



2014 SPECIAL REPORT

European Private Equity

THE TIME IS NOW

“The negative feedback loops between fragile public finances, vulnerable banks and a weak macroeconomy that had fuelled the sovereign-debt crisis in the first half of 2012 have been weakened.”

European Economic Forecast, Winter 2013

Introduction

European GPs often bemoan the fact their fundraising programmes are hamstrung by the sheer effort necessary to convince international LPs that a European investment thesis, be it broad or niche, is a strong one. In truth, the LPs' concern is not unjustified: since the banking-led crisis, the wider European economy has taken its biggest beating in many decades and fears around sovereign debt issues have yet to be fully dispelled. In contrast, the US economy is picking up a real head of steam, Asian and Latin American growth remains comparatively robust and African markets are in the ascendance.

So LPs certainly face an intriguing conundrum in their search for a balanced strategy that provides premium returns: beyond an allocation to the US, how do they achieve the correct balance? Do they target the tiger economies, where the private equity model is largely unproven and risks are high, or do they accept that Europe appears to be over the worst and that there is significant potential to be had in backing the region's experienced general partners?

The short answer is that increasingly compelling evidence suggests conditions are swinging in Europe's favour. To begin with, on the macro front the EU economy is finally returning to growth. What's more, while GDP growth may still be somewhat stifled by the painful measures put in place by many governments to tackle runaway sovereign debt, big strides on that front have been taken. This is reflected in returning confidence in the financial markets. As for European companies, the region still boasts many of the world's most outstanding businesses. These are arguably even stronger than they were before the crisis, with lower debt, stricter financial controls and a pronounced strategic shift towards servicing international growth markets.

The final piece of the jigsaw is the private equity market itself: deal-doing conditions are certainly improving as every quarter goes by, with debt markets

having relaxed significantly and a proliferation of alternative lenders providing a welcome source of funding options for European GPs. These players, having sharpened their value-adding skills and refined new niche strategies throughout the downturn, are battle-hardened and well-placed to take advantage of the complex and diverse economic and industrial landscape that Europe offers. In short: after several years of protecting existing portfolios, GPs are getting back into their deal-doing stride.

MACRO OVERVIEW: THE GIANT STIRS

According to the latest economic forecasts from the European Commission, there is now strong evidence that the EU economy is finally coming out of its long period of recession. After six consecutive quarters of stagnation or contraction, Europe recorded GDP growth in the second quarter of 2013 and now, following somewhat sluggish growth throughout the remainder of 2013, forecasts suggest economic expansion will accelerate in 2014 and 2015. At the same time, confidence is steadily building in the markets: the EC's Economic Sentiment Indicator (ESI) rose for the eighth consecutive month to 98.5 from 97.7 points in October, and is now standing at its highest level since August 2011.

Although a number of member states, such as Greece, Italy, Spain, Portugal and the Netherlands, will post negative GDP growth figures in 2013, all are forecast to be in the black in 2014, with GDP growth rates ranging from those in the sub-1% group (mostly the nations in the red during 2013) up to 2.8% for Norway, 2.7% for Sweden and 2.2% for the UK. Among the more powerful economies, the UK and Germany lead the field out of the downturn.

It is true that the pace of recovery across Europe is being limited by the often unpopular measures put in place by some governments to rein in sovereign debt and shore up banks' finances. Inevitably these measures have had

“There are plenty of opportunities across the European market. For example, private equity firms are targeting companies which will benefit from and help address the economic imbalances across the different markets”

Paul Newsome, Head of Investment Selection and Monitoring for Private Equity at Unigestion

a negative effect on consumer and business spending, and will most likely continue to do so in the short term. But they are working: banks are slowly rebuilding their defences and risk premia have decreased as confidence in financial markets returns. Most importantly, both Ireland and Spain announced in late 2013 that they would be exiting the bank bailout programme.

