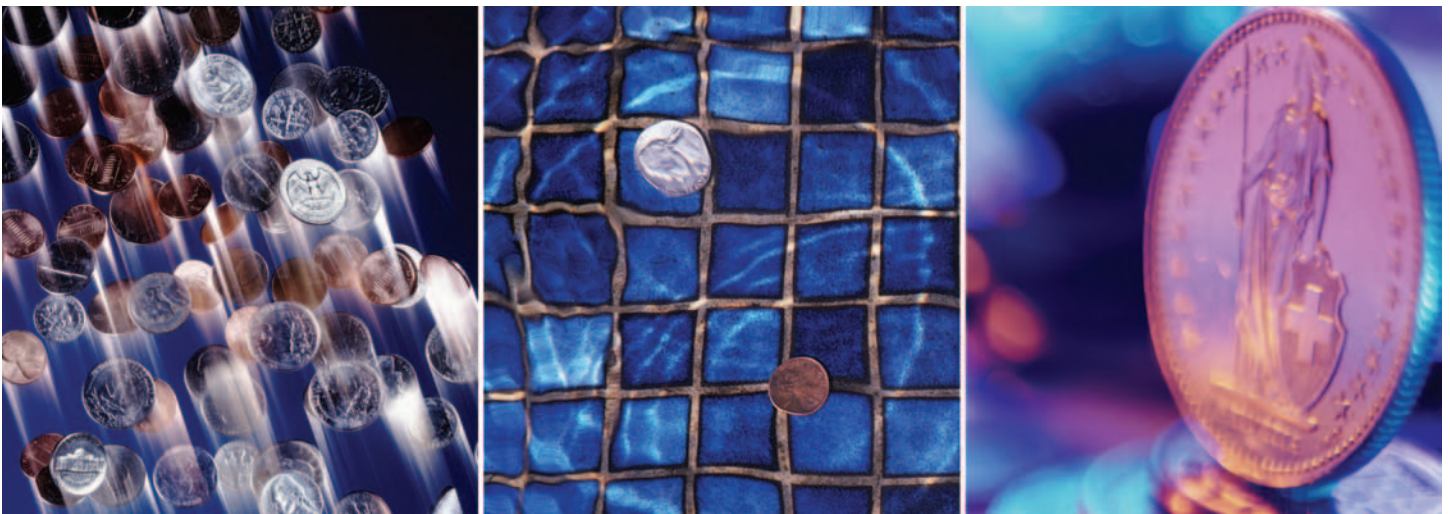


2007 Private Equity Investors Survey

March 2007



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A Look Ahead to 2007

PROBITAS PARTNERS ANNUALLY CONDUCTS A FORMAL SURVEY OF institutional investors in order to gauge their opinions on key trends in the market and their perspectives on the coming year. During January 2007, we contacted approximately 3,500 investors and received 396 individual responses.

In summary, respondents to the Survey seem to be of two minds about the private equity market, just as they were at the beginning of last year in last year's Survey. On an overall basis they expect 2007 to be a buoyant fundraising market, and they still expect to generate significant returns in key core markets such as Buyouts and Venture Capital. On the other hand, they have fears that the Buyout market, especially at the larger end, is overheated and overlevered, and that the interests of general partners are not aligned with their interests. Though the market tone in early 2007 is very similar to early 2006, what is different is a more pronounced investor interest in Distressed Debt for Control and Restructuring/ Turnaround funds, seemingly as a way to hedge their downside risk in case the market turns dramatically.

It is also noticeable throughout the Survey that there is not a unanimity of investor opinion on certain issues, and that the type of institution, its geographic location and its size do have an impact on their beliefs. Significant differences are noted in the analysis of the Survey which begins in detail on the following page.

Respondent Profile

Respondents to the survey included Fund of Funds Managers, Family Offices, Endowments & Foundations, Public and Corporate Pension Plans, Consultants & Advisers, Insurance Companies, and Banks. The Other category was mainly comprised of other pension plans and governmental entities. Fund of Funds made up the largest group of respondents, representing 29.5% of the sample, followed by Family Offices at 14.6%.

Chart 1. Respondents by Type of Investor

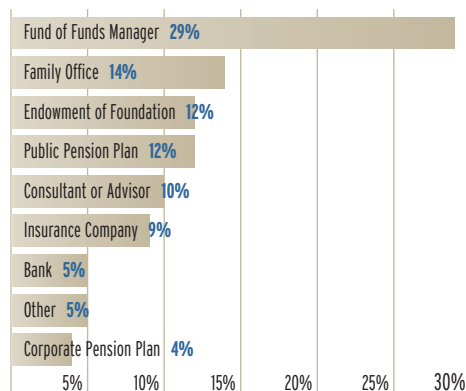
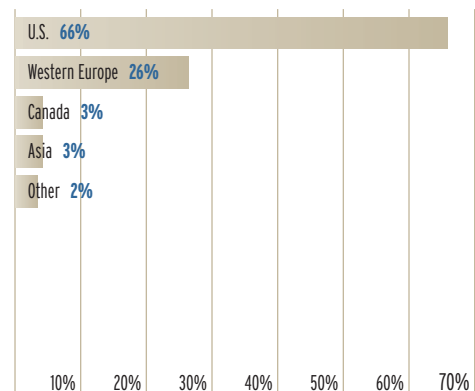


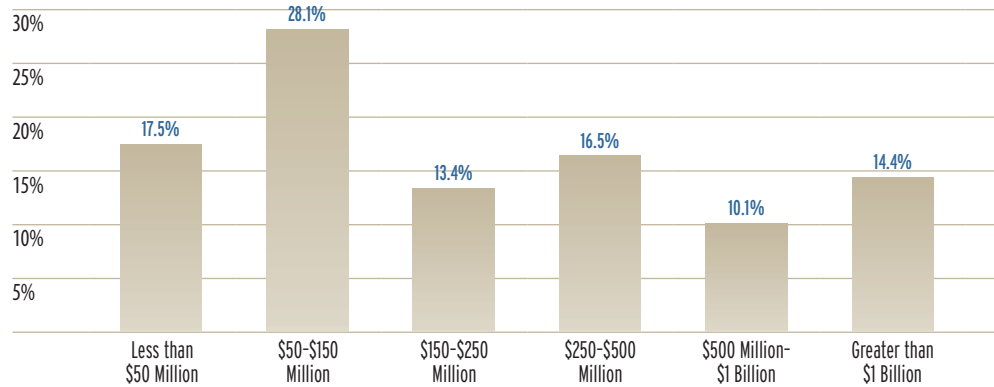
Chart 2. Respondents by Firm Headquarters



As would be expected, institutional investors from the United States and Western Europe predominated, representing 65.4% and 25.8% respectively of all respondents, with a significant number of respondents from Asia and Canada as well.

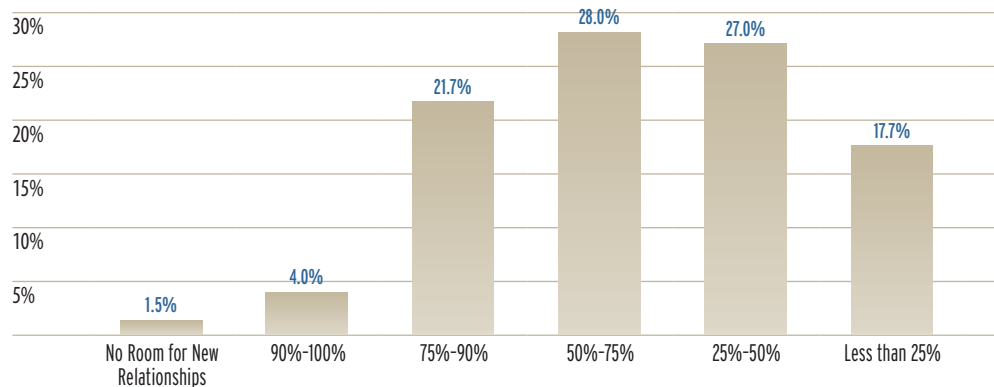
There was significant diversity amongst respondents by size of allocation to the private equity markets, as noted in Chart 3.

Chart 3. Targeted 2007 Private Equity Allocations



Interestingly, many of the respondents reported that they had significant room in their 2007 allocations to commit to new general partner relationships, and they were not totally focused on re-ups on follow-on funds with general partners with whom they already had a relationship.

