PROBITAS PARTNERS

Probitas Partners' 2008 Private Equity Investors Survey

PROBITAS RESEARCH™

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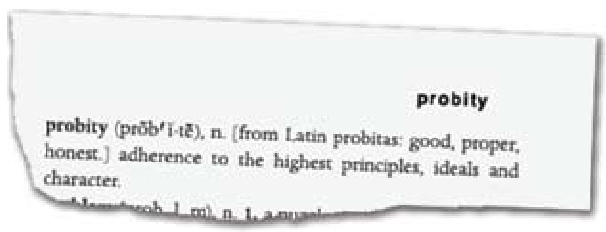
Introduction

Probitas Partners is a leading independent knowledge, innovation and solutions provider to private markets clients globally. We focus our expertise in fund placement, liquidity management and portfolio management to constantly build and grow powerful, lasting relationships that deliver value, execution and service to our partners and clients. We emphasize private equity and real assets, including debt and equity funds, venture capital, special situations, opportunistic real estate and infrastructure from around the world.



probity

probity (prōb'ĭ-tē), n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.

Accurate data is elusive in private markets. Probitas Partners offers research and investment tools on the alternative investment market as aids to its institutional investor and general partner clients. Probitas Partners shares this data in an effort to improve professionalism, consistently raise the bar on professional services, and assist all participants in their investment, portfolio management and fund raising endeavors.

On an annual basis, Probitas Partners conducts a formal Survey of institutional investors in order to gauge their opinions on key trends in the private equity market and their perspectives on the coming year. Comparing and contrasting annual survey responses over time becomes yet another valuable tool to track investors' perceptions of the market, enabling Probitas Partners to adaptively address the interests and needs of our clients. During January 2008, Probitas Partners contacted approximately 4,000 institutional investors and received 359 individual responses. This report details the results of that survey.

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. An "Other" category was composed of other pension plans and governmental entities. Fund-of-Funds made up the largest group of respondents, representing 30.1% of the sample, followed by Family Offices at 13.4% of respondents.

Chart I Respondents by Type of Investor

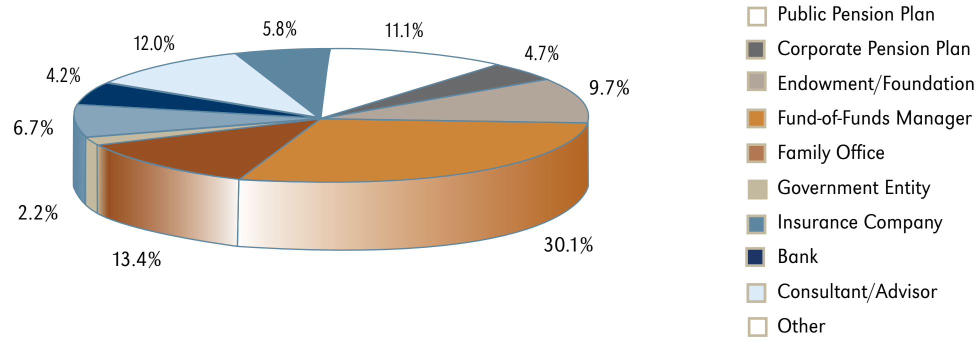
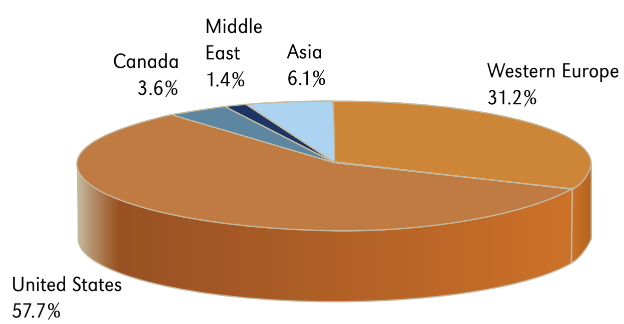
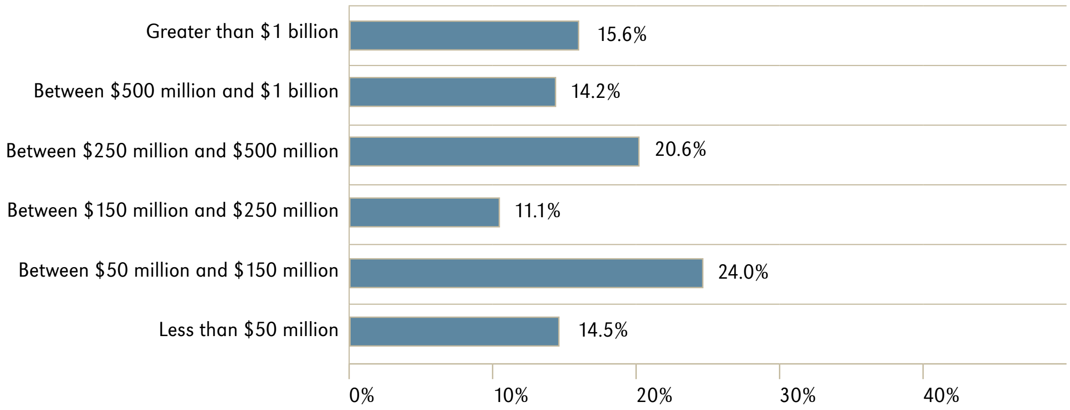


Chart II Respondents by Firm Headquarters



As would be expected, institutional investors from the more established investor markets of the United States and Western Europe predominated, representing 57.7% and 31.2% respectively of all respondents, with a significant number of respondents from Asia and Canada as well.

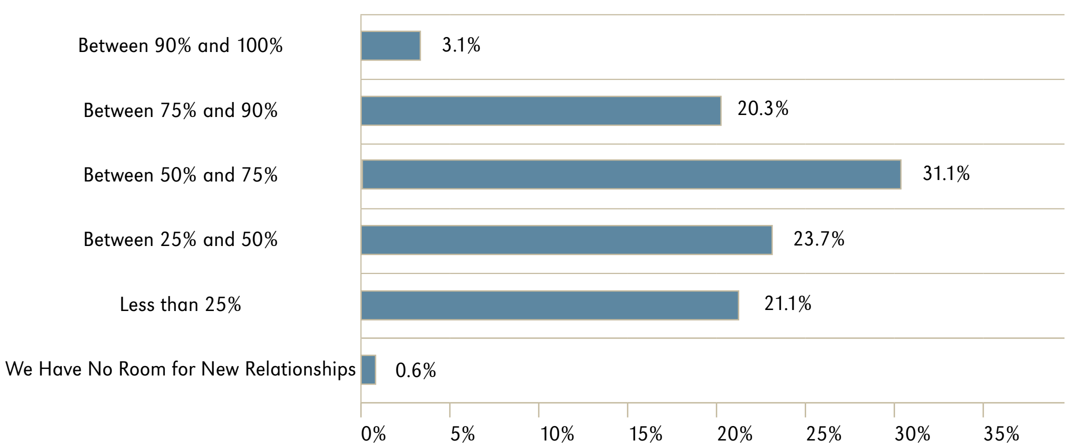
Chart III Targeted 2008 Private Equity Allocations



There was significant diversity amongst respondents by size of allocation to the private equity markets as noted in Chart III, with Family Offices and Endowments being dominant among respondents looking to commit less than $150 million during the year, and Public Pension Plans dominating in the Greater Than $1 billion category.

As noted in Chart IV, a number of investors anticipated that they would have room for new fund manager relationships during the year; however, as the survey was being taken, significant declines in the public markets began to impact the private equity allocations of those investors who set those allocations as a percentage of their overall portfolio. Some investors began to find themselves more fully allocated to private equity for the year than noted on the chart, even as others were considering either increasing allocations or using secondary sales to create more room for 2008 investment.

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



Fundraising and Return Expectations

The next part of the survey determines investor attitudes towards the fundraising market and performance expectations for buyout and venture capital funds.

As demonstrated in Chart V, a plurality of respondents estimated that the total amount of funds raised in the private equity market in 2008 would range from $250 billion to $300 billion. 6.7% of respondents estimated that the total amount raised would be higher than $350 billion.

Though these investor forecasts are still notably robust, these forecasts are categorically lower than the amounts forecast by investors for 2007, as reported in the Probitas Partners' 2007 Private Equity Investors Survey. The weighted overall forecast seems to be less than the amounts actually raised during 2007.

Chart V Forecasted 2008 Global Private Equity Allocations

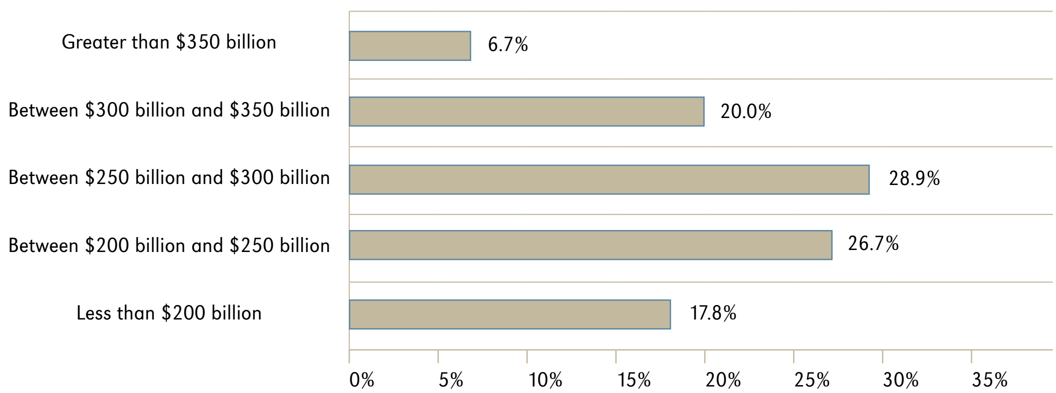
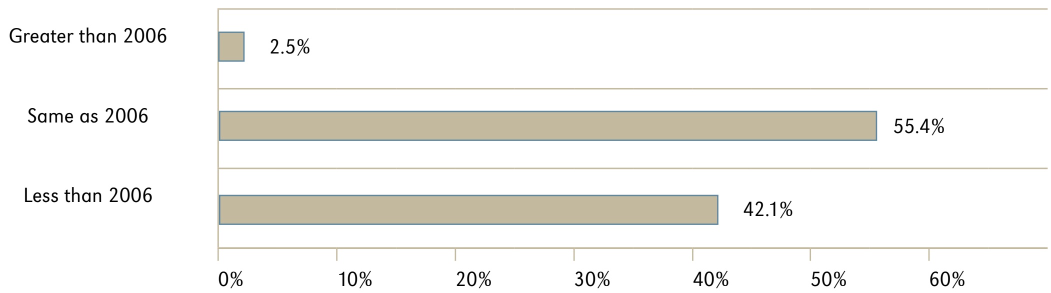
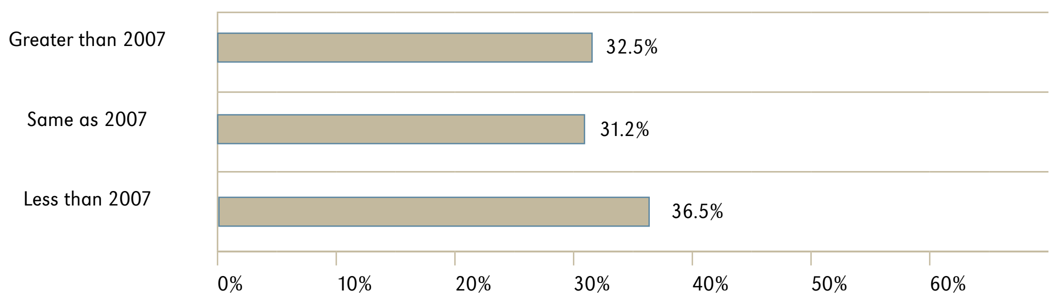


Chart VI Expected 2007 Buyout IRRs Were:



Expectations for 2008 Buyout IRRs Are:



Contrary to the results of last year's Investor Survey, Charts VI and VII show expectations for 2008 buyout funds where investors are almost equally split among returns decreasing, staying the same, and increasing from 2007. In January of 2007, even before the Liquidity Crisis of the spring broke, respondents to last year's Survey felt that the buyout market was peaking; 98% of them thought that Vintage 2007 returns would either stay constant or decrease. Chart VII demonstrates that expectations for 2008, though mixed, are somewhat more optimistic: 36.4% of respondents expect that returns for 2008 Vintage Buyout funds will be lower than 2007 and 32.5% felt that Buyout returns would be higher, which may reflect lowered expectations for the 2007 Vintage. A plurality of investors (40.8%) expects returns in the range of 20%-25% for top quartile Vintage 2008 Buyout funds.