Figure 1: GDP growth % actual & forecasts for key EU states

	2011	2012	2013	2014	2015
Austria	2.8	0.9	0.4	1.6	1.8
Belgium	1.8	-0.1	0.1	1.1	1.4
Denmark	1.1	-0.4	0.3	1.7	1.8
Finland	2.7	-0.8	-0.6	0.6	1.6
France	2.0	0.0	0.2	0.9	1.7
Germany	3.3	0.7	0.5	1.7	1.9
Greece	-7.1	-6.4	-4.0	0.6	2.9
Ireland	2.2	0.2	0.3	1.7	2.5
Italy	0.5	-2.5	-1.8	0.7	1.2
Netherlands	0.9	-1.2	-1.0	0.2	1.2
Norway*	1.2	3.1	1.2	2.8	3.1
Portugal	-1.3	-3.2	-1.8	0.8	1.5
Spain	0.1	-1.6	-1.3	0.5	1.7
Sweden	2.9	1.0	1.1	2.8	3.5
Switzerland*	1.8	1.0	1.9	2.2	2.7
UK	1.1	0.1	1.3	2.2	2.4
EU	1.7	-0.4	0.0	1.4	1.9
USA	1.8	2.8	1.6	2.6	3.1

Source: EC European Economic Forecast, Autumn 2013.

* OECD Economic Outlook, November 2013

It is also clear that Europe still faces strong headwinds, most notably in the persistently high rates of unemployment. In addition, the fact remains each European state faces its own varying difficulties, meaning the recovery will not be uniform across the

region – some areas will clearly take longer to stir than others.

Nevertheless, it is important to remember that this regional mismatch can also create a wealth of opportunities for the GP community, either via carefully executed regional investment focuses or via more niche industrial strategies. Additionally, it is worth noting that measures taken by many businesses to ride out the financial storm have also served to correct imbalances in many of the sectors that had become unsustainable in the pre-crisis period. Out of this, a strong focus on building production of tradable goods and services has emerged, especially those serving higher growth markets in Asia and Latin America, and this too is creating a good flow of opportunities for experienced GPs targeting the European region.

INVESTMENT CONDITIONS IMPROVING

With the exception of the US, Europe boasts the most sophisticated PE industry in the world, with GPs that have track records of 30 or more years, as well as highly developed advisory networks. But even for this calibre of practitioners, the good news surrounding Europe's macro fundamentals comes as a welcome boost. For many GPs, a good portion of the last five years has probably been spent closely monitoring portfolio businesses and protecting them against the prevailing conditions. Now they can gear-up their deal-doing activities once again.

However, the growing macro tailwinds are not the only bright spot – market conditions are improving for GPs in a number of different ways. To begin with, after several years during which the availability of senior and subordinated debt has been both limited and expensive, the debt markets have begun to open up in a meaningful way. This is being driven to a large extent by the proliferation of alternative lenders (debt funds, unitranche vehicles, etc). This trend has seen the European debt landscape grow to resemble that of the

Almost €80bn of European buyout and growth capital deals were completed in 2013, compared with less than €35bn in 2009.

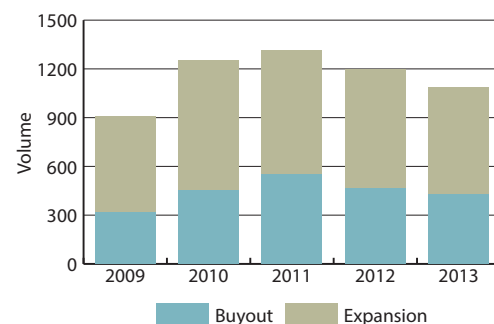
Source: unquote" data

US, where nearly 50% of LBOs in 2013 were financed by alternative lenders¹. Ultimately a greater choice of debt provider will also mean increased flexibility on deal structures and more competitive pricing and terms, as well as more debt put to work: in the UK alone, lending volumes have almost doubled since 2012. High-yield has been a booster at the upper end of the mid-market, mainly as a way of refinancing existing debt structures (but also occasionally generating some liquidity for LPs via dividends).

As is mentioned above, another key trend that will suit experienced GPs, with their broad networks of financial and industrial contacts, is the strong focus on internationalisation. As domestic demand for products and services has contracted in recent years, businesses across the region have been focusing on building up their existing international exposure or completely shifting their strategies to tap growth markets abroad. In many cases, these companies have become significantly more competitive as a result and this evolutionary jump is arguably creating a pool of stronger targets for financial buyers and therefore boosting dealflow. As the economic recovery picks up, this trend is sure to accelerate.

