

Private equity and hedge funds in capital markets today



Partners Group
Passion for Alternative Investments



BSCC Luncheon

24 May 2007

Alfred Gantner
Executive Chairman
Partners Group

Speaker



Alfred Gantner, Partner

Executive Chairman

Alfred Gantner is a founding partner of Partners Group and serves as the firm's executive chairman, leading the business strategy and corporate development of the firm. As a member of both the private equity and hedge fund investment committee, he has been instrumental in building the firm's private equity and hedge funds investment management business and participated in a large number of private equity (primary, secondary and direct investments) and hedge fund investments in Europe and the US. Prior to founding Partners Group, Mr. Gantner worked for Goldman Sachs & Co. where, after stays in New York and London, he built up an institutional client base in Switzerland. He started his career in the securities trading department of the UBS Private Banking Group (Cantrade) in Zurich and Geneva. He holds a MBA degree from the Marriott School of Management at Brigham Young University, USA.



Table of contents

I. Introduction Partners Group

II. Private equity

III. Hedge funds



**"Passion for
Alternative Investments"**



Partners Group - overview

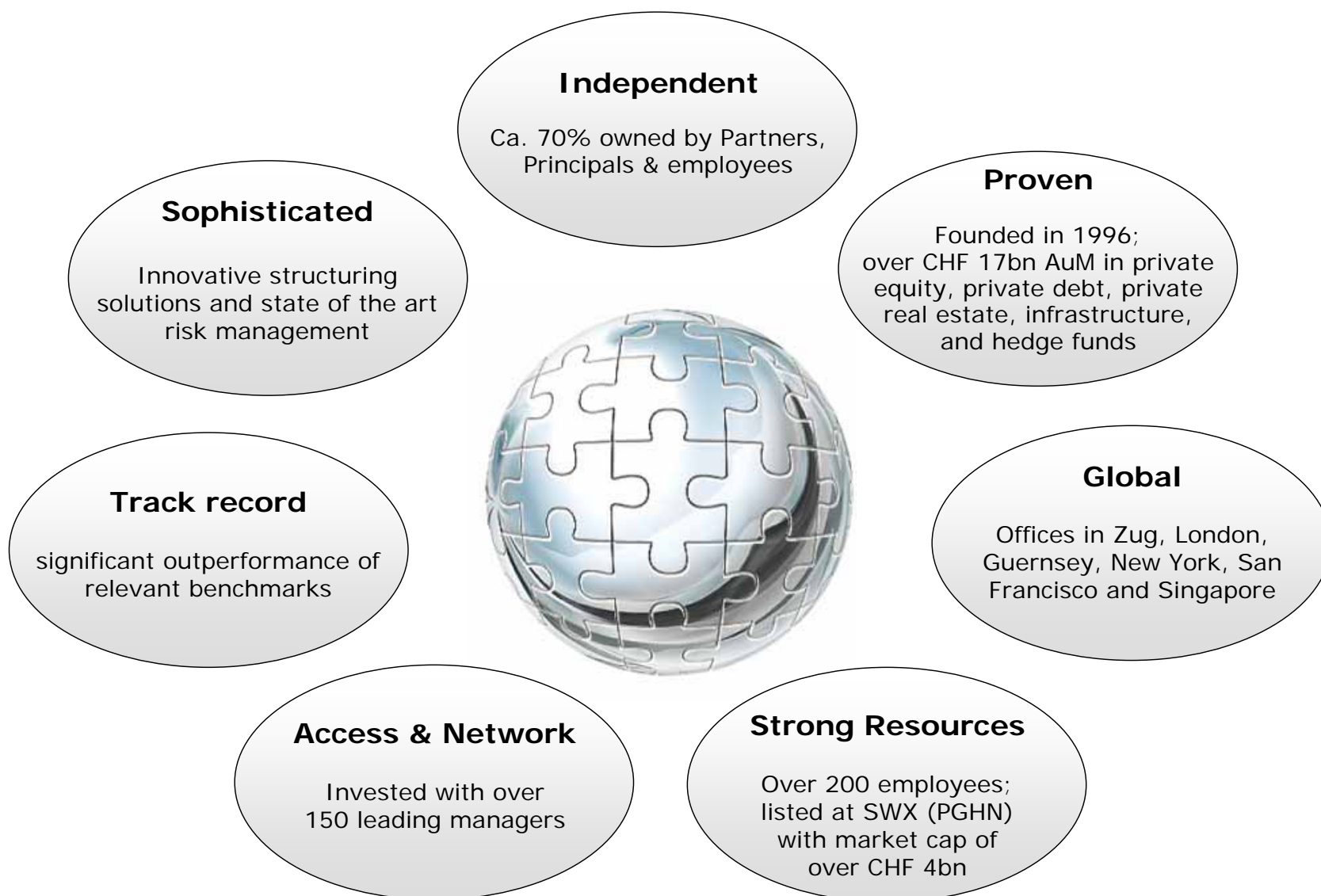




Table of contents

I. Introduction Partners Group

II. Private equity

III. Hedge funds



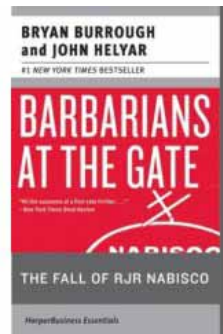
**"Passion for
Alternative Investments"**



Private equity firms have again moved into the public spotlight...



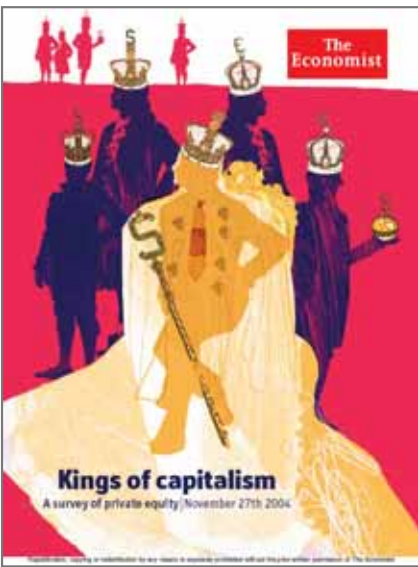
sundayherald
"Vulture Culture"



The Boston Globe
"Megadeal manoeuvres"

The New York Times
"HCA Buyout Highlights Era of Going Private"

"Some financial investors don't bother to think of the people whose jobs they destroy. They remain anonymous, don't have a face, fall over companies like locust swarms, graze them and then move on."
Franz Müntefering, former head of German Social Democrats



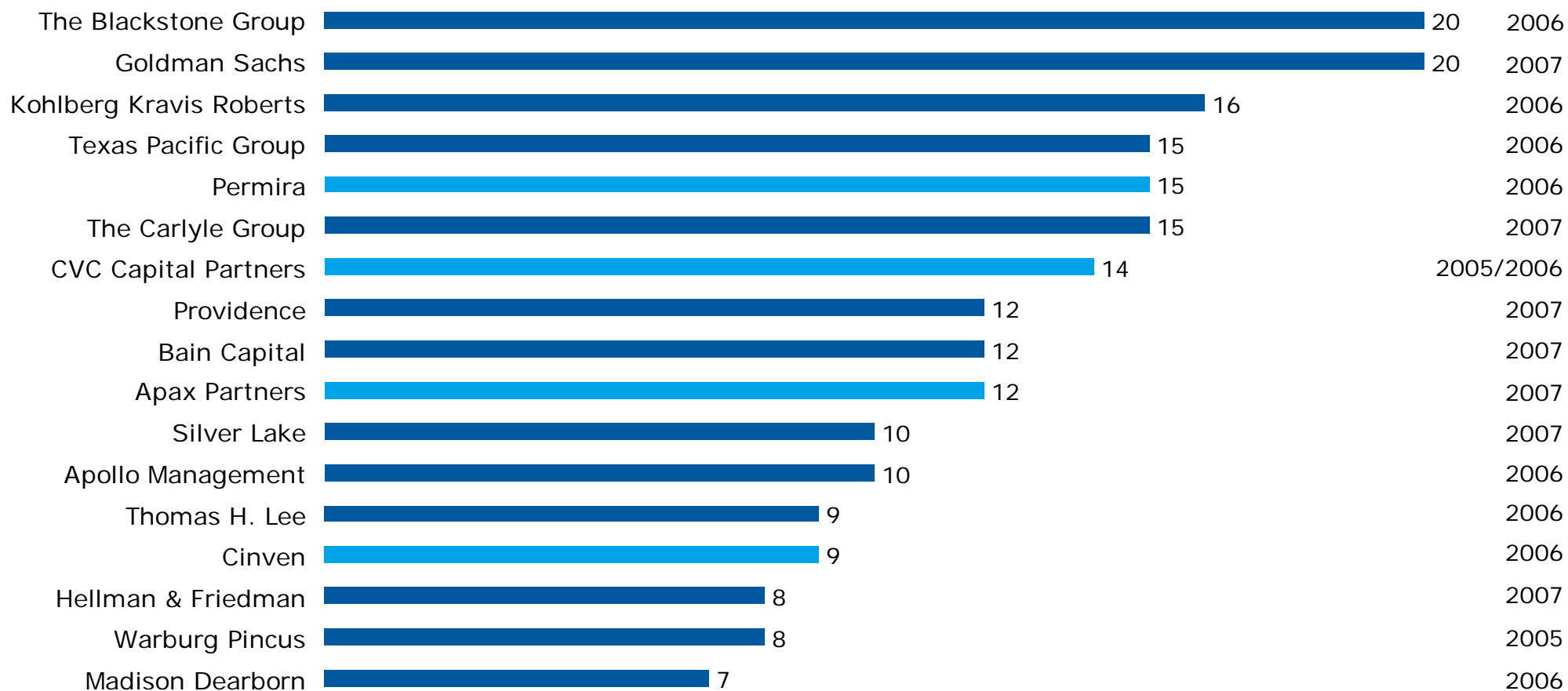
Der deutsche Hausrechnerverband wöhlt sich



... they raise bigger and bigger funds...