Chart VII Expected IRR Ranges for Top Quartile 2008 Buyout Funds for Endowments & Foundations

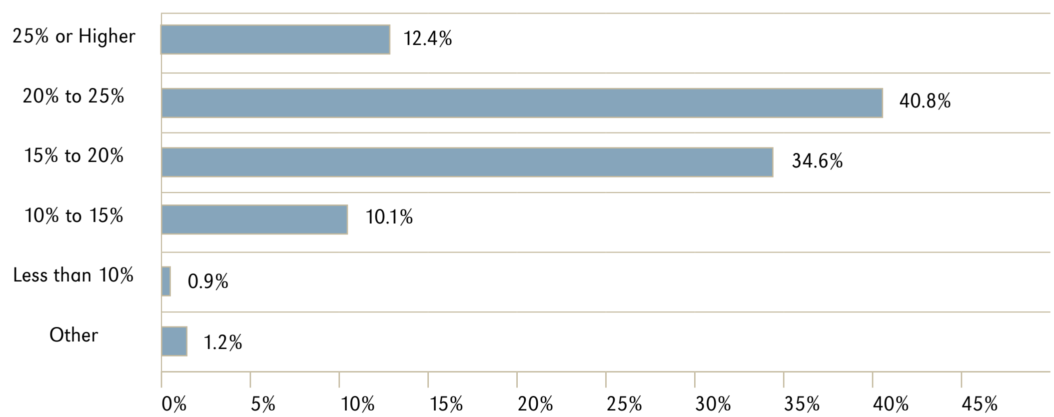
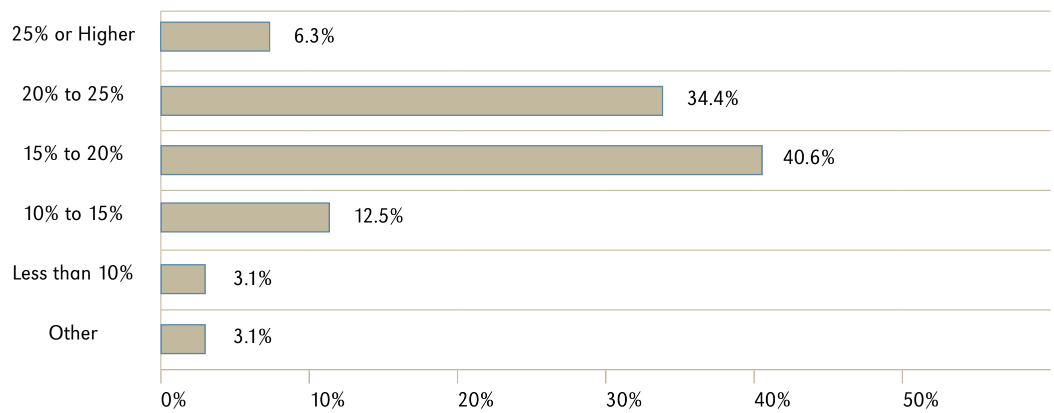
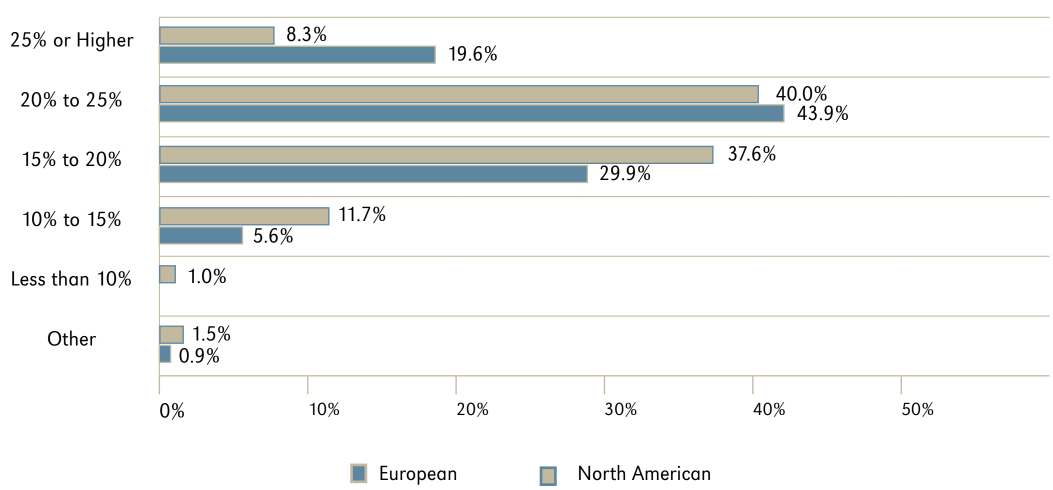


Chart VIII Expected IRR Ranges for Top Quartile Vintage 2008 Buyout Funds for Endowments & Foundations



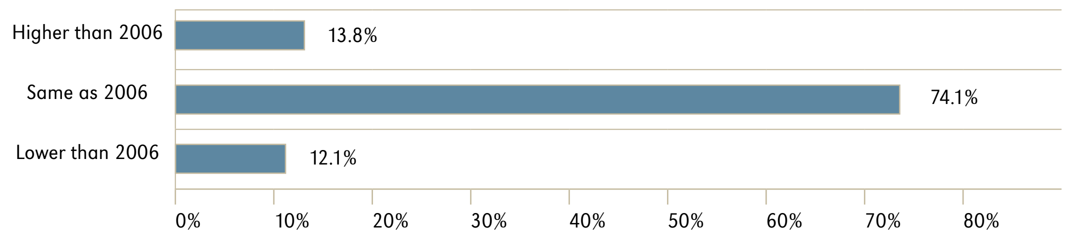
It is apparent that there are clear variations among the types of investors embedded in this overall expectation. As seen in Chart VIII, Endowments & Foundations are more pessimistic than the overall sample, with only 40.7% of investors expecting IRR for top quartile 2008 Vintage Buyout funds to exceed a 20% IRR, versus 53.2% of the entire sample. Geographically speaking, U.S. investors are much more pessimistic in their expectations than are their European counterparts, with 48.3% expecting returns to exceed 20%, compared with 63.5% of European investors as shown in Chart IX. Last year's survey showed that only 49.5% of European investors expected top quartile buyout returns to exceed 20%. The uptick in expectations can be attributed to the strong comparative performance of European Middle-Market Buyouts.

Chart IX Expected IRR Ranges for Vintage 2008 Buyout Funds for North American and Western European Investors



Investors' expectations for Vintage 2008 venture capital returns were similar to those in last year's forecast. Chart X shows the vast majority of investors in both years felt that returns would remain basically the same as the previous year, and these expectations across investor types were fairly uniform. In Chart XI, over 55% of respondents felt that top quartile Vintage 2008 returns would be 20% or higher.

Chart X Expected 2007 VC IRRs Were:



Expected 2008 VC IRRs Are:

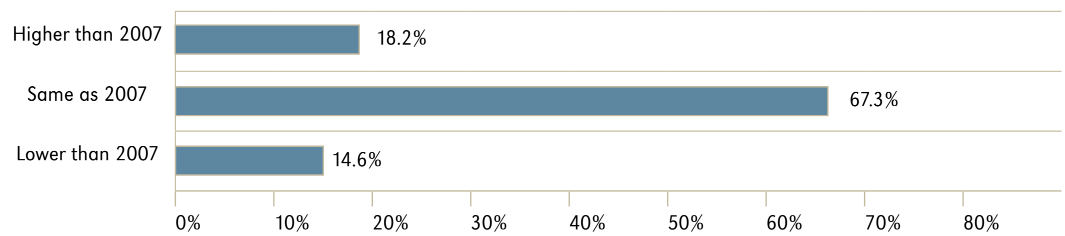
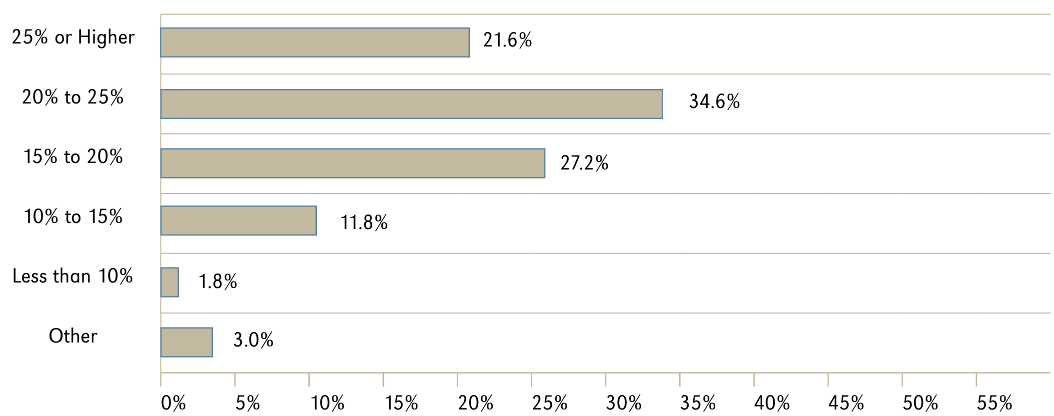


Chart XI Expected IRR Ranges for Top Quartile 2008 Vintage VC Funds



Investors' Focus in 2007

In order to provide further context for their 2008 expectations, we asked respondents to identify where they had actually made investments in 2007. In line with the responses we received on last year's Survey in Chart XII, 61.3% of respondents' commitments in 2007 were to Buyout and Growth Capital funds, with two thirds of those commitments made to Middle Market or large funds as opposed to Mega Buyout funds. Interestingly, Distressed Debt funds ranked fourth in respondents' allocations during the year, garnering 13.6%, just behind Venture Capital investments at 17.9%.