Chart 4. Expected Re-Ups with Existing Relationships as a Percentage of Targeted Allocations

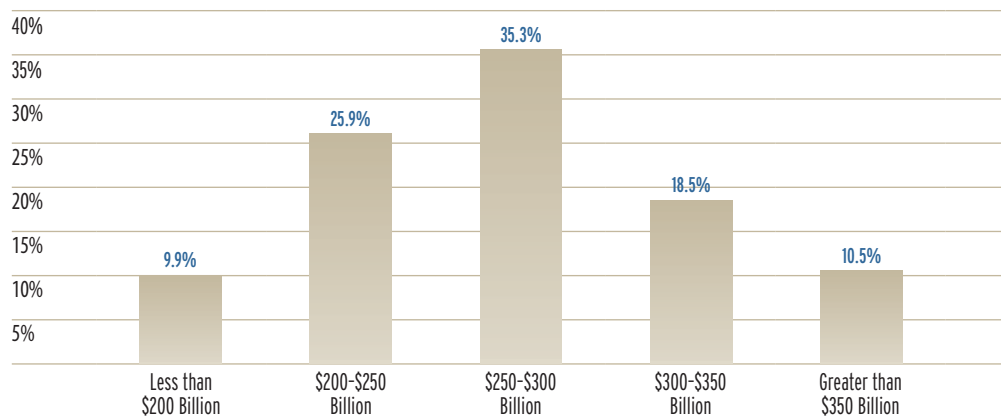


Fundraising and Return Expectations

The next part of the survey was meant to determine investor attitudes towards the fundraising market and expectations for buyout and venture capital funds.

The majority of respondents felt that the total amount of funds raised in the private equity market in 2007 would range from \$200 billion to \$300 billion, though nearly 30% of respondents felt that the total amount raised would be higher than \$300 billion.

Chart 5. Forecast Global Private Equity Commitments in 2007



Similar to results of last year's Investor Survey regarding expectations for 2006, investors are not particularly optimistic about Buyout returns in 2007. Forty-two percent of respondents expect that returns for 2007 Vintage Buyout funds will be lower than 2006, while only 2.5% felt that Buyout returns would be higher. The majority of investors (79.3%) expects returns in the range of 15%–25% for top quartile Vintage 2007 Buyout funds.

Chart 6. Expected IRR Ranges for Top Quartile 2007 Buyout Funds

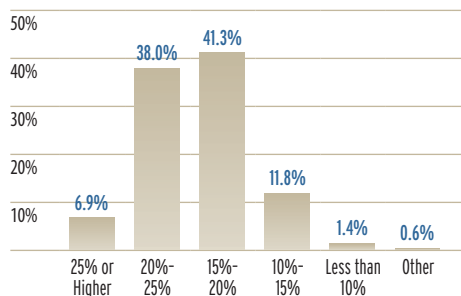
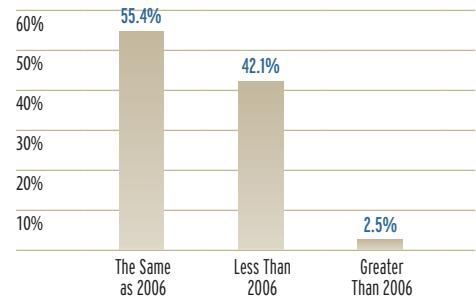


Chart 7. Expectations for 2007 Buyout IRRs



It is apparent that there are clear variations among the types of investors embedded in this overall expectation. As seen in the chart below, Endowments & Foundations are more pessimistic than the overall sample, with only 30.3% of investors expecting IRR for top quartile 2007 Vintage Buyout funds to exceed a 20% IRR, versus 44.9% for the entire sample. Geographically speaking, U.S. investors are a bit more pessimistic in their expectations than their European counterparts, with 43.9% expecting returns to exceed 20%, compared with 49.5% of European investors. U.S. investors' expectations are also more clustered about the mean, while European respondents are more varied in their expectations. Large investors (those planning to commit more than \$500 million to private equity in 2007) are also clearly more restrained in their expectations, with only 32.9% of these respondents expecting returns to exceed 20%, versus 48.3% for smaller investors.

Chart 8. Expected IRR Ranges for Top Quartile 2007 Vintage Buyout Funds for Endowments and Foundations

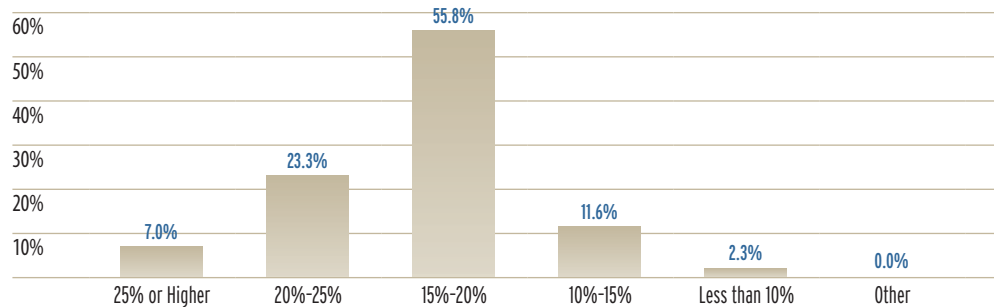


Chart 9. Expected IRR Ranges for Top Quartile 2007 Vintage Buyout Funds for Western European and U.S. Investors

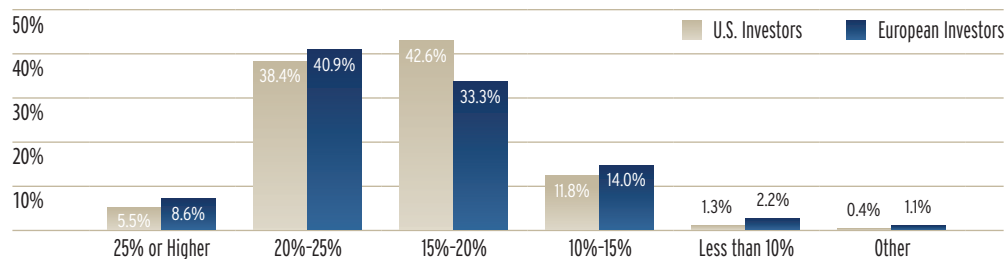
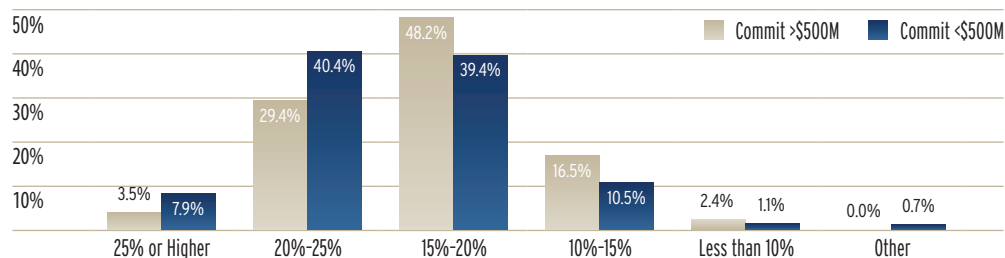


Chart 10. Expected IRR Ranges for Top Quartile 2007 Vintage Buyout Funds for Small and Large Investors



Investors are far more optimistic about 2007 Vintage Venture Capital funds, with over 60% of respondents expecting IRRs greater than 20% for this Vintage. This feeling is also reflected in the overall expectation for VC IRRs, with 13.8% of respondents expecting higher returns than 2006, versus 2.5% for buyouts, and only 12.1% expecting returns to be lower than 2006, compared with 42.1% for buyouts. The expectations across investor types were fairly uniform across the sample, though Insurance Companies were reluctant to predict returns greater than 25%, with only 6.5% falling into this band, preferring to weight the 15% - 20% return expectation more heavily, with 35.5%.