Size/target size of latest/current fund (in USD bn)

Year



Source: Partners Group analysis based on various sources



... and are expected to raise even more capital in the years to come ...



"Halusa, chief executive of Apax Partners, said that if the USD 100bn fund became a reality, it would put many of the world's biggest companies within the grasp of private equity groups, opening a vast new marketplace for their investment activity. The USD 100bn fund would be ten times the size of the biggest private equity funds at present."




















The Times / January 26, 2006



... have lately done their ever-largest deals after the buyout of RJR Nabisco in 1989...

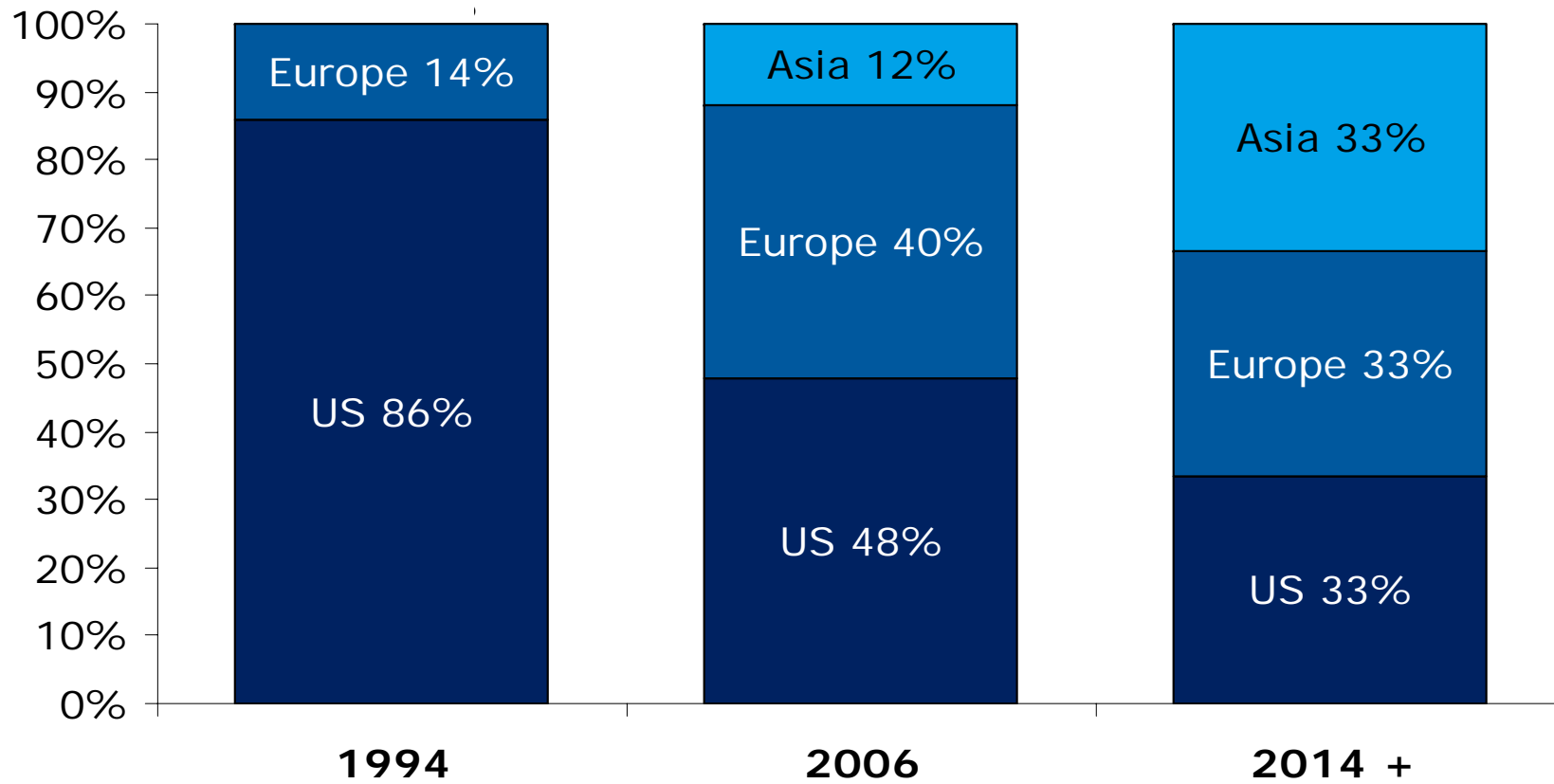
Company	Deal size	Industry	Sponsor	Year
TXU	USD 45.0bn	Electricity manufacturer	TPG, KKR	2007
Equity Office	USD 40.0bn	Office building owner & manager	Blackstone	2007
HCA	USD 33.0bn	Hospital operator	incl. KKR, Bain Capital	2006
RJR Nabisco	USD 31.4bn	Consumer products	KKR	1989
First Data	USD 29.0bn	Credit card billing	KKR	2007
Clear Channel	USD 26.7bn	Media	TH Lee, Bain Capital	2006
Sallie Mae	USD 25.0bn	Student loan provider	incl. JC Flowers, JP Morgan	2007
BAA	USD 23.9bn	Airport operator	incl. Ferrovial, CDP	2006
Kinder Morgan	USD 21.6bn	Energy & natural gas pipelines	incl. Carlyle, AIG	2006
Freescale	USD 17.6bn	Semiconductors	incl. Carlyle, Permira, TPG	2006
Harrah's Entertainment	USD 17.1bn	Entertainment	TPG, Apollo	2006
TDC	USD 15.8bn	Communication	incl. Apax, Providence	2006
Thames Water	USD 15.2bn	Water & wastewater services	Macquarie	2006
Hertz	USD 15.0bn	Car rental	incl. CD&R, Carlyle	2005
Univision	USD 13.6bn	Media	incl. Providence, TPG	2006
SunGard	USD 11.3bn	Software	incl. Silver Lake, KKR	2005
VNU	USD 11.0bn	Media	incl. Carlyle, TH Lee	2006

... and play a big part in our economy and life

Private equity Group	Selected portfolio companies	Estimated revenues	Estimated No. of employees
Kohlberg Kravis & Roberts	  	> USD 60bn	> 300'000
Blackstone Group	 	> USD 50bn	> 300'000
Texas Pacific Group	  	> USD 40bn	> 250'000
The Carlyle Group	 	> USD 30bn	> 200'000
Apollo	 	> USD 30bn	> 200'000
Permira	 	> USD 20bn	> 150'000
CVC	 	> USD 20bn	> 150'000
Cinven	 	> USD 20bn	> 150'000
Apax Partners	 	> USD 20bn	> 100'000

