Introduction to Private Equity

www.pantheonprivatewealth.com

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Private equity defined

- Private equity is a common term for investments made in non-public companies through privately negotiated transactions.

- Private equity managers seek to acquire quality assets at attractive valuations and use operational expertise with the goal to enhance value and improve portfolio company performance.

- Private equity managers then implement these value enhancing opportunities, with the objective of unlocking their value, then repositioning portfolio companies for sale at a multiple of invested equity.

There is no guarantee that the goals of enhancing value and improving performance will be achieved.
Market Overview
Private equity has been a fast growing asset class with AUM over $3.5 trillion.

All Private Equity Assets Under Management, 2000 – 2013

Unfunded Commitments
Unrealized Value

Source: 2014 Preqin Global Private Equity Report
Increasing allocations to private equity

U.S. Public Pension Funds’ Average Private Equity Allocation

Source: Preqin, Private Sector Pensions Funds investing in PE, November 2013
As of December 31, 2013, FactSet, Cambridge Associates LLC. Other traditional asset classes include public equities, real estate, etc. For illustrative purposes only, individual asset allocation will vary. Individuals must determine the percentage of allocation to private equity based on their individual portfolio. The performance information is not that of any specific fund. See slide 43 “Benchmarks & General Risks of Investing in Private Equity” for benchmark data. Past performance is not indicative of future results. Future results are not guaranteed, and loss of principle may occur.

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And the private equity names behind those brands….

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>Total Funds Raised in last 10 years (USD mm)</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlyle Group</td>
<td>70,058.2</td>
<td>US</td>
</tr>
<tr>
<td>Kohlberg Kravis Roberts</td>
<td>61,255.7</td>
<td>US</td>
</tr>
<tr>
<td>TPG</td>
<td>58,215.0</td>
<td>US</td>
</tr>
<tr>
<td>Apollo Global Management</td>
<td>54,049.5</td>
<td>US</td>
</tr>
<tr>
<td>Goldman Sachs Merchant Banking Division</td>
<td>51,238.2</td>
<td>US</td>
</tr>
<tr>
<td>CVC Capital Partners</td>
<td>50,481.3</td>
<td>Europe</td>
</tr>
<tr>
<td>Oaktree Capital Management</td>
<td>50,433.0</td>
<td>US</td>
</tr>
<tr>
<td>Bain Capital</td>
<td>48,092.0</td>
<td>US</td>
</tr>
<tr>
<td>Blackstone Group</td>
<td>44,883.0</td>
<td>US</td>
</tr>
<tr>
<td>Ardian</td>
<td>41,732.2</td>
<td>Europe</td>
</tr>
</tbody>
</table>

Source: Preqin Private Equity Fund Managers – League Tables as of October 28, 2014
Types of private equity
Private equity covers a range of stages in a company’s development

**Investment Stage/Maturity (early to late)**

**Venture Capital**
- Early-stage (start-up) and late stage (development)
- 100% equity
- 5+ years average investment life

**Growth Capital**
- Minority investments in established companies
- Strong growth characteristics
- Typically does not use leverage
- 100% equity
- 5+ years average investment life

**Mezzanine**
- Elements of both debt and equity instruments
- Fixed returns from interest payments
- Opportunity to participate in capital appreciation
- Usually unsecured and subordinate to other obligations
- 2-3 years average investment life

**Special Situations**
- Investments include distressed debt, infrastructure, energy/utilities, and turnarounds
- Short investment cycle can produce high IRRs but lower multiple on capital
- Average investment life varies

**Buyout**
- Control investments in established, cash-flow positive companies
- Typically uses leverage
- Lower volatility of returns
- Debt & equity investments
- 4-5 year average investment life

**Relative risk (high to low)**

Source: Pantheon opinion. No investment or strategy implies a complete lack of risk. A private fund investment involves a high degree of risk as such investments are speculative, subject to high return volatility and will be illiquid on a long term basis. Investors may lose their entire investment.
Stages of private equity

> Venture Capital (VC)
  - Financial capital provided to early-stage, high-potential, high-risk, growth startup companies. Venture capital investors generally make equity investments in companies with a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc.
  - Venture capital can be attractive for new companies with limited operating history that are too small to raise capital via an IPO and are not able to secure a bank loan or complete a debt offering. In exchange for the high risk that comes with investing in smaller and less mature companies, venture capital investors usually get significant control over company decisions, in addition to a portion of the company’s ownership.

