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THE Private Equity Analyst

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Inside

Limited Partners See Growing Promise In Backing New Groups

More than $6 billion available for young managers

When it comes to private equity, **California State Teachers' Retirement System** has always had a preference for high Roman numerals.

But over the next five years, the $92 billion pension fund plans to commit $100 million to Fund Is and IIs.

"The industry is changing," says Senior Investment Officer Réal Desrochers, senior investment officer at CalSTRS, which plans to hire an advisor to run its new-manager program. "Firms are re-grouping, and some people will want to run their own show."

A growing number of institutional investors agree that the industry has ent-ered a period incubation—like one of those giant dust swirls, light years away, out of which stars are being formed. And they're willing to put money behind the most promising.

Together, CalSTRS, **Massachusetts Pensions Reserves Investment Trust, University of Texas Investment Management Co., WestAM Private Equity Group** and other institutional investors have allocated more than $6 bil-

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Select Debut Funds Closed in 2003

Fund Name Location	Amt. Raised ($M)
Antares Special Opportunities Fund, L.P. *Chicago*	$100
Arsenal Capital Partners, L.P. *New York*	$300
Quaker Bioventures, L.P. *Philadelphia*	$170
Shoreview Capital Partners, L.P. *Minneapolis*	$300
Sterling Capital Partners, L.P. *Baltimore*	$300
SunTx Capital Partners, L.P.	$125

PUBLIC PRIVATE-DEAL

Wealthy Investor Tries to Pressure VC Through Press

Limited partners have never been ones to talk to the press about problems they're having with a fund manager (believe me).

Years after the fact, a limited partner might whisper in confidence about a partner who spent more time on the golf course than in the office.

But many LPs feel that it's shooting themselves in the bank account to talk publicly about such incidents while fresh. So many firms have their pick of backers that investors may fear getting labeled a trouble-maker whose money isn't worth taking.

They also may worry about injuring the firm's reputation with management teams.

Raul Fernandez knows the drawbacks. But the rich entrepreneur is nevertheless eager to get

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Deutsche Bank To Sell Fund Portfolio; Citizens Hires Advisor to Explore Sale

Secondary buyers are eager to start churning out cash-flow projections on fund portfolios likely to be sold by two banks.

Deutsche Bank AG, Frankfurt, plans to sell a $600 million to $700 million portfolio of partnership interests, mainly in LBO funds.

Citizens Financial Group, Boston, meantime, is contemplating the sale of a roughly $250 million portfolio of venture capital, buyout and mezzanine funds. **Cogent Partners,** Dallas, has been hired to help value the portfolio, and find potential buyers.

Limited Partners With Portfolios To Sell

Abbey National PLC *London*
Description of Portfolio Partial sale of £1.8 billion ($2.8 billion) portfolio of limited partnership commitments.
Status Reportedly close to finding a buyer.

Dresdner Bank *Munich*
(Now owned by Allianz AG)
Description of Portfolio $4 billion in direct investments and limited partnership interests.
Status Unknown.

FleetBoston Financial Corp. *Boston*
Description of Portfolio Partial sale of roughly $3.6 billion portfolio of direct investments and limited partnership commitments.
Status Unknown.

UBS AG *Zurich*
Description of Portfolio Partial sale of $2.3 billion portfolio of limited partnership commitments.
Status Reportedly close to finding a buyer.

Source: The Private Equity Analyst

Deutsche Bank acquired the to-be-auctioned portfolio as part of its purchase of Bankers Trust Corp. in 1999, according to a source. Largely for strategic reasons, Bankers Trust had committed roughly $3 billion to partnerships from 1995 to 1999, including ones managed by **Bain Capital,** Boston, and **Kohlberg, Kravis Roberts & Co.,** New York.

Deutsche Bank is believed to be selling just a portion of the portfolio, but we weren't able to learn which funds, or how many would be included in the sale. Deutsche Bank executives declined to comment.

Deutsche Bank decided in late 2001 to reduce its exposure to both its direct and indirect private equity portfolios. The goal has been to reduce volatility in its earnings statements, and to lower its cash reserve requirements.

Earlier this year, the bank sold a nearly $1.5 billion portfolio of direct investments to a consortium of investors led by Ted Virtue, who led the team at Deutsche Bank that had built the portfolio (*The Private Equity Analyst,* March, 2003). More recently, the bank has said it plans to securitize a separate portfolio of some 65 limited partnership interests. The bank plans to raise $330 million in cash by secure the interests, creating a basket of debt securities whose value is based on and secured by the underlying portfolio.

Citizens Financial Group is considering the sale of a 35-fund portfolio backed between 1997 and 2001. "Our strategic direction has changed," said President Gail Long. "But we are in no urgency to sell…we will sell only if the price is right."

Ms. Long declined to elaborate, but sources close to the matter said that the bank is looking to pare down lines of business it doesn't consider core to its operations. The bank's private equity arm, **Citizens Capital Inc.**, continues to make direct investments.

According to our database, Citizens Financial Group has committed to funds managed by **Spectrum Equity Investors,** Menlo Park; **Whitney & Co.,** Stamford, Conn., and Boston-based firms **Boston Ventures Management Inc.,** and **Weston Presidio Capital,** among others.

Reach Deutsche Bank at (212) 326-6402; reach Ms. Long at (617) 725-5635.

Dutch Family Creates Splash in United States

The Brenninkmeijer family, one of the wealthiest in Holland, plans to invest some $2 billion in private equity, both directly and through funds, over the next few years, said sources familiar with the effort.

Bregal Holdings, a private equity division of the family's Swiss holding company, is recruiting partners to invest around $600 million to $700 million directly in U.S. mid-market companies, according to one European source.

The division also expects to hire a manager to build an estimated $600 million to $700 million portfolio of U.S. and European private equity funds, our source said.

In May, Bregal Holdings put London-based **Englefield Capital** on the map by committing around €650 million ($732 million) of the €700 million that the firm raised for a debut European mid-market buyout fund, one source said.

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Earlier this year, the division joined **AXA Private Equity, CPP Investment Board,** and the handful of other investors that backed **MidOcean Partners,** when that firm bought a private equity portfolio from **Deutsche Bank AG,** Frankfurt.

Yves de Balmann, co-chairman of Bregal Holdings, and formerly co-head of investment banking at **Deutsche Bank Alex Brown Inc.,** is leading the U.S. private equity efforts. Louis Brenninkmeijer, also co-chairman at Bregal, oversees the European activities.

The Brennickmeijer family is best known for owning C&A Group, a popular European department store chain. The family's hefty private equity allocation puts their program on par with some of the larger U.S. institutional investors, including the **State Teachers' Retirement System of Ohio.**

Reach Englefield Capital at 44-20-7591-4200.

Ohio Seeks Advisor to Run $100M Fund of Funds

Public Employees' Retirement System of Ohio, building toward a 4 percent target allocation, intends to launch a search for an advisor to build an estimated $100 million portfolio of venture capital, buyout and other private equity funds.

Assistant Investment Officer Greg Uebele said that the advisor would commit about 55 percent of the money to buyout funds, 25 percent to venture capital funds and the remaining 20 percent to distressed debt funds, mezzanine funds and industry-focused funds. These sub-allocations roughly mirror the retirement system's targets for its entire private equity portfolio.

The investement staff plans to choose an advisor to handle the fund-of-funds mandate by year-end. After that, Ohio PERS plans to launch searches for advisors to build more specialized fund portfolios—perhaps a venture capital fund of funds and a small buyout fund of funds.

Altogether, the board of the $50 billion pension plans to commit up to $400 million of its $2 billion private equity allocation to funds of funds. One goal of the program is to gain entrée with general partners the retirement system may have difficulty accessing on its own, Mr. Uebele said. Another is to learn tips on due diligence from the fund of funds managers.

Mr. Uebele added that backing funds of funds is a way for the retirement system to put capital to work more efficiently, given its limited staff. The pension fund employs three professionals to build a roughly $2 billion portfolio over the next five or six years.

Ohio PERS began adding to its private equity portfolio only recently: Until 1997, it was prohibited by law from backing GPs that invest outside the state.

Since it approved a 4 percent private equity target in 2000, the pension fund has committed more than $300 million to three funds: **Blackstone Capital Partners IV, L.P.,** New York, **Charterhouse Capital Partners VII, L.P.,** and **Coller International Partners IV, L.P.,** both of London. Ohio PERS expects to add a fourth fund to the portfolio some time within the next few months. Reach Mr. Uebele at (614) 228-1151.

Deal's Glow Fades For Fenway, McCown, De Leeuw, Key LP

Fenway Partners, New York, and **McCown, De Leeuw & Co.**, Menlo Park, appear to have reached the end of the line for their equity investment in Aurora Foods, a collection of food brands that includes Aunt Jemima and Duncan Hines.

California Public Employees' Retirement System, meantime, stands to lose money both as an

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NEWS

investor with Fenway and McCown, De Leeuw, and as a co-investor in Aurora.

Last month, St. Louis-based Aurora said it planned to file for bankruptcy protection, a move that would wipe out most of the $205 million in equity that Fenway and McCown, De Leeuw have invested in the company since 1995. According to a source close to the deal, the two firms already had written off the value of their equity holdings in the company.

We were unable to determine the fate of CalPERS's $25 million direct investment made in 1997.

Under the bankruptcy plan, which has yet to be approved by Aurora's lenders, **J.W. Childs Associates, L.P.,** Boston, would invest $200 million in equity for a 65.6 percent stake in the reorgnized Aurora. It would also try to raise an additional $441 million in bank loans.

Fenway and McCown, De Leeuw would receive approximately $29 million in either cash or unsecured notes in the reorganized Aurora in exchange for a $25 million loan they provided the company last summer.

Aurora's proposed bankruptcy would be another blow for a portfolio company that has seen more than its share of problems. Three years ago the company suffered through an accounting scandal that forced it to restate its earnings; as a result, its share price tanked. Since then, Aurora's share price has continued to suffer and its EBITDA has dropped from $152 million in 2000 to $135 million last year.

Although Fenway and McCown, De Leeuw took the company public in 1998, the two firms did not sell any shares in the IPO and have not sold any since. The two firms formed Aurora in 1995 to buy brand-name operations in the prepared and frozen food industries.