Chart 11. Expected IRR Ranges for Top Quartile 2007 Vintage VC Funds

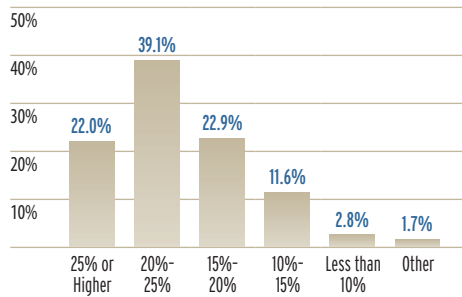


Chart 12. Expectations for 2007 VC IRRs

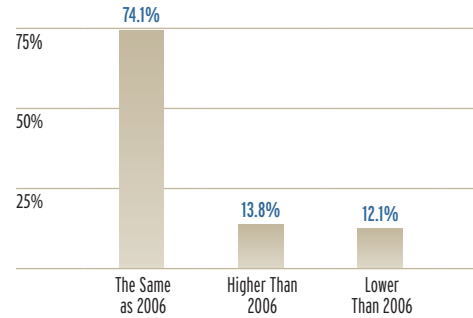
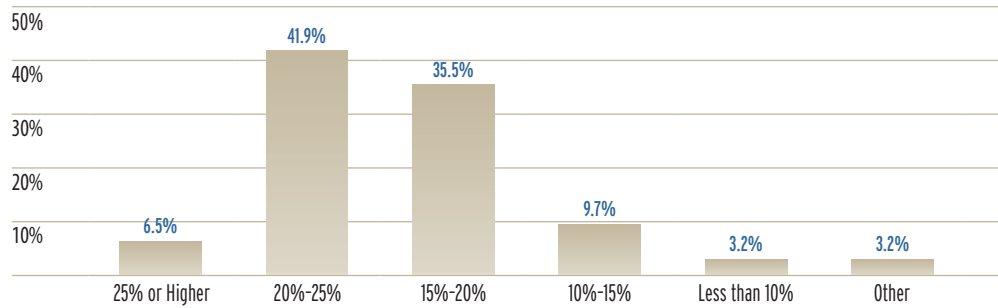


Chart 13. Expected IRR Ranges for Top Quartile 2007 Vintage VC Funds for Insurance Companies



Sectors and Geographies of Investor Interest

This section of the survey looks at the attractiveness of specific private equity sectors, geographies, and strategies.

When asked to choose no more than two established markets with the best expected returns, respondents overall clearly favor European Middle Market funds. Although there appears to be an element of home bias, with 75.9% of European investors having selected European Middle Market funds as a key area of opportunity, these funds are also the leading category for U.S. investors, although by a much narrower margin versus U.S. Middle Market funds. Endowments & Foundations had a more positive outlook on U.S. Venture Capital funds than the rest of the sample, ranking them ahead of U.S. Middle Market funds.

Chart 14. In Which Established Markets Do Investors Expect to Find the Best Returns on Vintage 2007 Funds?

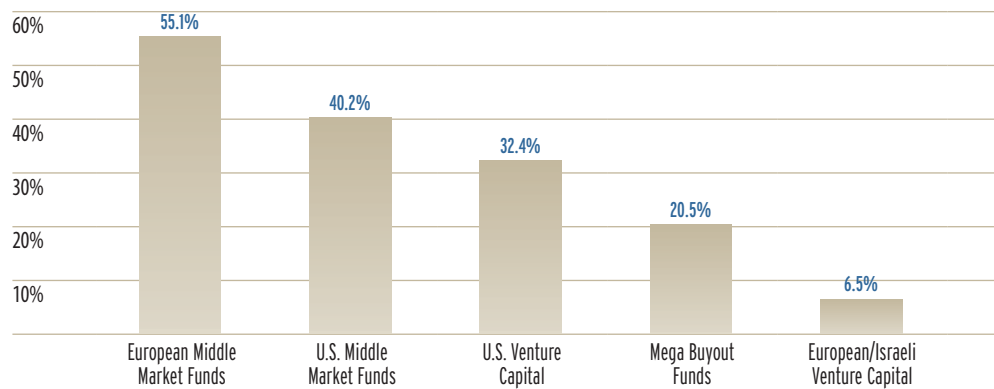


Chart 15. In Which Established Markets Do Western European and U.S. Investors Expect to Find the Best Returns on Vintage 2007 Funds?

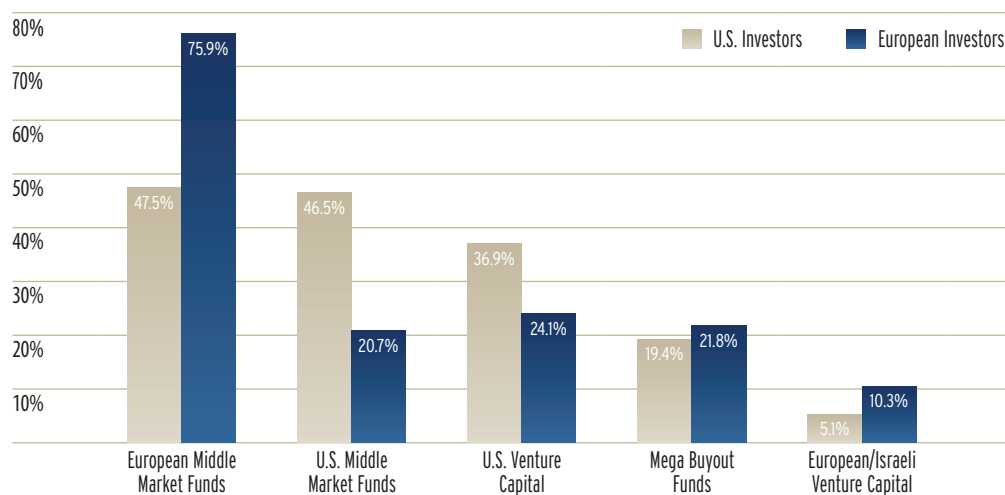
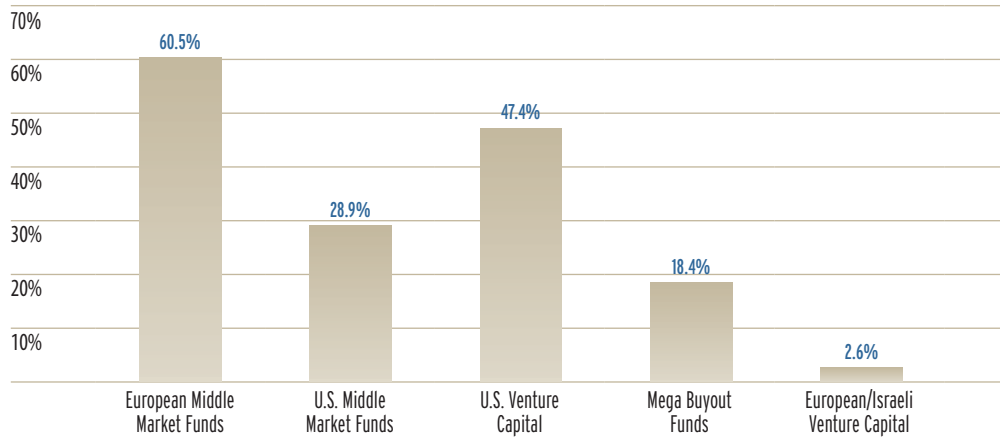
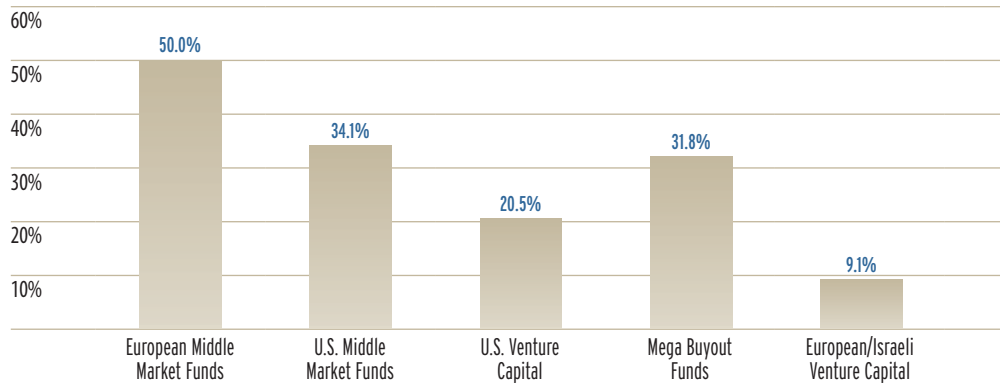


Chart 16. In Which Established Markets Do Endowments and Foundations Expect to Find the Best Returns on Vintage 2007 Funds?



As noted in Chart 14, only 21% of respondents expect Vintage 2007 Mega Buyout funds to deliver the best returns, perhaps reflecting concerns regarding the enormous amount of capital raised in the sector in 2005 and 2006. However, the largest investors (those looking to commit more than \$1 billion in 2007) are more optimistic about the Mega Buyout funds, with 31.8% of this group expecting them to deliver the best returns, ranking them ahead of U.S. Venture Capital funds.

Chart 17. In Which Established Markets Do the Largest Investors (>\$1 Billion) Expect to Find the Best Returns on Vintage 2007 Funds?



The overall results also differ from those of the 2006 Probitas Investor Survey, in which respondents ranked U.S. Venture Capital first, followed by U.S. Middle Market funds and third, European Middle Market funds. Consistent with last year's survey, European/Israeli Venture Capital were ranked the lowest overall, including among all of the sub-groups of respondents.

