

OPALESQUE

PRIVATE EQUITY STRATEGIES

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Welcome to the latest issue of Private Equity Strategies. 2015 was a record year for some segments of the private equity industry, but with interest rates on the rise and global economic weakness dominating the headlines, GPs will have to go the extra mile to find opportunities to create value. In this issue we will touch on some niche areas could be standout segments for the industry.

In our Dealmaker Q&A, we will speak with Peter Schwabach, Managing Partner of Cyrus Investment Management about his firm's new fund focused on finding precision engineering companies in the UK.

Regs Watch offers updates on a full scope of new guidelines, court rulings and items of note for private equity compliance teams.

Movers and Shakers looks at a new initiative underway in Illinois focused on expanding the local venture capital market.

In the Data Snapshot, we will look at new data from ILPA that shows a decline in private equity returns and we also highlight a new survey on where endowments and foundations might find opportunities in 2016.

Finally, we want to draw your attention to the new Opalesque Marketplace. We are working with one of Asia's leading boutique investment banks and invite all interested parties to contact Matthias Knab (Knab@Opalesque.com) to facilitate acquisitions in the following buyer sectors:

Opalesque Marketplace:

Buyer Sector	Target	Region	Budget
Retail	Retailers IT ventures Real estate developers	Asia America	\$80M-\$160M
Fashion	Fashion retailers Luxury fashion brand holders	Europe Asia	\$120M
Gas	Gasoline and propane gas distributors	Any countries	Open
Food & Beverage	Soft drink and alcoholic beverage manufacturers	Asia Oceania North America	Open
Food & Beverage	Seasoning manufacturers	Any countries	\$15M-\$80M
IT	Web advertising Online money transfer	Asia	\$81M
Private Equity	Retail, manufacturing, and other "generic" sectors	Asia	\$100-\$350M

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Uncertainty Reigns In Private Equity

Bailey McCann
Private Equity Strategies

Listed private equity mega-firms like Carlyle, KKR, and Apollo have all been in the news recently for engaging in share buybacks. The practice is common for public companies that want to improve their share price by reducing the number of available shares. Buybacks can come in handy if share prices take a tumble, or a company finds itself in a lull, but the case for buybacks with listed private equity firms is a bit trickier.

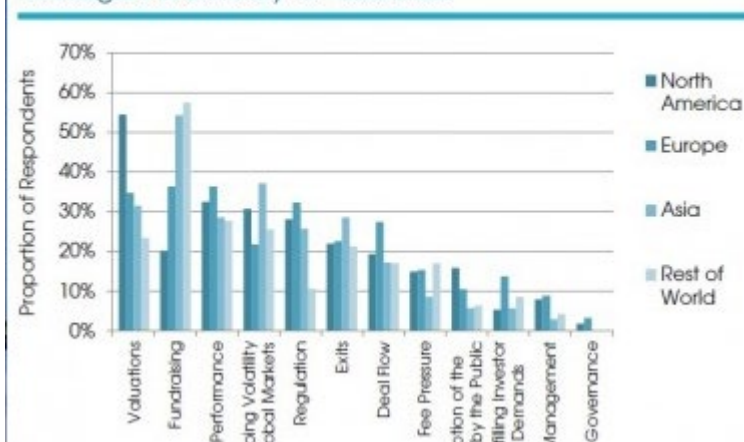
Private equity GPs make a name for themselves on their ability to buy companies and create value in the form of earnings growth. So what does it say when guys who are in the earnings growth business have to prop up their own share price? Ostensibly, private equity firms should also use the cash they have on hand to invest in companies, and their own funds. If you look at all of these factors together, the optics of share buybacks for public private equity are a little dicey.

Yet it is equally bad to be in Carlyle's position, for example. Carlyle's share price hit a historic low already this year and doesn't look like it will rebound to previous highs on its own anytime soon. KKR has also taken a beating with share prices dropping approximately 50 percent over the past 12 months.

Sluggish M&A may be to blame. According to new data from Dealogic, leveraged buyout firms like Carlyle and KKR only did 116 deals in January, one of the lowest volume months in ten years. Exits are also down to start the year. Despite only a small interest rate rise at the end of last year, and stimulus efforts from global central banks, the credit markets are tightening up, and traditional private equity is starting to feel the heat.