Geographically, the bulk of investors' 2007 allocations were focused on North America and Western and Central Europe as demonstrated in Chart XIII.

Chart XII 2007 Private Equity Allocations

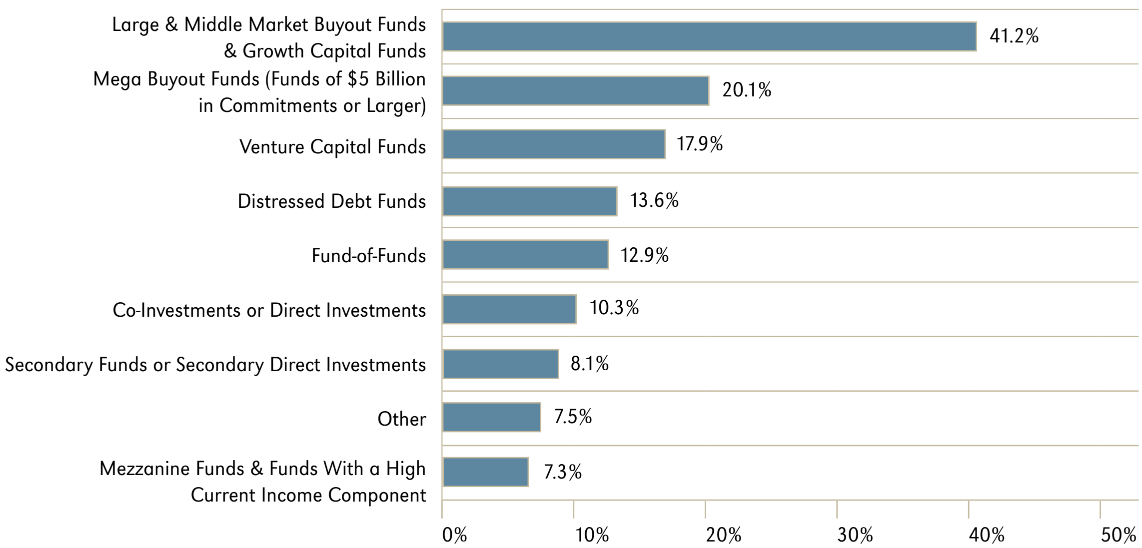
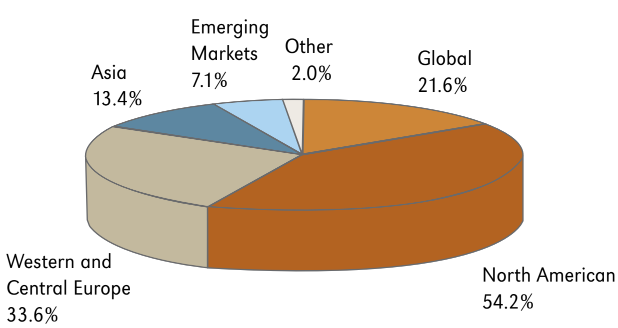


Chart XIII 2007 Private Equity Allocations by Geography

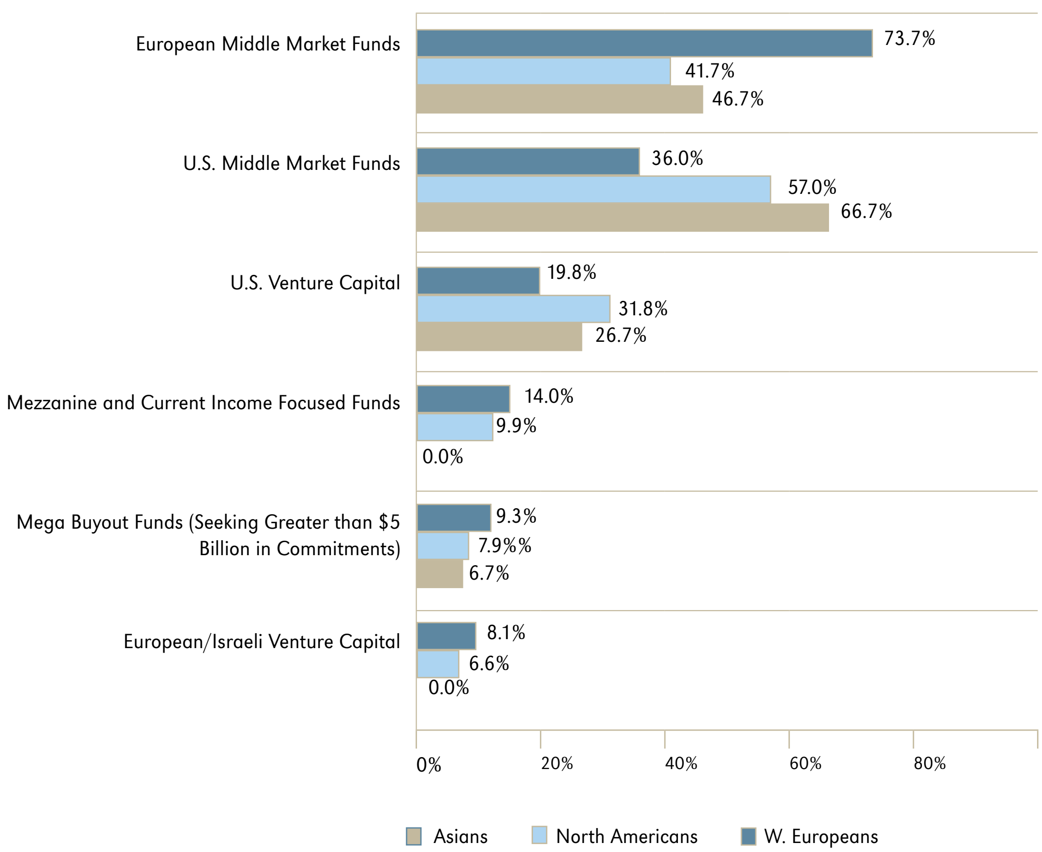


Sectors and Geographies of Investor Interest

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

As far as return expectations for 2008 Vintage funds in the more established private equity strategies, Chart XIV shows respondents overall clearly favor European Middle Market funds. Although there appears to be an element of home bias, with 73.3% of European investors having selected European Middle Market funds as a key area of opportunity, these funds are second only to U.S. Middle Market funds for U.S. investors as well.

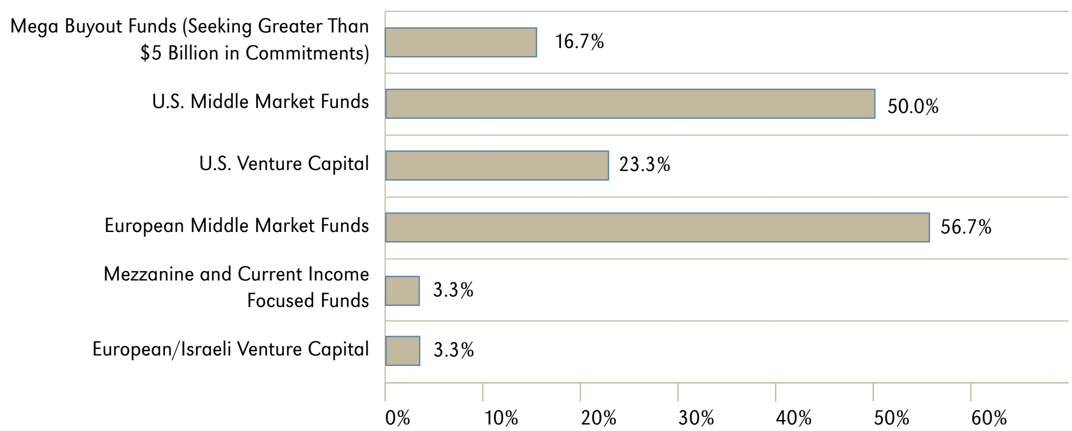
Chart XIV Highest Expected Returns for Vintage 2008 Funds



Interestingly, Asian investors had the strongest return expectation for U.S. Middle Market funds, even more so than their U.S. counterparts. For all of these investors, however, expectations for Mega Buyout funds trailed significantly in the wake of 2007's liquidity crisis, even before problems began to intensify in early 2008. For both European and U.S. investors, return expectations for Mezzanine and Current Income funds exceeded those for Mega Buyouts.

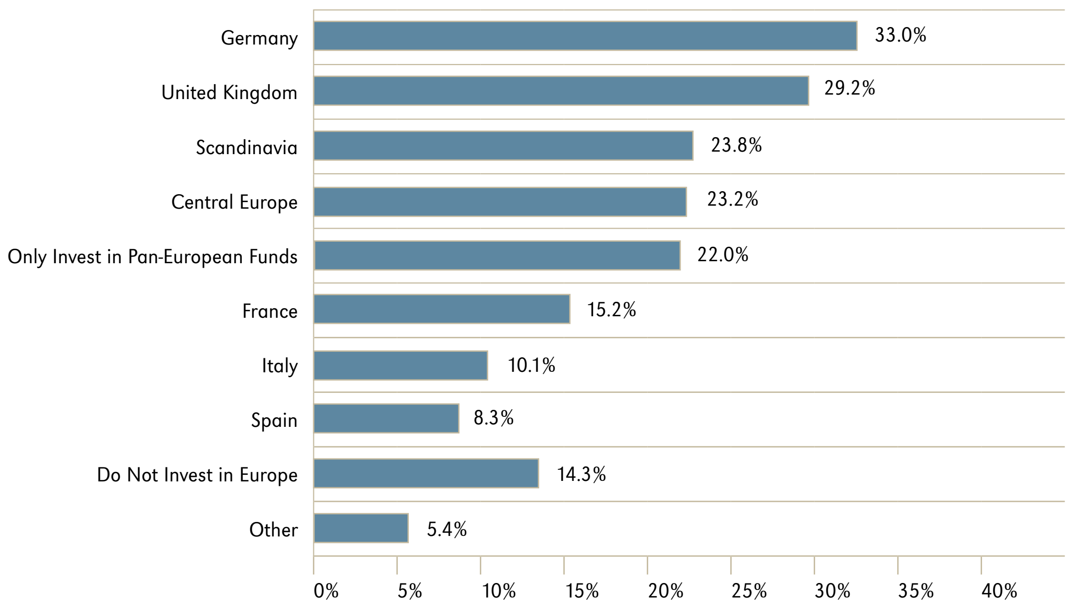
Notably, larger investors (those expecting to commit more than $1 billion to private equity in 2008) had a much stronger interest in Mega Buyout funds as noted in Chart XV, perhaps because of their need to deploy larger amounts of capital.