> Growth capital
  - Most often a minority investment in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. Growth capital is most commonly structured as common or preferred equity, although hybrid debt/equity structures are possible.
  - Companies often seek growth capital to finance a transformational event in their lifecycle. These companies are likely to be more mature than venture capital funded companies, can potentially generate operating profits but are typically unable to generate sufficient cash to fund major expansions, acquisitions or other investments.

Source: Pantheon opinion
Stages of private equity (con’t)

> Buyout
  - Acquisition of a company using both equity and debt, where the assets of the company are put up as collateral to secure the debt. Companies are typically established and profitable, but current ownership is looking to exit. Buyout investors utilize operating expertise and financial engineering to strive to improve company financials, increase profitability and position the company for sale.

> Mezzanine financing
  - A layer of financing in between growth capital and buyout, mezzanine loans are typically subordinated to the senior debt, but senior to common equity. Mezzanine investors typically take small equity positions in addition to debt.

> Distressed
  - Distressed investors most often make debt investments of companies that have either filed for bankruptcy or appear likely to do so in the future. Distressed-for-control investors often purchase corporate bonds at a discount and become a major creditor of a target company with the aim of controlling the company after reorganization.
Value creation
Creating value takes time…

- **Fundraising (1 Year)**
- **Investment Period (4-5 Years)**
- **Harvest Period (6-10 Years)**

Companies bought

Companies sold

Goal to return capital to investors

Source: Pantheon opinion. There is no guarantee that the goal of capital return will be achieved
How can private equity create value?

**Strong corporate governance model**

> More frequent availability and detail of information available to private equity managers than in public markets

> Provides ability to influence and change company management

> Can generate implied control premium

> Creates alignment of interests

> Operates over long-term investment horizon

**Typical applications**

> Providing seed and growth capital to developing businesses

> Addressing succession issues and growth capital needs in family-owned firms

> Seeks to unlock value in under-funded subsidiaries of large corporations

> Reorganizing large multi-divisional corporations to become more efficient / productive

> Seeks to restart growth via take-privates of undervalued and undercapitalised publicly-listed companies

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**Private equity can drive value creation**

<table>
<thead>
<tr>
<th>&gt; Operational improvements</th>
<th>&gt; Entry / exit timing – multiple exit routes</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Organic and external growth</td>
<td>&gt; Financial engineering</td>
</tr>
</tbody>
</table>

Source: Pantheon opinion
Value creation in an illustrative buyout

Operational Improvement Drives Value Creation

Valuation creation analysis is performed by Pantheon on a recent large buyout fund manager. Past performance is not indicative of future results. Future returns are not guaranteed, and loss of principle may occur. The information above is provided for illustration purposes only and to provide an example of valuation creation within a buyout fund.
Structure Guide
Typical characteristics of a private equity fund

> Offering process
  - Offerings are typically exempt from registration under the Securities Act of 1933, Regulation D and are sold via private placement to qualified buyers (generally Qualified Purchaser and above)
  - Confidential Private placement memorandum (PPM) is the primary offering document

> Private equity firms generally charge fees in two ways:
  - Management fees:
    - Typically 1.25-2.0% per annum
    - Charged on committed capital during the investment period, and invested capital thereafter
  - Performance fees:
    - Typically 20% of profits after fees and expenses
    - Charged at the time the investment is sold

Source: Pantheon opinion
Typical private equity structure

- Private equity fund managers – known as general partners (“GPs” or “managers”) form limited partnership vehicles to invest in private companies
- Investors commit a specified amount of capital (typically $10 million minimum) to a private equity fund to become limited partners (“LPs”)
- GPs also typically invest their own capital alongside limited partners

Source: Pantheon opinion
**Typical private equity fund lifecycle**

- **Fundraising Period**: GPs will market and obtain commitments from investors who commit a certain amount of capital.
- **Investment Period**: Capital isn’t funded upfront, commitments are instead drawn down (or “called”) over time as GPs find companies to buy.
- **Hold Period**: Once a company is purchased, GPs work to create value in the investment.
- **Exit Period**: GPs look to exit investment opportunistically either via IPO, sale, etc.