Many GPs are now merely hoping to match

Fig. 1: Biggest Challenges Facing Private Equity Fund Managers in 2016 by GP Location



last year's deal flow, but that may be difficult if investors are struggling to put financing packages together that are essential to get deals done. According to data in the 2016 Preqin Global Private Equity and Venture Capital Report, GPs say that in addition to difficult financing, it will also be challenging to find deals to do at all. North American firms are particularly concerned with valuations, which have been steadily creeping up over the past two years. Some 56 percent of respondents in Preqin's survey of GPs cited pricing as their most important challenge for 2016.

Data in the report shows that there is some \$435 billion in dry powder waiting to be deployed after 2015's stellar fundraising year. But, data from accounting and advisory firm BDO shows just how conservative GPs plan to be in the year ahead - 95 percent of the firm's surveyed in BDO's study say they plan to do five deals or less in 2016. That may explain why some of the largest firms feel as though they have cash on hand to do share buybacks, es-

pecially if they can't find any place else to put the money.

That raises the question, though, what lies ahead for private equity at least in the near term? With a whole slate of new funds all dressed up and with nowhere to go, investors in listed private equity may have to put up with buybacks - at least in the US. Elsewhere, the BDO survey suggests that European fund managers are taking a more opportunistic view. They expect more cross-border transactions than their US counterparts and aren't as concerned about valuations. But, those European GPs will have to contend with local economic weakness of their own.

There is no doubt that uncertainty reigns in private equity at the moment. For investors in the asset class, 2016 may prove to be a renewed opportunity for a close look at manager skill as well as true value creation both in the firm and portfolio companies.

* Image Source: Preqin

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Dealmaker Q&A: Cyrus Investment Management Goes For Fund 2

by Bailey McCann,
Private Equity Strategies

UK-based Cyrus Investment Management has launched its second fund focused on investing in precision engineering firms in the UK. The firm focuses in on specialist engineering turnarounds and has steadily been building a track record of finding solid companies for its first vehicle.

Fund 2 will employ the same strategy as the debut fund - identifying undercapitalized and undervalued precision engineering businesses in the UK that are suitable candidates for "growth investment." Cyrus' growth strategy includes a range of options from injecting new capital, to replacing management, products or markets in an effort to improve the profitability of these companies.

"Traditional private equity doesn't hit this part of the market, there is a strong opportunity set here to build these companies and expand their footprint globally," explains Peter Schwabach, Managing Partner of CIM in an interview. He adds that the average holding period for one of these turnaround companies is a minimum of three years. Once they are ready for exit, the firm is looking to trade buyers, rather than secondary sponsors to sell to.

Precision engineering is an industry with high barriers to entry, and a significant consumer base. The aerospace, defense and security industries all rely on precision engineering companies for their parts and a solid majority of those companies are based in the UK.

"Businesses in this industry have high barriers to entry because of the sheer number of certifications you have to have to be able to provide services to defense and aerospace. That gives companies with these certifications a significant advantage," Schwabach says.

The UK is a world center of excellence for this type of work and has some 1,500 companies making up the industry. The majority of those companies are small to medium-sized enterprises with values in the range of one to five million pounds. Historically, these companies have underperformed their larger counterparts within the country as a result of undercapitalization and an on-going inability to access capital.

Individually these companies are attractive as potential investments as they retain significant unencumbered assets: machinery, stock, skilled engineering work forces, proprietary industrial designs and accreditations as well as embedded accredited relationships within the global industrial companies they service. Strategically aggregated under single management and sold as a single business they offer the potential for investors to make a significant return on their investment.

"The businesses we are targeting with this fund are on the high-value end of the engineering market. In some cases, margins can be as high as 40 percent," Schwabach says.

The goal for selling them will be to merge small companies into more sustainable - and more profitable - larger entities that can compete on the global stage. According to Schwabach, by doing that jobs will be saved, as will an industry core to the British economy.

Regs Watch: Brief Updates on Changes in Regulation for Private Equity

As journalists like me and lawyers have written ad nauseum, new and ever more regulations are in the pipeline for private equity and alternatives as a whole. Here we will hit on some of the cases of note and provide links to new guidance over the past month.

CVC lawsuit brings private equity's gender imbalance back in the spotlight

A sexual discrimination lawsuit against CVC Capital Partners has brought fresh public scrutiny to issues of gender in the private equity industry. Read more at [eFinancial-News](#).