Chart XV Areas Garnering Highest Return Expectations for $1B + Investors

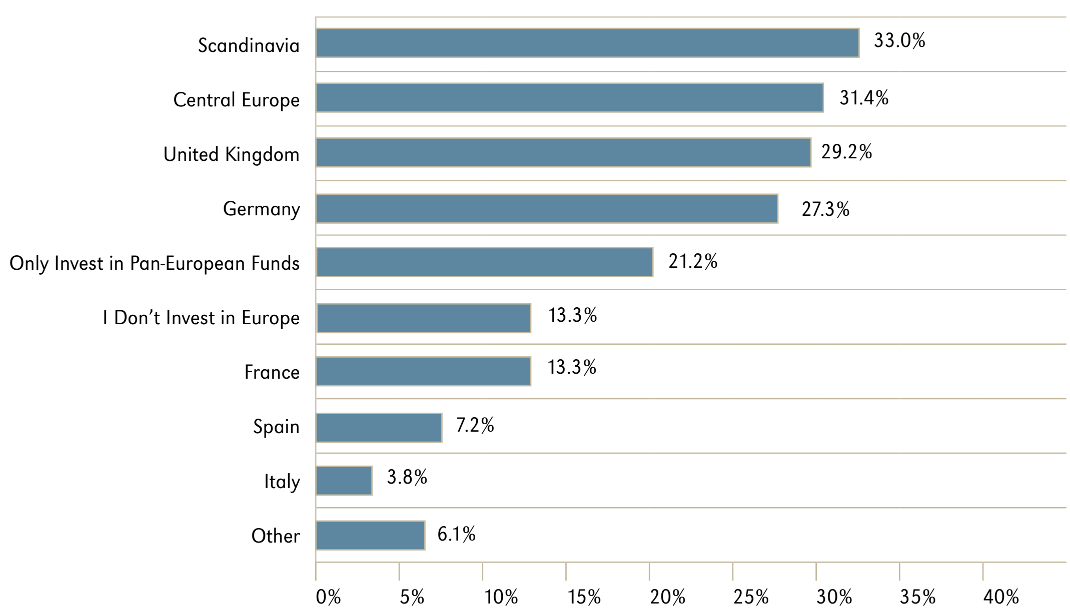


Survey respondents were also asked to select those European markets they felt were most attractive. The results in Chart XVI show an adjustment from investors' preferences in 2007, with Scandinavia and Central Europe moving to the top of the list, supported by both North American and European investors.

Chart XVI Most Attractive European Country/Regionally Focused Markets for 2007

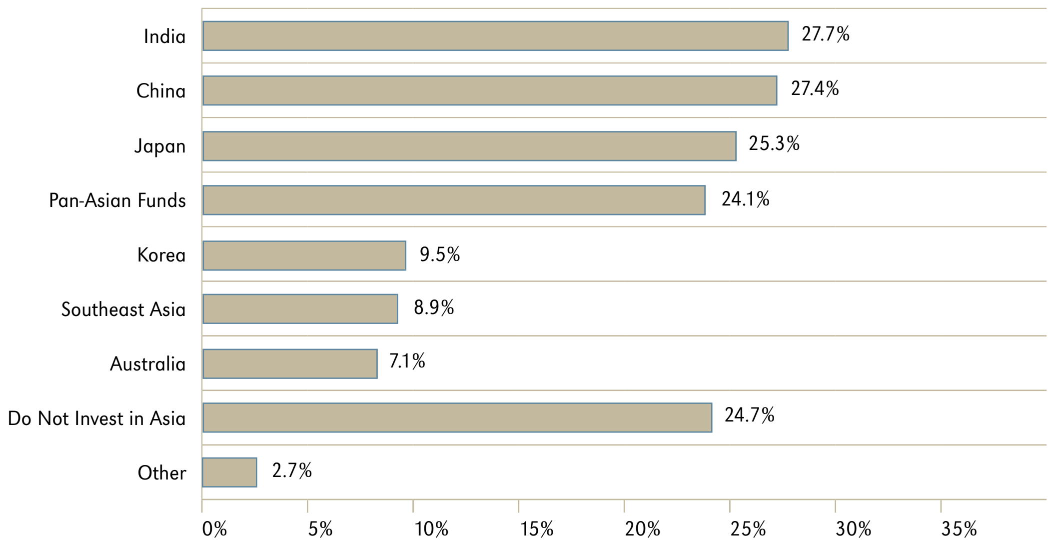


Most Attractive European Country/Regionally Focused Markets for 2008

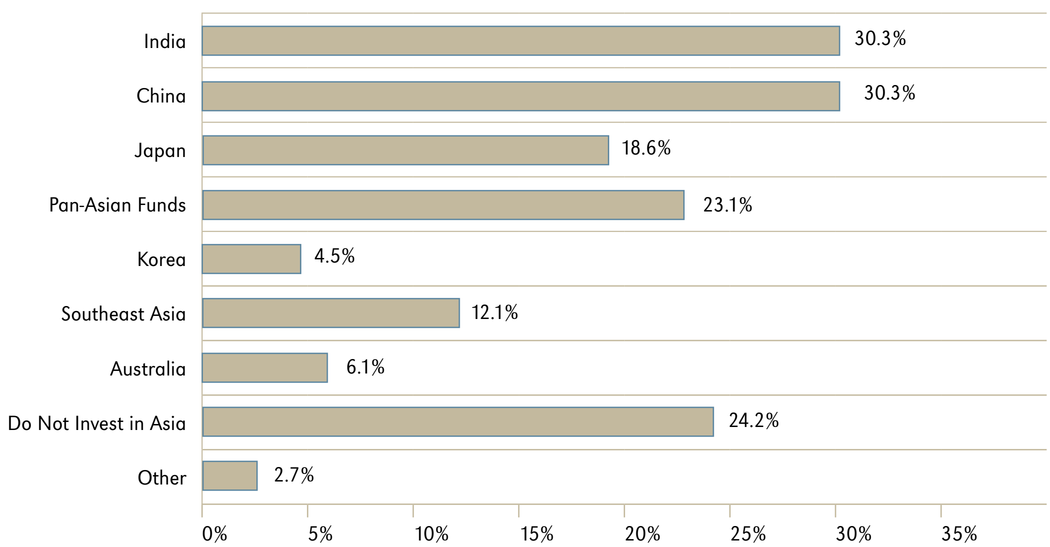


As far as the Asian markets are concerned, in line with the majority of press coverage focusing on India and China, these two markets were ranked highest in Chart XVII, with major drops of interest in Japan (25.3% to 18.6%) and Korea (9.9% to 4.5%), comparing 2008 results with 2007. Interest in Southeast Asia rose from 8.9% to 12.1%. Close to a quarter of investors surveyed still do not invest in Asia, a similar result to the same question posed in the Probitas Partners' 2007 Investor Survey.

Chart XVII Most Attractive Asian Geographic Markets for 2007



Most Attractive Asian Geographic Markets for 2008



The results vary substantially across investor type. In Chart XVII Asian investors, while comprising 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 XVIII Most Attractive Asian Geographic Market in 2008 For Asian Investors

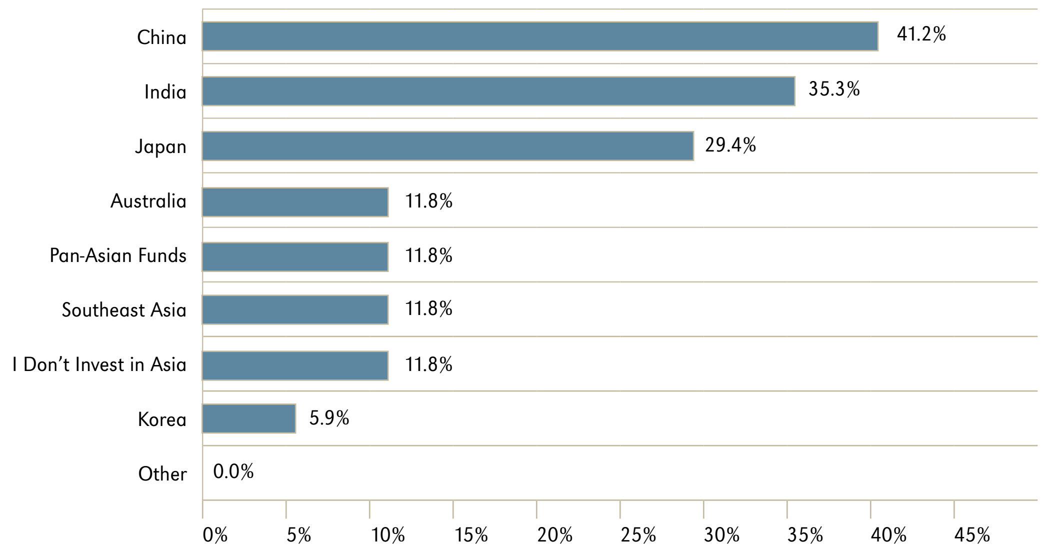
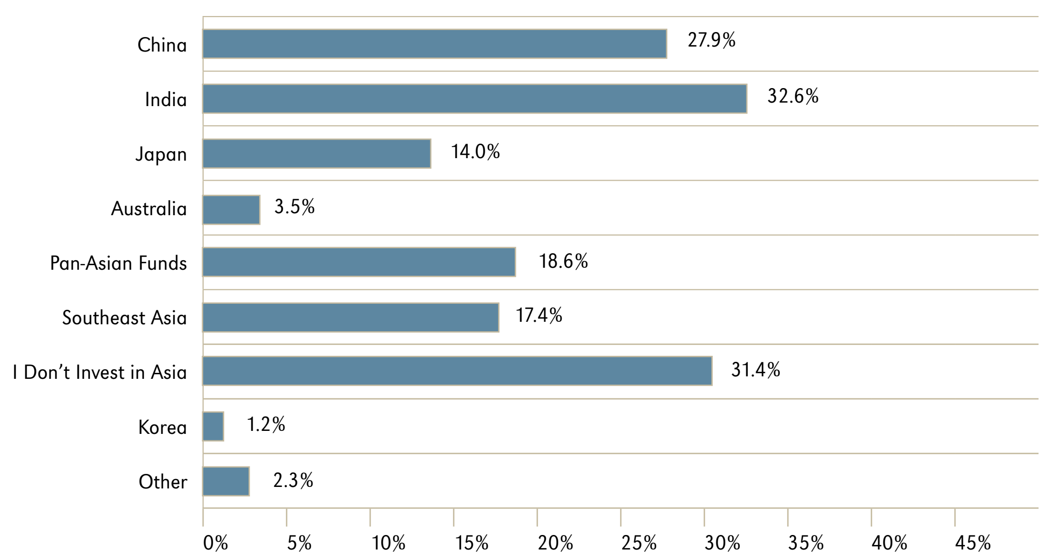


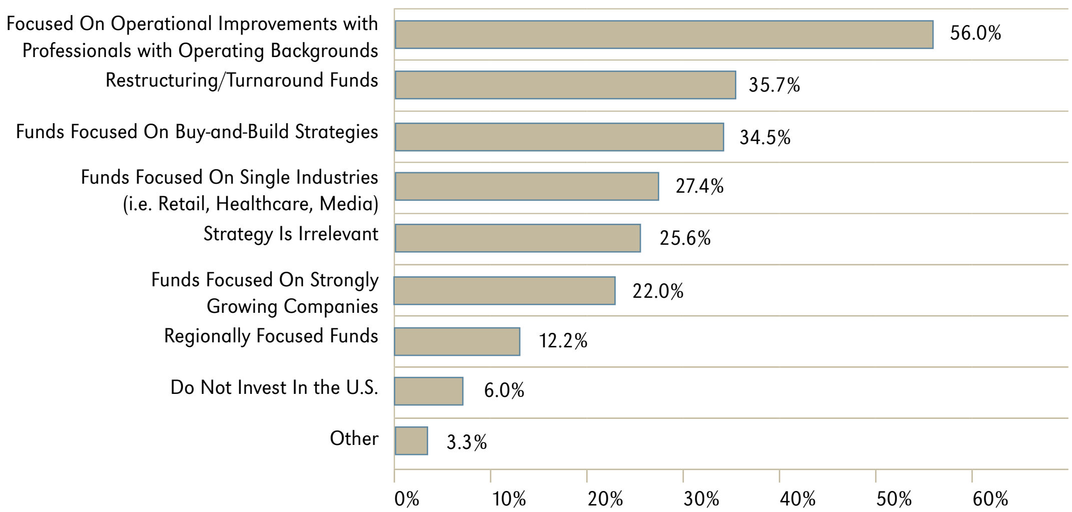
Chart XIX shows Western European investors had a greater proportion of respondents either not investing in Asia or preferring Pan-Asian funds, as well as a stronger interest in India.