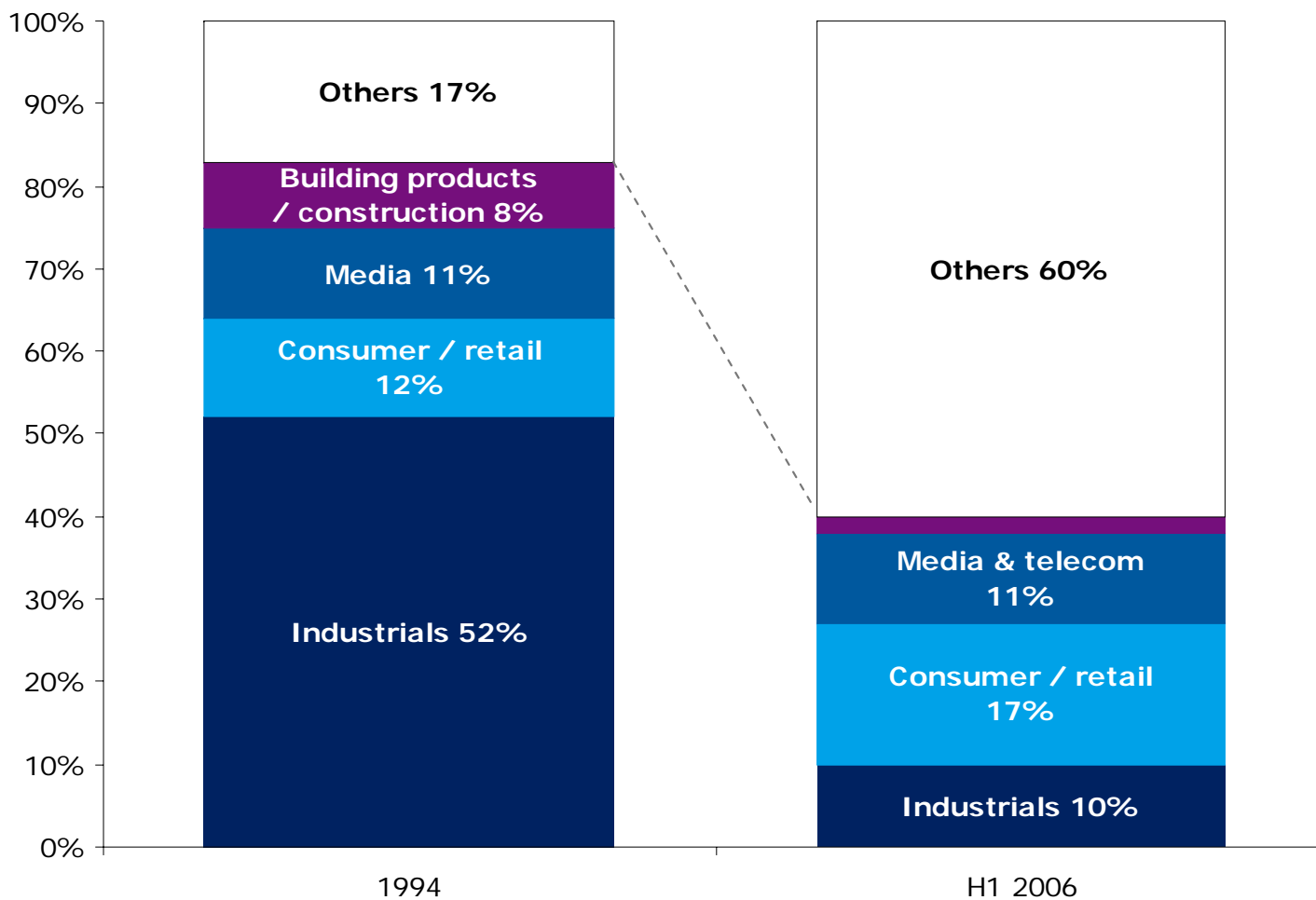


The geographic investment spectrum is broadening, and...





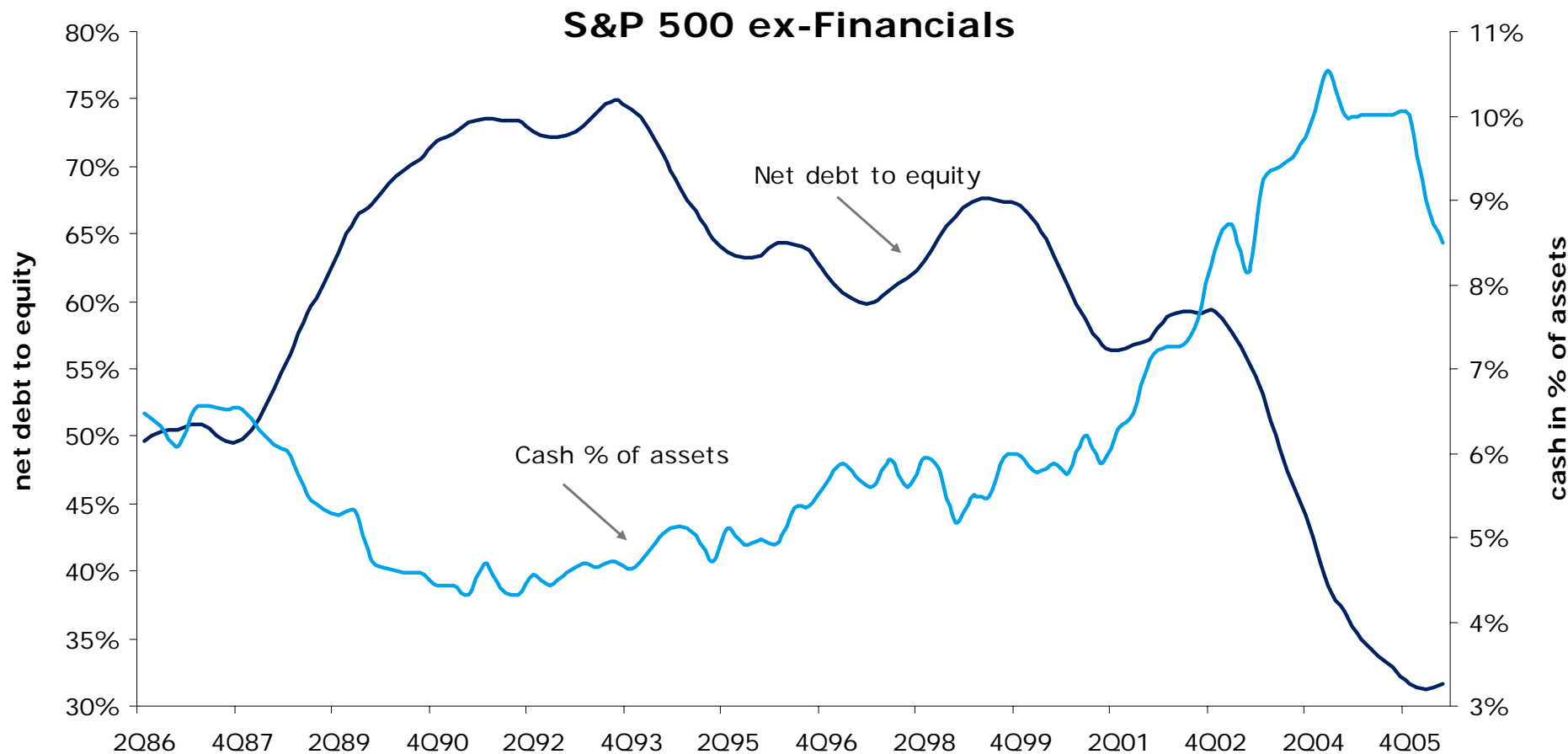
...and investing in ever more industries



Source: Buyouts Newsletter / TPG for 1994 figures (include only transactions over USD 200m); mergermarket „European Private Equity in Review“ and „North American Private Equity in Review“ (August 2006) for H1 2006 figures (value-weighted average of European and North American figures)



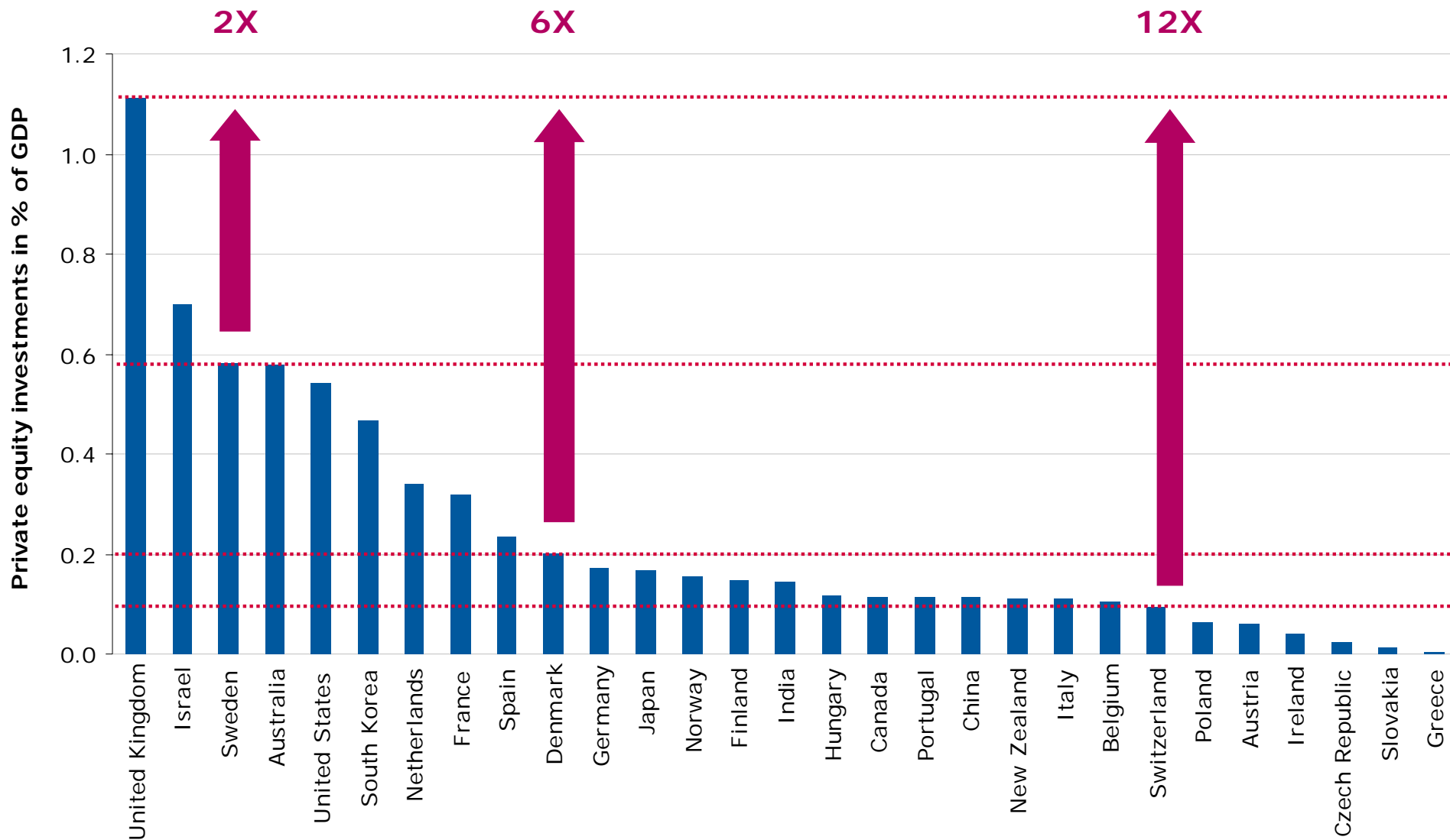
...and investing in larger deals (public to privates)