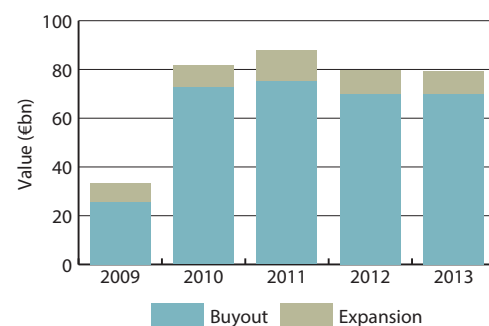
It is also important to stress that, despite the generally more positive outlook, Europe remains a highly complex and diverse landscape. While this may make it more difficult for non-European LPs and GPs to fully appreciate the potential of the region, it does create a wealth of opportunities for experienced locals on both sides. These complexities have resulted in the evolution of a wide range of strategies – from the broad, pan-European generalist plays to much more niche offerings.

Figure 2: Volume of European deals, 2009-2013



Source: unquote" data

Figure 3: €bn Value of European deals, 2009-2013



Source: unquote" data

1. DC Advisory, DC Edge Issue 3 - <http://edge.dcadvisory.com/issue03/>

“The small to mid cap space in Europe continues to offer great potential for value creation to those firms with the right expertise to work closely with their portfolio companies”

Stephan Schäli, Partner and Head of Private Equity at Partners Group

Regional diversity

BENELUX

- > New limited partnership for funds under €500m (Luxembourg)
- > Manufacturing and design (Netherlands)
- > Life sciences (biotech)
- > Tax-efficient conduit for European capital (Luxembourg)
- > Produced several large tech companies in semiconductors, telecoms, software sectors (eg NXP Semiconductors, Intelsat, Unit4)
- > Strong debt fund & funds-of-funds markets post-AIFMD (Luxembourg)

UK/IRELAND

- > Friendly tax framework
- > Excellence in business support services and financial services
- > Wealth of SMEs (c8,900) offering plenty of opportunity
- > Sophisticated advisory community
- > Large corporates set high business standards (John Lewis, GSK)
- > Flexible employment laws

FRANCE

- > Large number of mature, attractive companies in GP portfolios fuelling secondary buyout dealflow
- > Thriving venture scene with sizable investor base and state support for innovation
- > Readily available financing options via private debt market
- > Friendlier tax framework following initial worries post-2012 election

SOUTHERN EUROPE

- > High quality niche engineering and manufacturing targets (Italy)
- > Luxury goods (Italy)
- > Strong links to Latin America (Iberia)
- > Strong opportunities for alternative debt providers
- > Returning public markets

NORDIC REGION

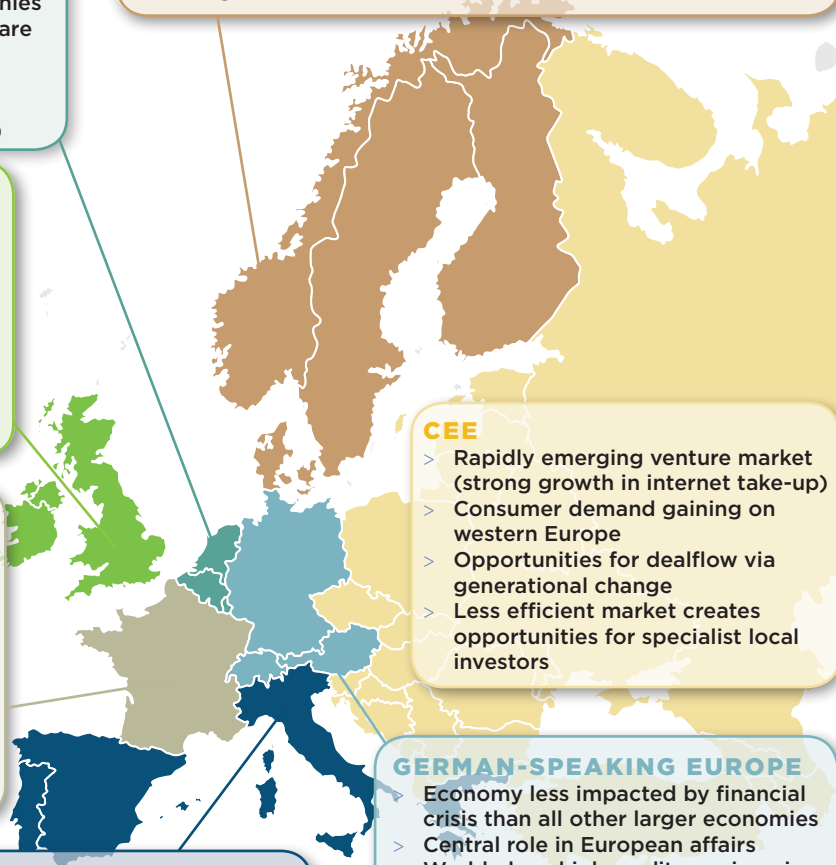
- > Strong focus on exports
- > Discreet national market to incubate new products
- > Globally important companies provide pool of experienced managers
- > Open and supportive banks
- > Vibrant SME landscape, companies mainly founded post-war so good time for management change (succession planning)
- > Open-minded consumer-base willing to try new technologies
- > Strong ties to Baltic countries