Reach Fenway at (212) 698-9400. Reach McCown, De Leeuw at (650) 854-6000. Reach J.W. Childs at (617) 753-1100.

Franklin Park Wins City of Philadelphia as First Client

Franklin Park Associates LLC, Conshohocken, Pa., the consulting firm formed by six former investment professionals from **Hamilton Lane Advisors Inc.,** Bala Cynwyd, Pa., has now taken more than just personnel from its former parent.

The firm has won an advisory mandate for the $3.8 billion **City of**

NEWS

Philadelphia Board of Pensions & Investments, edging out four other finalists, including incumbent Hamilton Lane. **Cambridge Associates,** Cambridge, Mass, **Pacific Corporate Group LLC,** La Jolla, Calif., and **Portfolio Advisors LLC,** Darien, Conn. also competed for the three-year contract.

Led by CEO Bradley Atkins, Franklin Park's six-member investment team had plenty of experience working with Philadelphia during its time at Hamilton Lane—an advantage that helped them edge out the competition, according to Tony Johnson, the pension fund's chief investment officer.

"We know these guys well and feel very comfortable with their team," Mr. Johnson said.

Franklin Park will be responsible for helping City of Philadelphia Board of Pensions and Investments commit some $80 million annually. In addition to assisting with due diligence, the firm will also monitor portfolio performance, Mr. Johnson said. The pension fund's nine-member board retains discretion over investment decisions.

To date, Philadelphia has committed only around 5 percent of its total investment portfolio to private equity, below its 7.5 percent target allocation to the asset class.

So far this year, the pension fund has committed $65 million to two funds: **Falcon Mezzanine Partners, L.P.,** Needham, Mass., a mezzanine fund with a $250 million target, and **European Strategic Partners II, L.P.,** a European fund of funds with a €1 billion ($1.1 billion) target. It expects to close a third commitment within the next few months.

City of Philadelphia Board of Pensions & Investments is only the second client that Hamilton Lane has lost in the firm's 12-year history.

Hamilton Lane still serves 33 separate-account clients, including **New York State Common Retirement System,** and counts some 110 investors in its funds of funds.

Reach the retirement system at (215) 496-7474.

Two Venture Capitalists Float Idea for Tech Fund

Terry Garnett, a **Venrock Associates** general partner, and David Helfrich, formerly with **ComVentures,** are testing the waters for a new technology fund.

The new firm would be based in

NEWS

Redwood City, Calif., and called **Garnett & Helfrich** at the get-go. The firm's Web site address, www.garnetthelfrich.com, has already been registered.

Messrs. Garnett and Helfrich and have been speaking with prospective limited partners on the East Coast, according to sources. The fund target likely will be somewhere around $200 million. A representative of Outcast Communications in San Francisco, which the two venture capitalists have hired to field press requests, said he would be able to disclose more details "in about a month." Neither Mr. Garnett nor Mr. Helfrich responded to requests for comment.

Should he launch a new firm Mr. Garnett would presumably leave Venrock, where he has been a general partner since 1995. Efforts to obtain comment from the New York-based firm were unsuccessful.

Working out of Venrock's Menlo Park office, Mr. Garnett led investments in several software and information services companies that went public or were acquired. Among them were Crossworlds Software, founded by his wife, Katrina Garnett, and acquired by IBM after going public in 2000; Niku Corp., which went public in 2000; and WhoWhere?, which Lycos purchased in 1998.

Mr. Helfrich, who joined Palo Alto-based ComVentures as a partner in 1997 and left earlier this year, specializes in network infrastructure and communications companies. He remains on the boards of three companies. They are P-Cube, a Sunnyvale, Calif.-based provider of Internet service-control platforms; Hatteras Networks Inc., a Durham, N.C.-based developer of network equipment; and Kagoor Networks Inc., a San Mateo startup developing technology to provide voice communications via the Internet.

Venrock is expected to be in the market for a new fund later this year. The firm has said that one general partner, Tom Frederick, does not plan to be aboard for the new fund. That would leave the firm with 10 general partners, including Mr. Garnett. Reach Garnett & Helfrich at (650) 632-4403. Reach Venrock at (212) 649-5600.

New York State Assigns Advisory, Consulting Work

New York State Common Retirement System, which earlier this year decided to expand its base of advisors to help manage its $10 billion private equity portfolio, has awarded a non-discretionary mandate to **Pacific Corporate Group.**

Separately, the $99 billion New York pension system has hired **J.P. Morgan Investment Management,** New York, to conduct an evaluation of the portfolio with an eye toward reducing its overall risk.

La Jolla-Calif.-based PCG joins **Hamilton Lane Advisors Inc.,** which until now was the sole non-discretionary advisor to New York State Common Retirement System.

In 2002, the pension fund committed less than $1 billion to 10 private equity funds and two real estate funds, compared to roughly $2.5 billion in commitments the previous year.

J.P. Morgan is expected to review the performance of the 166 individual partnerships in New York's portfolio, and to recommend strategies for dealing with poorly performing managers. The firm is also expected to recommend allocations to various industries and investment strategies within alternative investments.

Reach the retirement system at (212) 681-6403.

Buyout Firms Begin Guiding Directory Publishers to IPOs

Buyout firms have started guiding the Yellow Pages publishers they own to IPOs—good news for limited partners who saw billions of dollars invested in this field over the past two years.

Last month, **Hicks, Muse, Tate & Furst**, Dallas, and **Apax Partners**, London, took portfolio company Yell Group plc public on the London Stock Exchange, raising £1.1 billion ($1.8 billion) in an over-subscribed offering.

Through the Yell IPO, Hicks, Muse and Apax each sold shares valued at £353.5 million, nearly making back the £375.5 million they each invested in the company since acquiring it in 2001. Including the value of their remaining holdings, Hicks, Muse and Apax have more than doubled the value of their equity investment in the company.

This month **Kohlberg Kravis Roberts & Co.** and **Ontario Teachers' Merchant Bank** have scheduled a 1 billion Canadian dollars ($722 million) public offering for Yellow Pages Group Co., the former directories business of Bell Canada. The two firms acquired the business last September for $3 billion Canadian dollars.

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At the offering price, the two firms would double the paper value of the 900 million Canadian dollars that they invested in Yellow Pages Group.

In the last two years, buyout firms have invested in or agreed to invest in four Yellow Pages deals with a combined value of nearly $20 billion. In addition to Yell and Yellow Pages Group, **Carlyle Group,** Washington, D.C., and **Welsh, Carson, Anderson & Stowe**, New York, last year bought Qwest's directory business for $7.1 billion.

BC Partners and **CVC Partners**, both of London, and Italian private equity firm **Investitori Associati,** last month agreed to buy Telecom Italia's Yellow Pages business for $6.6 billion.

For Hicks, Muse, the timing of the Yell offering could not be better. Last month the firm sent out private placement memoranda for its second European buyout fund, **Hicks, Muse, Tate & Furst Europe II, L.P.,** which features a $1.5 billion target.

"It's more than coincidence that they're trying to show some realizations from the [first] European fund right now," said one limited partner. Yell is the largest of the eight investments Hicks, Muse has made through **Hicks, Muse, Tate & Furst Europe, L.P.**, which closed at $1.5 billion in 2000.

Hicks Muse and Apax had planned to take Yell public last year but pulled the offering due to poor market conditions. Reach Hicks, Muse at (214) 740-7300. Reach Apax at 44-207-872-6300.

UBS Adds Bulk to its U.S. Fund Placement Division

The London-based fund placement unit of **UBS Investment Bank,** formerly UBS Warburg, has added some muscle to its two-year-old U.S. operations. The goal is to expand the firm's roster of domestic clients, as well as its ability to raise money for them.

The placement group—which specializes in raising capital internationally— has hired three placement professionals to be based in its Stamford, Conn.-based office, bringing the total number of professionals in the United States to 15.

Two recent hires are Managing Directors Mark Schroeder and Ken Freeman, both formerly at rival placement shop Credit Suisse First Boston, New York. Messrs. Schroeder and Voelker will work on the client origination side. A third hire is Director Marty Voelker, formerly at Salomon Smith Barney, New York. Mr. Freeman will work on the distribution side.

At the same time, UBS Investment Bank's global head of the placement group, Richard Allsopp, plans to move from London to the East Coast, to lead the placement group's big push in the United States.

In the next few months, the firm plans to add five more professionals, with the goal of drumming up a larger base of U.S. clients, as well as to grow stronger on the distribution side, according to Jake Elmhirst, UBS Investment Bank's head of origination in the United States.

UBS Investment Bank is raising money for at least four U.S. clients. They are **Gores Technology Group,** Los Angeles, seeking $600 million for its debut technology LBO fund; **Swander Pace Capital,** San Francisco, seeking $300 million for its third consumer products buyout fund; **Monitor Clipper Partners,** Cambridge, Mass., seeking $600 million for its second fund; and **Pacific Corporate Group,** La Jolla, Calif., seeking $400 million for a distressed debt fund of funds.

All told, UBS Investment Bank has 23 professionals, Reach UBS Investment Bank in Stamford at (203) 719-6858.

Monument, Helix Team Up To Offer Fund Marketing

Placement firms **Monument Group,** Boston, and **Helix Associates,** London, have launched a joint venture offering their fund-raising skills to general partners in a single pacakge.

The two firms plan to try to win mandates from firms raising multibillion dollar partnerships. Monument Group brings to the table its connections to U.S.-based investors, while Helix Associates brings its roster of European investors.

Monument is presently raising a $1 billion distressed debt fund for **Cerberus Capital Management,** New York; a $600 million buyout fund for **Monitor Clipper Partners,** Cambridge, Mass., and a $425 million mezzanine fund for **Capital Resource Partners,** Boston.

Meanwhile, Helix Associates has placed funds for firms such as **Hicks, Muse, Tate & Furst,** Dallas, and **Bridgepoint Capital,** London.

The two firms have worked together before. Earlier this year, the two groups helped **Altor Equity Partners,** Stockholm, raise €650 million ($740 million) for its debut mid-market LBO fund. Reach Monument Group at (617) 423-4700. Reach Helix Associates at 44-20-7838-7600.