Chart XIX Most Attractive Asian Geographic Market in 2008 For Western European Investors

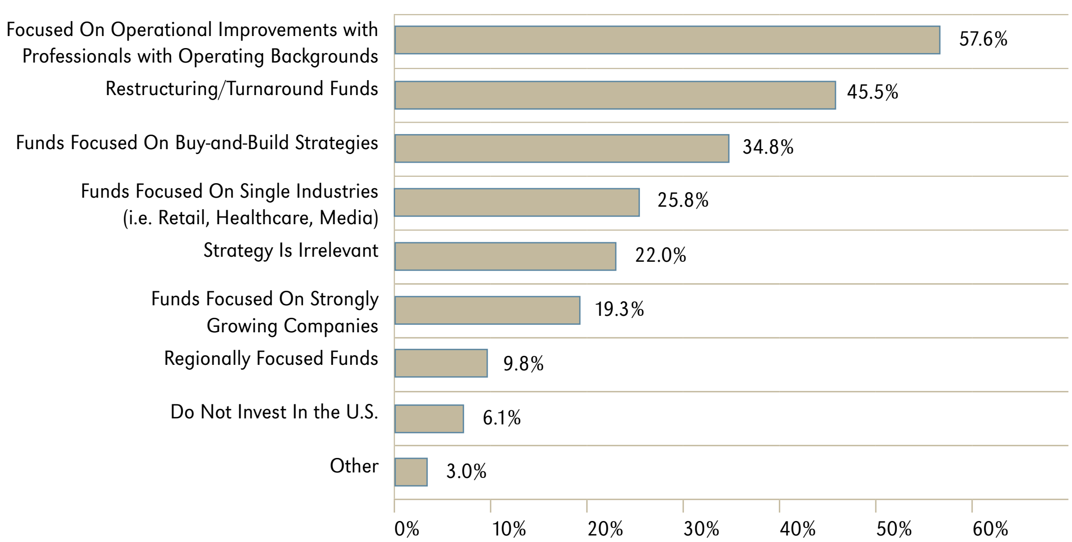


Regarding U.S. Middle Market Buyouts, investors were asked which of several fund investment strategies they preferred. Respondents in Chart XX had a strong preference for an operational focus supported by key staff members with operational backgrounds. This result was consistent across all groups of investors. Buy-and-Build strategies were also ranked highly, but the sector that increased most in investor interest between 2007 and 2008 was Restructuring/Turnaround funds, in anticipation of greater opportunities in the sector as the credit crisis plays out.

Chart XX Most Appealing Sector/Strategy in U.S. Middle Market for 2007

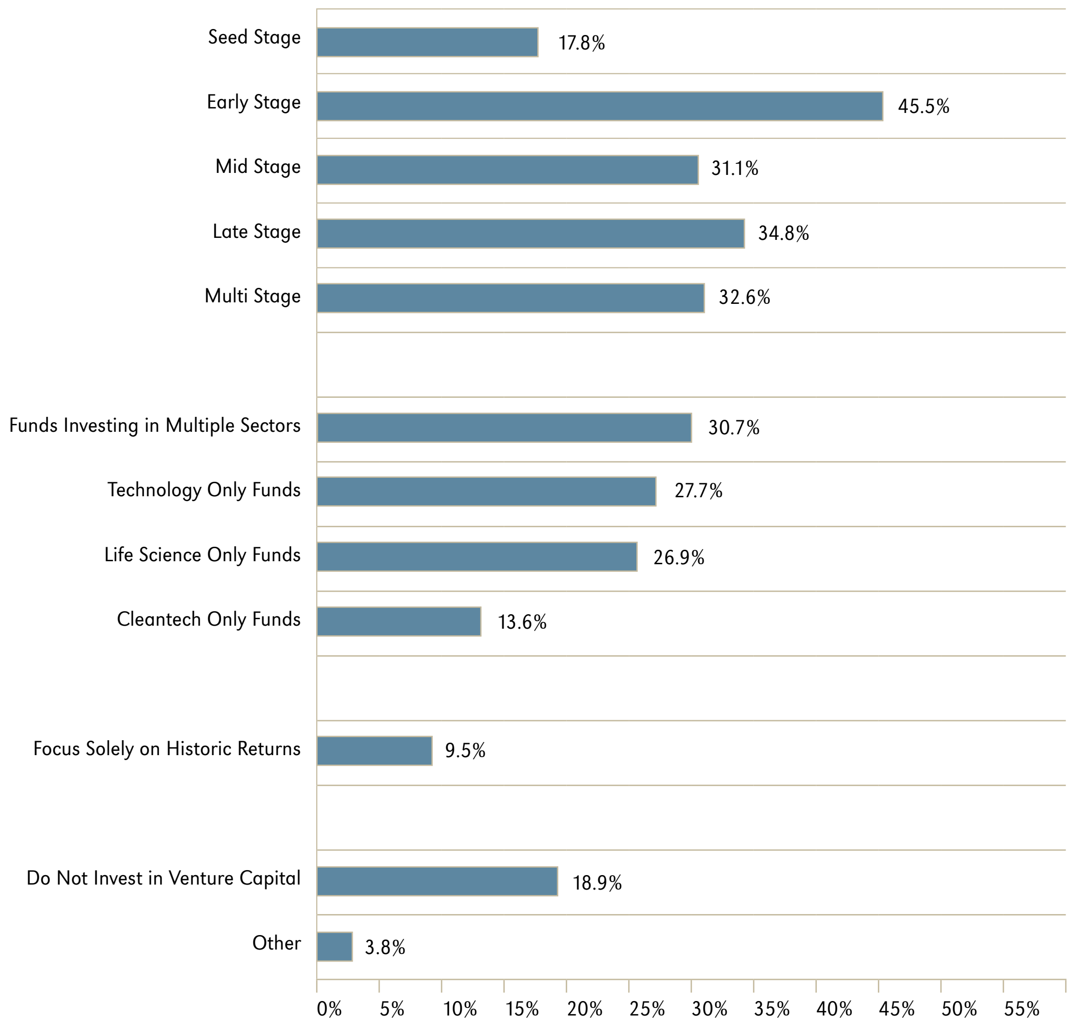


Most Appealing Sector/Strategy in U.S. Middle Market for 2008



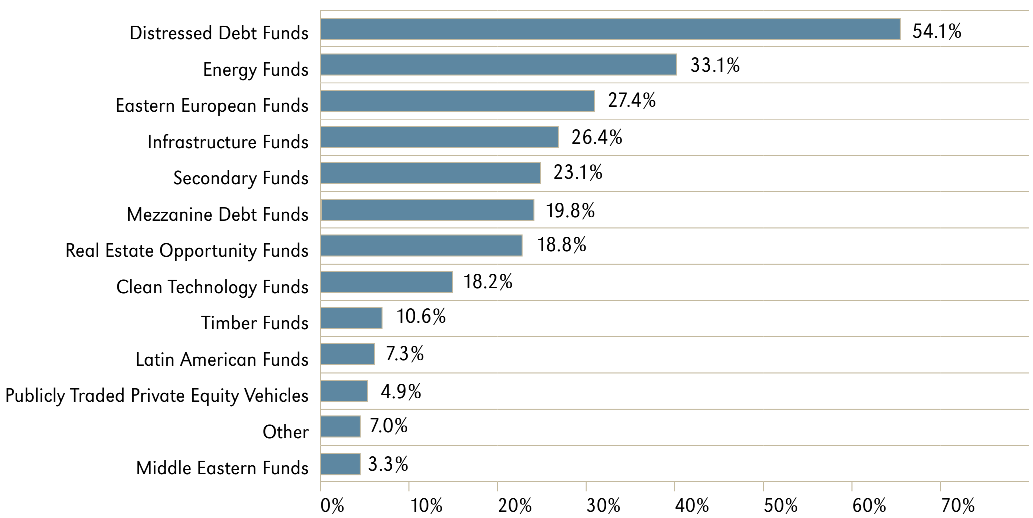
The next area of focus in the Survey was Venture Capital and investor preference for particular stages or sectors. Although in Chart XXI there appears to be a preference for early stage funds and limited interest in funds focused solely on Cleantech (though interest did increase in that category in 2008), 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 XXI Which Stages or Sectors in Venture Capital Are Investors Actually Pursuing?

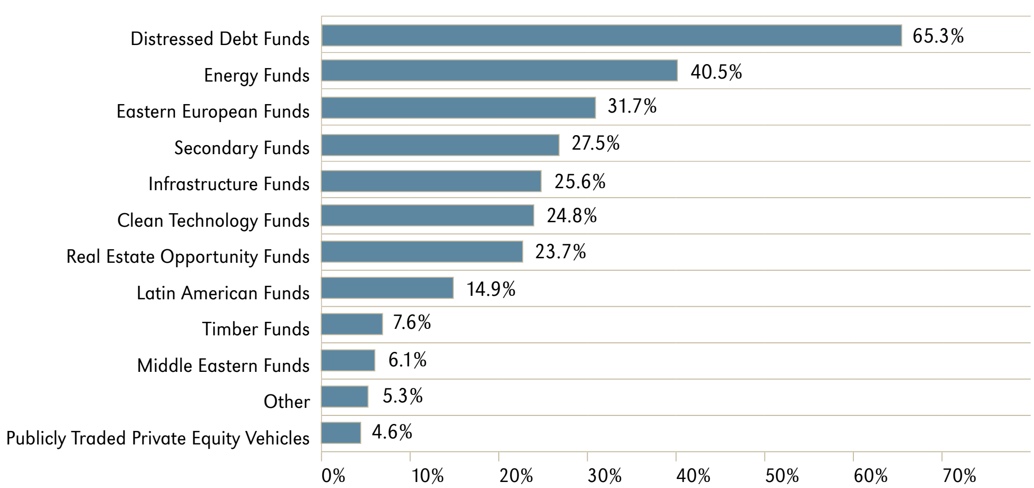


Investors were next asked to identify the niche markets in private equity that they found of interest. Distressed Debt funds were the clear preference among respondents and the lead response across all investor types. This result highlights the concern investors have with the turn in the credit cycle, and on the opportunity that turn provides. Energy funds were the second most attractive niche market and this was again consistent across the majority of investor groups. Interest in Eastern Europe, Secondary and Infrastructure funds remained strong, and there was increased interest in Clean Technology, Latin American and Middle Eastern funds. Interestingly, though Publicly Traded Private Equity Vehicles made an added splash in the market in 2007 with the initial public offering of Blackstone on the New York Stock Exchange, interest in Publicly Traded Private Equity among respondents has declined in 2008 and trailed all other sectors.