CEE

- > Rapidly emerging venture market (strong growth in internet take-up)
- > Consumer demand gaining on western Europe
- > Opportunities for dealflow via generational change
- > Less efficient market creates opportunities for specialist local investors

GERMAN-SPEAKING EUROPE

- > Economy less impacted by financial crisis than all other larger economies
- > Central role in European affairs
- > World-class, high-quality engineering and machine-building sector
- > Huge potential for dealflow from the ‘Mittelstand’ – medium-sized privately-owned companies
- > Well-developed advisory network



The UK & Ireland remained the most important market in Europe by value in 2013, though German-speaking regions saw the most substantial growth, rising by 30% to over €30bn.

Source: unquote" data

Strategies: diversity and creativity

PAN-EUROPEAN

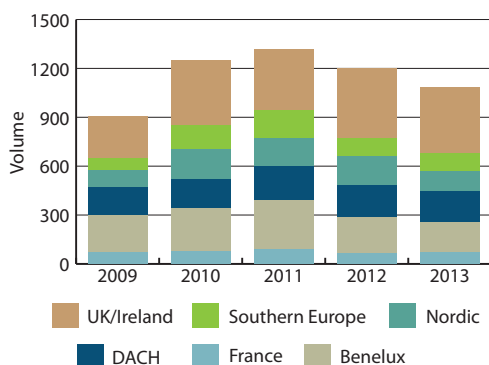
The post-crash environment has left something of a two-track market across Europe, with northern countries enjoying relative levels of stability, while southern regions have suffered a deeper recession and higher unemployment. Furthermore, as CEE countries continue to join the eurozone, the continent also offers a neat in-road into emerging markets. In this landscape a pan-European strategy allows investment teams to carefully curate a well-blended portfolio, typically combining more stable assets from the UK, Germany and the Nordic countries, with riskier but potentially more rewarding companies – for instance those based in Spain, which have strong links into Latin American growth markets, or Italy, which is home to some world-class mid-market operators.

These larger players typically deploy local partners on the ground in key regions across Europe in order to source deals and keep abreast of individual markets. Perhaps the key attraction to this strategy, though, is the ability to harness growth throughout Europe. If an investment is made in a French company, with operational expertise to hand across the continent, each local office can support the roll out or expansion of that company in their own territory.

COUNTRY-SPECIFIC

By focusing on a single market, private equity firms offer LPs access to the sort of deep networks that would be extremely difficult to outsiders. To begin with, these networks provide local GPs with a strong connection into the large numbers of privately owned SMEs, both directly (reputation is key here) and via the local debt, legal and accountancy communities. This way, they are able to access opportunities that are priced well below larger-cap internationally focused businesses. Country-specific GPs are also well connected with relevant corporate entities, giving them scope to bring in highly experienced chairmen and board members. Furthermore,

