust to them. Guen offers a word of caution: “Although private equity will remain an outperforming class, the velocity of the capital flow will alter and LPs may start getting cash back in 48 months instead of 18. That said, agents should not get carried away by the current euphoria, but work harder, improving their models and adapting to market changes.”



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Interview in 60 Seconds

BY EMANUEL EFTIMIU

What factors are important when choosing a placing agent?

Do you find LPs have become more sophisticated in their approach to private equity?

What was the most difficult part of your fundraising process?

GP

ANDREAS FENDEL
QUADRIGA CAPITAL

Andreas Fendel is the managing partner and co-founder of Quadriga Capital. Established in 1994, Quadriga Capital is the largest independent German private equity firm and closed its third mid-market buyout fund Quadriga Capital III on €525m in March 2007. The fund is targeting investment opportunities across all sectors, particularly in the DACH region, Benelux and other neighbouring countries. Committing LPs include HarbourVest, Access Capital, European Investment Fund, Partners Group, Varma and Robecco. No direct placing agent was used, but Helix Associates provided advisory services. Latham & Watkins provided legal advice.

First of all a well-established placing agent could be a practical way to introduce the private equity house and its investment strategy to new investors. As Quadriga Capital is a long-established group in the market, the emphasis for the placing agent was not necessarily on introducing new investors, but more on carrying out the market due diligence required by LPs and advising us on a strategy to target investors. Using the placing agent to carry out the due diligence, in a way that a vendor due diligence is carried out on a portfolio company, accelerated the fundraising process as it already provided investors with an objective analysis. It could also be beneficial to have a long-standing relationship with a placing agent so it gets to know the investment team and its strategy. This increases the credibility of the placing agent's statements about the sustainable quality of the team to be placed.

Absolutely. Compared with five years ago, investors are carrying out a much more extended due diligence process before committing to a private equity fund. This should not imply that investors weren't diligent before, but it is remarkable to see how meticulous their approach has become. Our investors, for example, collected a significant amount of market references. Additionally, each of our team members went through individual interviews, so the investor could assess the team dynamics and make sure that a coherent investment strategy was in place.

There is also a noticeable alignment of investments made by US and European investors. While European LPs used to opt for fund-of-funds investing in private equity, today you find a significant amount of LPs directly investing in this asset class. Additionally, it is further testament to the coming of age of the European private equity market that requirements and due diligence processes by European investors are now in line with their US counterparts.

An obstacle to overcome was the general scepticism towards a German private equity house raising such a large amount for a regional fund. We had to show to most investors that the German private equity environment has significantly changed and that raising half a billion Euros to invest is justifiable.

LP

JOHN GRIPTON
CAPITAL DYNAMICS

John Gripton has more than 18 years' experience and is head of investment management Europe. He joined Capital Dynamics in 2000 from the West Midlands Pension Fund and is responsible for Capital Dynamic's European fund selection business.



What do you look for when selecting funds?

Private equity is very much a people business. We look at the team and its track record through a systematic and vigorous selection process and try to get a feel for its dynamics. Stability is key, as is continuity of strategy. If a team was to change its strategy, it would not preclude an investment from us, but we would want to know the motivation behind the shift. A small upward movement in deal size may be perfectly reasonable under current market conditions, but we would be wary about a more marked shift in size.

Are there any regions you focus on in particular?

Our main area of focus is the US and Western Europe and, of course, Asia, although we also have some exposure to Central & Eastern Europe funds via pan-European funds. Outside the established markets, we believe Asia provides good opportunities and is ahead of Central & Eastern Europe, as it has had a private equity presence stretching back to the 1980s and is now beginning to reap the rewards of this experience. Pan-European funds provide greater flexibility for a GP to consider various regions, although we also aim to have a proportion of our portfolio dedicated to country-specific funds where local knowledge can be utilised.

Has access to funds become a problem in recent years?

Access to venture capital funds is a key issue, as there is a limited supply of good quality managers. There is less of a problem for us in accessing buyout funds, even the mega-funds, as we have established relationships with the largest managers. However, over-subscribed funds are more difficult to access for LPs with less experience and a shallower pool of contacts.

Do you consider debut funds?

Yes, as they are the managers of tomorrow and it is important that they are supported, although such an investment demands more attention than an investment with an established manager. Some debut teams are more attractive than others, especially those who have spun out from a captive and have a history of working together. Where a team has less of a track record it is up to us to look at their individual histories and make a judgement.

What concerns you as an LP in the current environment?

The size of funds is something we discuss and are mindful of, although it is not a major area of concern. Those managing the multi-billion value funds are very experienced and good at what they do. However, we prefer to see smaller consortia of two or three players. Larger consortia increase the difficulty of resolving issues in the event of a company default. The speed with which funds are closing is also presenting us with the challenge of being prepared to conduct due diligence on a new fund at short notice. Also, as structures are becoming more complicated, the negotiations on the legal side are increasingly protracted.

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BY NATHAN WILLIAMS

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