Chart XXII Most Attractive Niche Markets for 2007

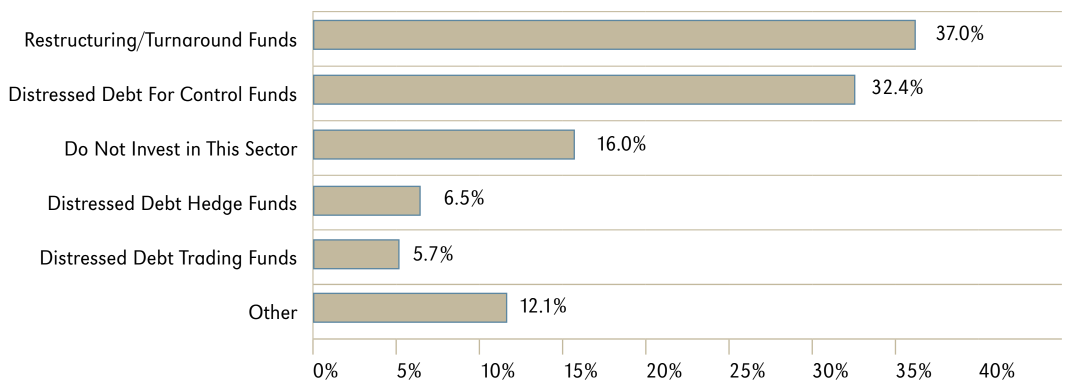


Most Attractive Niche Markets for 2008



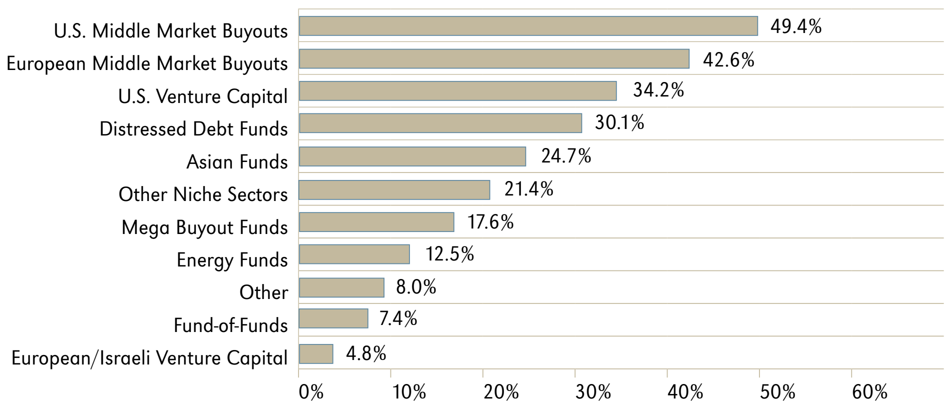
Given that there are a number of distinct strategies within the Distressed/Restructuring Sector, a further question was asked in Chart XXIII to determine more specific investor interest within the sector. Respondents were primarily interested in Restructuring/Turnaround Funds and Distressed Debt for Control Funds, both of which are longer term, control strategies. Amongst these private equity investors, 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 18.2% and 36.8% respectively not investing in any way. Also of note, Distressed Debt Hedge Funds are more appealing to Endowments & Foundations (12.5%) and Family Offices (11.4%) than they are to overall respondents.

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

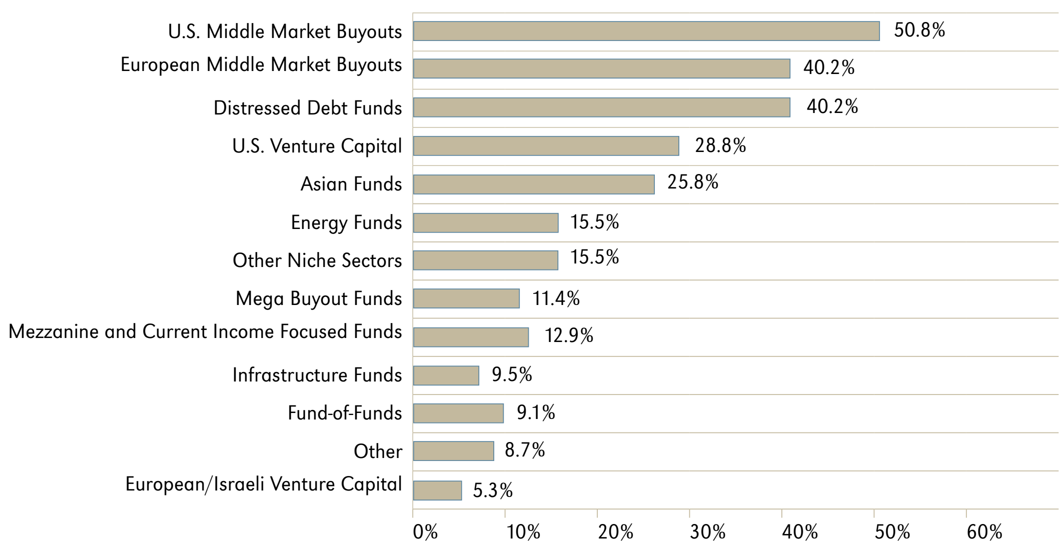


Next, the Survey asked not what sectors investors found interesting or for which they expected the highest returns, but what sectors they plan to actually invest in during 2008. U.S. and European Middle Market Buyout Funds in Chart XXIV unsurprisingly led in responses, but in 2008 Distressed Debt funds overtook U.S. Venture Capital for third place on the list. Mega Buyout Funds slipped further, ending in eighth place in investor interest, though the large amounts that certain investors make into specific funds are likely to buoy fundraising in that sector. As has been the case in all our previous surveys, interest in European and Israeli Venture Capital trails the list, though interest in the sector did increase slightly.

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

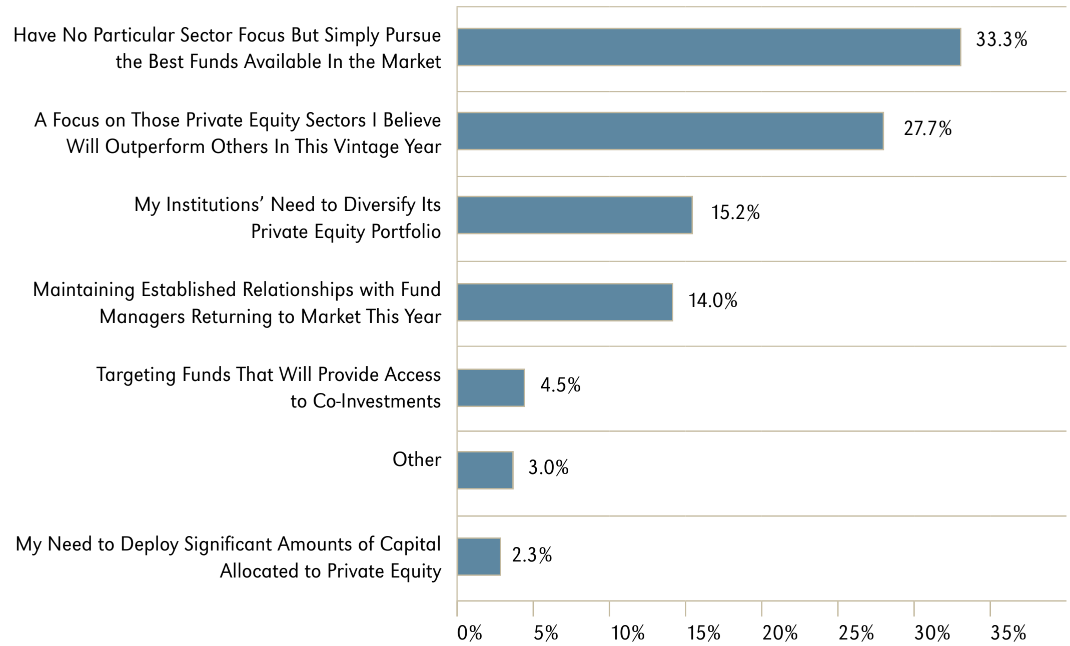


Sectors LPs Plan to Focus Most of Their Attention on Investing in During 2008



However, as illustrated in Chart XXV, many respondents state that they have no particular sector focus and simply pursue the best funds available in the market, though other investors do focus on particular sectors, either in pursuit of the highest performing individual sectors or in search of diversification.

Chart XXV Sector Focus in 2008 Is Being Driven By:

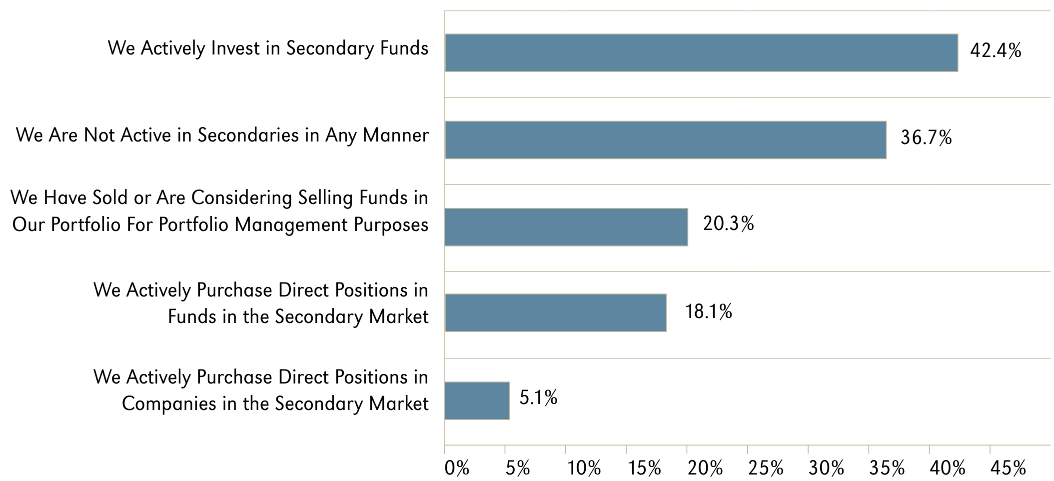


Secondaries, Co-Investments, and Hedge Funds

Given the different ways investors can participate in the Secondary market, the next question goes into some depth. As Fund-of-Funds 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, Chart XXVI has focused on Non-Fund-of-Funds respondents.

Interestingly, and in line with the results observed in the Probitas Partners' 2007 Investors Survey, Non-Fund-of-Fund managers are divided on their approach to Secondaries. A significant number of respondents, over 35%, are not active in Secondaries, even through investing in Secondary Funds. Over 18% of respondents actively purchase direct positions in individual funds in the Secondary market, and over 20% of respondents have either sold positions in their portfolio or are considering it.