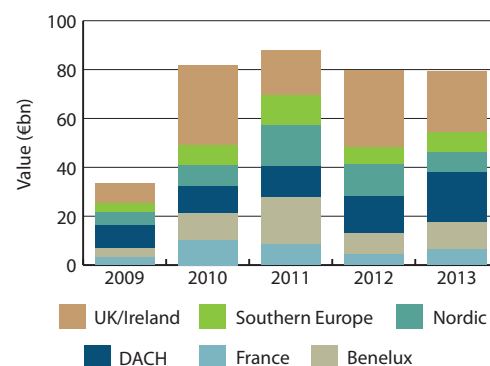
Figure 4: Volume of private equity deals by region, 2013



Source: unquote" data

The success of pan-European strategies is made clear by the continued support from institutional investors into such funds. In recent months, a steady flow of stand-out fundraisings have been announced by a number of Europe's most experienced pan-European specialists such as Vitruvian Partners, EQT, Cinven, CVC Capital Partners and Equistone Partners Europe.

Figure 5: €bn value of private equity deals by region, 2013



Source: unquote" data

“European banks competed head-on with private equity and have now all but abandoned the sector. This opens up many opportunities for providers of private equity and of private debt”

Hans Van Swaay, Partner, Lyrique

relationships with corporates are crucial when exiting assets, and often a small group of trade buyers will be identified during the early stages of the deal to position the portfolio company as an attractive acquisition.

SECTOR-SPECIFIC

A deep awareness of challenges in a particular sector, and changes it is experiencing or new trends that have come into play, allow GPs to ensure their portfolio companies are the leading businesses in their market.

In the UK there have been several prominent sector-focused GPs, typically founded by proven entrepreneurs in their given field, such as Luke Johnson (former head of Pizza Express), who set up consumer brand specialist Risk Capital Partners. Having worked and succeeded in their sector, these investment teams can bring genuine operational expertise to portfolio companies. Other areas sector-focused GPs have targeted include healthcare, financial services and energy/renewable energy. Another key advantage to sector-focused GPs is they can employ synergies between portfolio companies, creating major cost-efficiencies.

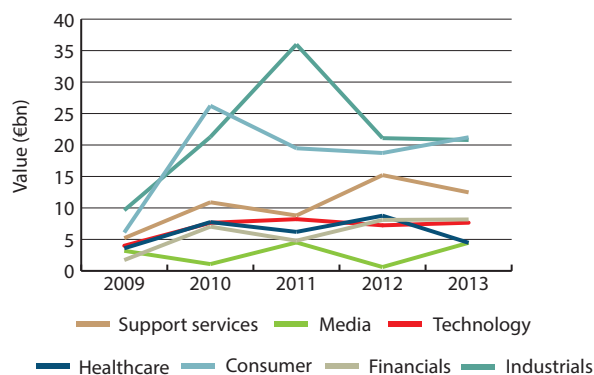
TURNAROUND / SPECIAL SITUATIONS

Reluctant lenders and squeezed consumers have taken their toll on businesses throughout Europe. For companies with some sort of unique offering that might be suffering from poor organisational structures, insufficient management or has struggled to repay loans, turnaround investors provide not only a lifeline through an equity injection, but also the much needed hands-on help to bring these businesses back to health.

Special situation investing is intensive and requires GPs to be extremely involved with portfolio companies. As a result, they are mostly small and focused players with small portfolios, though there are some larger-scale investors. Despite the hard work required, this strategy produces some of the most impressive returns and typically over shorter periods. For example, Privet Capital

recently generated a 20x return from its sale of aerospace component manufacturer Thermal Engineering to a trade buyer after just three years.

Figure 6: €bn Value of European private equity deals by industry grouping, 2009-2013



Source: unquote" data

CREDIT

The emergence of direct lending and credit funds over recent years has been explosive. As tighter regulation and a risk-averse atmosphere continue to reduce traditional lenders' appetite, credit funds are rapidly gaining importance in the European buyout market. As Europe has traditionally been heavily reliant on banks, the post-crash environment has created a unique opportunity for innovative debt funds to fill the ever-widening funding gap.

While a fairly new addition to Europe, credit funds are fast proving their worth. In its most recent financial report, Calpers picked out credit-related strategies as the best performing investment in its private equity portfolio. According to the performance review, credit funds returned 27.4% over one year and 21.5% in the past three years. The pension fund further validated this strategy by announcing its intention to increase its allocation to European credit strategies.