- š Public companies have low leverage and excess cash on the balance sheets
- š Higher quality assets with more diversified revenue base
- š Significant cost improvement potential



The private equity industry still has room to accommodate strong future growth



Source: EVCA, Thomson Financial, PriceWaterhouseCoopers

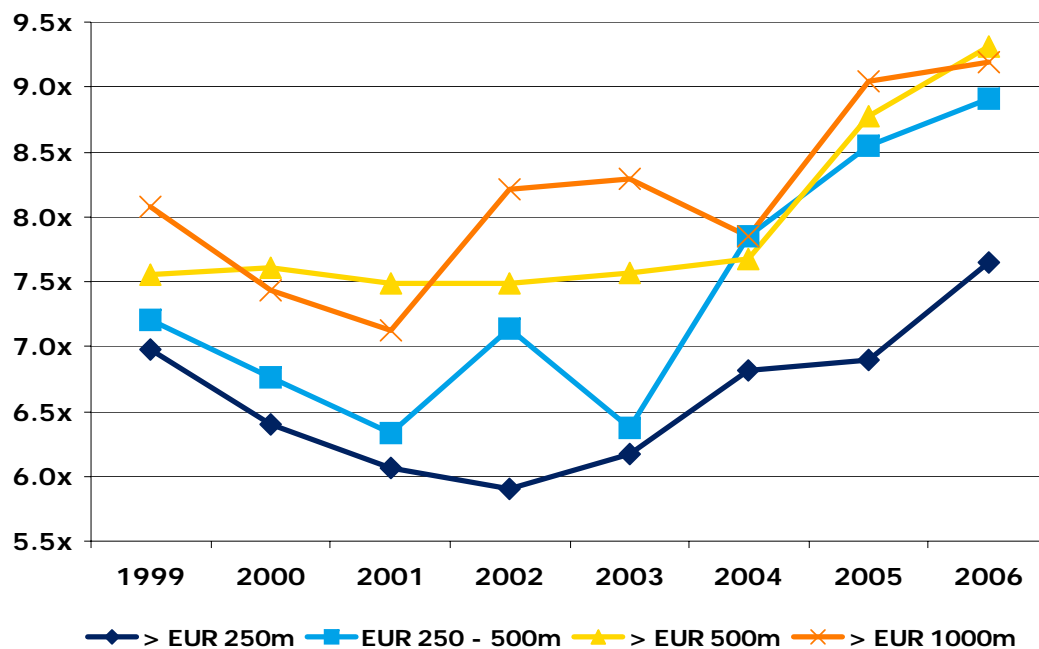


European Buyout Valuations

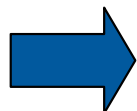
Entry EV / EBITDA Multiples

15

- § Pricing across all size ranges has risen again in 2006, but there appears to be a leveling out
- § Very similar to 2005, liquidity in the debt markets and the positive economic development in general drove valuations upward during 2006



Source: Standard & Poor's, as at December 31, 2006

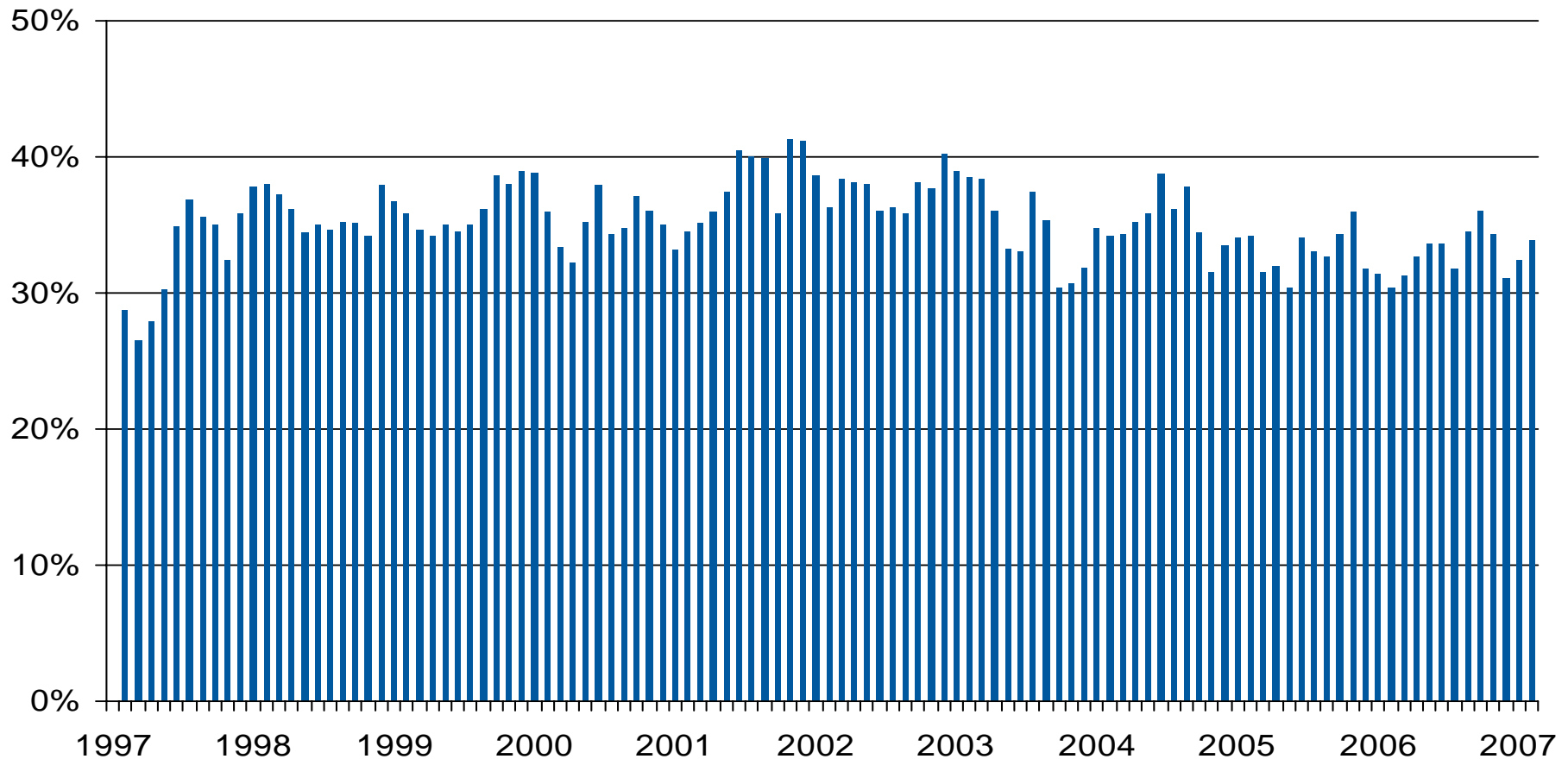


High quality deals, availability of debt at low rates largely justify increased valuations