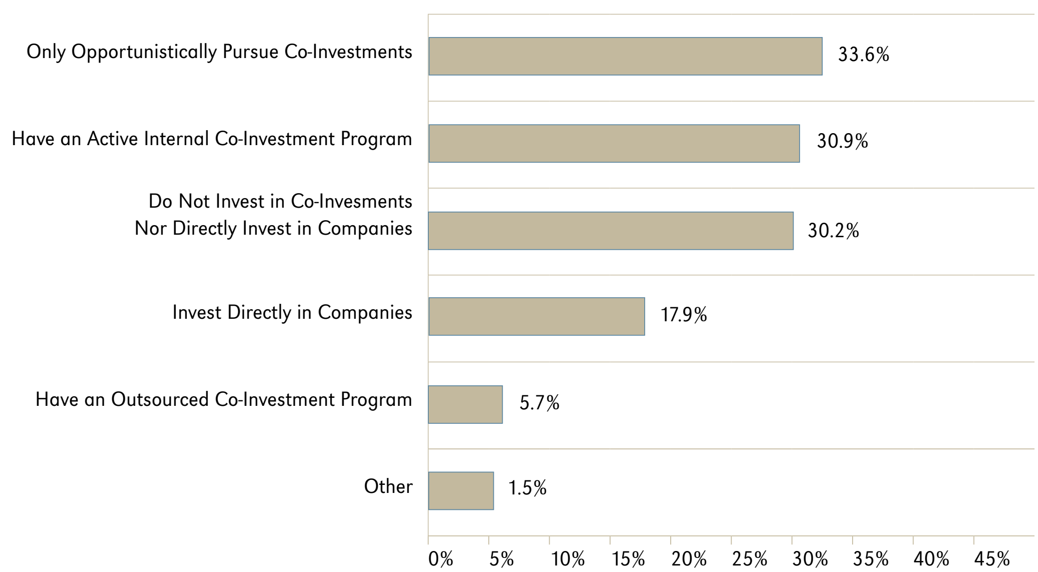
Chart XXVI 2008: In the Secondary Market, Non-Fund-of-Fund Respondents Participated in Various Ways:



The 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 2008), are more likely not to invest in Secondaries, with 45% not being active in the market in any fashion. The largest investors (those looking to commit more than $1 billion), are more active, with 53.3% of them active in purchasing direct positions in funds, 26.7% considering selling funds from their portfolio, 6.7% actively purchasing positions in individual companies and 46.7% 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.

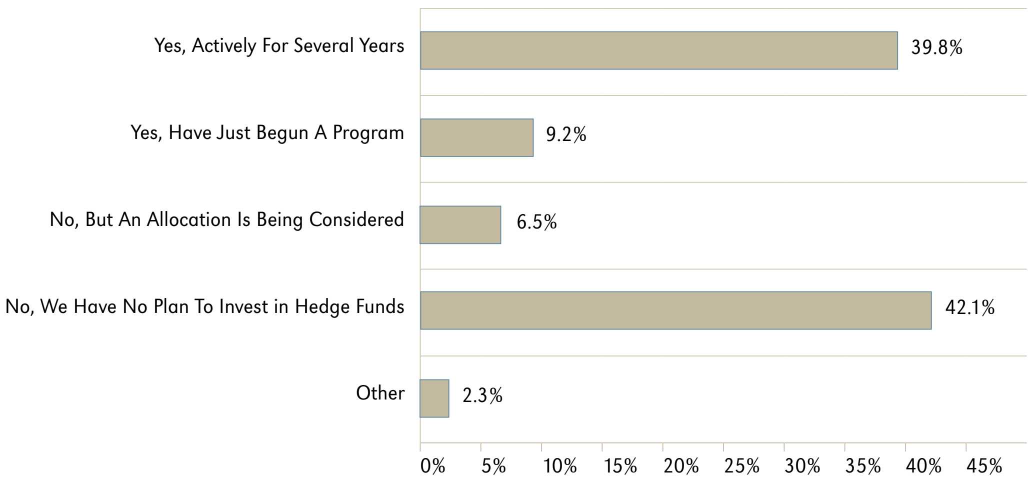
Co-investments are another special area. As illustrated in Chart XXVII, 30.2% of respondents do not make co-investments nor do they directly invest in companies, a decrease from last year's 38.3% response. On the other hand, 30.9% of respondents have an active internal co-investment program, while 33.6% only opportunistically pursue co-investments and 17.9% 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 XXVII Regarding Co-Investments, Respondents:



When asked about hedge funds in Chart XXVIII, respondents were split almost evenly into two distinct groups. Some 49% of respondents invest in hedge funds, of which 39.8% have actively invested in the sector for several years. On the other hand, 42.1% of respondents do not invest in hedge funds, and only 6.5% are considering an allocation.

Chart XXVIII Does Your Institution Invest in Hedge Funds?

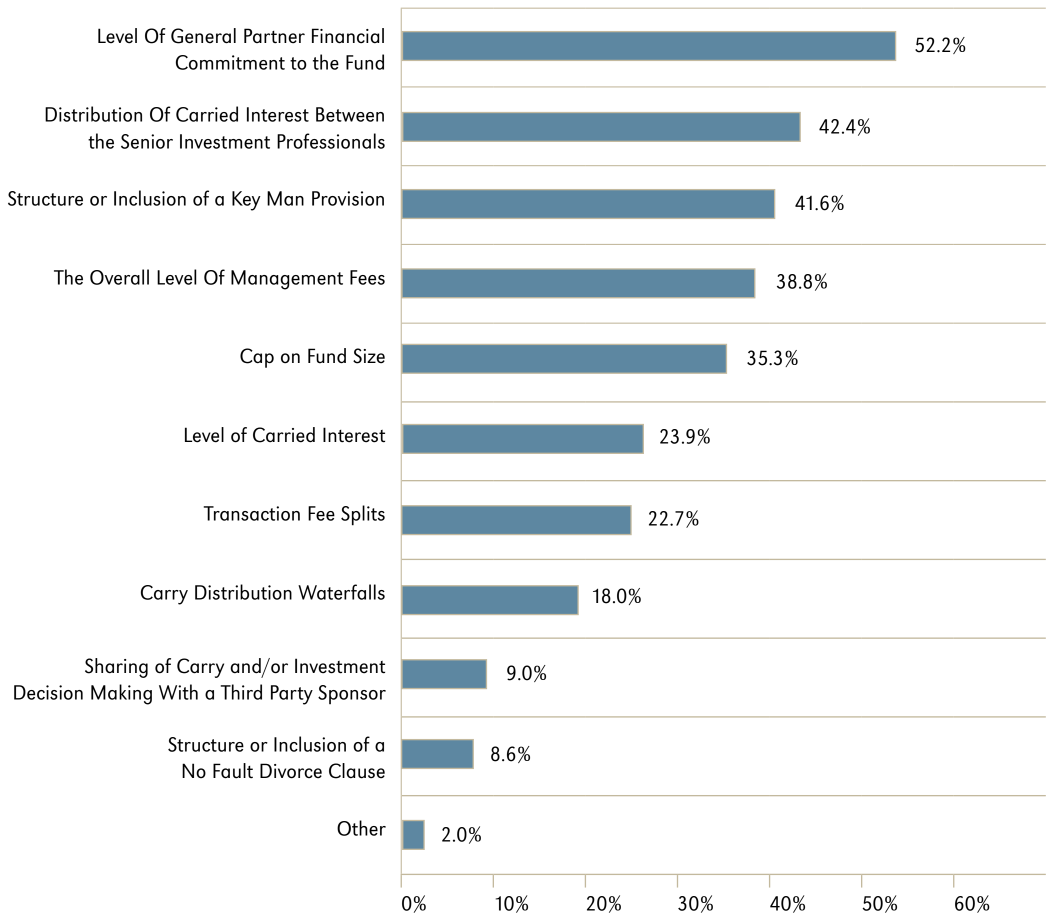


Fund Structure/Fees/Carried Interest

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

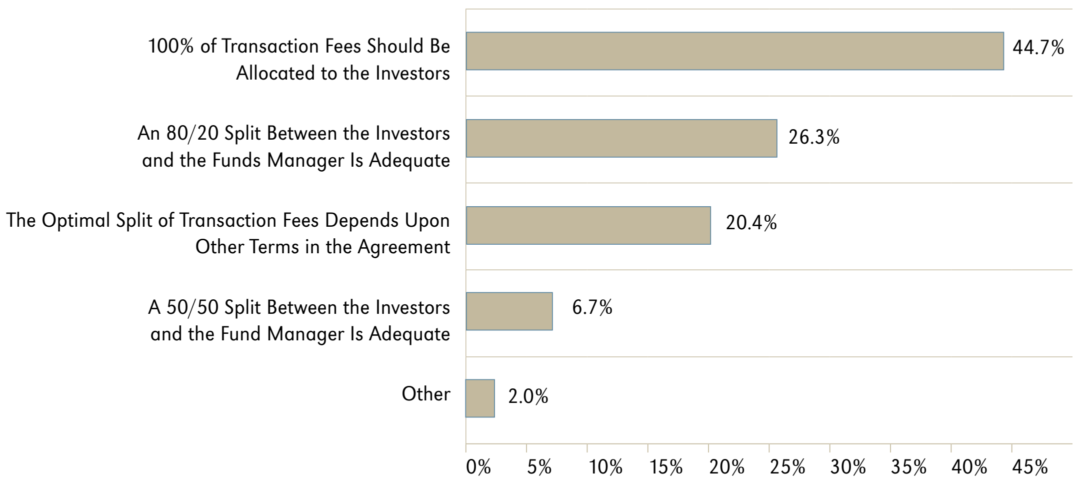
When it comes to the terms and structure of a fund, it is evident in Chart XXIX that investors are primarily concerned with the level of general partner commitment to the fund. Distribution of carried interest and structure or inclusion of key man provisions make up the second and third most important issues, with level of management fees a close fourth. Larger investors appear to be more concerned with transaction fee splits, which is the most important issue for investors committing greater than $1 billion in 2008.