LPs are keen to invest in the secondaries space as it's a good way to deploy cash quickly and to benefit from early performance and distributions. It will continue to be attractive despite prices slowly creeping up.

Paul Newsome, Head of Investment Selection and Monitoring for Private Equity at Unigestion

Despite some initial reluctance from GPs to use non-bank debt for acquisition finance, it would appear that these lenders are becoming more popular. According to specialist corporate finance adviser DC Advisory, 46% of UK leveraged buyouts in 2013 contained some level of non-bank debt. This is a significant rise compared with 2011, when just 17% of deals involved non-bank leverage. Furthermore, a recent tie-up between BlueBay Asset Management and Barclays bank highlights the increasing dominance of alternative lenders, particularly in the UK market. The partnership will see BlueBay taking advantage of Barclays' origination capabilities, while Barclays will be able to get a slice of the growing unitranche pie.

SECONDARIES

The financial crisis of 2008 understandably caused a knock-on effect of longer hold periods, as private equity houses dug deeper to find growth in a flat market. However, increasing demand from LPs for liquidity means secondary sales of LP stakes have become an increasingly important solution for those that cannot remain exposed to the asset class for extended periods of time. As the secondary market becomes an integral feature of European private equity, GPs themselves are now facilitating secondary transactions in order to best serve the interests of their LPs. In addition, many secondaries managers specifically look to acquire secondary interests in LP positions, as well as tail-end portfolios.

A more worrying situation left by the financial crash has been zombie funds, where entire portfolios are struggling to find meaningful growth, preventing assets from being divested. Fortunately, the emergence of direct secondaries players is solving this issue by picking up portfolios at discount prices. The transaction allows the GP to return much needed cash to its investors, while the direct secondary house can breathe new life into the portfolio companies with a cash injection and two to three years of headroom. The investment and extra time removes the weighty pressure under which the companies have been

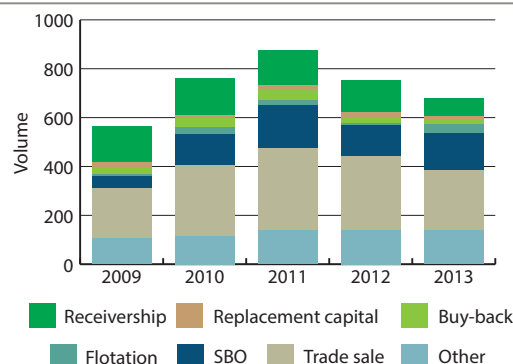
operating and allows for new strategies to be implemented in order to secure growth and a profitable exit.

EXIT WINDOW OPENS WIDER

After the total erosion of the exit pipeline witnessed in 2009, European GPs are now seeing their options open when it comes to divestment, with exit volume increasing in every European region in 2013 bar in the Nordic and German-speaking countries. But perhaps the most noticeable recent development in the exit arena has been the reopening of the IPO markets across Europe.

In 2013, three private equity-backed assets listed with a market cap upwards of €3bn. The largest deal saw Blackstone, CVC and Danish family office Kirkbi reduce their interest in London-listed Merlin Entertainment - valued at £3.2bn. This was an especially notable success for the backers, whose original plan to list the business in 2010 had to be scrapped because of market volatility. Over on the NYSE Euronext Paris, Cinven and Carlyle's Numericable made its debut with a €3bn cap.

Figure 7: Volume of European exits by year and exit route, 2009-2013 (including venture capital)



Source: unquote" data

There was good news in Italy too, as luxury ski jacket maker Moncler held an oversubscribed flotation on the Milan Stock Exchange, which valued the business at €3.6bn. With the overall number of IPOs in 2013 double

Though traditional exit routes once again look promising in the light of European economic recovery, GPs have not been blind to eastern charms when selecting a buyer.

that recorded in 2012, it seems European private equity players can once again count on the public markets to return their cash.

However, European GPs are also thinking outside the box when it comes to returning cash to LPs. Changes are afoot in the loan market, with the level of cash put to work in private equity-backed buyouts exceeded by cash deployed in refinancings. And dividend recaps have followed suit, with a steady increase over the last couple of years in Europe, seeing money work its way back to LPs and driving higher final returns for fund managers.