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LIMITED PARTNER PROFILE

Standard Life Plots Return to United States

Standard Life Investments (Private Equity) Ltd., Edinburgh, Scotland, has rediscovered a taste for U.S. private equity, eight years after it withdrew from the region to concentrate just on Europe. And this time, it has hired a U.S. team to ensure it gets into the best partnerships.

Over the next three years, the firm plans to commit $200 million to U.S. buyout partnerships on behalf of its parent insurance company. Eventually it would also like to incorporate U.S. funds into what is now a €1.8 billion ($2 billion) European fund of funds business.

"We want to develop a global portfolio, and the United States is the largest private equity market in the world," says Chief Executive Jonny D. Maxwell, who oversees the private equity division's 16-member investment team.

Why does he believe the firm's return to the U.S. market is well timed? In part because a large and growing number of U.S. institutional investors have gone past their target allocations, Mr. Maxwell says. That promises to give Standard Life an easier time gaining large slots, on favorable terms, in what he considers brand-name funds.

At a Glance

Standard Life Investments (Private Equity) Ltd.

Location Edinburgh, Scotland

Assets Under Management €1.8 billion.

History Standard Life Investments (Private Equity) Ltd. began investing in private equity on behalf of its parent in 1984 and now manages about €1.8 billion ($2 billion) in commitments. At press time, the firm had raised €639 million of the €1 billion it seeks for its second European fund of funds. It expected to hold a second closing by late July.

Principals Chief Executive Jonny Maxwell heads a team of 16 investment professionals, including Managing Director Dan Cahill, who heads the private equity firm's Boston office.

Recent Commitments Altor 2003 Fund, L.P., Stockholm, Capvis Equity II, L.P., Zurich, Switzerland, Graphite Capital Fund VI, L.P., London.

Phone Edinburgh: 44-131-245-0055;
Boston: 617-720-7900.

Local People for Local Deals

Standard Life first began investing in U.S. funds in the 1980s, but had a tough time getting into all of the funds it wanted. Mr. Maxwell, then the firm's only full-time private equity professional, helped sell the U.S. fund portfolio in 1995 on the secondary market.

"You need local people to manage local commitments," Mr. Maxwell explains. Without a full-time presence in the United States, he says, it was difficult to get close to the "people, deals and rumor mills." He adds: "I can speculate from Scotland what is going on in New York, but I can't actually taste it until I get there."

This time, Standard Life has opened a Boston office, and hired two professionals, to build the U.S. portfolio. Managing Director Dan Cahill is a former principal at Boston-based fund of funds manager **Wilton Asset Management LLC.** Investment Director John Guinee was formerly a vice president in the strategic acquisitions arm of **State Street Corp**.

Together, they plan to build a portfolio of around 12 to 14 U.S. funds, largely small and mid-market buyout funds. Mr. Cahill believes such firms are acquiring companies at attractive prices, and have excellent prospects for generating high returns. Standard Life also may consider making commitments to one or two U.S. mezzanine funds, as well as a large buyout fund or two. Purchasing a fund interest or two on the secondary market isn't out of the question.

Standard Life has no plans to commit to U.S. venture funds or distressed debt funds over at least the next year or two; the firm regards those areas as overfunded. However, Mr. Cahill says that the firm will continue to meet with those firms, with an eye toward backing venture and distressed debt funds several years down the road.

Mr. Cahill says that the Boston-based team is conducting due diligence on some 10 partnerships. It expects to make its first commitments by year-end.

Once it has established a U.S. track record on its parent company's balance sheet, Standard Life may use it as a springboard to develop a global fund of funds that would offer investors a choice of allocating their capital across U.S. or European funds.

But, says Mr. Maxwell, "we're under no pressure. It will take us a while to deploy this capital and make sure we're with the best managers."

PEOPLE PROFILE

Wanted: Secondary Interests in Young LBO Funds

Urs Wietlisbach, partner and co-chairman of **Partners Group,** the Zug, Switzerland-based fund of funds manager, is making secondaries his first order of business for the next year or two.

To be sure, his firm still plans to commit some $200 million to $300 million to large-cap European and U.S.-based LBO funds, and select U.S-based venture funds.

But Mr. Wietlisbach says that much of the firm's activity this year will be on the secondary side. "Funds managed by top-tier managers are up for sale at very attractive prices," Mr. Wietlisbach says. "But they won't be available forever."

To seize the opportunity, Partners Group—which has committed more than €3 billion ($3.4 billion) to more than 120 funds—has set out to raise €400 million for its first secondary fund. Roughly 80 percent of the secondary fund is earmarked for buyout partnerships—especially those that are based in Europe.

Mr. Wietlisbach says that his firm doesn't plan to compete for large secondary deals with the likes of **Coller Capital,** London, and **Lexington Capital Partners,** New York, both of which have recently closed on funds of $2 billion or more.

Instead Partners Group plans to source deals from its own stable of 120 general partners. Partners Group, for example, recently purchased a fund interest after the GP alerted Partners Group that one of the other LPs was interested in selling it.

Altogether, Partners Group, which plans to invest roughly $2 million to $14 million a pop to acquire such interests, has identified a "most-wanted list" of 17 LBO funds that it wants to acquire interests in.

Mr. Wietlisbach says that his firm's strategy is to purchase three-to four-year-old partnerships that are less than 70 percent drawn down. "We are buying at the lowest point on the J-curve, we have saved three years of management fees, and the best exits in the portfolio are still to come," says Mr. Wietlisbach.

Indeed, Mr. Wietlisbach says that not all young funds are of interest: If the fund has already enjoyed two or three exits, Partners Group would avoid it because a significant part of the upside has already occurred. Such is the case, Mr. Wietlisbach says, with the most recent partnership of **Texas Pacific Group,** Fort Worth, Texas.

Since 1998, Partners Group has committed €560 million to secondary deals. Of the roughly €492 million that has been drawn down for investments, Partners Group has received nearly 61 percent back in distributions.

Mr. Wietlisbach points to a recent windfall from a secondary interest in a German mid-market LBO fund that Partners Group purchased from a family office.

"Four days after we purchased the interest, there was an exit, and we got half out investment back," Mr. Wietlisbach says.

Brief Stats

Personal Grew up in Zurich; now lives in near Zurich with his wife.

Education Received a degree in business administration from University of St. Gallen, 1987.

Career Path Mr. Wietlisbach, 42, was one of the three founders of **Partners Group,** where he helped build the firm from a three-person shop to a 100-professional firm with more than $4 billion under management. The firm has a reputation for raising funds of funds through the sale of convertible bonds. Mr. Wietlisbach, who serves as co-chairman, now works mainly on maintaining client relationships with nearly a 100 clients and investors. Prior to founding Partners Group, Mr. Wietlisbach was a corporate banker at Credit Suisse Group, and an executive director at Goldman Sachs & Co.

Urs Wietlisbach

Select GP Relationships Apollo Advisors, Cinven Ltd., Mercapital Servicios Financieros, New Enterprise Associates, Silver Lake Partners, Texas Pacific Group, Warburg Pincus LLC.

Pet Peeve Large management fees. Mr. Wietlisbach recently led the push at his firm to pass on a large venture fund that was not budging on its management fees. "LPs have to put pressure on GPs when it comes to management fees," he says. "If GPs have higher fee income, how will they be incentivized to make the fund perform well?"

Interests Jogging, playing golf, skiing, exploring different kinds of cuisine.

PARTNERSHIP PROFILE

Dot-Com Exits Help Boost TCV's Performance

Two dot-com investments and one software deal have helped **Technology Crossover Ventures** go from deep red into the black on its vintage-2000 late-stage venture fund. The turnaround has given TCV a leg-up as it thinks about the launch of a successor partnership later this year.

In the biggest gain of the $1.7 billion **Technology Crossover Ventures IV, L.P.,** the firm, which invests in both public and private companies, says it has made at least 10 times its money on an initial investment three years ago in then-public Expedia.com, an online travel service provider.

"Expedia was a market leader in a fragmented travel industry," says TCV Co-founder Jay Hoag. "We knew it could become a very successful company."

Another dot.com in TCV IV that is doing well is Netflix. TCV used Fund IV to invest in the online DVD rental service company in 2000, and made an additional investment last August, when the shares were trading at around $13 per share. Netflix's share price has risen to $26 since.

Technology Crossover Ventures IV, L.P.

Vintage Year 2000 (Raised in late 1999 but considered a 2000 vintage year fund, according to the firm.)

Focus Crossover investments, including privately-held late-stage companies, and investments in public companies.

Select Investors AIG Global Investment Corp., BancBoston Capital Inc., California Public Employees' Retirement System, Colorado Public Employees' Retirement System, Fort Washington Capital Partners LLC, Kenyon College, TIAA-CREF.

Fund Return Data as of December 31, 2002, obtained from CalPERS

Amount Committed $25.0 million

Amount Invested $15.9 million

Amount Distributed $1.2 million

Fund Valuation (Amount Distributed plus estimated remaining value) $10.6 million

Net IRR (18.9)%

Another promising company in TCV IV is Altirus, an enterprise software developer that the venture firm backed in 2001. TCV invested $35 million for a roughly 30 percent stake in the company. At today's share price of $24, TCV's stake is valued at roughly $175 million, representing nearly a five-times gain.

It would be hard to overstate the impact these three deals have had on the prospects of Fund IV, which is now roughly 70 percent drawn down.

As recently as year-end, one limited partner, **California Public Employees' Retirement System,** estimated that its investment in TCV IV had generated a net IRR of –18.9 percent, according to an advisor to the pension fund, **Grove Street Advisors LLC,** a Wellesley, Mass. In other words, CalPERS estimated that its $15.9 million investment in the fund had lost 33.3 percent of its value.

Mr. Hoag says that the firm had some write-offs early in the life of the partnership, especially among some of the early-stage investments it made in 2000—a strategy that represented something of a departure for the firm.

Now, thanks to the three solid performers, LPs say that TCV IV is actually one of the top-quartile performing late-stage venture funds of 2000.

One investor also told us that TCV IV is profitable; that is, the valuation of the fund was greater than its cost as of the end of the second quarter.

"That is a big thing in a late-stage fund of that vintage," the LP says.

