
Super Investor 2005

Assessing the importance of preserving an alignment of interests in LP/GP relations:

What is the current level of satisfaction in LP/GP relations?

Panel discussion

Wednesday 16 November 2005

Panel Participants

Panellists:

Pierre Fortier, *Vice President Funds*, Caisse de Dépôt et Placement du Québec

Marie-Christine Riachi, *Director*, Höegh Capital Partners

Christophe Bavière, *CEO*, AGF Private Equity

Michael Langdon, *Chairman*, Rutland Partners

Rod Richards, *Managing Partner*, Graphite Capital

Panel chair:

Armando D'Amico, *Managing Partner*, Acanthus Advisers

Acanthus LP / GP Survey

The survey covered four main areas:

1. What is the current level of satisfaction in LP/ GP relations?
2. What is the ideal form and level of communication between GPs and LPs?
3. To what extent should LPs be involved? What value added can LPs provide to GPs?
4. What are the principal areas of alignment and misalignment of interest between LPs and GPs? What is currently worrying LPs about GPs' behaviour and vice versa?

The Acanthus LP / GP survey was carried out in September – October 2005 and obtained over 100 responses from leading European and US LPs and GPs

What is currently worrying LPs about GPs' behaviour?

The concerns of LPs about GPs' behaviour mainly focus on:

1. Fund size
2. Fund terms/ governance
3. Team-related issues
4. Deal structures

Survey quotes – LPs' concerns

- “mad dash for cash... GPs find it too easy to find money...lack of discipline in capping fund sizes”
- “GPs with over-subscribed funds tend to get away with inappropriate terms and conditions (especially with regard to investor protection clauses)”
- “when capital is abundant GPs become less concerned about maintaining good relations with their LPs”
- “management fees provide a non-alignment of interest in the biggest funds...”
- “as fundraising is rather easy at the moment GP's are getting greedier, i.e. raising as big funds as possible whether they have experience on bigger deals or not”
- “the overheated fundraising cycle is allowing funds to relax on transparency and corporate governance..”
- “conflicts of interest poorly addressed. Not enough transparency on transaction, monitoring, exit fees”

What is currently worrying GPs about LPs' behaviour?

The concerns of GPs about LPs' behaviour mainly focus on:

1. LP investment strategy/ processes
2. LP Teams
3. Communications

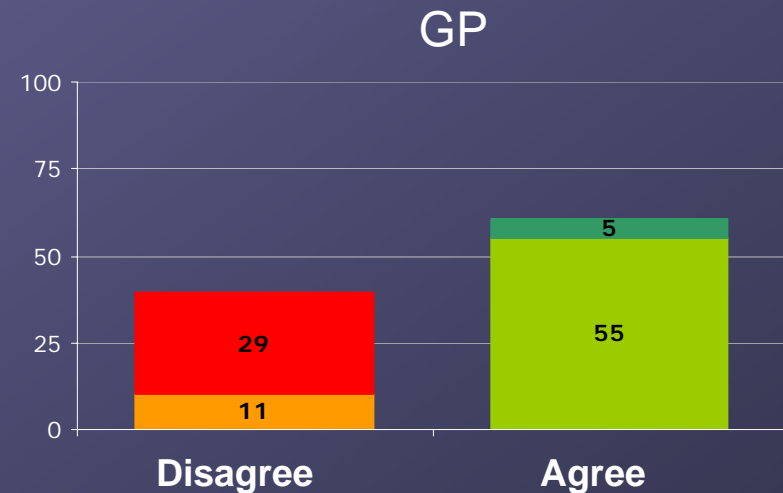
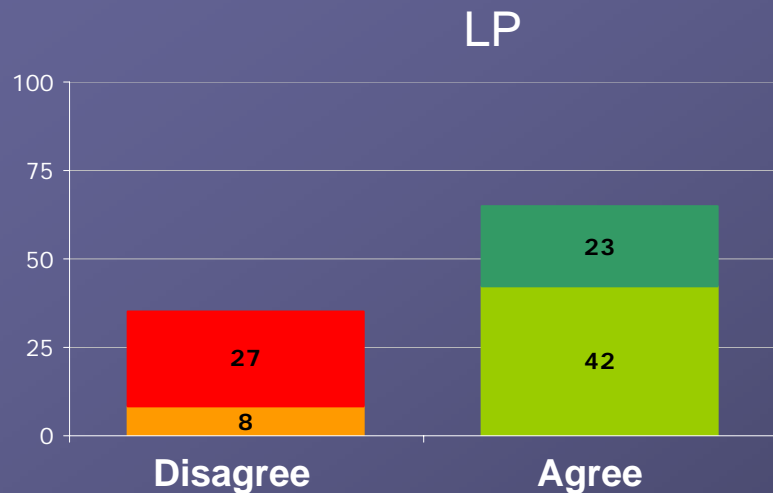
Survey quotes – GPs' concerns