New Year: New Regulatory Developments Affecting Managers Of Hedge Funds, Private Equity Funds And Other Private Funds

Attorneys at Proskauer have done a round-up of all of the new regulations implemented for private funds managers throughout 2015. It was a busy year to say the least! Rules will impact private equity, hedge funds, and real estate. [Read the full roundup here](#).

The Cayman Islands Financial Services – Regulatory Framework

Cayman has made changes to several of its financial regulations in an effort to catch the eye of European regulators as they make decisions on the future of passporting for offshore funds. [Read about the new developments here](#).

Disruption Causes Seismic Shift For Private Equity

A new EY report looks at the impact that regulatory and compliance changes have had on the private equity industry.

Private equity: Extension of MiFID II application date

The European Commission has proposed a one year extension to the application date of the MiFID II legislative package. This will likely be a significant benefit to GPs which have been struggling with implementation and ensuring compliance. Read more about what the extension might mean [here](#).

SEC Provides Warning on "Accredited" Investors:

Even though the US Congress has expanded the definition of what makes an individual an accredited investor, [the SEC says](#) it will be paying close attention to who funds admit as subscribers.

LPs want PE managers to improve the level of reporting transparency

It's a constant refrain, but investors still aren't pleased with the level of transparency they receive from GPs. Read more [about new demands on managers](#).

AMAC Tightens Regulation On Private Investment Fund Sector

AMAC, China's self-regulatory body is cracking down on private fund managers and is imposing a stiffer regulatory regime. Read more about it [here](#).

Taking the Guesswork Out of Private Equity Fees

ILPA has released a set of new templates for investors aimed at putting clarity around private equity fees. Will managers take note? [Read more here](#).

Oil's pain is private equity's gain?

As oil prices have plummeted, and appear to be staying around \$30/barrel for the foreseeable future, oil and gas companies are selling more assets to private equity funds. Several funds were raised in the past two years with an eye toward capturing those value opportunities and the bet is paying off. [Read more](#).

TPG nears \$10 billion private equity fundraising close

Reuters [is reporting](#) that TPG is nearing a close on its latest mega-billion dollar fund. The fund has been in market for two years and signals a bit of a comeback for TPG as a firm, and leveraged buyout private equity as a strategy. The new fund will rely on TPG's core buyout strategy, and will be part of its flagship funds line.

TPG has had to make the case to investors that it is still a strong firm, after raising a \$19 billion fund in 2008 and making several bad bets. Since then, the firm has had several exits and appears to be back on top.

Movers & Shakers: Illinois Invests in Venture Capital

by Bailey McCann
Private Equity Strategies

Illinois State Treasurer Michael Frerichs has announced a new venture fund that will invest \$220 million in emerging tech companies through 15 to 20 private equity funds. The program will be administered by 50 South Capital Advisors LLC, the alternative investments subsidiary of Northern Trust.

Illinois is rare in focusing venture capital investing through the treasurer's office, according to Illinois Venture Capital Association Director Maura O'Hara. However, Frerichs wants to focus on job creation within the new economy and says his goal is to create 3,600 jobs during the next three years while earning investment returns for the state.

The more than \$220 million will come from existing investments and is not entangled in the state budget impasse that involves the General Revenue Fund. The investment is expected to attract more than \$400 million in private-sector money, which will further spur interest in the Midwest tech scene that Illinois anchors.

Bob Morgan, managing director of 50 South Capital, will be involved in administering the fund. He says in an interview that he was happy to get involved given the role 50 South has already played in venture capital in Illinois. "As founding members of the Illinois Venture Capital Association we were really excited to be involved with this project," Morgan says. "There is real energy around Venture in Illinois."

Chicago already has a handful of startup incubators, including 1871, where the investment plan was announced. In addition to the budding startup scene in Chicago, there are also pockets of companies cropping up around the local universities. According to Morgan, there is enough existing diversity within local VC funds that the target number of 15-20 investments should provide meaningful diversification and exposure for the state's investment goals.

This is the second investment fund Illinois has put together that focuses on local venture capital. Legally called Technology Development Accounts (TDA), lawmakers in 2002 authorized the initial investment. The funding led to successful Illinois companies including SpotHero, Trunk Club, Sittercity and Diagnostic Photonics. Lawmakers in 2011 authorized a second round of TDA funding, which will begin later this quarter. TDA I created an estimated 3,900 jobs (1,200 direct and 2,700 indirect), according to results compiled by previous administrations. Based on that performance, TDA II should create 3,600 direct jobs and thousands of indirect positions.