*Source: Pantheon opinion*
Private equity returns may typically follow a “J-curve.” Over a number of years, as opportunities are identified, capital commitments are drawn down.

The average holding period for most investments is 3-5 years. Distributions are generally made after investments are exited.

Source: Pantheon opinion. This is a simplified example, and does not represent the performance of an actual company or fund. Private equity investments involve substantial risk. There can be no assurance that actual fund cash flows will be similar to the model set forth on this slide. Cash flow patterns will vary depending upon the activities of the underlying private equity partnerships.
Accessing private equity
Direct investments

- Private equity in its most simple form is a direct investment or ("co-investment") into a company.

- Very few investors have the size, sophistication and resources to make direct investments, mostly limited to large pension plans and sovereign wealth funds.
Primary fund

> Most prolific form of private equity investment is a primary fund investment.

> Investors (LPs) commit capital to a primary fund, which is established by a General Partner (GP) to identify and invest in private companies.
Primary fund characteristics

> Limited Partnership

> Life cycle:

- Primary funds typically have a 10 year life cycle
  - Capital deployed during the investment period (~5 years) as companies are purchased
  - Capital potentially distributed during the harvest period as companies are sold (see “J-curve” slide)

> Fees & expenses:

- GPs generally charge management fees of 1.25%-2.00% per annum
  - Amount typically paid on committed capital during the investment period, and invested capital after the investment period
  - Some primary funds only charge fees on invested capital (typically lower returning strategies)

- GPs are also entitled to performance fees, typically 20% of realized profits
  - Performance fees (known as “carried interest”) can be structured in many different ways, but are typically only paid after the return of capital + fees & expenses, plus a “hurdle” return rate (generally 8%)

- Investors are also responsible for all fund expenses (audit, administration, etc.)

> Typical minimum investment starting at: $10 million

Source: Pantheon opinion. The information above reflect some typical characteristics of primary funds but we note that the characteristics of any particular fund in the private equity industry may and will vary.
Access funds

> Investors commit to an access fund, which is set up by a GP to invest in one pre-identified primary fund (known as the “underlying fund”)

> Provide lower minimum investments (typically $250,000) than primary funds, allowing high net worth individuals (“HNWIs”) access
Access fund characteristics

> Limited Partnership

> Life cycle:
  - Access funds typically have a term one-year longer than the underlying primary fund

> Fees & expenses:
  - Access funds typically charge an administrative fee of 0.50%-1.00% per annum
    - Fees are charged based on how the underlying fund charges fees (i.e. committed vs. invested capital)
  - Investors in access funds are also responsible for all underlying fund fees & expenses
  - Access funds have an additional layer of expenses as well (audit, administration, etc.)

> Typical minimum investment starting at: $250,000

> Predominately only available at large broker/dealer wirehouses, with large in-house expertise and support staff

Source: Pantheon opinion. The information above reflect some typical characteristics of primary funds but we note that the characteristics of any particular fund in the private equity industry may and will vary.
Fund-of-funds

- Investors commit capital to a fund-of-funds ("FoF"), which identifies and invests in several primary funds over a pre-determined period of time.
- Potentially mitigates against portfolio concentration in any one vintage year.
- Can provide optimized private equity diversification at typically a lower minimum investment.
Secondary funds

> Investors commit capital to a secondary fund, which identifies and buys interests in existing primary funds from other investors