Survey respondents were also asked to select no more than three European geographic markets they felt were most attractive. Germany, the United Kingdom, and Scandinavia were ranked ahead of all other geographic areas by the group as a whole. However, there were variations among the different types of investors. As detailed in the graph below, U.S. investors ranked Pan-European funds as first, Germany second and Central Europe third. Smaller investors (those likely to commit less than \$150 million) presented similar results, with Germany ranked third and Central Europe second. Though not listed below in a separate chart, larger investors (looking to commit more than \$150 million in 2007) seemed to track overall results more closely than smaller investors, with Germany, Scandinavia and the United Kingdom ranked as their top three. Also of note, most responses in the Other category volunteered Eastern or Southeast Europe as the sector of choice.

Chart 18. What Are the Most Attractive European Country/Regionally Focused Markets?

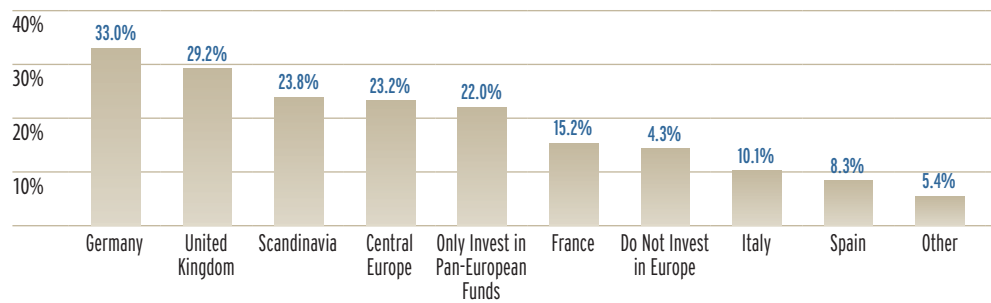


Chart 19. What Are the Most Attractive European Country/Regionally Focused Markets for U.S. Investors?

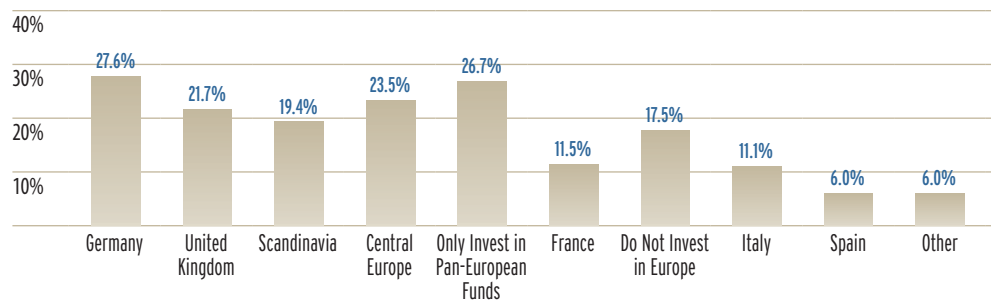
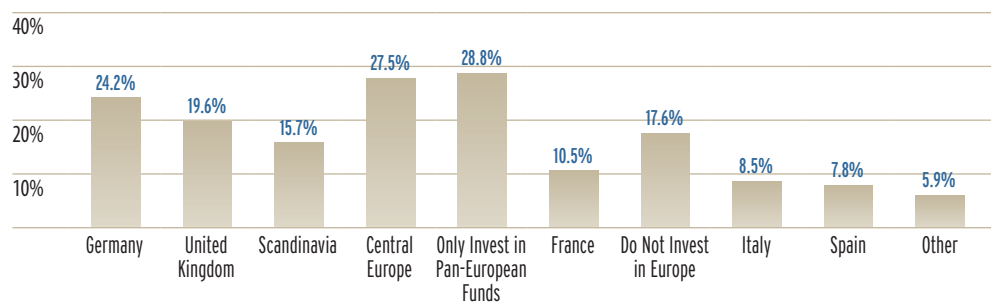
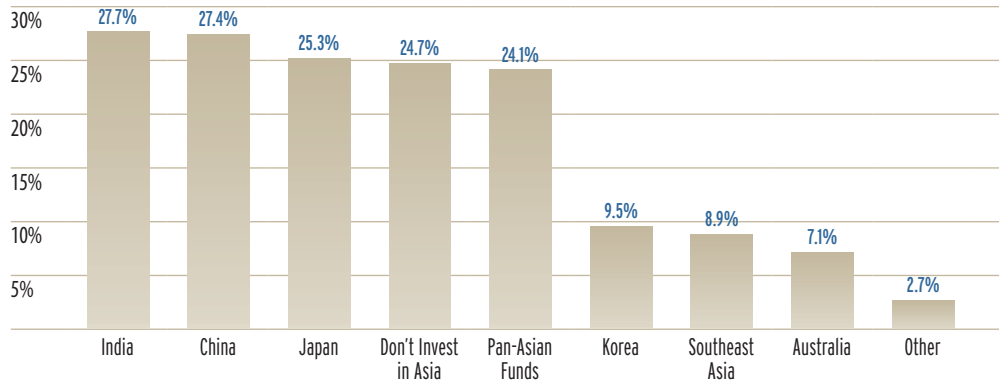


Chart 20. What Are the Most Attractive European Country/Regionally Focused Markets for Small Investors (Commit <\$150 Million)?



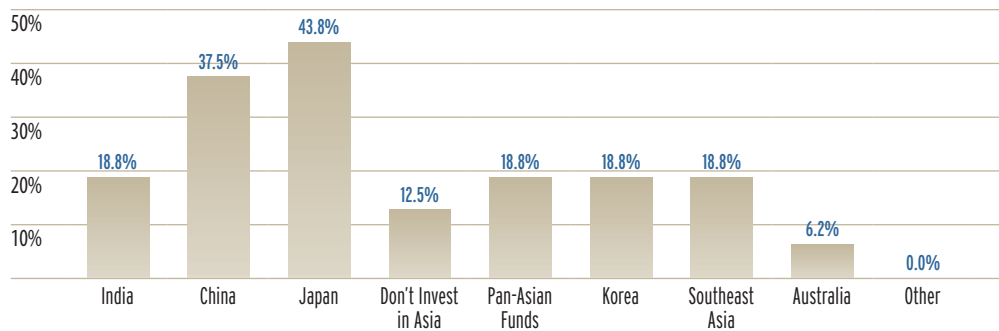
For the Asian markets, investors were asked to choose no more than two geographic markets that they found attractive. In line with the majority of press coverage focusing of India and China, these two markets were ranked highest, though they were closely followed by Japan. However, close to a quarter of investors still don't invest in Asia, a similar result to the 2006 Probitas Investor Survey.

Chart 21. Which Asian Geographic Markets Do Investors Find Most Attractive at the Moment?



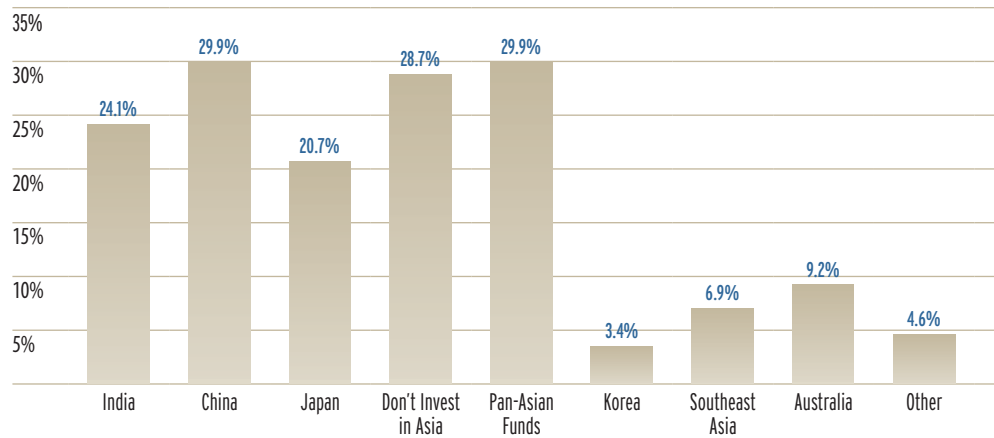
The results vary substantially across investor type. Asian investors (defined as Japan, Australia, and other Asia), although a small sample set, much more heavily favored Japan and China, a result not all that surprising given the large number of Japanese investors in the sample set.

Chart 22. Which Asian Geographic Markets Do Asian Investors Find Most Attractive at the Moment?