Whether that performance holds up is of course a question mark for a three-year-old fund with plenty of privately-held companies left in the portfolio: Of the 53 companies in Fund IV's portfolio, five are public, and the rest are privately-held.

In addition, the performance of TCV IV, though by all accounts conservatively valued, is based largely on estimates of unrealized value in the portfolio. To date, TCV has distributed about 15 percent of the money that it has deployed using the fund, Mr. Hoag says.

Clint Harris, managing general partner at Grove Street, says that the recent exits have encouraged TCV to think more positively about the launch of a successor fund later this year.

"TCV's exits demonstrate that they can successfully execute their late-stage strategy," Mr Harris says. "It does appear that the firm is now pretty optimistic about its fund-raising prospects."

DEAL OF THE MONTH

Does Carlyle Deal Show It Needs Another €2 Billion?

Carlyle Group, L.P., has taken five years to invest about 80 percent of its debut €1 billion European buyout fund. But its most recent European deal should help ease any concerns backers have that the firm is trying to raise too big a successor.

The Washington, D.C.-based firm, which set out earlier this year to raise a €2 billion second fund, has agreed to invest €350 million toward the purchase of **FiatAvio SpA,** Fiat's aircraft engine manufacturing division. The price for the company is €1.5 billion ($1.7 billion).

It would be the firm's largest European investment to date, and more than exhaust **Carlyle Europe Partners I, L.P.,** a €1 billion fund closed in 1998. It would also be one of the few times Carlyle has taken such a large stake in a big European company.

Carlyle would own a 70 percent interest in the company, if the deal goes through; its partner in the transaction, Finmeccanica SpA, would own the rest.

By contrast, Carlyle's recent large European deals have required far less equity. Carlyle partnered with **Providence Equity Partners,** Providence, R.I., and **GMT Communications Partners,** London, to acquire Casema, the Netherlands third-largest cable television operator, for €665 million. Of that Carlyle invested less than €100 million in equity. Last year, Carlyle joined **Apax Partners** and **Cinven,** both of London, in a buyout of Vivendi Universal's health care and business publishing operations for €1.2 billion—a deal that required Carlyle to invest less than €150 million in equity.

Indeed, the FiatAvio deal is so big that, unless Carlyle can quickly hold a first closing on its second European LBO fund, the firm is likely to have to draw most of the equity for the deal from its $3.8 billion U.S. fund, **Carlyle Partners III, L.P.** Carlyle may also have the option to invest some of the €650 million it raised in 2000 for its debut European venture capital fund. The firm has proposed changing the strategy of the fund to include buyouts.

The firm also may have to get creative in financing a possible add-on acquisition for FiatAvio. Carlyle already has its eyes on MTU Aero Engines GmbH, the aircraft engine division of Daimler Chrysler. The likely price tag on that deal: €1.8 billion.

At a Glance

The Company: FiatAvio SpA, the Turin, Italy-based aircraft engine manufacturing unit of Fiat Spa.

The Deal: Carlyle Group, Washington, D.C., and Italian defense contractor Finmeccanica have agreed to pay €1.5 billion ($1.7 billion) to purchase the business. The two firms would invest approximately €500 million in equity to fund the deal. Carlyle would own 70 percent of the business, while Finmeccanica would own 30 percent. Banca Intesa SpA, Citigroup, Goldman Sachs & Co., Lehman Brothers and Mediobanca have agreed to supply the debt financing for the deal.

The Performance: Last year, FiatAvio posted operating income of €210 million on revenue of €1.5 billion. The company operates 14 manufacturing plants and 9 research centers. It has more than 5,000 employees.

In Carlyle's Wheelhouse

With FiatAvio, Carlyle is investing only for the second time in the European defense industry. Defense is where the firm has the most experience in the United States.

In its only other European defense deal to date, Carlyle late last year agreed to acquire a 31 percent stake in QinetiQ, a British laboratory that develops and tests weapons. Carlyle has invested the bulk of its European LBO fund in automotive parts and industrial machine makers, an engineering company, and even a French newspaper company.

As in the United States, European defense companies often have strong cash flow and dependable clients. Last year, FiatAvio posted operating income of €210 million—or 14 percent of its €1.5 billion in revenue. The company's clients include the Italian and French governments, as well as contractors General Electric and Pratt & Whitney.

FiatAvio also supplies engines to commercial airlines, making the company less susceptible to a decline in military orders. FiatAvio is the Italian market leader in research, design and development of aircraft engines. The company produces components for aeronautical engines, accessory gearboxes, low-pressure turbines, naval and space propulsion system. It also provides maintenance services for military and commercial aircraft engines.

Carlyle's partner in the deal, Finmeccanica SpA, is itself an Italian aerospace and defense contractor. The company promises to be a good source of contracts for FiatAvio, as well as advice on how to navigate the defense bureaucracy in the country.

DEAL TRENDS

Distressed Deals Come into Vogue in Second Quarter

Buyout firms went bargain hunting in the second quarter.

They bought 29 companies that were either distressed themselves, or were being spun out of troubled companies. That represents 30 percent of all the deals completed last quarter, according to a deal-by-deal analysis by *The Private Equity Analyst*.

Dollar-wise, distressed deals with disclosed values added up to nearly $5.6 billion, or more than 40 percent of the $13.5 billion in total disclosed deal volume in the second quarter.

Distressed deals are growing in popularity just as it becomes more difficult to buy healthy companies. Owners of healthy companies tend to have high price expectations that LBO firms largely are unwilling to match.

A number of healthy companies shopped to LBO firms in the second quarter never found buyers. **DLJ Merchant Banking Partners** pulled the auction for its portfolio company Mueller Co., after receiving several bids from buyout firms that valued the company at as much as 7-times trailing EBITDA. The private equity arm of New York-based **Credit Suisse First Boston** wanted at least 8-times for the maker of fire hydrants. Other companies shopped to LBO firms in the second quarter that never found buyers include General Electric Co.'s motors division, which reportedly had an asking price of $750 million, and Hayward Industries pool-supply business, which Bain Capital agreed to buy for an 8 times EBITDA multiple, but later abandoned the deal.

Buyout firms that did acquire healthy companies last quarter found themselves putting up 40 percent of the purchase price in equity. By contrast, those buying distressed companies often need little or no equity at all.

Sun Capital Partners, Boca Raton, Fla., last quarter acquired Minneapolis-based music retail chain Musicland from Best Buy Co. Inc. without investing any equity, although it had to assume $100 million in liabilities. Less-than-profitable Musicland generated about $1.7 billion in sales from its 1,100 retail stores.

LBO firms managed to acquire some well-known brand names through their distressed deals. A consortium of investors that included **Ares Management,** Los Angeles, invested $105 million in equity to take a controlling stake in Denver-based luggage maker Samsonite Corp. **Cerberus Capital Partners,** New York, acquired Fila Holding SpA, the Biella, Italy-based sports apparel maker, for $351 million.

Leonard Green & Partners, Los Angeles, gained control of bankrupt mapmaker Rand McNalley, Skokie, Ill., by investing $75 million in equity. Through the deal, Leonard Green was able to erase the company's $300 million in outstanding debt, which should help the business reach profitability in the next year.

W.L. Ross & Co., which notched the largest distressed deal completed last quarter with its $1.6 billion purchase of Bethelehem Steel, a Pittsburgh-based bankrupt steel producer. W.L. Ross has merged the company with two other bankrupt steel producers it acquired in the last year to form International Steel Group, a consolidation play that now controls more than 20 percent of U.S. steel production.

Distressed Deals Dominate in Q2

A breakdown of distressed deal volume by size of deal.

Deal Value ($M)	# Deals w/ Values Disclosed	Total ($M)	Average ($M)
>$1,000	2	$2,680.0	$1,340.0
$501 to $1,000	1	850.0	850.0
$251 to $500	3	1,038.4	346.1
$100 to $250	6	650.0	108.3
<$100	8	352.6	44.1

LBO Firms Remain Focused on Manufacturing and Media Companies

Sector	# Deals	Deals w/ Values Disclosed	Total ($M) w/ Values Disclosed
Manufacturing	29	18	$5,412.7
Media/Telecom	18	15	3,016.9
Services	19	8	1,713.2
Health Care	9	5	1,692.2
Energy	7	7	1,399.9
Retail	6	4	282.5
Distribution	6	2	29.5

DEAL LOG

Mid-market deals continued to dominate the LBO market last month. **American Securities Capital Partners** and **Private Power LLC** led the way with their joint acquisition of several Northern Indiana power plants. A number of mid-market shops also made non-leveraged equity investments. **Nautic Partners** invested $90 million in janitorial services company GCA Services Group. **Providence Equity Partners** put $75 million into movie theater chain Kerasotes Theatres.

Deal Log

Deal Flow

Apollo Joins Soros In Bid For International Satellite Company

Apollo Advisors, Purchase, N.Y., has teamed up with **Soros Fund Management,** New York, on a joint bid for **Inmarsat Ventures,** London, which provides voice and data service around the world. Apollo and Soros are facing off against a consortium that includes European buyout firms **Apax Partners** and **Permira Advisers,** both of London. Experts predict the winning bidder would likely pay in the neighborhood of €1.5 billion ($1.7 billion) for the company. The seller is a consortium of European telecom companies that includes **BT Group, France Telecom, Telenor** and **Deutsche Telekom.** Inmarsat (an acronym for International Marine Satellite Organization) operates a network of satellites used mainly in aeronautical and nautical communications; last year it posted earnings of €463 million. The company also operates the AIRIA system, which broadcasts news and sporting events to ships. Inmarsat plans to adapt its satellite technology to produce a line of mobile phones that could be used almost anywhere. The company saw a spike in business in recent months, when several news organizations used Inmarsat's satellites to broadcast stories about the Iraq War. Reach Apollo at (914) 694-8000. Reach Soros Fund Management at (212) 262-6300.