Equity contribution remained stable at reasonable levels of 30% to 40%

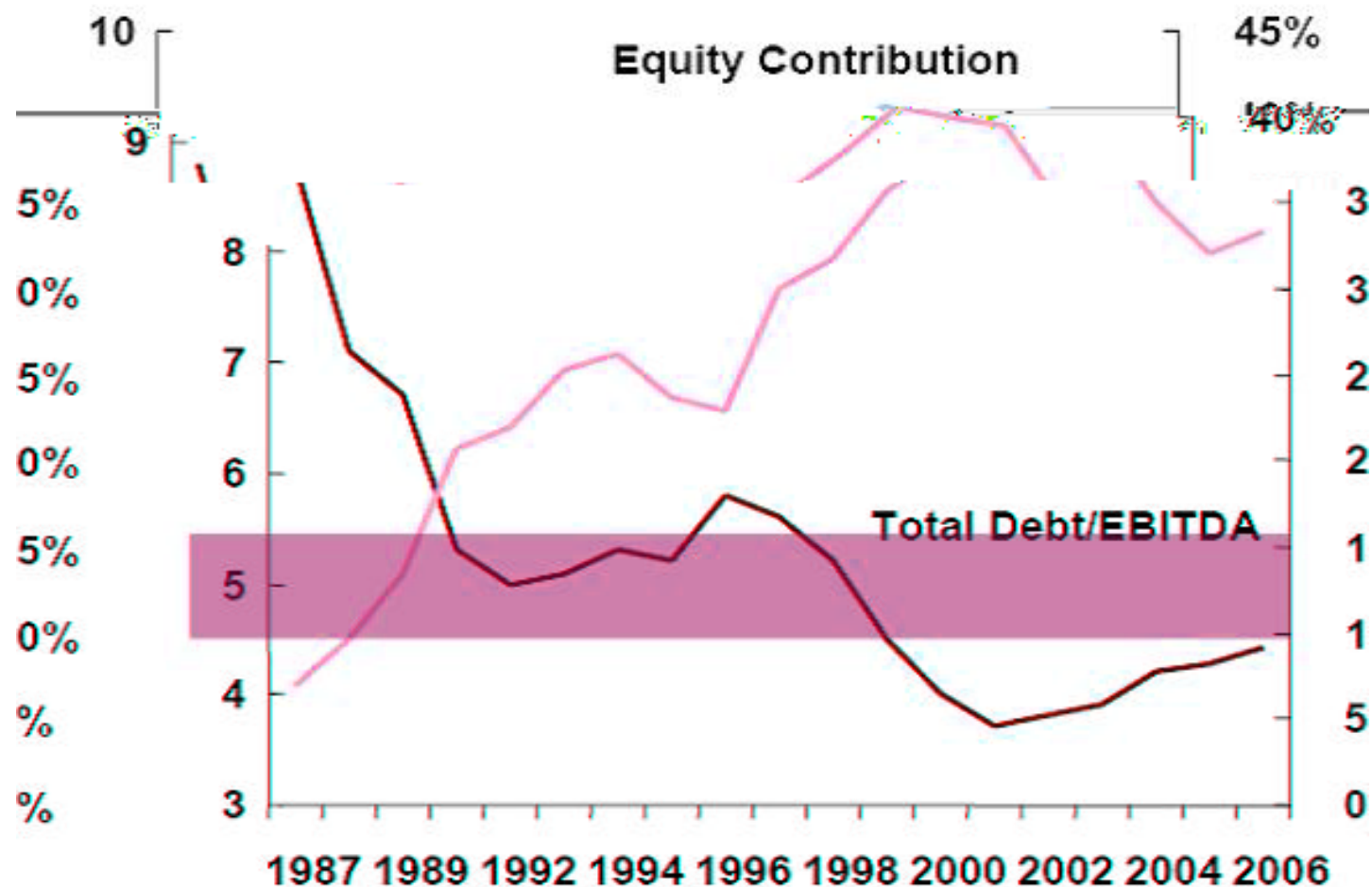
Rolling 3-month average equity contribution 1997-2007



Source: Standard & Poor's



Leverage is still much lower than historic highs reached in the 1980s



Source: Standard & Poor's (global)



Larger funds do not mean lower returns

§ **In 1999-2001, funds have been raised with never before seen record sizes:**

§ Apax Europe V: EUR 4.4bn

§ Apollo V: USD 3.7bn

§ Cinven III: EUR 4.4bn

§ TPG III: USD 3.4bn

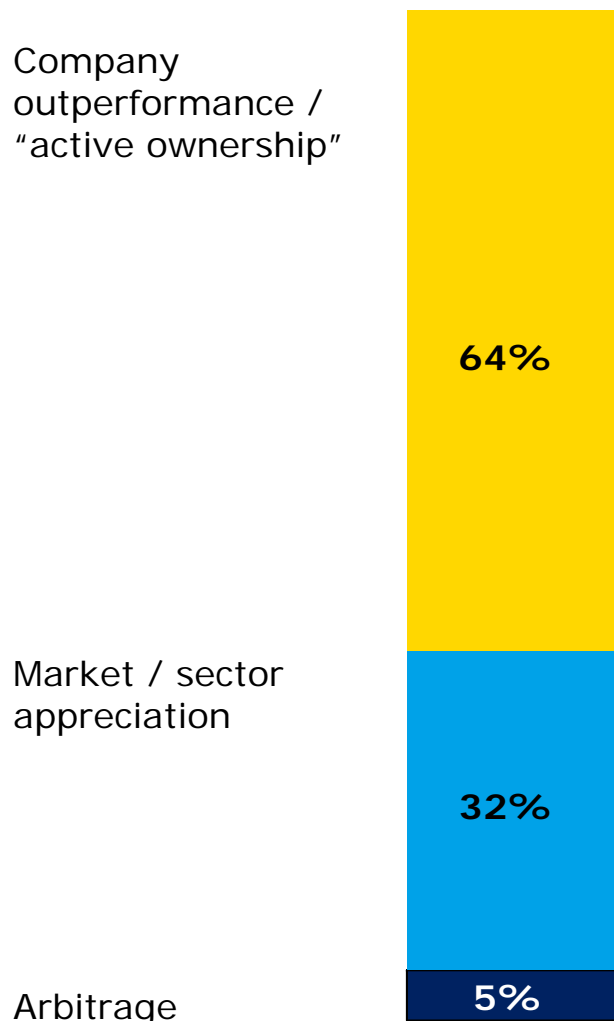
§ **Back then, many people were afraid that these funds would have lower returns**

§ **Today, the IRRs of these funds stand at around 30%**



Buyout value creation chain: reality

Value creation through



Key return drivers of active ownership

1. In 83% of the best deals, investors secured privileged knowledge on the company before actually investing
2. Successful deal partners institute substantial and focused performance incentives: usually a system of rewards equalling 15 – 20% of the equity
3. Successful investors craft better value creation plans at the beginning and execute them more effectively:
 - § Sceptical review of current business; development of new business plan
 - § 92% of successful investors implemented performance management tools
4. The most effective investors devote more hours to the initial stages of a deal: in the best performing companies, deal partners spent around half their time on the company during the first 100 days
5. In over 80% of the best deals, firms strengthened the management team before the closing of the transaction

Private equity firms create jobs and revenue growth



Employment growth

- § Employment by **UK** private equity-backed companies grew by an average **14% annually** and thus nearly five times the rate of FTSE 100 & FTSE Mid-250 companies in the five years until 2004/05 ⁽¹⁾
- § In **Europe**, employment by private equity-backed companies grew by an average of **5.4% annually – or eight times the average** of the EU 25 (0.7%) in the period 2000-2004 ⁽²⁾

Growth of revenues and investments

- § Revenues of private equity-backed companies in the **UK** grew by **20%** annually on average (for the five years until 2004/05) ⁽¹⁾
- § R&D expenditure by private equity-backed companies in the **UK** increased at an average rate of **19%**



Relative attractiveness of various private equity segments

Relative Value Matrix											
		Northern America			Europe			Asia/ROW			
Venture Capital		[Green]			[Green]			[Green]			Primaries
	Manager	[White]	[Red]	[White]	[White]	[Red]	[White]	[Red]	[White]	[Red]	Secondaries
		[White]			[White]			[White]			Directs/Co-invest
Buyout	large	[Green]	[Light Red]	[Green]	[White]	[White]	[Green]	[Green]	[White]	[White]	Primaries
	Manager	[White]	[Red]	[White]	[White]	[Red]	[White]	[Red]	[White]	[Red]	Secondaries
		[Green]	[Light Red]	[Green]	[Green]	[White]	[Green]	[Green]	[White]	[Light Red]	Directs/Co-invest
Private Debt	large	[White]	[Green]	[Light Green]	[White]	[White]	[Light Green]	[White]	[White]	[Light Green]	Primaries
	Manager	[White]	[Red]	[White]	[Light Red]	[Red]	N/A			Secondaries	
		[Green]	[Green]	[Light Green]	[Light Red]	[Light Red]	[Light Green]	[White]	[White]	[Light Green]	Directs/Co-invest
		[Green]									Listed Private Equity

How to read the table:

The Relative Value Matrix segments the private equity market into various private equity segments, defined by regions (Northern America, Europe and Asia/ROW) and financing stages (venture capital, buyout and private debt). Each segment is subdivided by the different types of investments available (primaries, manager secondaries, financial secondaries, direct/co-investments and listed private equity). Finally, for primary investments in buyout, we classify the investments by size (small-cap up to EUR 100m (Europe) or USD 250m (USA); mid-cap from EUR 100m to EUR 400m (Europe) or USD 250m to USD 1bn (USA); and large-cap over EUR 400m (Europe) or USD 1bn (USA) enterprise value), and for primary investments in private debt we distinguish between small, large and distressed transactions. Green and light green highlight a segment with high relative attractiveness. White highlights a neutral segment. Red and light red mean that we underweight the segment and require even more so a very dedicated bottom-up selection effort (and valuation, when it comes to secondary opportunities).