> Buyer replaces seller in the acquired primary funds

> Usually the primary funds are partially or fully invested, so acquired assets are generally known at the time of purchase
Primaries and secondaries are complementary strategies

“Blind pool” commitment to a General Partner

+ Can provide access to top quartile managers
+ Facilitate consistent exposure across vintages
+ Allows strategic diversification by investment stage, sector
  - Initial management fees negatively impact interim NAVs
  - Longer time horizon to distributions

= Seeks to produce a higher multiple on invested capital than secondaries

Portfolio is partly known and can be valued

+ Greater insight into portfolio composition at time of commitment
+ Initial fund fees and expenses already paid
+ Shorter time horizon to distributions
- Less strategic allocation flexibility
- Potential over diversification

= Seeks to produce a higher internal rate of return (IRR) than primaries

Source: Pantheon Opinion. For illustrative purposes only. There is no guarantee that an investor will achieve such results.
Co-investment funds

> Investors commit capital to a co-investment fund, which invests alongside other non-affiliated primary funds into private companies

> The primary fund retains decision-making authority for both the development of the business and the ultimate exit

> Co-investment funds typically have lower fees than primary funds
## Comparison of typical structures

<table>
<thead>
<tr>
<th>Feature</th>
<th>Primary Fund</th>
<th>Co-investment Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fee/carry</strong></td>
<td>1.25% / 20%</td>
<td>1% / 10%</td>
</tr>
<tr>
<td><strong>Number of companies</strong></td>
<td>~10-20</td>
<td>~50</td>
</tr>
<tr>
<td><strong>Number of managers</strong></td>
<td>Single</td>
<td>~40</td>
</tr>
<tr>
<td><strong>Geography</strong></td>
<td>Likely regional</td>
<td>Global</td>
</tr>
<tr>
<td><strong>Investment period</strong></td>
<td>~4 years</td>
<td>~4 years</td>
</tr>
<tr>
<td><strong>Stage</strong></td>
<td>Single strategy</td>
<td>Buyout (small, mid, large) growth equity, special situations</td>
</tr>
</tbody>
</table>

Source: Pantheon opinion. The characteristics above reflect the typical characteristics of such funds but we note that the characteristics of any particular fund in the private equity industry may and will vary.
Optimal structures depend on investors’ profile and investment size

- **Co-investment**
  - Investment into a company alongside a private equity manager
  - Concentration risk, due to single company investment, direct limited partner of entity
  - Minimum commitment usually at an institutional level (typically $10 million)

- **Direct Fund**
  - Investment directly into a fund organized by an individual private equity manager
  - Single strategy, single manager, investing in approximately 15-30 companies
  - Minimum commitment usually at an institutional level (typically $10 million)

- **Access Fund**
  - Organized to pool investors’ commitments providing access to single manager direct funds
  - Offers access to investments at lower minimum levels (typically $250,000)

- **Secondary Fund**
  - Pre-existing investor commitments typically priced relative to current NAV (discount/premium)
  - Should create liquidity for existing investors
  - Investors typically buy a known and mature portfolio, potentially mitigating risk and the J-curve

- **Co-Investment Fund**
  - Organized to invest alongside non-affiliated primary funds that have excess capacity of portfolio company investments
  - Non-affiliated primary funds retain decision making authority
  - Offers diversified approach (40-50 companies), often difficult to replicate

- **Fund of funds**
  - Professionally managed partnership investing in single manager private equity funds
  - Can be generalist or sector/strategy specific
  - Offers a diversified approach (20-30 managers), often difficult to replicate

*Source: Pantheon opinion*
Listed private equity companies are public companies that invest in a portfolio of private ones:

Same exposure as unlisted institutional private equity but in a way stock market investors can access

Source: Pantheon opinion
Perpetually offered closed-end funds typically registered under the Investment Company Act of 1940

May employ multiple private equity strategies

Generally invest a majority of the portfolio in private equity (primary funds, secondary funds & co-investments)

In order to manage liquidity, a portion of the portfolio maybe invested in liquid securities