- “LPs are less selective because they HAVE to invest more..”
- “sheep mentality....herd behaviour....herd mentality....buyout bubble looms but no one is pulling back..”
- too much money flowing into the asset class..”
- “feedback from LPs to GPs is in my opinion extremely poor..”
- “taking the easy option to back existing managers..”
- “some LPs have high staff turnover. It is difficult to maintain a relationship when you start anew each time. It is interesting that many LPs with high in-house turnover are the same ones to really question any GP turnover..”

Survey analysis

Role and involvement of LPs

LPs with high staff turnover run the risk of being black listed by successful GPs



→ Yes, for some 60-65% of both LPs and GPs

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Topics for panel discussion

Alignment / misalignment: areas of concern

- Fund size / terms
- LP / GP balance of power

LP role and involvement

- LP “value added”, team issues
- Advisory boards

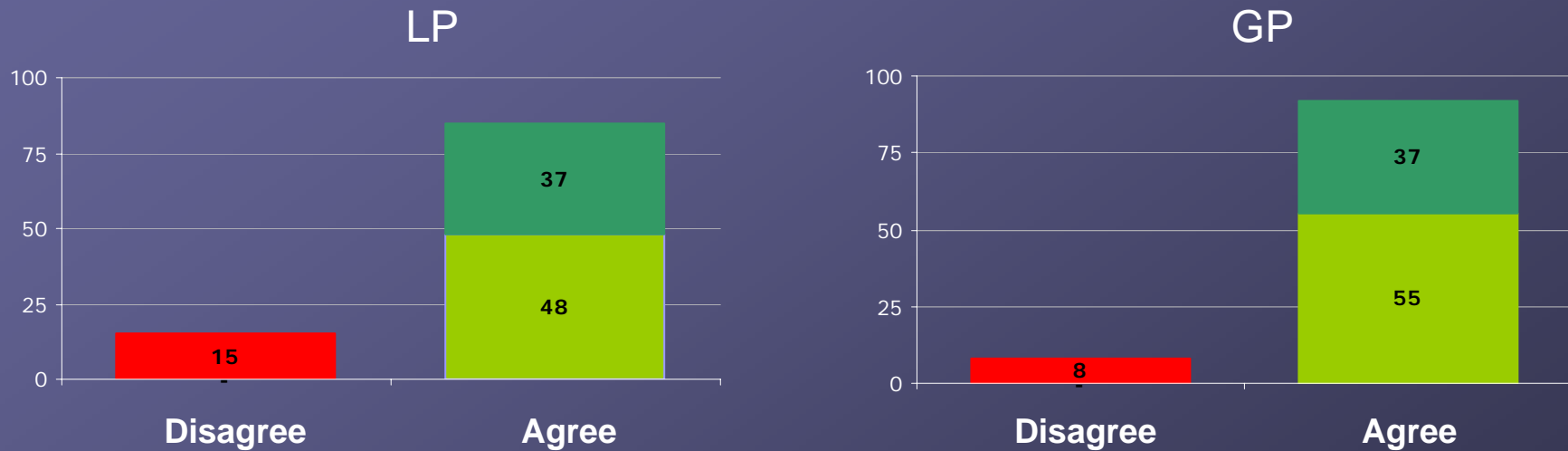
GP / LP communications

- Informal vs. formal
- Communication of material events

Survey analysis

Role and involvement of LPs

Most LPs do not act as added value investors



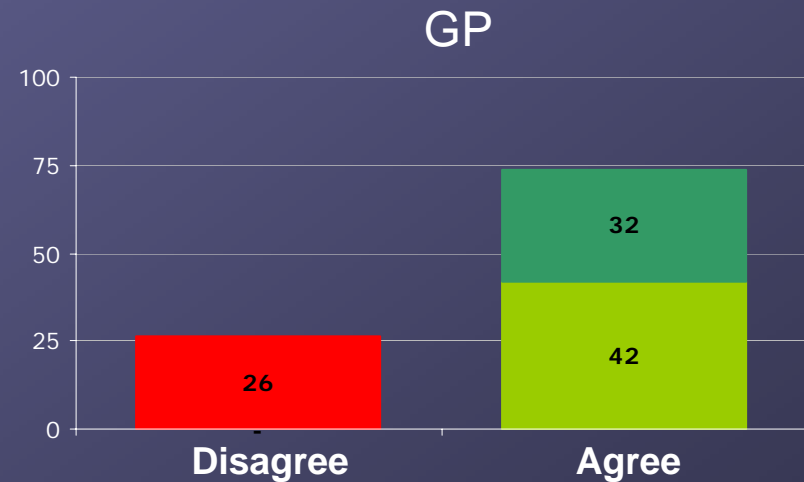
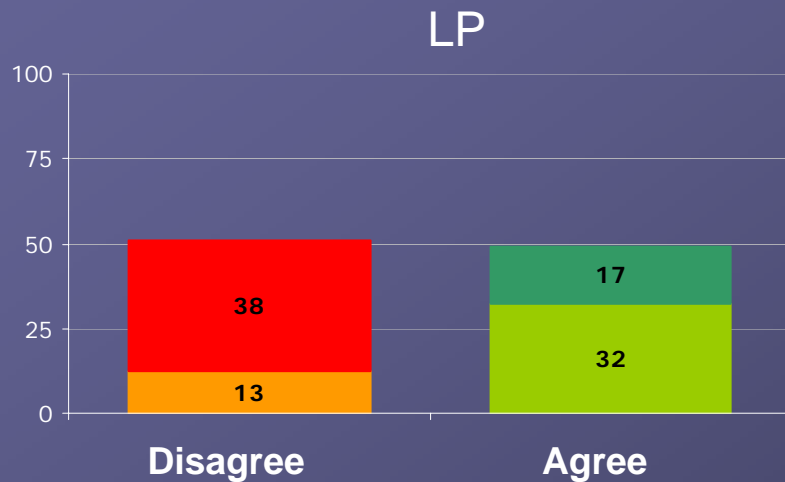
→ 85% of the LPs and over 90% of the GPs agree

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Survey analysis

Role and involvement of LPs

LPs should not involve themselves in GP personnel issues



→ Responses from LPs are split while $\frac{3}{4}$ of GPs agree that LPs should not involve themselves in personnel issues

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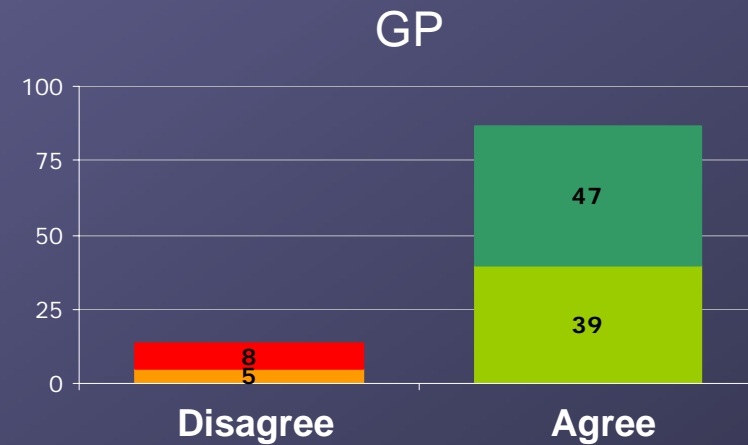
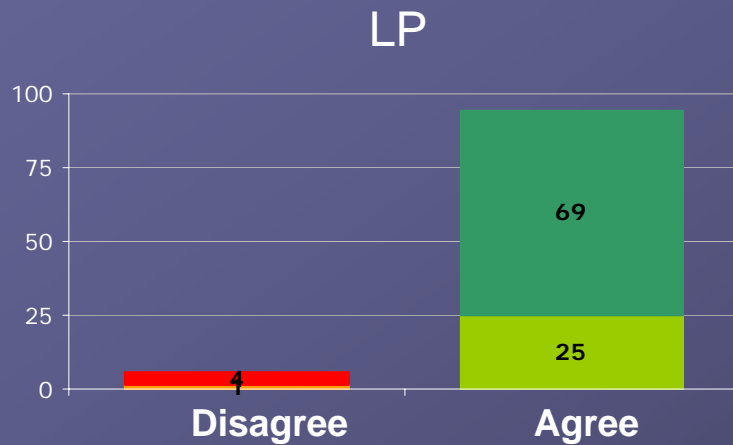
Advisory boards

- What is best role for the Advisory board? Should they be advisory only or should they have “teeth”?
- What issues should they be mandated to address?
- Who should be on it?
- Are Advisory Board members themselves conflicted at times?