Table of contents

I. Introduction Partners Group

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III. Hedge funds



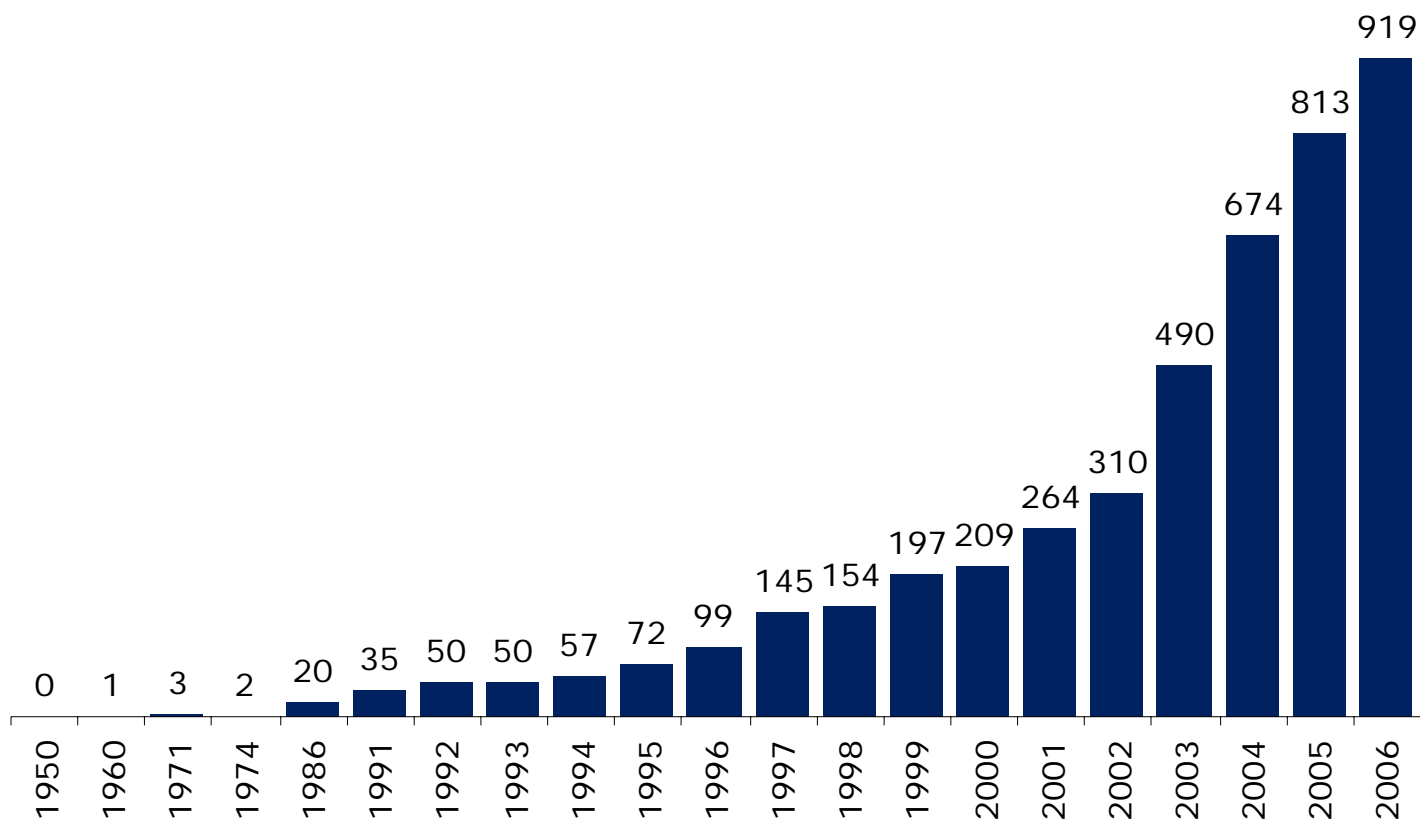
**"Passion for
Alternative Investments"**



Hedge fund market has been growing significantly

Hedge fund assets tracked by Tremont

(in USD bn)

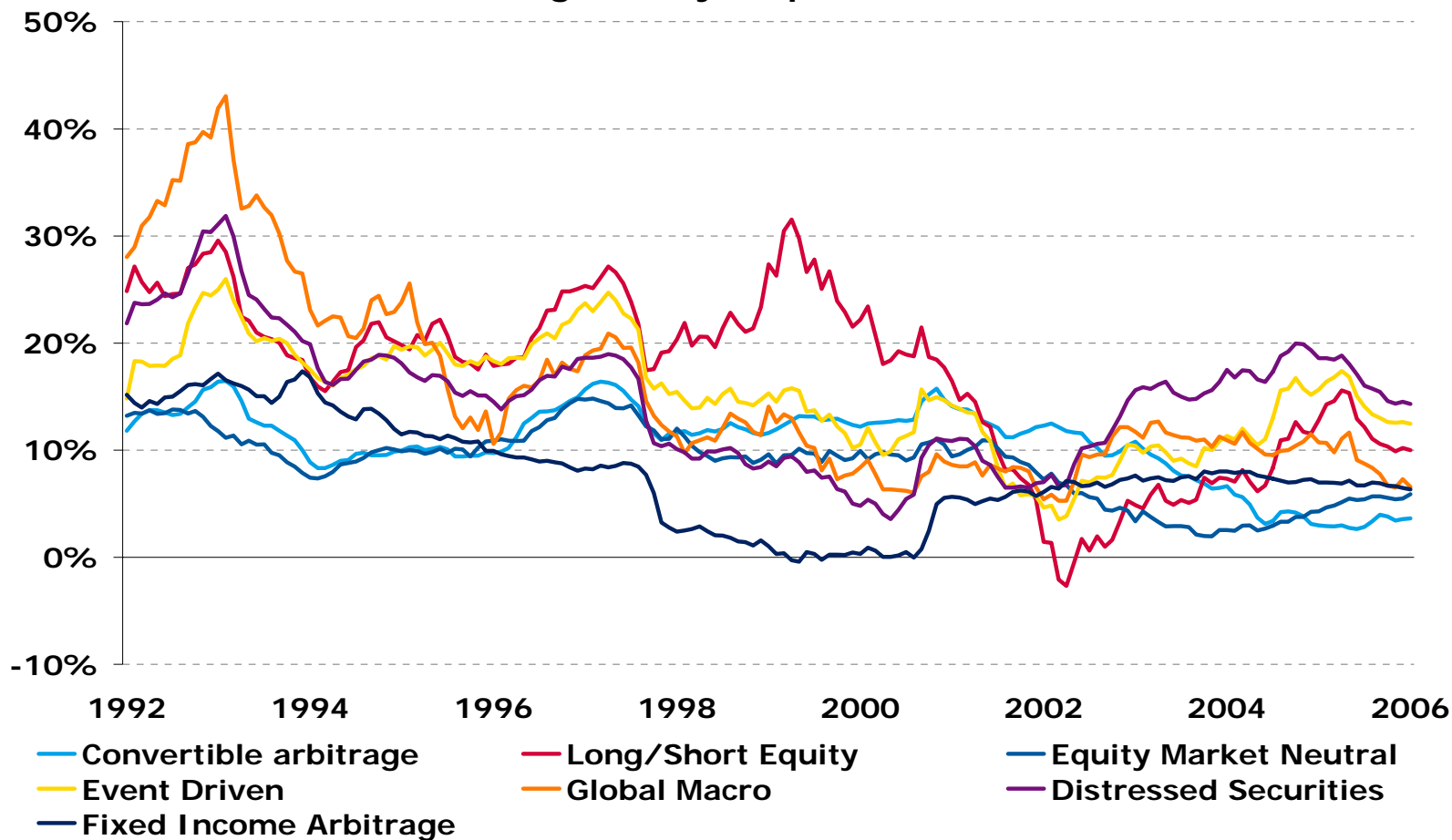


Source: Q4 2006 TASS Asset Flows Report, Data until 1992 from Hennessee Hedge Fund Manager Survey