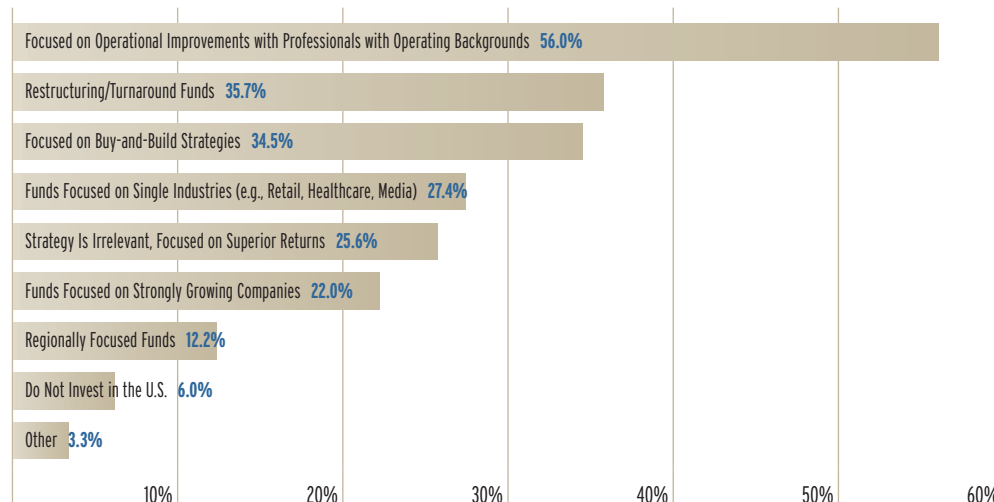
Western European investors had a greater proportion of respondents either not investing in Asia or preferring Pan-Asian funds. China also fared well with this group. Pan-Asian funds were also ranked highly by Public Pensions, Endowments & Foundations, Family Offices, Banks and Insurance Companies. Among Public Pension Plans, Insurance Companies, and Banks, a larger percentage do not invest in Asia. This is also a prevalent response among investors who plan to commit less than \$500 million to private equity in 2007.

Chart 23. Which Asian Geographic Markets Do Western European Investors Find Most Attractive at the Moment?



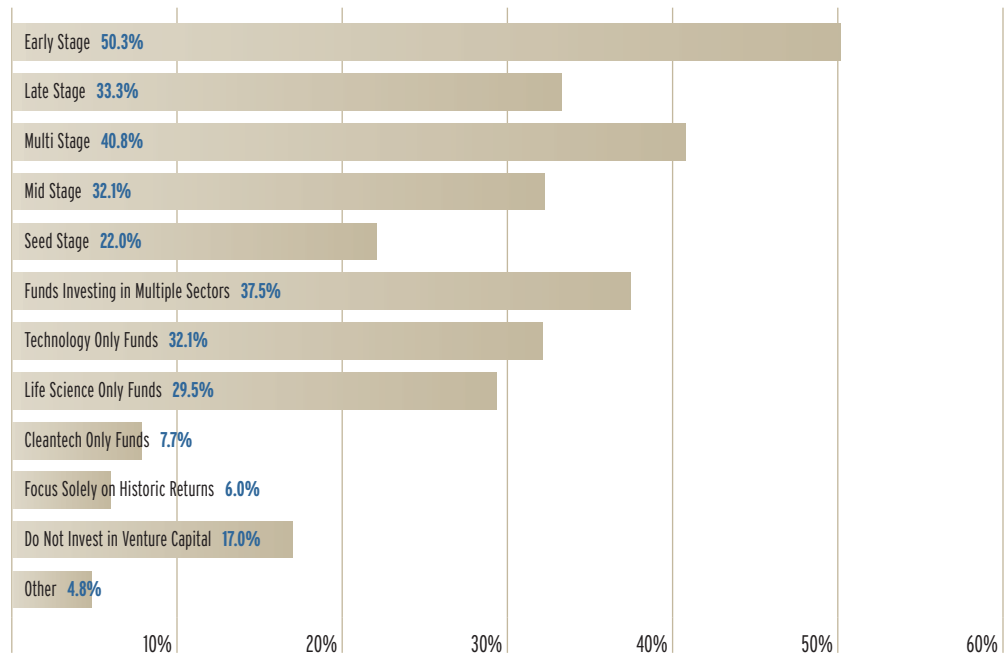
As far as U.S. Middle Market Buyouts are concerned, investors were asked which of several fund investment strategies they preferred, noting any of these that they found attractive. Respondents had a strong preference for an operational focus supported by key staff members with operational backgrounds, and this was consistent across all groups of investors. Restructuring/Turnaround funds and Buy-and-Build strategies were also ranked highly.

Chart 24. Which of These Sectors/Strategies in the U.S. Middle Market Do You Find the Most Appealing?



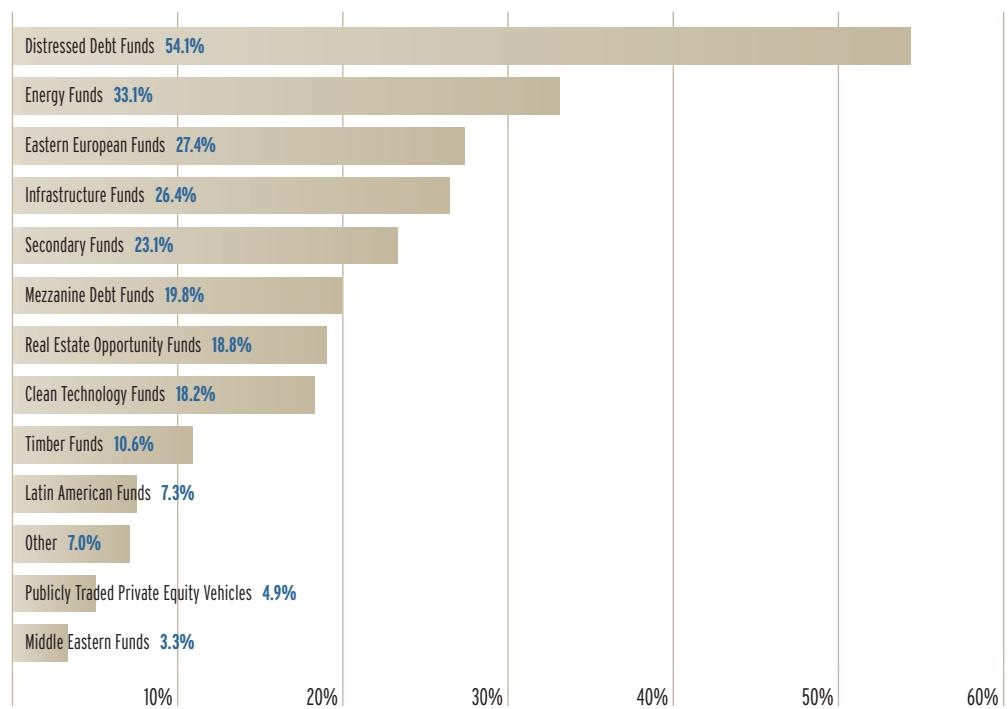
The next area of focus in the Survey was venture capital and investor preference for particular stages or sectors. Although there appears to be a preference for early stage funds and limited interest in Cleantech only funds, the remaining results are fairly clustered. Close to half the responses in the Other category noted that stage or sector were not of importance as they invest in venture capital through Fund-of-Funds.

Chart 25. Which Stages or Sectors in Venture Capital Are Investors Actively Pursuing?



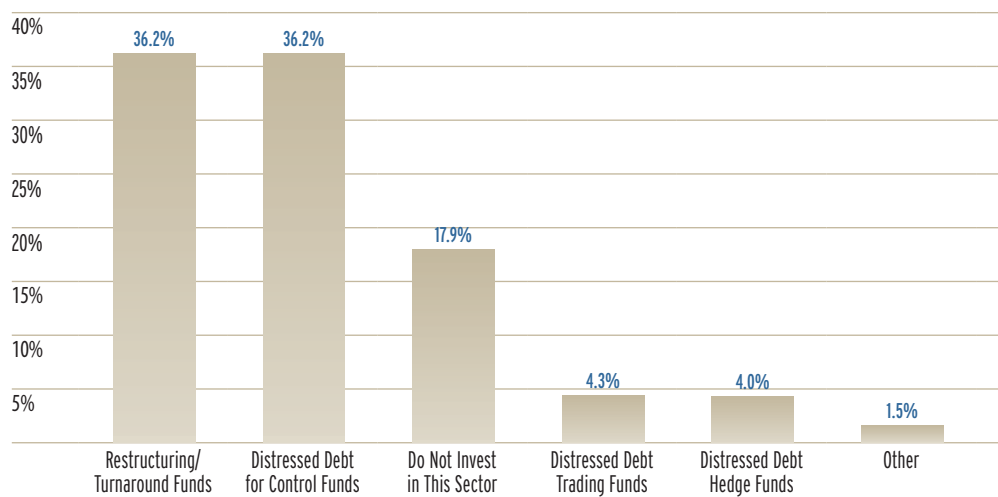
Investors were next asked to identify all of the niche markets in private equity that they found of interest at the moment. Distressed debt funds were the clear preference among respondents, and they led responses across all investor types. This result highlights the concern investors have with the degree of leverage in the market and the potential for an adverse turn in the credit cycle. Energy funds were the second most attractive niche market, and this was again consistent across the majority of investor groups. Whereas the 2006 Investor Survey indicated that interest in Energy was much stronger in North America than in Europe, it appears this has evened out, as both groups had equivalent response levels. Eastern European and Infrastructure funds were ranked a very close third and fourth, also consistent across investor types. Interestingly, though Publicly Traded Private Equity Vehicles made a splash in the market in 2006 with the launch KKR and Apollo vehicles in the Euronext Exchange in Amsterdam, few institutional investors have these vehicles as a major focus in 2007. Also of note, funds based in the Middle East are a fairly new phenomena and there were very few respondents to the Survey based in the Middle East, explaining perhaps their low ranking.