Chart XXIX Issues LPs Focus on Regarding Terms Or Structure of A Fund Are:



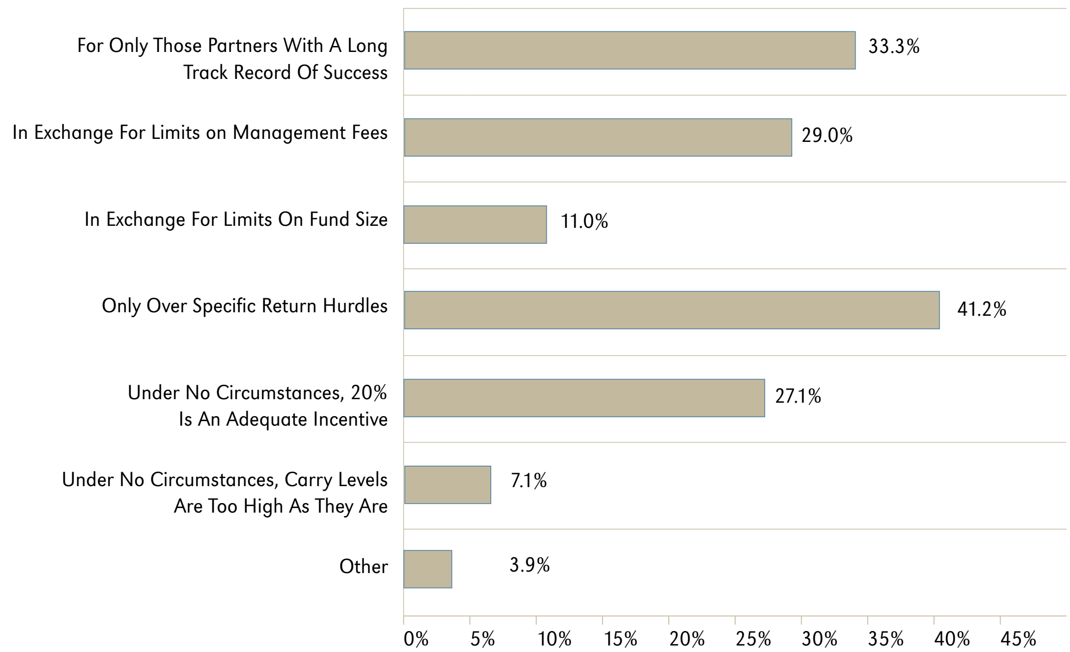
On the key area of transaction fees in Chart XXX, the majority of investors believe that 100% of transaction fees should be allocated to the investors, with a significant number of investors believing either that an 80%/20% split is adequate, or that the proper split needs to be considered as part of a complete package of terms. The preponderance of respondent support for all fees being for the account of investors is clearly not reflected in current market terms, but may begin to reflect itself more in the market if bargaining power shifts more toward investors and away from fund managers.

Chart XXX As Far As Transaction Fee Splits Are Concerned:



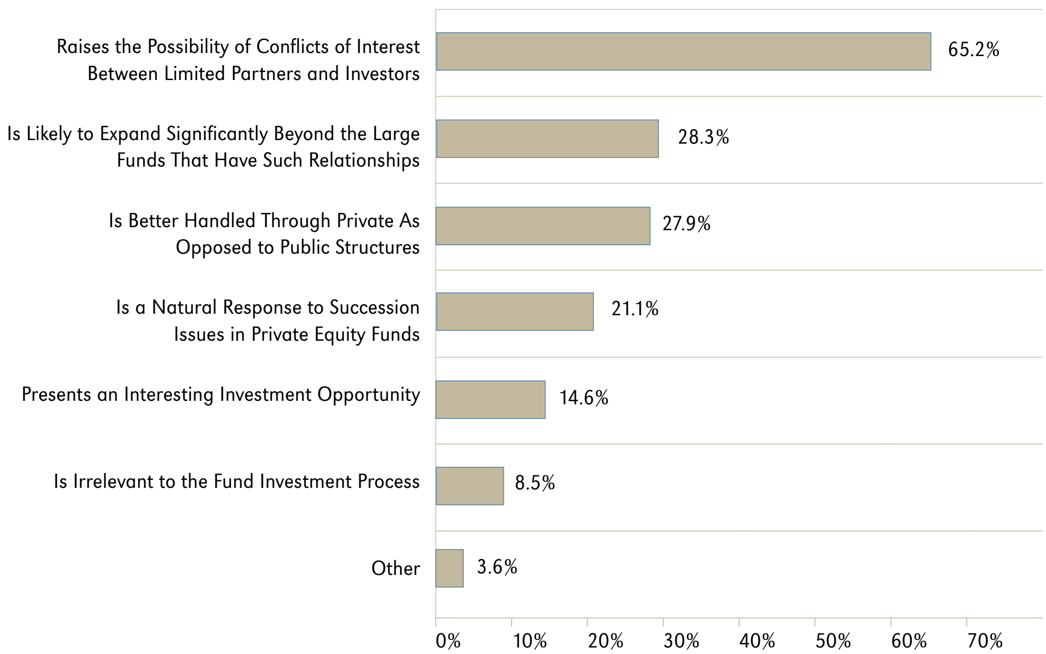
Certain buyout funds are beginning to consider carried interest amounts of greater than 20%, a trend fairly new for buyout funds though more well established with top performing venture capital funds. Only 34.2% of respondents in Chart XXXI would not consider any sort of increase in carry above 20%. 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 XXXI Carried Interest, Especially in the Buyout Sector, Is Normally Set At 20% of Profits. LPs Would Be Willing to Consider An Increase In the Standard Carry:



2007 also saw a significant increase in third party investment in private equity management companies with the initial public offering of Blackstone attracting the most attention. Institutional investor opinion on this trend is decidedly mixed. As shown in Chart XXXII, the greatest concern of investors in private equity funds is that such investment raises the issue of potential conflicts of interest between them and investors in the management company. Though 65.2% of respondents held that view, 14.6% of respondents thought that the trend raised interesting investment opportunities. Of note, interest in investing in management companies is slightly higher amongst larger investors, with 20.7% of respondents from institutions looking to invest more than $1 billion intrigued by the investment opportunity.

Chart XXXII Third Parties Investing in Private Equity Management Companies:



Some of the most strongly expressed individual opinions in the entire Survey were made in response to this question. A selection of these responses below is revealing of the degree of skepticism to which certain investors view the issue:

- *Suggests that general partners believe the gig is up on fees, carried interests and current market valuation. Managers don't sell shares unless they are significantly overvalued.*
- *Is a sign that investment houses have become asset managers.*
- *Was an opportunistic fad to capture value by fund managers during an anomalous period of success.*
- *Is a sucker's game...*

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 randomized by the survey service in order to prevent rank order bias.

A summary of all the results is shown in Chart XXXIII. The top three fears, each selected by over 37% of respondents, were the following:

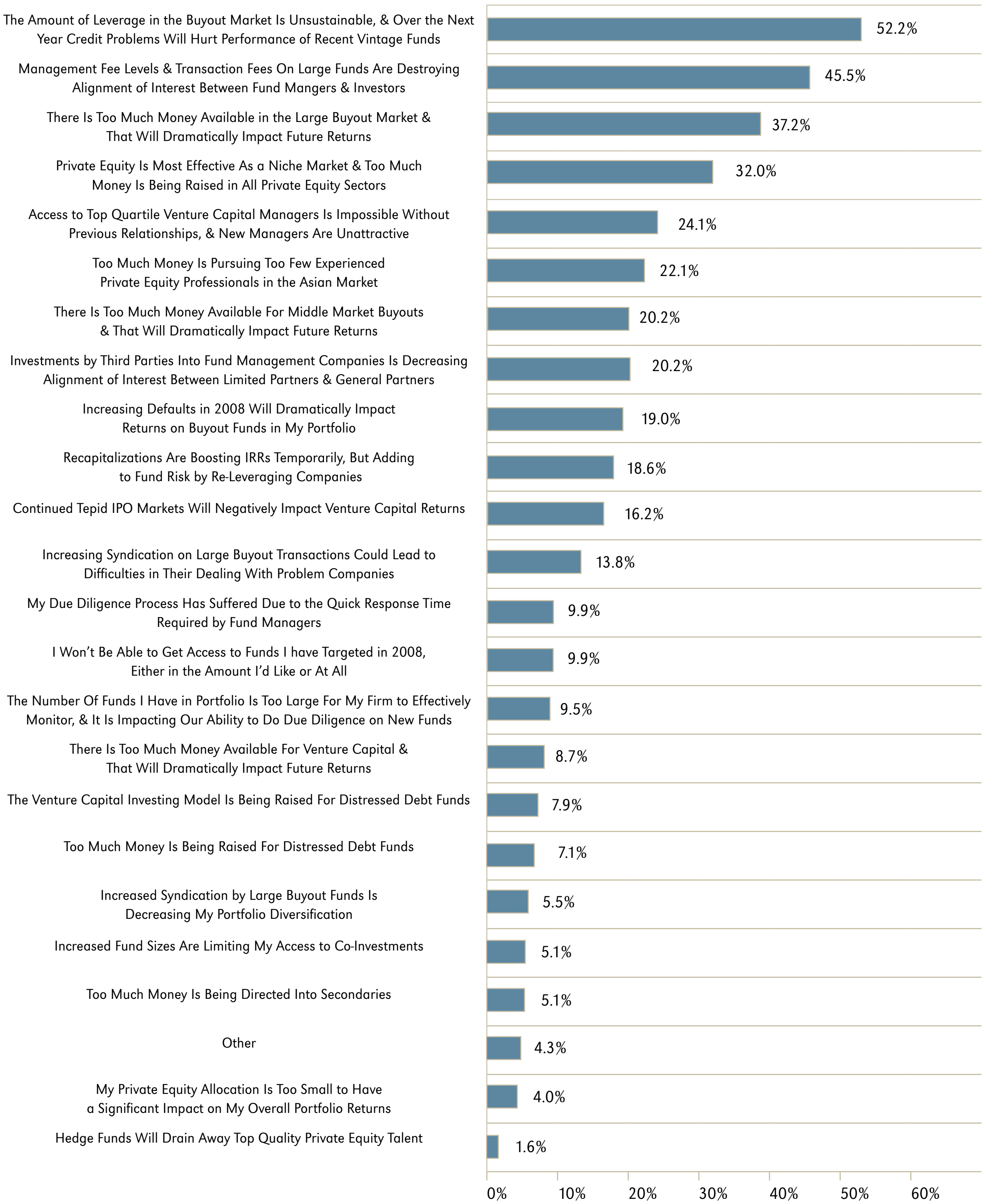
- *The amount of leverage in the buyout market is unsustainable*
- *Management fee levels and transaction levels on large funds are destroying alignment of interest between fund managers and investors*
- *There is too much money available in the large buyout market and that will dramatically impact future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

Interestingly, these were the same top three concerns in the 2006 and 2007 Probitas Investors Survey, though in a slightly different order. Notably, these concerns are focused on aspects of the Large and Mega Buyout market, with much less concern placed on aspects of other sectors such as Venture Capital or Middle Market Buyouts.

The following selected responses from the Other category are also illuminating:

- *An economic downturn in the US impacting global growth and therefore returns.*
- *Too much money pouring into China.*
- *Vintage year diversification is being interrupted by the credit markets and delaying investment of current commitments.*
- *Regulatory backlash on private equity will dramatically affect the business in a negative manner.*
- *The rise of sponsor-less mezzanine funds as well as listed vehicles will continue to reduce buy-out returns in the mid-market*
- *It's always a losing-game for the limited partners, because the GPs are covered on the downside by the management fee and covered on the upside by the carry, which wipes out the LP's profit and loss based on cost accounting*
- *Inability to source sufficient quality or numbers of new managers in some of our core geographies, e.g., Africa.*

Chart XXXIII Investors' Greatest Fears Regarding Private Equity Markets



Summary

In summary, investors' views for 2008 returns seem to share the same underlying themes as they did in 2007, though it increasingly seems that investors' fears are becoming reality. On a positive note, investors remain interested and committed to private equity and plan to commit significant amounts of capital throughout 2008 with robust expectations for certain private equity sectors. The above concerns, combined with the focus of many respondents on the Distressed Debt and Restructuring sectors, mean that investors will tread carefully as they weigh the recent and complex changes in the market.

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