Hedge fund returns have been decreasing

Rolling three-year performance



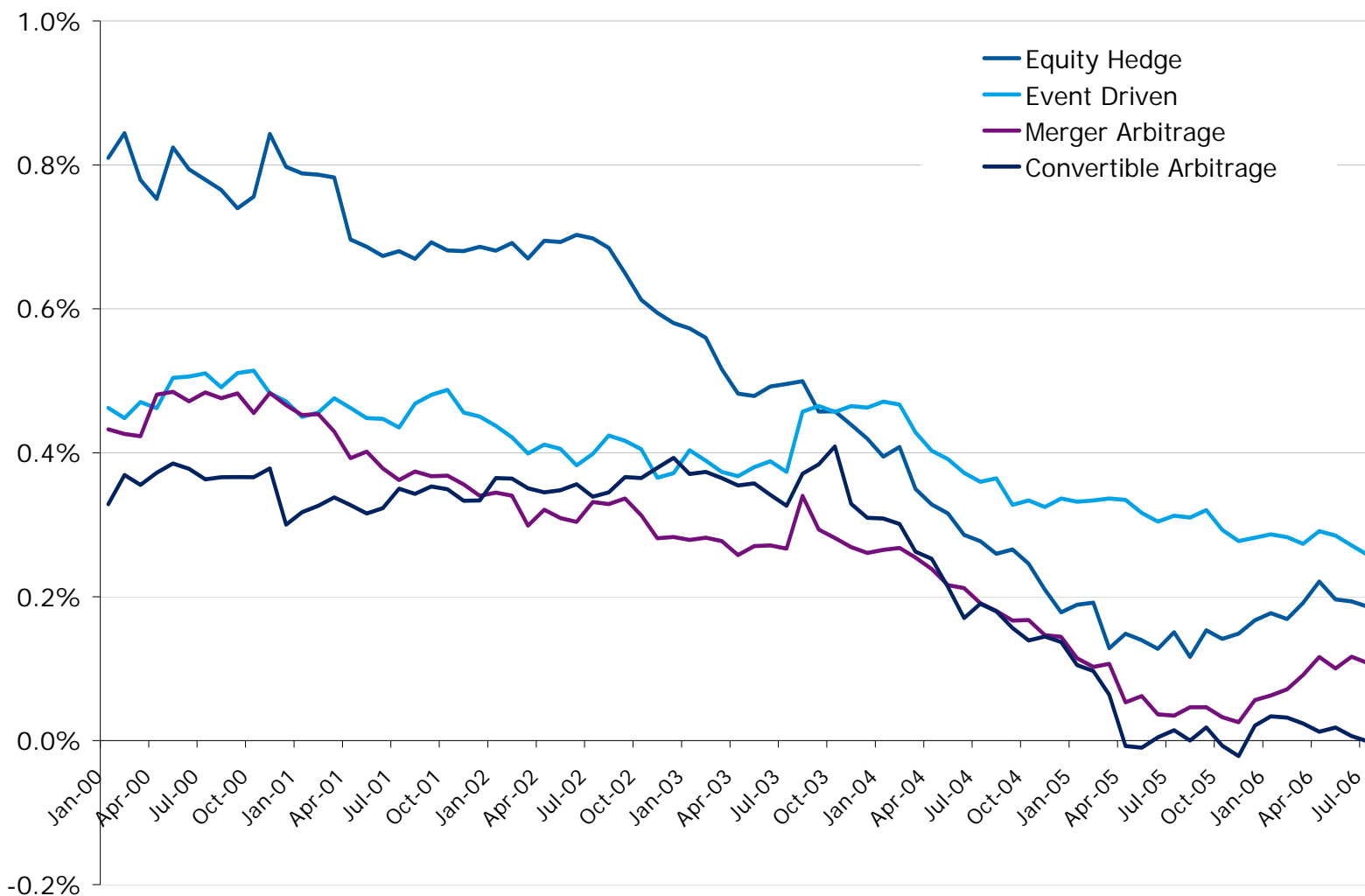
Source: Bloomberg, Hedge Fund Research data, monthly data as of 31.3.2007



Hedge fund "Alpha" has been decreasing

The development of Alpha for various strategies based on a rolling regression over a 60 month time window.

Monthly Alpha in percent



Data Source: HFR, Bloomberg. Calculation: Partners Group



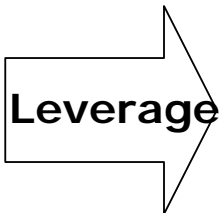
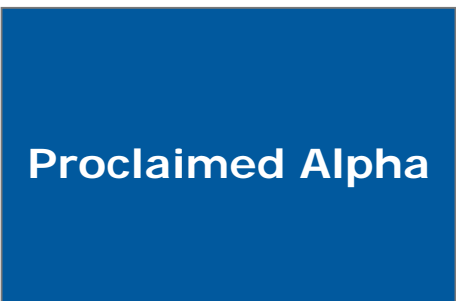
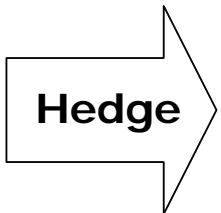
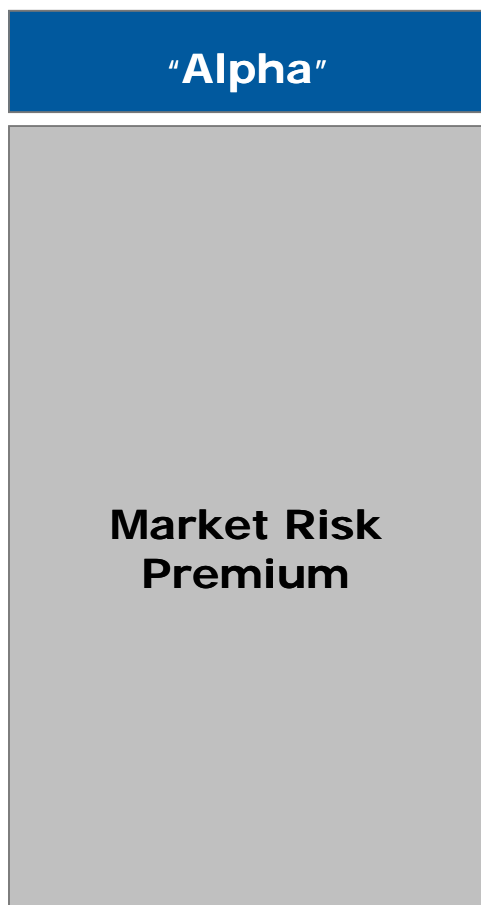
High fee load lowers net returns further

6.3%



Only small portion of HF returns is "alpha"

Traditional mutual fund



Hedge fund



One of many investors' most frequent mistakes is not looking deeper into a hedge fund's proclaimed Alpha.



“Traditional beta” vs. “Hedge fund beta” (“Alternative beta”)

Traditional beta

Exposure to:

- š **Broad equity market**
- š **Interest rates (duration)**
- š **Credit risk**
- š **Emerging markets**

Hedge fund beta (Alternative beta)

Exposure to:

- **Style factors, such as small cap vs. large cap, value vs. growth (Long/Short Equity, Equity Market Neutral)**
- **Event risk (Merger Arbitrage)**
- **Volatility (Convertible Arbitrage, Volatility Arbitrage)**
- **Risks of commercial hedgers in futures markets (Managed Futures)**
- **Liquidity risk (Distressed Securities, Fixed Income Arbitrage, Reg D)**
- **Spread risk, e.g. carry trades (Global Macro)**



Exposure to Hedge Fund Beta requires special investment techniques including short selling, leverage, and the use of derivatives. Thus, hedge funds have exclusive access to these Alternative Betas.



ABS is very cost efficient for investors

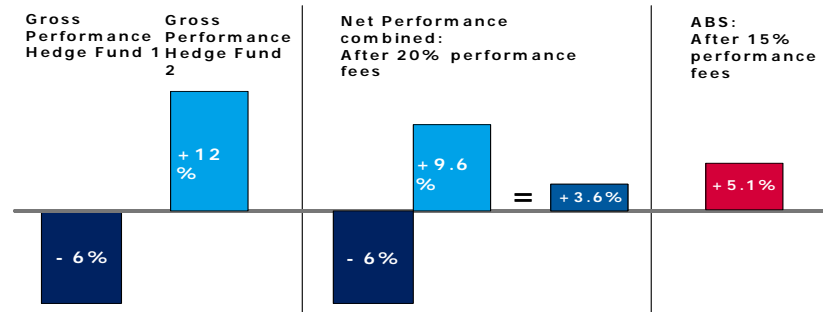
Fee savings on three levels:

§ Eliminate one fee layer (fund of fund level)
à save 220-360 bps p.a.