Typically lower minimum investment starting at $50,000 and investor eligibility requirements (Accredited Investor)

Source: Pantheon opinion. The information above reflect some typical characteristics of primary funds but we note that the characteristics of any particular fund in the private equity industry may and will vary.
Evaluating private equity managers and measuring performance
Manager selection matters – large dispersion of returns

Private Equity top quartile funds generally outperform the median by a significant margin

Source: Thomson One and Bloomberg. All data to 30 September, 2013. Thomson Quartile data relates to all Private Equity across all regions from the Thomson One database. For illustrative purposes only. Past performance is not indicative of future results. Future returns are not guaranteed, and loss of principle may occur.
## Performance calculations in private equity

<table>
<thead>
<tr>
<th>Performance</th>
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<tbody>
<tr>
<td>&gt; The industry standard performance measure is the <strong>Internal Rate of Return (“IRR”)</strong></td>
</tr>
<tr>
<td>&gt; A private equity IRR combined with <strong>Multiple of Invested Capital (“MOIC”)</strong>, provides a comprehensive picture of performance</td>
</tr>
</tbody>
</table>

### An IRR is:

| > Discount rate that equates the cost of an investment with the present value of the cash generated by that investment |
| > Based on a cash-in/cash-out return in combination with the residual value (net asset value) of the partnership’s holdings |

### The MOIC is:

| > The cash-on cash return multiple which shows the ratio of the money returned to money invested |
| > Can correct one of the main IRR drawbacks, which is placing too much weight on early distributions |
| > Does not take into account the time value of money |

| > Private equity IRRs can be benchmarked against relevant public indices using the Public Market Equivalent (PME) method, i.e., applying the cash flows of the private equity fund to the relevant index |
| > There is no perfect solution for private equity benchmarking but VentureXpert/Cambridge Associates and Preqin are commonly used |

Source: Pantheon opinion
Definitions
Definitions

- **Advisory Committee**: Fund agreements often establish an investor advisory committee appointed by the sponsor, but comprised of members representing a number of the fund’s investors. One of their key roles is on the resolution of conflicts of interest.
- **Buyout**: Funds that acquire controlling interests in companies with a view towards later selling those companies or taking them public.
- **Carried Interest**: This is the general partner’s share of the profits of the investments made within a private equity fund. It is normally expressed as a percentage of the total profits of the fund. It typically ranges from 5-10% of profits for fund-of-funds and secondary funds and 15-20% of profits for direct funds.
- **Catch-up**: Once the general partner provides its limited partners with their preferred return, if any has been set, it then typically enters a catch-up period in which it receives the majority or all of the profits until the agreed upon profit-split, as determined by the carried interest, is reached.
- **Clawback**: Gives the limited partners the right to reclaim a portion of the GP’s carried interest in the event that losses from later investments cause the GP to withhold too much carried interest.
- **Investment Constraints**: A percentage limit to ensure diversification by company or fund. For example, no more than 10% of capital commitments in any one portfolio company.
- **Co-investment Rights**: By having co-investment rights, an LP in a fund can invest directly in a company also backed by the fund manager itself. In this way, the LP ends up with two separate stakes in the company; one, indirectly, through the private equity fund to which the LP has contributed; another, through its direct investment.
- **Committed Capital**: The amount of capital that each limited partner agrees to contribute to the fund when and as requested by the GP.
- **Distressed**: Funds that invest in debt securities of financially distressed companies at a discount.
- **Distribution**: Cash or stock returned to the LPs after the GP has exited from an investment. Stock distributions are sometimes referred to as “in-kind” distributions. The partnership agreement governs the timing of distributions to the limited partner, as well as how any profits are divided among the limited partners and the general partner.
- **Drawdown**: Also known as capital calls. Issued to limited partners when the general partner has identified a new investment and a portion of the limited partner’s committed capital is required to pay for that investment.
- **DPI (Distributions to paid-in)**: See “Realization Multiple” below.
- **Due Diligence**: Investing successfully in private equity at a fund or company level involves thorough investigation. As a long-term investment, it is essential to review and analyze all aspects of the deal before signing. Capabilities of the management team, performance record, deal flow, investment strategy and legal are examples of areas that are fully examined during the due diligence process.
- **Fund-of-fund**: A private equity fund that, instead of making direct investments in companies, invests in a number of private equity funds, which in turn, invest the capital directly.
- **General Partner ("GP")**: The firm managing the private equity fund.
- **GP Commitment**: The amount of capital that the GP contributes to its own fund in the same way that an LP does. Generally 1% in commingled strategies.
Definitions