Chart 26. Which Niche Markets Are Most Attractive in 2007?



Given that there are a number of distinct strategies within the Distressed/Restructuring Sector, a further question was asked to determine more specific investor interest. Respondents were primarily interested in Restructuring/Turnaround Funds and Distressed Debt for Control Funds, both of which are longer term, control strategies. Amongst these respondents, there was little interest in shorter term trading strategies, either in a private equity or hedge fund format. Certain investors are not interested in the sector no matter the strategy — and of these, Banks and Insurance companies are the least interested, with 38.9% and 36.7% respectively not investing in any way. Also of note, Distressed Debt Hedge Funds are more appealing to Endowments & Foundations (13.9%) and Family Offices (10.4%) than they are to overall respondents.

Chart 27. Within the Distressed/Restructuring Sector, LPs Are Most Interested In:



In summarizing investor interest, the Survey next asked not what sectors investors found interesting or for which they expected the highest returns, but what sectors they plan to actually invest in in 2007. Interestingly, despite European Middle Market Buyout Funds being selected by the respondents as the sector with the greatest expected returns for Top Quartile Vintage 2007 funds, they still rank behind U.S. Middle Market Buyout Funds as far as the sector being targeted for investment in 2007. As far as the rank order of the overall results in the chart below, they are fairly consistent across most respondent groups, with some slight variations in order. There were, however, a few notable differences:

- Distressed Debt Funds are the primary focus for Endowments & Foundations
- Other Niche Sectors, the catch-all in the Survey, actually ranked second amongst Family Offices
- Asian funds ranked third both for Family Offices and Western Europeans
- Within the Other category itself, respondents self reported a diverse group of strategies, with some degree of focus on Emerging Markets and Micro Cap or Small Buyouts

However, as illustrated in Chart 28 below, the majority of respondents state that they have no particular sector focus and will simply pursue the best funds available in the market, though other investment rationales are noted as well.

Chart 28. Sectors LPs Plan to Focus Most of Their Attention on Investing in During 2007

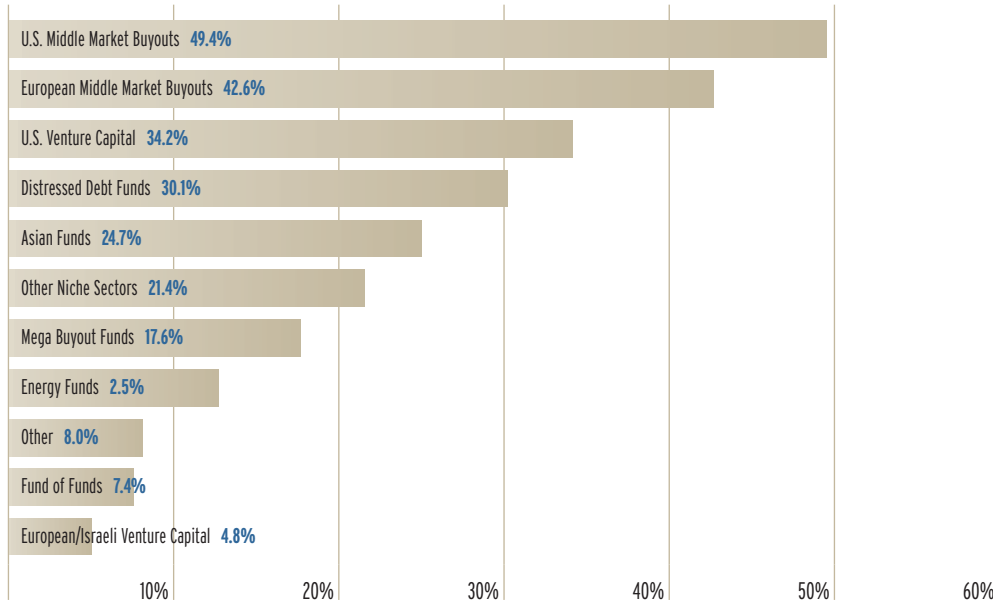
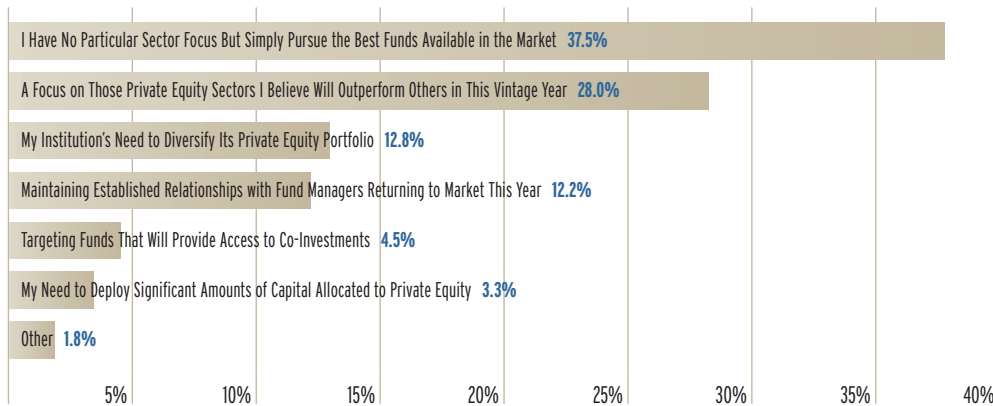


Chart 29. My Investment Sector Focus in 2007 Is Being Driven By:



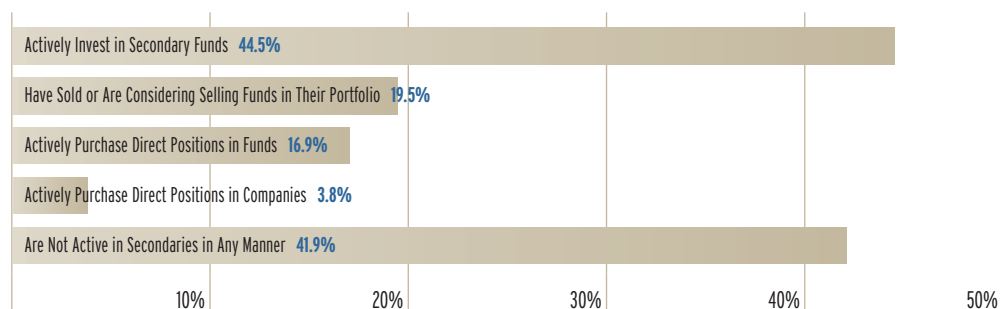
Secondaries, Co-Investments and Hedge Funds

Given the different ways investors can participate in the Secondary market, the next question goes into some depth. As Fund-of-Fund managers are not “normal” investors in the secondary market, being much more active in buying direct positions in funds and being much less likely to commit to secondary funds, the graph below has focused on Non-Fund-of-Funds.

Interestingly, and in line with the results observed in the 2006 Probitas Investors Survey, Non-Fund-of-Fund managers are divided on their approach to Secondaries. A significant number of respondents, over 40%, are not active in Secondaries, even through investing in Secondary Funds. However, nearly 16% of respondents actively purchase direct positions in individual funds in the Secondary market, and nearly 20% have either sold positions in their portfolio or are considering it.