Done Deals

American Securities Buys Several Power Plants in Northern Indiana

American Securities Capital Partners LLC, New York, has teamed up with a power development firm, **Private Power LLC,** to acquire several North Indiana power plants. **Primary Energy Inc.** was the seller in a deal valued at $335 million. American Securities invested an undisclosed amount of equity in the deal from **American Securities Capital Fund III, L.P.,** closed at $650 million in 2001. The power plants have long-term contracts with several steel businesses in Indiana, including Ispat Inland, International Steel Group and U.S. Steel. American Securities and Private Power plan to acquire other power plants, especially those that recycle energy. Private Power was established in 2001 to acquire and develop heat and power projects. Reach American Securities at (212) 476-8000.

Fenway Finds Manufacturer of Football Helmets a Good Fit

Fenway Partners Inc., New York, has acquired football helmet maker **Riddell Sports Group Inc.** from **Lincolnshire Management Inc.,** New York, for just over $100 million. The purchase price represents about six times trailing 12-month EBITDA. Fenway invested an undisclosed amount of equity from its 1999 fund, the $900 million **Fenway Capital Fund II**. American Capital Strategies, Bethesda, Md., invested $23 million in the deal in the form of senior subordinated debt and equity. Wachovia Bank, Charlotte, N.C., led a revolving credit facility and senior term loan for the transaction. Chicago-based Riddell designs and manufactures football helmets, shoulder pads and related accessories; 85 percent of NFL professionals wear Riddell helmets. Last year, the company generated more than $100 million in sales. Fenway would like to see the company expand its product line to include helmets for players in hockey, lacrosse and other sports. Reach Fenway Partners at (212) 698-9400.

DEAL LOG

Nautic Puts $90 Million Into Janatorial Services Company

Nautic Partners, LLC, Providence, R.I., has invested $90 million in **GCA Services Group,** a new janitorial services company based in West Conshohocken, Pa. To head GCA, Nautic has tapped Graeme Crothall, who has built and sold three janitorial services companies during his 35 years in the business. GCA's first acquisition, Sunstates Maintenance Corp., a Greensboro, N.C.-based company, provides janatorial services to factories located in the southeastern United States. Nautic invested out of its $1.1 billion **Nautic Partners V, L.P.** Reach Nautic at (401) 278-6770.

Providence Invests $75M in Chain Of Chicago Movie Theaters

Providence Equity Partners, Providence, R.I., has invested $75 million for an equity stake in **Kerasotes Theatres,** a Chicago-based movie theater operating company. Kerasotes is a family-owned business that operates 539 screens in 77 locations across the Midwest, including Illinois, Indiana, Iowa, Ohio, Minnesota and Missouri. The company plans to use the cash injection to acquire additional theaters. Peter O. Wilde, a vice president with Providence Equity, will join the Kerasotes board. The firm made its investment from **Providence Equity Partners IV, L.P.,** which closed at $2.8 billion in 2000. Reach the firm at (401) 751-1700.

Sterling Acquires Two Companies That Transport Petroleum by Land

Sterling Investment Partners, L.P., Westport, Conn., has acquired two petroleum transporters, **Klemm Tank Lines** and **Beneto Bulk Transport,** through its portfolio company Kenan Advantage Group. The deal, valued at $50 million, was financed completely with senior debt. Kenan Advantage Group, based in Canton, Ohio, provides gasoline delivery and related logistics services to petroleum companies. With the acquisition of Klemm and Beneto, Kenan now has 2,000 trucks in its fleet and transports over 21 billion gallons of petroleum each year. Sterling first invested in Kenan in 1998 when the company had $45 million in annual sales. Since then, the company has grown its annual sales to more than $400 million. Reach Sterling at (203) 226-8711.

DEAL LOG

Carousel, Halifax Reach Agreement To Buy Meineke Car Care Centers

Carousel Capital, Charlotte, N.C., and **The Halifax Group**, Washington, D.C., have agreed to pay $68.5 million to acquire **Meineke Car Care Centers Inc.,** a Charlotte, N.C.-based franchiser of muffler and car repair shops. Antares Capital Corp., Chicago, has agreed to supply senior debt for the deal; Gleacher Mezzanine, New York, has agreed to supply subordinated debt. Meineke operates one of the largest chains of discount car care repair companies in North America, according to Carousel. The franchisees have nearly 900 locations in the United States, Canada and South America, where they provide exhaust, brake, ride control and maintenance services. Representatives from Carousel and Halifax will hold non-executive positions on Meineke's board and plan to add several independent board members in the next few months. Reach Carousel Capital's Charlotte office at (704) 372-2040. Reach Halifax at (202) 530-8300.

Exits

Andritz Exit May Put Carlyle On a Roll with European Fund

Carlyle Group, Washington, D.C., has scored its second exit from its debut European buyout fund. Carlyle sold 6.1 million shares of **Andritz AG,** a Graz, Austria-based maker of paper and metal processing equipment, for €22.75 ($25.98) per share in a secondary public offering. The deal gives Carlyle a return of about €92 million—translating into a 22 percent gross IRR—for **Carlyle Europe Partners I, L.P.,** a €1.1 billion fund closed in 1998. The secondary offering reduced Carlyle's stake in Andritz to 5 percent, from 31 percent. Carlyle invested €48 million in Andritz in late 1999 as part of a consortium that included Custos Privatstiftung, Deutsche Beteiligungs AG, GE Capital and Unternehmens Invest AG. The consortium took the company public in 2001, but Carlyle did not sell any of its shares at that time. Last year, Andritz, which manufactures industrial rollers and other products used to flatten paper pulp and metal into sheets, posted EBITDA of €80.9 million on sales of €1.1 billion. Last year, in its first exit from its debut European buyout fund, Carlyle sold its 30 percent stake in Le Figaro, a Paris-based newspaper, to Socpresse for an undisclosed sum. Reach Carlyle at (202) 347-2626.

LBO/Corporate Finance

Catterton Partners, Greenwich, Conn., makes progress towards a $600 million target on its fifth consumer products and services fund, **Catterton Partners V, L.P.** The **Government of Singapore Investment Corp.** is one of several limited partners that have said to count them in the first closing, according to a source close to the fund. Catterton invests in small to mid-sized retail, consumer products, marketing services and food and beverage companies, as part of buyouts, recapitalizations and expansions. The firm is getting a boost from two exits this past year, including the profitable sale of juice company Odwalla Inc. to Coca-Cola Inc. Catterton, which backed Odwalla in 2000, more than doubled the value of its $10 million investment through the sale. Catterton also has some explaining to do to potential backers. At least three companies that Catterton backed in the late 1990s no longer exist, according to **VentureOne,** an Alternative Investor company. Catterton's roughly 20-member investment team is led by Managing Partners J. Michael Chu, Marc Cummins, Scott Dahnke and Craig Sakin. Limited partners in Catterton's prior fund, a $400 million pool raised in 2000, include **A.G. Edwards Capital Inc.**, **Fort Washington Capital Partners** and **TIAA-CREF.** Reach the firm at (203) 629-4901.

Distressed Debt

DDJ Capital Management, Wellesley, Mass., wraps up its control-style distressed debt fund, **B IV Capital Partners, L.P.,** at $444 million, within its target range of $400 million to $500 million. Co-founder and Principal David Breazzano said his firm shoots to generate annual returns greater than 20 percent, and that it makes money on 90 percent of its transactions. DDJ Capital invests in troubled mid-sized companies with an eye toward acquiring at least one third of their debt. The firm then seeks to exercise its role as a major creditor to gain control or wield considerable influence over a company's restructuring. Mr. Breazzano and Judy Mencher, both former distressed debt executives at Fidelity Investments, founded DDJ Capital in 1996. At that time, Fidelity Investments transferred to DDJ Capital control of two of its distressed debt funds, totaling more than $100 million. Since then, the firm has raised two funds independently. All told, DDJ Capital manages roughly $1.7 billion between its four distressed-debt funds, one hedge fund and high-yield funds. Earlier this year, DDJ Capital hired Chief Operating Officer Michael Forrester, who previously led institutional sales and marketing at Fidelity Investments. Reach DDJ Capital at (781) 283-8500.

Venture Capital

ComVentures, Palo Alto, Calif., gears up to raise a sixth early-stage communications fund with a target of $350 million, a size that would make it much smaller than its predecessor. That partnership, a $550 million fund closed in July 2000, is nearly exhausted, between investments and reserves for follow-on rounds. In its most recent deal, ComVentures backed networking switch-maker Lambda Optical Systems, Reston, Va. (previously called Mavos). Earlier this year, the firm led a $14.3 million first round financing of Exavio, San Jose, a developer of digital media storage and networking products. ComVentures said it plans to make between six and eight new investments this year, a pace on par with recent years. Last year, the firm was the leading communications investor among venture firms, logging 15 deals, six of which were new (as opposed to follow-on rounds in companies that

Fund-Raiser Highlights

THE ROUNDUP

ComVentures had previous backed). ComVentures also made six new communications investments in 2001 and 2000. Reach the firm at (650)325-9600.

SHERPA PARTNERS LLC, MINNEAPOLIS, sets a $15 million to $30 million target range for **Sherpa Trek II, L.P.,** and aims to hold a first closing by the end of the summer. The firm closed its prior fund in 2001 at $17 million, and has since backed seven information technology and health care companies, five in Minnesota, and one each in South Dakota and California. Sherpa invests $250,000 to $1 million in seed or first institutional rounds of financing. Limited partners in its debut fund include communications service provider **ADC** and **Silicon Valley Bank.** Sherpa's debut fund has yet to score any exits. The portfolio includes Bermai Inc. a Palo Alto wireless-network chipmaker, and Unlimited Scale Inc., an Eagan, Minn., software company that is developing a Linux operating system to run business applications. Rounding out the Sherpa team is Partner Steve Pederson. Reach the firm at (952) 942-1070.