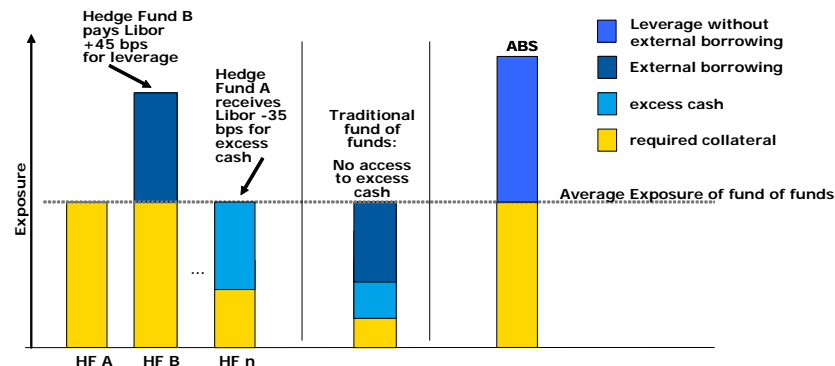
	Hedge Funds 2%/20%	ABS 1.25%/15%
Hedge Fund Return Gross of Fees	9% - 18%	9% - 18%
Management Fee HF	2.00%	1.25%
Performance Fee HF	1.4% to 3.2%	1.2% to 2.5%
Return net of Hedge Fund Fees	5.6% - 12.8%	6.6% - 14.2%
ABS Fee Saving on Hedge Fund level		1.0% - 2.0%

	Fund of Fund 1%/10%	ABS zero
Management Fee FoF (1%)	1.00%	0.00%
Perf. Fee FoF (10% above US LIBOR)	0.2% - 0.9%	0
Return net of FoF Fees	4.4% - 10.6%	6.6% - 14.2%
ABS Fee Saving on FoF level		1.2% - 1.9%
Total ABS Fee Saving Potential		2.2% - 3.6%

§ No asymmetric performance fee
(performance netting benefit)
à save 40-80 bps p.a.



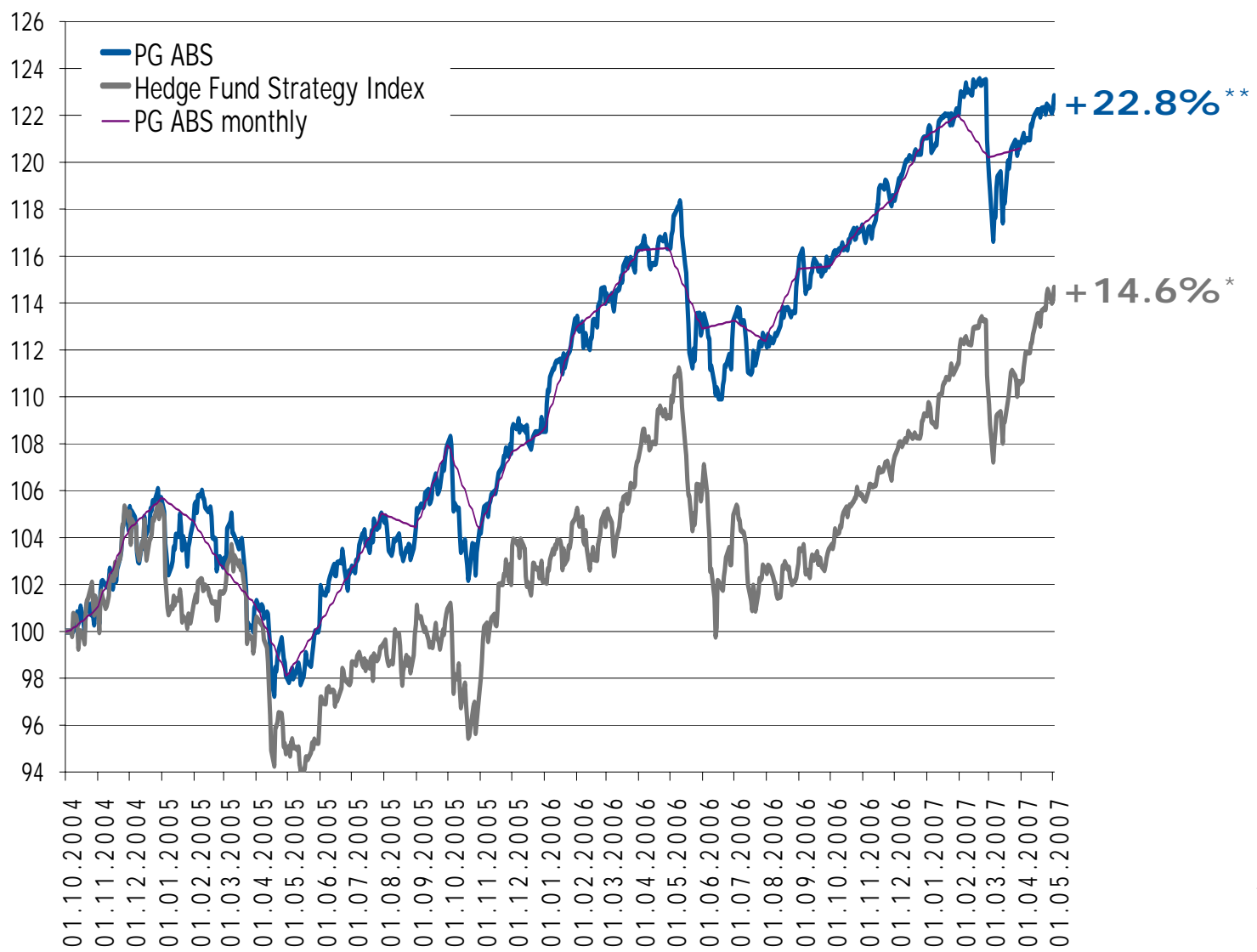
§ No financing costs for leverage
(strategy cross-financing)
à save 40-80 bps p.a.



ABS has a total fee savings potential of 300-500 bps p.a.



PG ABS performance since inception



Correlation:
84.8%

Outperformance annualized:
2.9%

PG ABS Program net performance **

Return: 8.2% p.a.

Volatility: 7.1% p.a.

Sharpe Ratio: 0.8

Maximum Drawdown: -7.2%

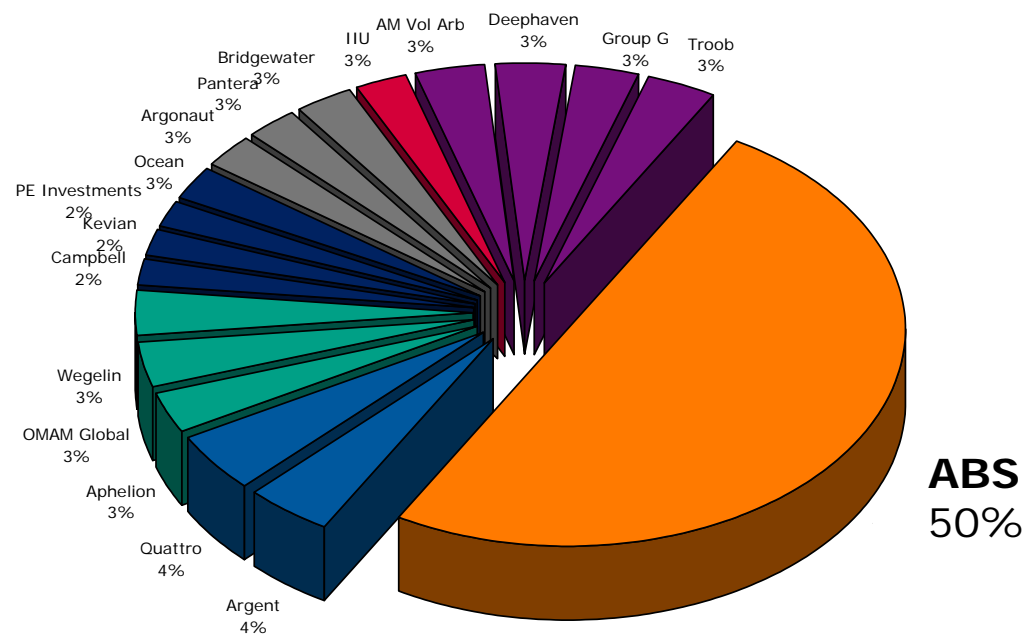
*) HF sub-indices with same strategies and weights like ABS over time (graph below), gross of any index fees (50-60 bps)

***) Net of Management Fee: 1.25% & Performance Fee: 15%



An optimal core satellite portfolio

Allocation by Managers



1 "core" manager (Partners Group) with 21 replication programs
 17 different "satellite" hedge fund managers/strategies
 = 38 different equity-neutral and diversified return sources



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Passion for Alternative Investments

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