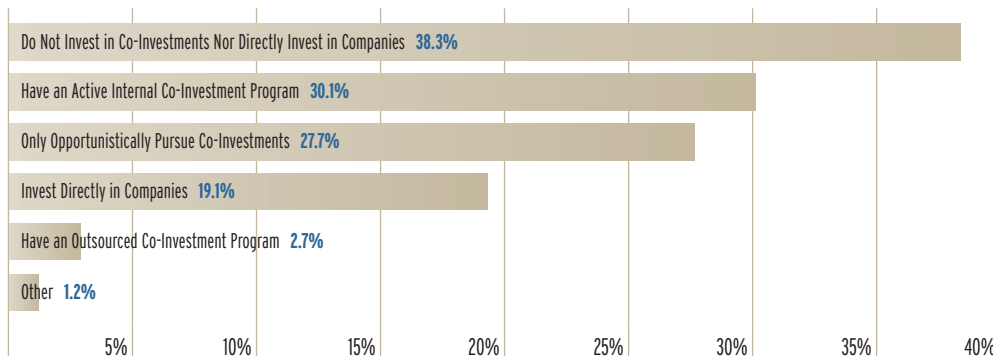
Size of the investor seems to have an impact on participation in the Secondary market. Smaller respondents (those seeking to commit less than \$150 million to the market in 2007), are more likely not to invest in Secondaries, with 48% not being active in the market in any fashion. The largest investors (those looking to commit more than \$1 billion), are more active, with over 40% of them active in purchasing direct positions in funds, 34.1% considering selling funds from their portfolio, 13.6% actively purchasing positions in individual companies and 48% actively investing in secondary funds. These results agree with the assertion that Secondaries are increasingly used as a portfolio management tool by larger investors with sizeable portfolios and large dedicated investment teams. In addition, the institution type also plays a role in investor interest, with Banks, Endowments & Foundations, and Consultants & Advisers the least active in the space.

Chart 30. In the Secondary Market, Non-Fund-of-Funds Respondents Participated in Various Ways



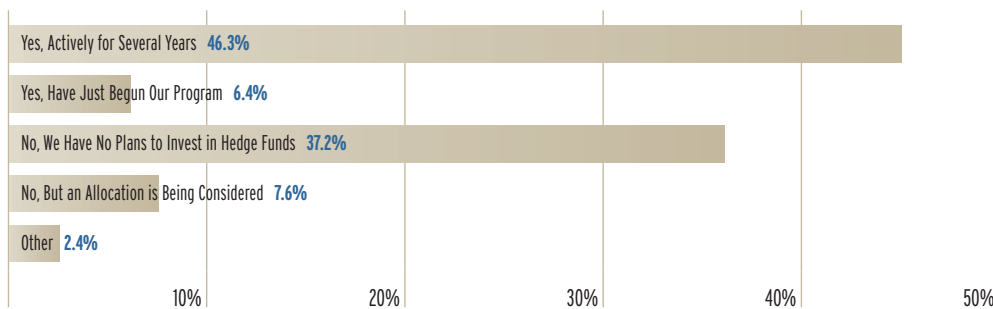
Co-investments are another special area. As illustrated in the chart below, 38.3% of respondents do not invest in co-investments nor do they directly invest in companies. On the other hand, 30.1% of respondents have an active internal co-investment program, while 27.7% only opportunistically pursue co-investments, and 19.1% invest directly in companies. Fund-of-Funds and larger investors are more likely to have an active internal co-investment program, while Public Pension Plans, Family Offices, the smallest investors (those looking to commit less \$50 million) and larger investors (those seeking to commit greater than \$500 million) are more likely to invest directly in companies.

Chart 31. In Co-Investments, Respondents:



When asked about hedge funds, respondents were split almost evenly into two distinct groups. Over 50% of respondents invest in hedge funds, of which 46.3% have actively invested in the sector for several years. On the other hand, close to 45% of respondents do not invest in hedge funds, and only 7.6% are considering an allocation.

Chart 32. Does Your Institution Invest in Hedge Funds?

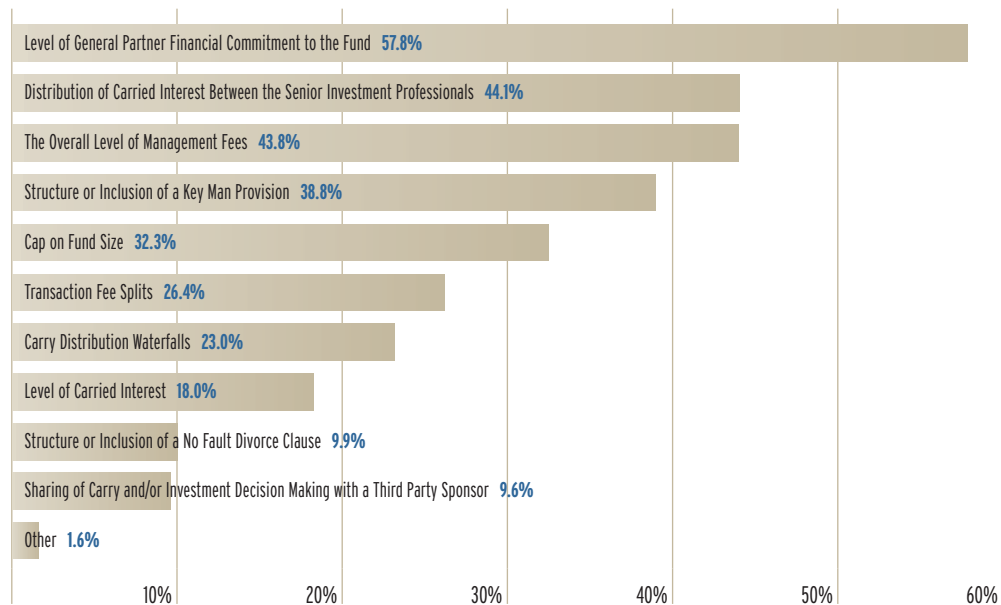


Fund Structure / Fees / Carried Interest

This section of the survey examined the issues surrounding fund structure, fees, and carried interest.

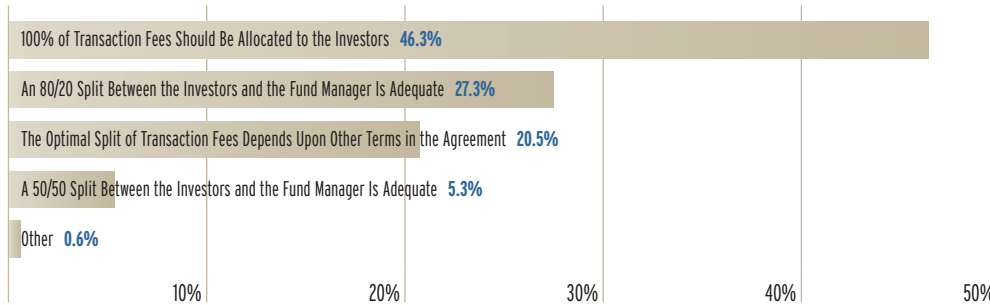
When it comes to the terms and structure of a fund, it is evident that investors are primarily concerned with the level of general partner commitment to the fund. Distribution of carried interest and level of management fees make up the second and third most important issues, with structure or inclusion of key-man provisions a close fourth. Larger investors appear to be more concerned with carry distribution, which is the most important issue for investors committing more than \$500 million in 2007.

Chart 33. Issues LPs Focus on Most as Far as Terms or Structure of a Fund Are:



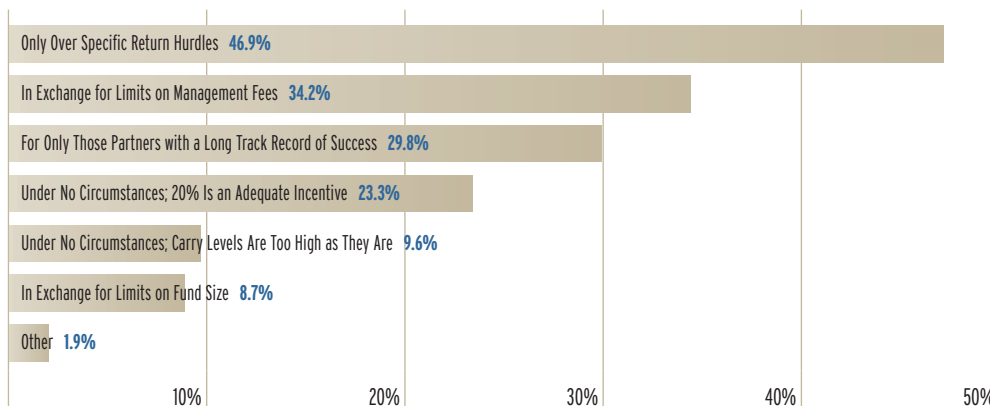
The majority of investors believe that 100% of transaction fees should be allocated to the investors, with a significant number of investors believing either that an 80%/20% split is adequate, or that the proper split needs to be considered as part of a complete package of terms.