In the secondary buyout (SBO) space, the number of assets changing hands between private equity players surpassed those that fell into the hands of trade buyers last year. The level of SBOs was particularly high in Italy, where competition for strong private equity-backed assets is fierce and “shortlists” are a misnomer. In Sweden the volume of SBOs was fairly low relative to the overall maturity of the market. The overall value of these deals on the other hand was high.

Though traditional exit routes once again look promising in the light of European economic recovery, GPs have not been blind to eastern charms when selecting a buyer. The trend had already emerged in 2010 when Italy’s Investindustrial sold Italmatch Chemicals to Mandarin Capital Partners and Chinese industrial buyer the Malacalza Group. A further six assets were sold to buyers in emerging markets in the subsequent 18 months, including Lion Capital’s sale of Weetabix to China’s Bright Food for £1.2bn.

Far Eastern LPs are also increasingly prepared to spurn traditional fund commitments in favour of making their own direct investments. As a result, a new breed of cash-rich buyer is working its way onto the private equity landscape: sovereign wealth funds. Such colossal and liquid investors have enormous power to disrupt the market, in a league of their own in terms of the valuations they are able to offer. Market sources suggest the Japanese sovereign wealth fund has had its head turned by private equity and

Figure 8: Average hold periods for deals exited 2006-2013



Source: unquote® data

is beginning to assess opportunities. With around \$1.14tn on its books, its impact would be gargantuan.

Which sector is able to convince sovereign funds to write the biggest cheques, though? The European consumer sector is the current apple of their eye, particularly the luxury space. Permira’s sale of luxury fashion brand Valentino to the Qatari sovereign wealth fund in 2012 exemplifies the growing interest of sovereign players, but also highlights refinancing strategies and the ability for turnarounds in a continent previously plagued by recession.

As Europe stood on the brink of its financial downfall in 2007, Permira bought a 29.6% stake in Valentino at a high valuation – typical of the year. The leveraged buyout valued the firm at €2.6bn. Over the course of two years, Permira continued the acquisition of the firm from minority shareholders, eventually delisting the asset. The GP made strategic personnel changes at Valentino, which notably saw the departure of Valentino himself, and introduced a new design team. The GP completed a recapitalisation of the asset in 2009, moving the debt from the 2007 buyout to a separate holding company. EBITDA grew from negative €9.3m in the middle of the economic crisis in 2009, to around €30m in 2012 with revenues rising from €240m to €380m. The asset was eventually sold for more than 25x EBITDA.

“Today, European private equity is more attractive to international LPs than it has been for many years. There is a growing realisation that concerns have been overdone and that there is good value to be had in Europe.”

Rhonda Ryan, partner and head of EMEA, Altius Associates

Fundraising: rules of evolution

Despite the improved macroeconomic outlook and the myriad opportunities afforded by the European private equity industry, fundraising continues to challenge GPs in the post-crash era – making top priorities of careful strategic positioning and a diversified LP base.

It is true some European GPs are clearly still able to generate considerable interest in their funds. At the upper end of the market, CVC Capital Partners managed to attract €10.5bn at final close earlier this year after only six months on the road. What's more, this type of success is not the preserve of large-cap players – far from it: there has been a succession of highly successful fundraisings seen in the mid-market space over the course of 2013.

However, while a considerable number of GPs – including some raising first-time funds – have managed to navigate their fundraisings with aplomb, the market remains bifurcated. Many managers, including some respected brand names, have had a tougher time convincing LPs and this has served as a reminder that many LPs are now more attracted to niche, high-value-added strategies in the mid-cap segment. That said, even for players operating in that space, LP base diversification is paramount.

First off, being able to reach out to – and more importantly appeal to – LPs from outside one's country and even outside Europe is increasingly necessary. According to the latest full-year dataset available from private equity trade body EVCA, 40% of the capital committed to European funds in 2012 came from institutions based outside Europe – compared with less than 35% in 2011. Accessing a truly global LP base is even more important in the buyout space, where non-European investors accounted for nearly half (49%) of all commitments in 2012 – and with US investors alone contributing to almost a third (31%) of all capital raised.²

2. EVCA 2012 Yearbook (www.evca.eu/uploadedfiles/home/knowledge_center/evca_research/2012_Pan-European_PE&VC_Activity.pdf)

This is, of course, very good news, showing that savvy LPs remain confident in European GPs' ability to deliver in an arguably more complex environment. “Today, European private equity is more attractive to international LPs than it has been for many years,” says Rhonda Ryan, partner and head of EMEA at Altius Associates. “There is a growing realisation that concerns have been overdone and that there is good value to be had in Europe. The recent uptick in distributions has also helped reinforce this perception. As always, the key is fund manager selection on the back of long term experience, and Europe presents good opportunities for those that know where to look.”