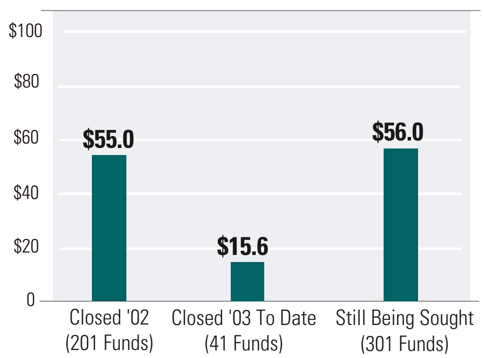
THE WOODSIDE FUND, REDWOOD SHORES, CALIF., rounds up an estimated $140 million for **Woodside Fund V, L.P.,** successor to a 1999 fund, also of $140 million. The firm has told its limited partners it won't take any more than $175 million. **BP p.l.c.** (British Petroleum) told The Woodside Fund that it is good for $40 million this time, up from the $5 million it committed to Fund III, according to a source close to the firm. Other backers in the new fund, our source said, include **McGill University, University of Quebec,** and **Vanderbilt University.** With limited partners generally cool to venture capital, The Woodside Fund's success raising Fund V suggests the firm avoided following many 1999-vintage fund managers into money-losing infamy. From the **VentureOne** database, we know that The Woodside Fund has assembled a diversified portfolio of companies, as early-stage firms go. The firm has backed companies in software, consumer services, business services, semiconductors, biopharmaceuticals, and medical devices, among other fields. Of 42 portfolio companies tracked by VentureOne, 17 remain privately held, 14 are out of business, eight have been acquired or merged, and three are public. The Woodside fund typically invests $5 million to $15 million in early-stage companies based in Northern California and elsewhere along the West Coast. Reach The Woodside Fund at (650) 610-8050.

The Private Equity Market Monitor

Fund of funds managers are all fired up over natural resources funds, including energy and timber-focused partnerships. Investors say that steady returns generated by timber investments help provide a hedge against inflation, and that energy fund managers stand to benefit from a big supply of assets available from bankrupt and distressed companies. At least three firms are in the market trying to raise funds of funds earmarked for energy and natural resources funds. They include **Quellos Group LLC,** the Seattle-based money manager, trying to raise $100 million; and **Commonfund Capital,** Wilton, Conn., which is trying to raise $150 million. **Park Street Capital,** Boston, is close to wrapping up its first natural resources fund of funds, at around $75 million, above its $50 million target.

For more market statistics, check out our subscription service at www.PrivateEquityInteractive.com.

How 2003 Stacks Up Against 2002 ($ in billions)



2003 Funds Through July ($ in millions)

Type of Fund	Number	Amount
Corporate Finance	30	$9,488
Venture Capital	22	$1,915
Fund of Funds	9	$2,512
Mezzanine	5	$343
Other Private Equity	3	$1,306
Total	**69**	**$15,564**

Secondary Funds

LEXINGTON PARTNERS, the NEW YORK-based secondary buyer, raises $2 billion for its largest fund yet, in anticipation of a record year for secondary deals. Managing General Partner Brent Nicklas expects secondary deal volume this year to exceed $6 billion, more than triple the volume recorded last year. Lexington, which held a first closing on $850 million roughly 18 months ago, drew more than 100 investors from around the globe. Roughly 30 percent of the fund came from international investors, including ones in Europe, Japan, the Middle East, and Australia, according to the firm. Among some of the limited partners in **Lexington Capital Partners V, L.P.**: **Abu Dhabi Investment Authority, Canada Pension Plan Investment Board**, **Florida State Investment Board**, **General Motors Investment Management, NIB Capital, New York State Teachers' Retirement System**, **Liberty Mutual** and **Pennsylvania State Employees Retirement System**. Lexington has already spent $550 million of its new fund to purchase some 100 LBO, venture and mezzanine partnerships, Mr. Nicklas said. That includes the purchase last summer of a portion of a $575 million portfolio from the pension fund of Lucent Technologies Inc. Lexington Partners has roughly 25 professionals based out of offices in New York, Boston and London. Reach the firm's New York headquarters at (212) 754-0411.

Funds of Funds

MASSACHUSETTS INSTITUTE OF TECHNOLOGY, CAMBRIDGE, MASS., wraps up its second fund of funds at its $150 million target. A host of small and mid-sized universities and foundations committed. MIT plans to commit Fund II to a mix of about 20 partnerships, divided roughly equally between buyout funds and venture funds. The endowment also has the flexibility to add co-investments and secondary deals to the portfolio. As it did with **MIT Private Equity**

THE ROUNDUP

Fund, L.P., a $170 million debut fund of funds closed in 2000, the university plans to back only general partners that were not in its own private equity portfolio prior to the launch of the debut fund of funds in 1999. The strategy precludes commitments to funds managed by Menlo Park-based venture capital firms **Kleiner Perkins Caufield & Byers** and **Mayfield**, both of which expect to return to the fund-raising market over the next 12 months. MIT, which so far has committed Fund I to about 20 partnerships, expects to back one or two more funds before it begins committing Fund II. Through Fund I, the endowment recently backed **Sun Capital Partners III, L.P.,** Boca Raton, Fla., a $500 million turnaround fund closed earlier this year. Managing Director Philip Rotner heads a three-member investment team. Reach Mr. Rotner at (617) 253-5480.

MONTAGU NEWHALL ASSOCIATES INC., BALTIMORE, MD., a firm formed by the sons of two prominent venture capitalists, begins marketing its second fund of funds. The target for **Montagu Newhall Global Partners II, L.P.,** is $50 million. The firm expects to commit about 80 percent of that amount to some dozen venture funds, and the remaining 20 percent to co-investments. It plans to commit 80 percent of the amount earmarked for funds to ones managed by established firms and the rest to ones managed by new groups. So far, Montagu Newhall has committed **Montagu Newhall Global Partners, L.P.,** a $52 million debut fund of funds closed in early 2002, to 12 partnerships. They include **Aurora Ventures IV, L.P.,** Durham, N.C., and **HealthCare Ventures VII, L.P.,** Princeton, N.J. The firm has also made six co-investments and plans to finance another three to four co-investments before the fund is fully deployed. Ashton Newhall and Rupert Montagu founded the firm in early 2001. Mr. Newhall's father is a founding partner of **New Enterprise Associates Inc.,** Reston, Va.; Mr. Montagu's father is a founding partner at **Abingworth Management Ltd.,** London. Reach Montagu Newhall Associates at (443) 253-9910.

PANTHEON VENTURES INC., SAN FRANCISCO, expands its limited partner roster in reaching a $313 million final closing of its fifth U.S. diversified fund of funds. The target for **Pantheon USA Fund V, L.P.** was $200 million. Pantheon raised about 80 percent of Fund V's capital from limited partners new to its portfolio, including Australia's **Master Supperannuation Fund,** which committed 15 million Australian dollars ($9.9 million). The firm began marketing the fund of funds last year, part of a strategic shift for the firm in which it is raising smaller pools of capital more frequently. All told, Pantheon expects to commit Fund V to about 40 funds. Expect about 45 percent of the portfolio to wind up in buyout funds, 45 percent in venture capital funds and the remaining 10 percent in special situation funds, including distressed debt funds and mezzanine funds. The firm may also invest up to 20 percent of the capital in secondary deals. Pantheon plans to commit Fund V on a pro-rata basis alongside the remaining capital in **Pantheon USA Fund IV, L.P.,** a $750 million fund of funds closed in early 2001. So far, Pantheon has used about 20 percent of Fund V's capital to back about 12 funds, some of which the firm acquired through secondary deals. In 2003, the firm made interests in primary commitments to **Pfingsten**

Executive Fund III, L.P., Deerfield, Illinois, a $150 million buyout fund earmarked for deals in the Midwest, and **Olympus Growth Fund IV, L.P.,** Stamford, Conn., a $750 million early-stage venture capital fund.Although it only recently closed Fund V, expect Pantheon to begin marketing **Pantheon USA Fund VI, L.P.,** within the next six to eight months. Managing Director Gary Hiatt heads Pantheon Venture's roughly 12-member U.S. fund of funds investment team. Reach Mr. Hiatt at (415) 249-6200.

QUELLOS PRIVATE MARKETS, L.P., a SEATTLE-based money manager that closed a $186 million debut fund of funds early this year, plans to raise $100 million to back timber, energy and real estate funds. All told, the private equity subsidiary of money manager **Quellos Group LLC** expects to back around a dozen funds across the three strategies, a source said. As it did with its debut fund of funds, the firm plans to allow investors to determine how much they want to commit to each of the investment strategies, our source said. Quellos Private Markets early this year wrapped up its debut private equity fund of funds, **Quellos Private Capital 2002, L.P.**, at $186 million, north of a $150 million target. With that pool the firm plans to build a portfolio of about 25 U.S. and European funds. So far this year, Quellos has appeared on LP rosters for at least two funds: **Sun Capital Partners III, L.P.,** Boca Raton, Fla., a $500 million turnaround fund, and **Light-house Capital Partners V, L.P.,** a $366 million venture leasing fund. Chief Investment Officer Eugene McDonald heads the Quellos Private Markets, while Managing Director Kevin Nee oversees a five-member fund of funds team. Reach Mr. Nee at (206) 613-1818.

International

ABINGWORTH MANAGEMENT LTD., LONDON, an early-stage investor in European and U.S. life sciences companies, seeks $275 million for its fourth fund. The firm last raised $225 million in 2001. Abingworth principals declined to comment on the fund, but the firm is expected to continue investing

THE ROUNDUP

almost exclusively in biotechnology and medical device companies. In December, Abingworth brought aboard Michael Bigham to work with Partner Jonathan MacQuitty in its Palo Alto office—a sure sign that the firm is looking to do more deals in the United States. Managing Director Stephen Bunting, and Directors David Leathers, and John Berriman work from the firm's London headquarters. Backers of Abingworth's 2001 partnership include **INVESCO Private Capital Inc., Illinois State University Retirement System, Montagu Newhall Associates Inc., Partners Group,** and **Princess Private Equity Holding Ltd.** Reach the firm in London at 44-20-7534-1500 and in Palo Alto at (650) 565-8296.