Chart 34. As Far as Transaction Fee Splits Are Concerned:



Certain buyout funds are beginning to consider carried interest amounts of greater than 20%, a trend fairly new for buyout funds, though more well established with top performing venture capital funds. Only 33% of respondents would not consider any sort of increase in carry above 20%. For the others, the reasons to consider an increase in carry vary, with the two leading reasons being that an increase in standard carry would only be considered over specific return hurdles, or it would be considered in exchange for moderated management fees.

Chart 35. Carried Interest, Especially in the Buyout Sector, Is Normally Set at 20% of Profits. Investors Would Be Willing to Consider an Increase in the Standard Carry:



Investors' Fears and Concerns

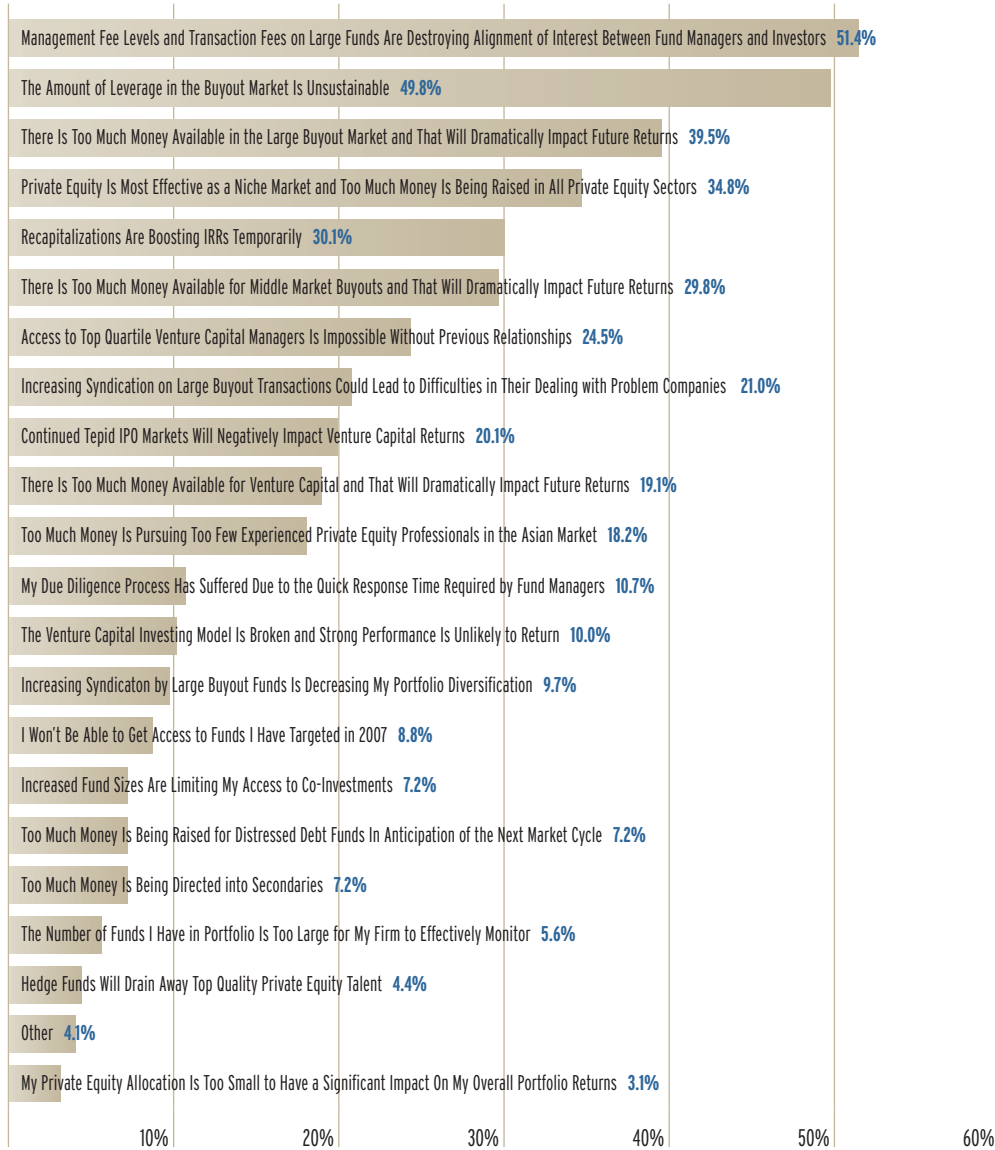
The final part of the survey looks at investors' greatest fears regarding the private equity markets. Investors were asked to pick four major concerns from a list of 21 and were also given the option to add their own specific concern. The order of the pre-set questions was also randomized by the survey service in order to prevent rank order bias.

A summary of all the results is shown in the chart below. However the top three fears, each selected by over 39% of respondents were:

- Management fee levels and transaction fees on large funds are destroying alignment of interest between fund managers and investors
- The amount of leverage in the buyout market is unsustainable
- There is too much money available in the large buyout market and that will dramatically impact future returns

Interestingly, these were the same top three concerns in the 2006 Probitas Investors Survey, though in a slightly different order. The results are again surprising to a degree in the face of the earlier forecast in the Survey of strong fundraising performance in 2007, which was even more optimistic than that forecast in 2006. These fears are also focused on the large end of the Buyout Market, a sector that saw a substantial number of funds raised in both 2005 and 2006.

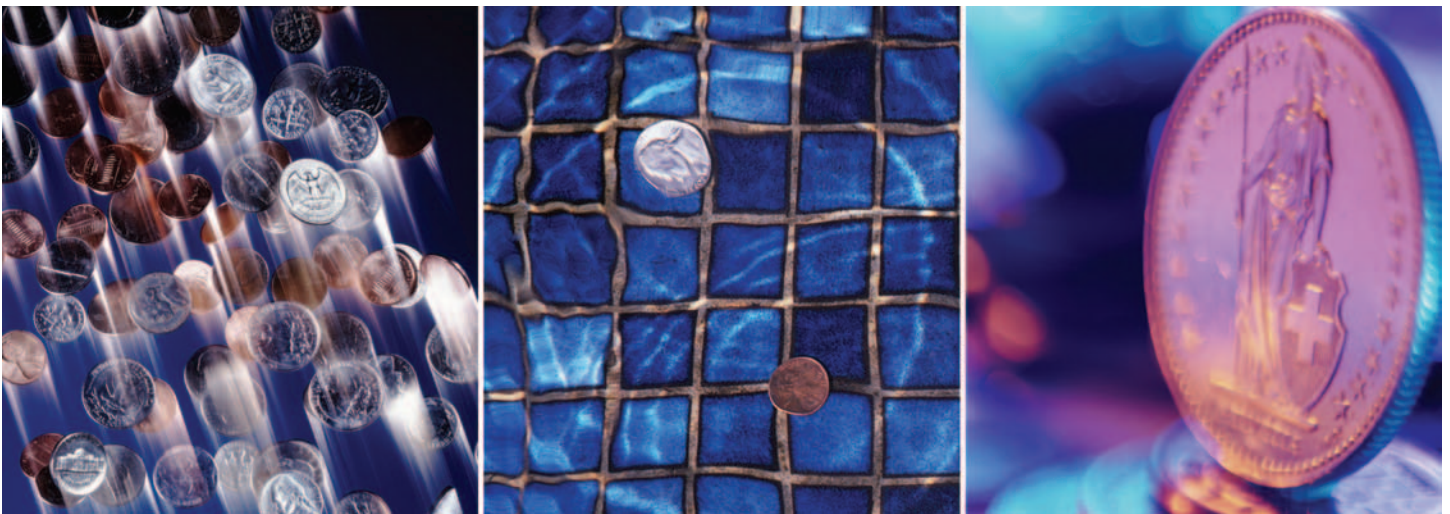
Chart 36. Investors' Greatest Fears Regarding the Private Equity Markets



Selected responses from the Other category are also illuminating:

- Too many investors just follow the herd.
- The best Asian managers are raising more money than they can responsibly deploy without strategy drift
- Other LPs are throwing money at funds with little to no diligence
- Too many deals are generated by private equity funds buying and selling to each other
- The excessive amounts of fees fund managers are charging on deals and their attempts to charge a carry on Co-investments.

In summary, investors' views for 2007 seem to share the same underlying themes as they did in 2006. On a positive note, investors remain interested and committed to private equity, planning to commit significant amounts of capital in 2007 with robust expectations for certain private equity sectors. However, the above concerns combined with the focus of many respondents on the Distressed Debt and Restructuring sectors do ring potential warning bells.



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