Survey analysis

Communications

Informal, ad hoc information is just as important as regular standard reporting



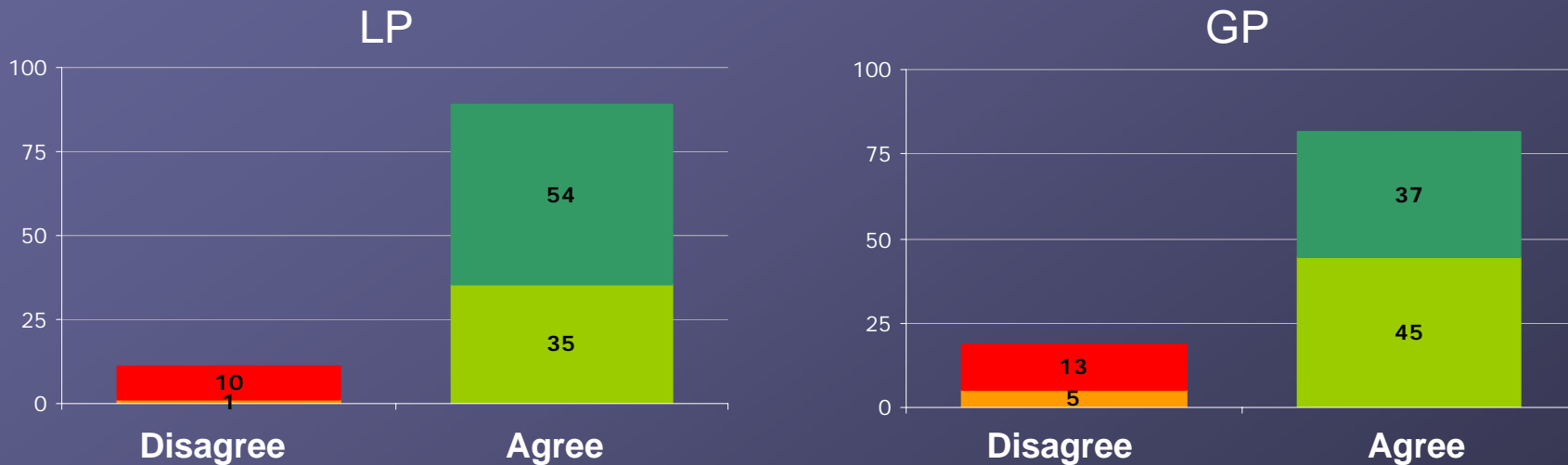
→ Clear agreement: 94% of LPs and 86% of GPs think that communicating informally is as important as standard reporting

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Survey analysis

Communications

LPs have the right to expect more upfront information on under-performing companies



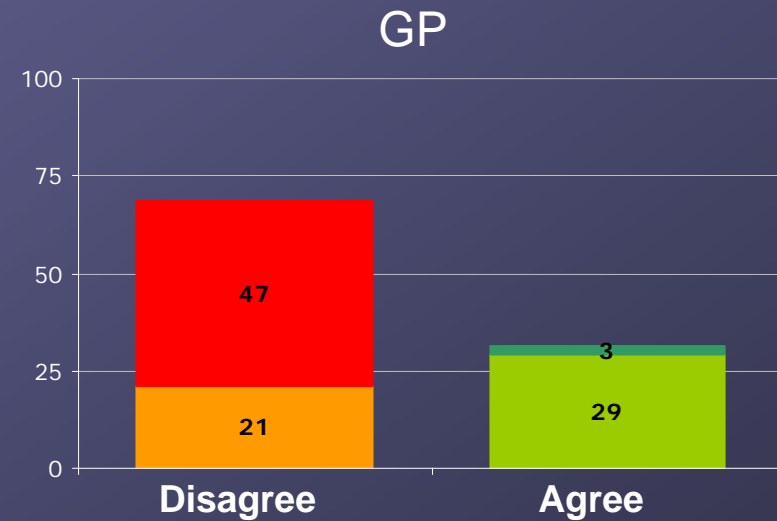
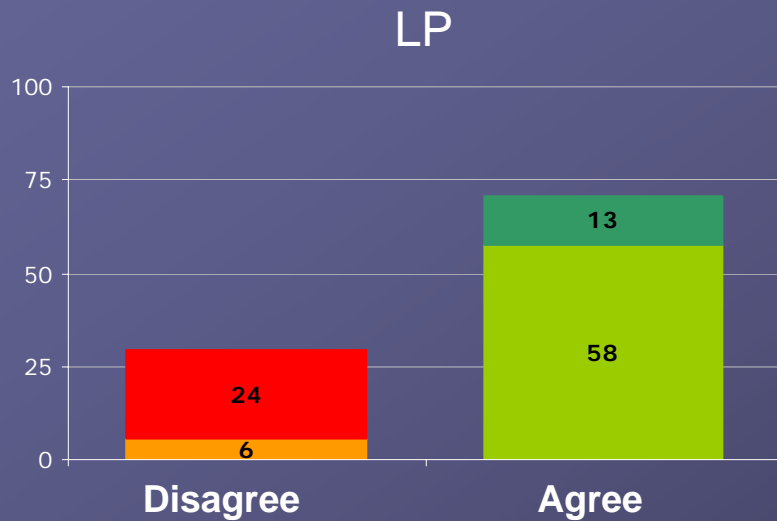
→ Both sides agree that they do. Nearly 90% of LPs and over 80% of GPs state that LPs have the right to expect more upfront information on under-performing companies