"TDA I has been a valuable resource for retaining successful businesses and expanding the Illinois technology ecosystem," said 1871 CEO Howard A. Tullman. "TDA II builds on the success of TDA I and helps ensure that Illinois remains an attractive place for tech entrepreneurs to grow their businesses and create new jobs."

"This is an opportunity for Illinois-based VC funds to have a new level of support," says 50 South's Morgan. Investments will likely focus on seed stage and series A rounds which will allow Illinois to avoid some of the price inflation common to later stage VC throughout the US.



Data Snapshot: ILPA Benchmark Shows Decline In 10-year Returns



The **Q3 2015 ILPA Private Markets Benchmark** was released on February 16, 2016. There were 3,413 unique funds in the benchmark. Below is a snapshot of the pooled Net IRRs:

Benchmark Component	1-Qtr.*	1-Year*	3-Year*	5-Year*	10-Year*
ILPA All Funds Index	-1.45	7.43	13.37	13.23	11.13
ILPA US/CAN Private Equity	-1.44	6.08	14.20	14.68	11.68
ILPA US/CAN Venture Capital	-0.65	22.07	20.68	17.81	11.06
ILPA Europe PE & VC (USD) ¹	0.68	4.42	10.61	10.65	11.74
ILPA Europe PE & VC (EUR) ¹	0.50	18.94	15.17	14.64	12.95
ILPA Asia/Pacific PE & VC	-4.83	15.99	16.18	13.16	13.14
ILPA Distressed	-1.93	1.93	10.89	10.84	10.17
ILPA Natural Resources	-8.16	-21.55	-1.49	3.87	6.79
ILPA Fund of Funds	-0.32	13.13	14.12	12.68	9.61
ILPA Secondaries	1.00	10.15	12.54	13.12	11.36

*ILPA Private Markets Benchmark - Pooled Net IRRs (%) in USD (unless otherwise noted) as of September 30, 2015.

¹ Both Europe PE & VC benchmarks contain identical constituent funds. Returns are provided in both USD and EUR for added relevance.

Future release dates of the ILPA Private Markets Benchmark, calculated in partnership with Cambridge Associates, include:

Future Release Dates	
Quarter	Expected Release Date
Q4 2015	Week of May 23, 2016
Q1 2016	Week of August 01, 2016
Q2 2016	Week of October 24, 2016

General Partners & Limited Partners: For further details on accessing the benchmark, please visit the benchmark section of ilpa.org, or contact the ILPA at +1-617-716-6500 or benchmarking@ilpa.org.



Endowments and Foundations Grow Cautious

by Bailey McCann
Private Equity Strategies

Investors are finding few bright spots in the world economy, and that's tempering allocation expectations heading into 2016, according to new data from NEPC. Boston-based NEPC is one of the world's largest independent consulting firms.

Sixty-seven percent of endowments and foundations say a slowdown in global growth is the greatest near-term threat to investment performance and it's been trending this way throughout most of 2015. Global economic growth outweighs concerns with rising interest rates, inflation and geopolitical unrest as the greatest threat to the market this year. In part, China is to blame. Seventy percent say a slowdown in China is a near-term concern for emerging markets, but despite talk of emerging market flight, endowments and foundations are not yet ready to sell.

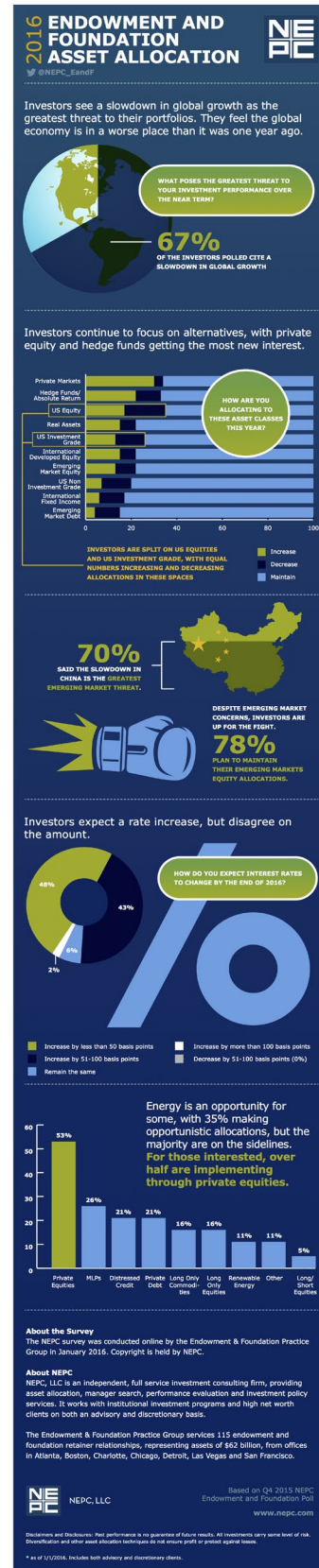
So where are endowments and foundations looking for opportunities? Some respondents say it's in the energy sector. Thirty-five percent of respondents will make an "opportunistic allocation" to energy-related investments this year. That viewpoint appears to be a boon for private equity firms. 53 percent of respondents said they would increase their exposure to the energy sector through private equity.