INNOVACOM S.A., the venture capital subsidiary of France Telecom, decides that its newest fund will be no bigger than €100 million ($117 million)—a size that would make it half as large as its 2000 predecessor. Building on a first closing of €50 million, the Paris and San Francisco-based firm expects to close the fund by year-end, said Aymerik Y.C. Renard, an Innovacom general partner based in San Francisco. Investors in the first closing include **Access Capital Partners, AGF Private Equity, European Investment Fund** and **FPCR.** Mr. Renard said the firm decided to raise a smaller fund because companies are "being much more efficient" in spending capital, and therefore don't require as much money as they had. Innovacom has no plans to reduce its 11-person investment staff, which includes two based in the United States and one in Stockholm, Sweden. The rest of the team is based in Paris. As with its 2000 fund, the firm expects to invest 75 percent of its new fund in European deals, and 25 percent in U.S. deals. The firm favors materials & components, telecom hardware, telecom software, enterprise software, services and content. Mr. Renard said the firm is feeling particularly good about the willingness of telecom carriers to invest in new technologies over the next two to four years. France Telecom has provided less money to Innovacom over the years, but it has become even more involved with its portfolio companies. In the most recent fund, for example, France Telecom and its subsidiaries plan to have business relationship with 70 percent of the companies. That's up from 30 percent with Innovacom 2. Since its creation in 1988, Innovacom has guided more than 20 companies to public offerings, including Sandpiper Network, Tumbleweed and Coheris. Reach Mr. Renard at (415) 288-0682.

INVESTORS IN PRIVATE EQUITY, PARIS, a new firm formed by a former **Credit Lyonnais** alum, sets out to raise €300 million ($342.3 million) for a debut fund earmarked for acquisitions of mid-sizec European companies. The firm was formed last year by Philippe Nguyen, the founder of Credit Lyonnais's private equity division who left that firm in late 2001. Investors in Private Equity has hired the services of placement agent and advisory firm **Global Private Equity,** Paris, to market the fund to institutional investors and to identify a cornerstone investor that would take an ownership stake in the firm. The firm recently made its first investment, using money that it raised from an undisclosed Swiss bank. The firm acquired a majority stake in Ermewa Group, a Geneva-based operator of railcars and tank containers for the transport of chemicals. Mr. Nguyen oversees an eight-member investment team. Reach him through his placement agent at (331) 5643 6091.

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lion dollars for new firms (see tables on pages 35 & 36).

These investors expect to see a parade of general partners walk away from firms. Just last month, we learned of four junior investment professionals planning to leave Boston based buyout shop **Heritage Partners** to set up rival firm **Lineage Capital,** also of Boston.

All told, *The Private Equity Analyst* has identified more than a dozen firms collectively trying to raise more than $2.5 billion for debut funds (see table on page 37).

"There are plenty of talented general partners out there that know they won't have carry distributions for the next four or five years and might take a flier on setting up their own operation," says Trey Thompson, a co-managing director of alternative investments at Utimco. Expect Utimco to commit at least a portion of its fiscal year 2004 private equity allocation of $200 million to $300 million to new groups. It has already, in recent months, backed first-time institutional funds managed by **Lake Capital,** a Chicago-based mid-market buyout firm, and **ArcLight Capital Partners,** a Boston-based energy firm.

For institutional investors relatively late to the asset class, the strategy of backing new groups is partly born of necessity. There just won't be enough slots to go around in partnerships soon to be launched by many established venture firms, many of which plans to raise smaller funds.

Sequoia Capital, Menlo Park, turned away a host of investors eager to gain a spot in **Sequoia Capital XI, L.P.,** a $395 million fund that was half the size of its predecessor.

But long-time investors like CalSTRS and Utimco have reserved plenty of slots in future funds of established firms. For them, backing new groups offers other advantages:

• ***New firms are free to devote all of their energies to sourcing and making investments.*** By contrast, veteran firms have to devote manpower to maintaining or beefing up the performance of portfolio companies in previous funds.

• ***New firms may offer more favorable terms.*** The $130 billion **California Public Employees' Retirement System** has negotiated rights to a lower-than-traditional carried interest in exchange for a large anchor commitment to several new funds. CalPERS has inked five such deals through its **California Emerging Ventures Program,** a $3 billion captive fund of funds program managed by **Grove Street Advisors LLC,** Wellesley, Mass.

• ***New managers are viewed as hungrier.*** "People get into this business because they want to be wealthy, and

Limited Partners Make Room for New Managers

Institutional Investor Name/Phone	New Manager Allocation ($M)	Select Commitments
California State Teachers' Retirement System (916) 229-3012	$100	yet to begin making commitments
Colorado Public Employees' Retirement Association (program advised by Alignment Capital) (303) 832-9550	$200*	SunTx Fulcrum Fund, L.P.
Massachusetts Pensions Reserves Investment Trust (617) 946-8428	yet to set allocation	yet to begin making commitments
Los Angeles County Employees' Retirement Association (626) 564-6132	3.5 percent of private equity portfolio	Solera Capital, Reliant Equity Partners
University of Texas Investment Management Co. (512) 225-1600	no set allocation	Lake Capital Partners, L.P., ArcLight Capital Partners, L.P.
Specialized Advisors/Location/Phone	New Manager Allocation ($M)	Select Commitments
Alignment Capital Inc. *Austin, Texas* (512) 744-4493	see above	SunTx Fulcrum Fund, L.P.
Capital Z Investment Partners LLC *New York* (212) 965-0800	$2,250	Shoreview Capital Partners, L.P.
Grove Street Advisors LLC *Wellesley, Mass.* (781) 263-6100	$3,000	Altor 2003 Fund, L.P.
Newport Capital Inc. *Newport Beach, Calif.* (949) 721-9581	$300	Ascend Venture Partners

* Also includes allocation to small funds managed by established firms.

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emerging managers usually aren't yet," says Austin Long, founder of **Alignment Capital,** a private equity consultant based in Austin, Texas. "Usually they're very motivated." That motivation, Mr. Long says, can translate into a better alignment of interests with investors.

• Institutional investors can get their foot in the door with the invitation-only fund managers of the future. Many have taken to heart the lesson of **Harvard University,** which was an early backer of a number of venture capital firms that have since closed their funds to all but a select few new investors. They include Sequoia Capital and **Venrock Associates,** New York.

Risks of First-Time Funds

"Partnerships are fragile structures," observes Gary Robertson, senior vice president at **Callan Associates Inc.**, a San Francisco-based consultant. In addition to the usual investment-related risks, investors have to evaluate business-related risks unique to new groups, he says.

Partners in a new firm can disagree over investment strategy, division of labor and compensation. In a recent example, the founders of mid-market buyout firm **Max Capital LLC,** New York, decided to part ways after raising just one fund together. The partners found their management styles incompatible, according to a source at **Altus Capital Partners,** Westport, Conn., one of two firms born out of the split.

Investors evaluating new firms also can have a more difficult time verifying the track records that partners claim from their previous jobs. "You have to find out who led which deals," says Matthew Klink, director of topical research at **Hewitt Investment Group,** a consulting firm based in Lincolnshire, Illinois. "Getting information on firms isn't hard, but getting information on individuals can be tough."

Indeed, an analysis of return data from 38 debut funds in the portfolios of three large public pension funds (vintage years 1981-1997) shows they generated a median net internal rate of return of 9.6 percent as of December 31, 2002. By contrast, the 87 non-debut funds in their portfolios generated a median net IRR of 19 percent as of that date.

But the rewards of backing new groups can be as substantial as the risks. Every legendary firm has to start somewhere.

Advisors Play Key Role

To navigate the landmines associated with first-time funds, many investors turn to consultants or discretionary advisors for help.

Fund of Fund Managers Targeting New Groups

Firm Name/Location/Phone	Fund Target ($M)	Fund Name
Azimuth Alternative Assets LLC *New York* (212) 366-8700	$1,000	Azimuth Opportunity Trust
Commonfund Capital Inc. *Wilton, Conn.* (203) 563-5000	64*	Commonfund New Leaders Fund II, L.P.
FLAG Capital Management LLC *Stamford, Conn.* (203) 352-0440	74*	FLAG Next Generation Partners IV, L.P.
Gerard Klauer Mattison New York (310) 268-2648	$300	GKM Generation Fund, L.P.
Goldman Sachs Asset Management LLC *New York* (212) 902-1000	$200 to $250	not available
Parish Capital Partners *Durham, N.C.* (919) 824-9598	$300	Parish Capital Fund, L.P.
Montagu Newhall Associates Inc. *Owings Mills, Md.* (410) 363-2725	$50	Montagu Newhall Global Partners II, L.P. (410)
Progress Investment Management Co. *San Francisco* (415) 512-3480	$200	Discovery Fund II, L..P.
Thomas Weisel Partners LLC *San Francisco* (415) 364-2500	$300 to $500	Thomas Weisel Global Growth Partners II, L.P.
WestAM Private Equity *Chicago* (312) 279-9300	$300	Special Private Equity Partners II, L.P.

*Indicates fund of funds that has already closed.

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Mass PRIM recently launched a search for a consultant to help develop an allocation strategy to new firms, construct a database of managers, recommend commitments, and negotiate partnerships terms, according to an RFP issued July 7.

In backing new groups, Mass PRIM wants to create a "farm team" of young firms that eventually might graduate to its core portfolio, according to remarks made by Senior Investment Officer Wayne Smith at a June board meeting.

To date, the pension fund, which has a $2.7 billion allocation to private equity, has made almost no capital available new groups. That is largely because its three-member investment staff does not have the time to spend analyzing new teams, Mr. Smith says.

For its part, CalSTRS over the next several months plans to select as many as two discretionary advisors to commit $100 million to new groups, especially local firms, over the next five years. About 30 firms—including **Grove Street Advisors LLC,** Wellesley, Mass., and **Newport Capital,** Newport Beach, Calif.—have responded to a proposal issued earlier this year.

As it happens, a number of California venture firms have formed in recent months, including **Emergence Capital Partners,** Burlinghame, Calif., **Garnet & Helfirch,** Redwood City, Calif., **Icon Ventures,** Menlo Park, and **Pacific Coast Ventures,** Newport Beach, Calif.

Consultants that have made a specialty of helping limited partners like Mass PRIM and CalSTRS include Alignment Capital, **Franklin Park Associates LLC,** Conshohocken, Pa., **Hamilton Lane Advisors Inc.,** Bala Cynwyd, Pa., **Pacific Corporate Group LLC,** La Jolla, Calif., and **Portfolio Advisors LLC,** Darien, Conn.