- **Growth Equity**: Funds that invest in later-stage, pre-IPO companies
- **Investor Giveback**: Investors are typically required to return distributions to meet their share of any fund obligations or liabilities
- **Investment Period**: The period during which the general partner is permitted to make new investments on behalf of the private equity fund in portfolio companies. Typically 3-5 years
- **In-kind Distribution**: Distributions of stock (as opposed to cash)
- **Internal Rate of Return (IRR)**: In a private equity fund, the net return earned by investors from the fund’s activity from inception to a stated date. The IRR is calculated as an annualized effective compounded rate of return, using monthly cash flows and annual valuations
- **Investment Company Act of 1940**: Often known as the Company Act or the 1940 Act, it is the primary source of regulation for mutual funds and closed-end funds and was established to protect public interest in these types of securities
- **Key Person**: There are certain individuals (“key persons”) deemed to be important in managing the investments of the fund. Key person events vary from fund to fund. When triggered these events generally cause a suspension of the fund’s investment period. If triggered, the fund is typically prevented from making new investments until a sufficient number of new key persons are appointed to the satisfaction of the investors
- **J-curve**: Used to illustrate the historical tendency of private equity funds to experience capital outflows and negative returns in early years and cash flow distributions and investment gains in future years as its portfolio companies mature
- **Lead Investor**: The firm of individual that organizes a round of financing and usually contributes the largest amount of capital to the deal
- **Legal Structure**: Generally formed as limited partnerships but could also be limited liability companies
- **Limited Partner**: Institutions or individuals who contribute capital to a private equity fund
- **Limited Partnership**: The standard vehicle for investment in private equity funds. The partnership’s general partner makes investments, monitors them and finally exits them for a return on behalf of investors – limited partners
- **Minimum Commitment**: Most private equity funds impose a minimum subscription amount or capital commitment threshold in order to become a limited partner. This is typically $5-10 million for funds aimed at institutional investors
- **Mezzanine**: Used to provide a middle layer of financing in some leveraged buyouts, subordinated to the senior debt layer, but above the equity layer. Mezzanine financing shares characteristics of both debt and equity financing
- **Management Fee**: The annual fee, typically a percentage of LP commitments to the fund, is intended to cover the basic costs of running and administering a fund. Generally based on committed capital and could be 2% per annum for a top-tier primary GP. Fees are typically lower for funds-of-funds
- **Multiple (gross & net)**: Also known as the multiple of invested capital (“MOIC”) or total value to paid in capital (“TVPI”). It is calculated by dividing the fund’s cumulative distributions and residual value by the paid-in capital. It gives a potential investor insight into the fund’s performance by showing the fund’s total value as a multiple of its cost basis. It does not take into account the time value of money
Definitions