As we noted earlier in this issue, oil and gas companies are becoming forced sellers of assets in order to raise cash as oil prices continue to stay at historic lows. Banks are putting the pressure on these companies to find sources of revenue, and very often that means selling assets directly to private equity.

So far in 2016, Natural Gas Partners (NGP) has made a 150 million equity commitment to Black Mountain Oil & Gas LLC, an energy company based in Fort Worth, Texas. NGP invested from NGP Natural Resources XI LP, its \$5.325 billion private equity fund. Black Mountain maintains oil and gas related businesses across 11 states, but that hasn't been without headaches of late. "This is a unique and challenging market," said Rhett Bennett, Founder and CEO of Black Mountain.

Houston-based Carnelian Energy Capital Management is also looking to capture deep value opportunities with its new \$50 million equity investment in Percussion Petroleum. Percussion Petroleum is a new oil and gas exploration company established in Houston with the express purpose of gathering assets while they are cheap, including conventional wells.

In order to be successful, Cathy Konicki, Head of NEPC's Endowment and Foundation Practice Group says that investors feel as if there will be a limited window for these opportunities. "Investors believe there are opportunities for return in select asset classes for those willing to move quickly and look past short-term noise," she said.



Quick Hits

Fund News: GIC, Advent, Bain invest \$350 million in engineering outsourcer QuEST

Singapore sovereign wealth fund GIC and private equity investors Advent International and Bain Capital have jointly bought a minority stake in engineering outsourcing firm QuEST Global Services for \$350 million.

Fund News: Houston-based Live Oak Resource Partners LLC has received \$3.7 million to kick off the first fund for the private equity firm, according to a filing with the Securities and Exchange Commission.

Fund News: GLP and the Canada Pension Plan Investment Board have launched their second Japan development venture fund. GLP Japan Development Venture II, a 50:50 joint venture, has \$873 million of equity commitments and is expected to reach \$2 billion in over three years.

Fund News: Paulson & Co., is seeking to raise \$1.5 billion for a private equity fund that will invest in companies going through bankruptcy.

M&A: Lytx Inc., the largest supplier of video-based safety systems for the trucking industry, has agreed to be acquired by private equity firm GTCR for more than \$500 million.

M&A: KKR bought a 10 per cent stake in India's Max Financial Services for about \$140 million, the latest foreign investor to bet on the growing insurance industry in India.

Fundraising: Thoma Bravo is revisiting its roots with a \$1.07 billion fund focused on lower midmarket companies in the software sector.

Fundraising: LGT Capital Partners has announced the final close of Crown Global Secondaries III plc (CGS III), its third global private equity secondary fund, with total subscriptions of \$ 2.0bn.

Sold: Lloyds Banking Group's private equity arm has bought a significant minority stake in CitySprint, in a deal that values Britain's biggest same-day parcel delivery company at £175m.

M&A: Gantner, the maker of hi-tech contactless wristbands for gyms FitnessFirst and Holmes Place has been purchased by Ardian for an undisclosed sum. The deal comes from Ardian's £390m "expansion" fund.

Events

Best Practices for Launching & Managing a BDC

March 03, 2016 | New York

Hosted By: Capital Roundtable

SuperReturn Berlin

February 22, 2016 | Berlin

Private Equity Investing in Distressed Middle-Market Companies

April 14, 2016 - New York, NY

Hosted By: Capital Roundtable

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