Private Equity Firms Marketing Debut Institutional Funds

Firm Name/Location	Fund Name	Target ($M)	Contact	Telephone
Bison Capital Santa Monica, Calif.	Bison Capital Structured Equity Partners, L.P.	$250	James Hunt	(310) 260-6572
LBJ Holdings-Blue Sage Capital Austin,Texas	Blue Sage Capital, L.P.	$125	Bo Baskin	(512) 658-6070
DW Health Care Partners Park City, Utah	Not available	$125	Andrew C. Carragher	(801) 365-4000
Emergence Capital Partners Burlingame, Calif.	Emergence Capital Partners I, L.P.	$100	Jason Green	(650) 347-9500
Falcon Investment Advisors LLC. Needham, Mass.	Falcon Mezzanine Fund, L.P.	$250	Sandeep Alva	(781) 247-7200
ICON Ventures Menlo Park	ICON Ventures, L.P.	$200	Thomas Newby	(973) 495-3662
Garnett & Helfrich Redwood City, Calif.	Fund not yet named	$200	Terry Garnett	(650) 632-4403
Lineage Capital LLC Boston	Lineage Capital Fund, L.P.	$250	Brook Parker	(617) 663-4993
Orchid Partners Boston	Not available	$200	Bill Nelson	(617) 226-3150
Overture Capital Partners Boston	Overture Capital Partners, L.P.	$150	Joe Incandela	(617) 521-5050
Pacific Coast Ventures Newport Beach, Calif.	Pacific Coast Ventures I, L.P.	$50	Dan Lehman	(949) 302-1177
RockRidge Capital Partners Inc. Stamford, Conn.	RockRidge Capital Partners, L.P.	$200	Jeff Marshall	(203) 969-2000
Shepherd Ventures San Diego, Calif.	Shepherd Ventures II, L.P	$60	Peter Fisher	(858) 509-4744
Valhalla Partners McLean, Va.	Valhalla Partners I, L.P.	$200	Arthur Marks	(703) 448-1400
W Capital New York	W Capital Partners, L.P.	$150	David Wachter	(212) 355-0770

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"We're sensing increased interest among pension funds," says Andrew Rust, founding partner of Newport Capital Inc., an advisor that has $100 million available to commit to new groups on behalf of wealthy investors, small endowments and foundations. "When large players move into a strategy, the marketplace can't help but sit up and take notice."

Advisors say that the heavy lifting required to effectively conduct due diligence on new groups make it an ideal strategy to outsource.

"New managers take a lot more work," says Erica Bushner, Managing Director at **GKM Generation Funds,** the fund of funds arm of New York-based investment bank, **Gerard Klauer Mattison.** "I may make 40 reference checks for a normal fund, but I'll at least triple that for a new firm." GKM has allocated about 33 percent of its proposed $300 million debut fund of funds to new teams, particularly ones that have spun out of veteran firms.

WestAM Private Equity Group, Chicago, expects to commit up to 25 percent of **Special Private Equity Partners II, L.P.,** to new managers, according to sources close to the effort. If the firm reaches the $300 million target it has set for the new fund of funds, the allocation could translate into some $75 million available to back new teams.

WestAM has backed a handful of new groups through a $360 million predecessor fund of funds closed in 2000. Among them are mid-market buyout firm **Spire Capital,** New York, and health care firm **Roundtable Health Care Fund, L.P.,** Chicago.

The growing amount of capital that WestAM and other investors are willing to put behind new teams reflects their confidence in the industry's future. It also, to be sure, reflects fear of behind left out of that future.

Says Clinton P. Harris, managing director of Grove Street Advisors, which backs new groups on behalf of three large institutional clients. "If you really want to put a lot of money to work with top quality funds, you're not going to get that allocation by waiting until they're already proven."

By Laura Kreutzer

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Pressure on Baker Capital

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the word out about his experience investing with late-stage venture firm **Baker Capital Corp.,** New York. He feels it is one of the best ways to make the firm, which closed a $1.1 billion communications fund in 2000, more responsive. Many LPs, according to Mr. Fernandez, believe that the firm raised too big a fund.

In addition to whether publicity is a proper channel for LP anger, the struggle between Baker Capital and its LPs touches on several other themes coursing through the industry right now:

• ***Shifting investment strategies.*** According to Mr. Fernandez, Baker Capital, which has about $500 million left to draw down on Fund II, has proposed a new investment strategy "outside of the original thesis" of the partnership. The strategy involves more "LBO-type deals," Mr. Fernandez says, adding that "we didn't just sign on to a blank investment policy." Baker Capital is actually one of several venture firms proposing to invest more heavily in public companies.

• ***The fallout of GP-friendly terms.*** By all accounts, the partnership agreement for **Baker Communications Fund II, L.P.,** has neither a no-fault suspension clause nor a no-fault divorce clause that would allow investors to suspend investments, or replace the fund manager, without cause. The fund isn't an anomaly: Just 31 percent of venture funds have no-fault suspension clauses and just 39 percent have no-fault divorce clauses, according to sister report, *Private Equity Partnership Terms and Conditions.*

LP Demands

What is Mr. Fernandez, who says he works with more than a dozen LPs that committed more than $125 million to the fund, trying to achieve?

He says he wants his group to sit down with John C. Baker, a lead partner at the firm. He wants to talk about setting aside a reasonable amount of money from the fund (now 55 percent drawn down) for follow-on investments—say, $100 million to $200 million. Beyond that, he wants Mr. Baker to consider halting all new investments, and to reduce the management fee.

Meantime, until the specifics are worked out, he would like Mr. Baker to suspend all investments. (Mr. Baker did not return a phone call seeking comment for this article.)

Mr. Fernandez put this request in writing in a late May letter to Mr. Baker. According to Mr. Fernandez, Mr. Baker responded that he planned to follow up by phone with LPs individually in July, but he didn't agree to a group meeting. About the same time, Mr. Fernandez says Baker Capital issued a "sizeable" capital call.

Mr. Fernandez says he was disappointed by the firm's reaction. He says that LPs have already been talking individually with Mr. Baker about reducing the fund size for several months, and have not gotten anywhere.

Mr. Fernandez says that his group plans to hold a conference call in the next few weeks. The LPs will review their options. One possibility is that the LPs band together and refuse to meet further capital calls. But then they risk forfeiting much of their remaining investments.

Meantime, Mr. Fernandez will continue to talk to the press. Let the public know that it's not just a handful of wealthy investors getting hurt here. "Pension dollars are invested in this vehicle with a completely unresponsive manager," Mr. Fernandez says. "I don't think that people get that angle."

Perhaps even the SEC will take note of the stories—just as they have taken note of those covering potential wrongdoing by hedge fund managers. Warns Mr. Fernandez: "From a regulatory standpoint, John Baker will single-handedly put this on the map if he doesn't come to terms with his partners."

By David M. Toll

LEAGUE TABLE

Large LPs by Allocation to Alternative Investments[1,2]

Check out our archive of league tables at PrivateEquityInteractive.com (requires subscription).

Institution Name	Allocation to Alt. Investments ($M)	(%)	Total Assets ($M)	Total Committed ($M)	Total Invested ($M)
1. AMP Life Ltd. *Sydney, Australia* Phone: 61-2-9257-5000	$17,500	10%	$175,000	n/a	$2,875
2. California Public Employees' Retirement System *Sacramento, CA* Phone: 916-326-3400	$10,500	6%	$137,800[3]	$12,000	$6,000
3. General Motors Investment Management Co. *New York* Phone: 212-418-6100	$10,000	8%	$125,000	n/a	n/a
4. New York State Common Retirement Fund *New York* Phone: 212-681-6403	$8,376	8%	$104,700	$15,700	n/a
5. California State Teachers' Retirement System *Sacramento, CA* Phone: 916-229-3012	$8,000	8%	$100,000	$8,630	$4,731
6. ABP Investments *Schiphol, Netherlands* Phone: 31-45-579-5380	$7,500	5%	$150,000	$1,770	$500
7. Michigan Department of Treasury *Lansing, MI* Phone: 517-373-4330	$7,338	15%	$48,920	$13,088	$6,843
8. Washington State Investment Board *Olympia, WA* Phone: 360-664-8900	$7,140	17%	$42,000	$11,001	$5,600
9. Florida State Board of Administration *Tallahassee, FL* Phone: 850-488-4406	$5,490	6%	$91,500	$4,650	$3,949
10. Virginia Retirement System *Richmond, VA* Phone: 804-344-3161	$5,186	15%	$34,575	$4,887	$3,655
11. Oregon State Treasury *Salem, OR* Phone: 503-378-4111	$4,290	13%	$33,000	$9,574	$6,276
12. Fleet Fund Investors/BancBoston Capital Inc.[4] *Providence, RI* Phone: 401-278-3828	$4,000	100%	$4,000	$4,468	$2,674
13. Metropolitan Life Insurance Co. *New York* Phone: 212-578-8532	$4,000	4%	$100,000	$5,200	$3,650
14. New York State Teachers' Retirement System *Albany, NY* Phone: 518-447-2741	$3,750	5%	$75,000	$3,695	$720
15. IBM Retirement Fund *Stamford, CT* Phone: 203-316-2121	$3,500	10%	$35,000	$8,300	$5,900
16. Ontario Teachers' Merchant Bank[5] *North York, Ontario, Canada* Phone: 416-228-5900	$5,000	10%	$50,000	n/a	$3,000
17. Pensioenfonds PGGM *Zeist, Netherlands* Phone: 31-30-696-9857	$3,500	7%	$50,000	$2,700	$1,000
18. State of Wisconsin Investment Board *Madison, WI* Phone: 608-266-2381	$3,300	5%	$66,000	$2,000	$1,300
19. Pennsylvania State Employees Retirement System *Harrisburg, PA* Phone: 717-787-9008	$3,057	14%	$21,837	$6,405	$3,438
20. Ontario Municipal Employees' Retirement System *Toronto, Ontario, Canada* Phone: 416-369-2400	$1,400	7.5%	$18,000	$1,400	$390

Source: Directory of Alternative Investments Programs, 2003. 1) Includes venture capital, LBO, mezzanine, distressed debt, energy, timber/farmland and real estate. 2) We made attempts to verify this information with each of the LPs listed. 3) The total assets were updated as of April 30, 2003. 4) Has proposed selling a portion of its portfolio in a secondary sale. 5) Includes allocation to private equity only.