Several funds successfully raised in the past few months are proof of this, and highlight the need for targeting LPs outside of one's comfort zone.

However, the need for diversification does not end with geographical reach. The pool of LPs targeting Europe is a fairly diverse one to start with, again showing the appeal of the local private equity industry to a broad range of institutions. According to the 2012 EVCA Yearbook, while nearly half of commitments to European PE funds came from funds-of-funds and pension funds, most vehicles past a certain size will have to target LPs such as sovereign wealth funds (12% of the 2012 total), government agencies (10%) or family offices and high-net-worth individuals (10%).³

Even GPs that attracted a range of LP types with their previous efforts have been in need of a strategic rethink, for today's investment landscape is markedly different from the 2007 heyday. Contributions from banks have all but halved in the past five years, and several insurers have also retreated from the asset class on the back of more stringent capital requirements dictated by new pan-European regulations (such as Basel III and Solvency II).

3. EVCA 2012 Yearbook

“There are strong signs that we are entering another phase that could produce superior returns for those backing European private equity funds again.”

While they remain a prime source of capital for European private equity firms, GPs relying too much on funds-of-funds for their previous vehicles might struggle to get all of them to sufficiently re-up in new efforts: some have begun to scale back their tickets to focus on top-performing teams, while others might target different strategies altogether to appeal to their own LPs. On the other hand, being able to access and attract sovereign wealth funds is becoming increasingly important: this type of investor barely accounted for 2% of the capital raised by European GPs in 2007, but became the third largest pool of capital in 2012.⁴ This appetite has been

exemplified by the sustained investment activity of Singapore's GIC and Qatar's QIA in recent months.

In addition to looking for fresh capital in new directions and beyond Europe's borders, private equity managers also have to contend with increasingly sophisticated demands coming from LPs, both during the fundraising process and over the lifetime of a fund. From LPs needing unfettered access to granular analysis of a GP's track record, to others requesting several lengthy on-site meetings to assess the team, it is no surprise that investor relations functions have become paramount to successfully navigate today's fundraising environment.

4. EVCA 2012 Yearbook

Stars aligning for Europe

History and good sense tell us that there is no better time to enter a market than when it is at, or near, the bottom of a cycle. For Europe, that point has almost certainly passed in recent times and the trajectory of the market for the foreseeable future will be an upward one. The economic recovery may not be as sharp or as rapid as it was following the downturns in the early 1990s and 2000s, but the stars are certainly aligning in the continent's favour. European GPs know this and are turning their attention towards deploying new capital, rather than protecting the money already invested.

Clearly, the macro landscape is a fundamental part of this, but, as we have underlined in this report, the arguments in favour of European private equity at the moment are more persuasive and varied than just that. The sheer variation between regions, both in economic and industrial senses as well as in cultural terms, creates a wealth of opportunities for experienced local GPs. Whether it is via sector-based plays (mid-cap engineering in Germany or Italy, business services in the UK, or the Latin American links of many businesses in Spain), the

deep regional focus of country-specific players, or a more defined niche (turnarounds, buy-and-builds, credit opportunities), there are many strategies to unlock the value in the market. What's more, GPs are increasingly drawn to specialised strategies in order to generate interest in a fundraising market that is perhaps behind the curve.

To cap it off, there is little doubt that investment conditions are beginning to improve: debt is more freely available now than it has been at any point in the last five years making many investments much more attractive prospects. With the possible exception of the most sought-after assets, entry multiples also remain favourable, especially compared with those in the US or Asian growth markets.

Fund vintages from the mid- to late-1990s and from the middle part of the 2000s performed very well for their backers in Europe, and there are strong signs that we are entering another phase that could produce superior returns for those backing European private equity funds again.

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