- **Net Asset Value ("NAV")**: The value of an investor’s holdings
- **Organizational Expenses**: The costs of establishing and running the fund. These generally include the out-of-pocket expenses the manager incurred in forming the fund and any related vehicles, such as printing, travel, legal, accounting, filing and other organizational expenses
- **Paid-in Capital**: The cumulative amount of capital that has been drawn down or called from investors
- **Portfolio Company**: A company in which a private equity fund invests
- **Primary Fund**: Also known as a direct fund. Pools of actively-managed capital that invest in private equity companies with the intent of creating value in the companies in which they invest
- **Preferred Return/Hurdle**: The minimum annual return that the limited partners are entitled to receive before the general partners may begin receiving carried interest. If there is a hurdle, the rate is typically around 8%. A minimum annual internal rate of return promised to the LPs before the GP shares in profits
- **Realization Multiple**: Also known as the “distributions to paid-in” or (“DPI”). It is calculated by dividing the cumulative return by paid-in capital. The realization multiple, in conjunction with the investment multiple, gives a potential private equity investor insight into how much of the fund’s return has actually been “realized”, or paid out, to investors
- **Residual Value**: Also known as the RVPI. It is calculated by dividing the fund’s residual value by paid-in capital. It provides a measurement, in conjunction with the investment multiple, of how much of the fund’s return is unrealized and dependent on the market value of its investments
- **Secondaries**: Also known as secondary investment. Purchasing existing private equity fund commitments from an investor seeking liquidity in such fund prior to its termination
- **Term**: The life or duration of a private equity fund. Typically 10 -13 years depending on whether direct or fund-of-funds. Extensions of one year at a time and usually no more than four years are common
- **Top Quartile Returns**: The top 25% of all private equity returns, typically for a given vintage year
- **Transaction Fees**: GPs may charge portfolio companies certain transaction fees. Typically, any transaction fees received by a GP offsets some portion of the management fee charged to LPs of the fund to avoid “double-charging”
- **Venture Capital**: Investment in early and development-stage companies
- **Vintage Year**: The first year that the private equity fund draws down or “calls” committed capital for a portfolio company investment is known as the fund’s vintage year
- **Withdrawal**: Transfers of interests in private equity funds are severely limited, although may be permitted with the consent of the GP
Benchmarks & General Risks of Investing in Private Equity

**S&P 500:** One of the most commonly used benchmarks for the overall U.S. stock market. The S&P 500 includes 500 stocks chosen for market size, liquidity, and by industry grouping.

**Barclays U.S. Aggregate Bond Index:** The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index, which includes high yield and emerging markets debt. The US Aggregate Index was created in 1986 with history backfilled to January 1, 1976.

**Cambridge Associates U.S. Private Equity Index:** The index is an end-to-end calculation based on data compiled from 1,096 U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships, formed between 1986 and 2013. The data is pooled end-to-end return, net of fees, expenses, and carried interest.

**Dow Jones U.S. Select Real Estate Index:** The Dow Jones U.S. Select Real Estate Securities IndexSM (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The Dow Jones U.S. Select REIT IndexSM is a subset of the Dow Jones Americas Select RESISM and includes only REITs and REIT-like securities.

Please keep the following general risks in mind when investing in private funds. This document does not contain a complete description of the risks associated with an investment in a private equity fund, or constitute an offer to sell or a solicitation of an offer to buy securities.

- A private fund investment involves a high degree of risk as such investments are speculative, subject to high return volatility and will be illiquid on a long term basis. Investors may lose their entire investment.

- Private funds are sold in private placements and may be offered only to individuals who are both Qualified Purchasers and or Accredited Investors and for whom the investment is otherwise suitable.

- Private fund managers typically take several years to invest a fund’s capital. Investors will not realize the full potential benefits of the investment in the near term, and there will likely be little or no near-term cash flow distributed by the fund during the commitment period. Interests may not be transferred, assigned or otherwise disposed of without the prior written consent of the manager.

- Private funds are subject to significant fees and expenses, typically, management fees and a 20% carried interest in the net profits generated by the fund and paid to the manager. Private fund investments are affected by complex tax considerations.

- Private funds may make a limited number of investments. These investments involve a high degree of risk. In addition, funds may make minority investments where the fund may not be able to protect its investment or control or influence effectively the business or affairs of the underlying investment. The performance of a fund may be substantially adversely affected by a single investment. Private fund investments are less transparent than public investments and private fund investors are afforded less regulatory protections than investors in registered public securities.

- Private fund investors are subject to periodic capital calls. Failure to make required capital contributions when due will cause severe consequences to the investor, including possible forfeiture of all investments in the fund made to date.

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