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Survey analysis

Communications

Issues related to team size, new hires and departures are not communicated adequately



→ Significant disagreement here: over 70% of the LPs think they aren't while nearly 70% of the GPs think they are

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Appendix

Acanthus Advisers

Firm profile

- Independent fund placement and corporate advisory firm focused on private equity, founded in 1998
- Fund focus: €100-500m any stage; providing fundraising, investor relations and strategic advice
- Corporate advisory focus: private transactions; €10-150m EV
- Short listed for European Boutique of the Year - EVCA Private Equity Awards 2004 and 2005

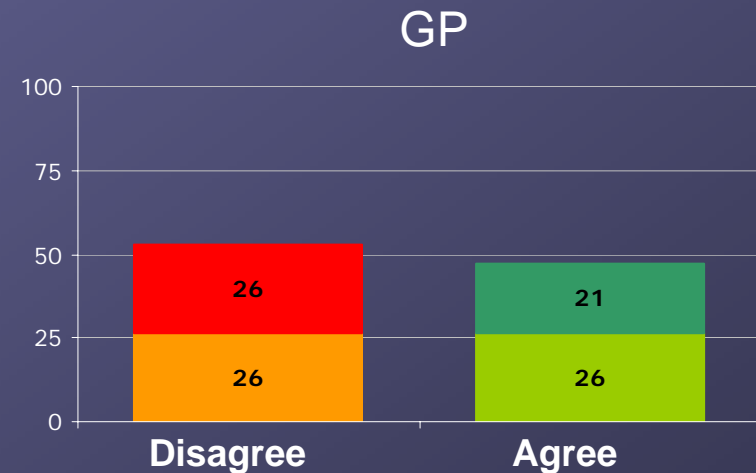
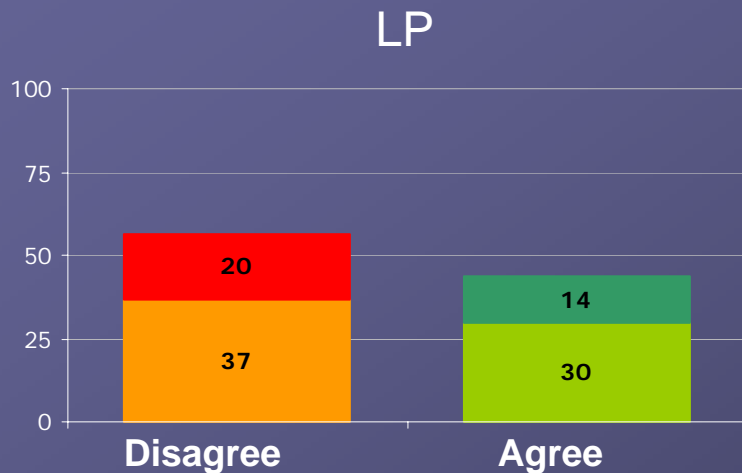
Armando D'Amico – Managing Partner

- 20+ years' experience in private equity, banking and strategy consulting
- Senior banker at EBRD - €700m fund of funds
- Special adviser to Euro Private Equity Partners (FOF)
- Ten years strategy consulting Europe/US (Bain & Co., Alliance, Telesis)
- M.Sc. Civil Engineering, INSEAD MBA

Survey analysis

Level of satisfaction

I do not think that LP/ GP relations are an issue



→ Answers are split: 57% of LPs and 52% of GPs think that LP/GP relations are an issue. The question of LP/GP relations is worth exploring

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