

Contact:
Frank Lentini
Sommerfield Communications, Inc.
(212) 255-8386 / lentini@sommerfield.com

POTENTIAL INVESTORS INTO PRIVATE EQUITY FUNDS FEEL ILL-EQUIPPED TO EVALUATE PE TEAMS – EVEN THOUGH “PEOPLE” DIMENSION OF MANAGERS IS NOW OF GREATER INVESTOR CONCERN THAN INVESTING STRATEGY, ACCORDING TO NEW SURVEY RESULTS

LPs Are Forgoing Opportunities Due to Unknowns Regarding Ethics, Leadership, Talent and Key-Person Issues; Most Say They Now Plan to Limit Investments to One to Five PE Funds, According to Research by Green Peak Partners and Capricorn Investment Group.

DENVER, CO – (May 17, 2011) – While investors into Private Equity funds say they feel equipped to assess funds’ investment strategies, they say they feel ill-equipped to assess private equity funds’ teams. This is true, even though the investors say team quality is now the most important criteria for selecting a manager, according to a new survey of endowments and family offices.

“The shift in LP emphasis to the caliber and trustworthiness of GP professionals and other intangibles like talent and succession plans is prudent and warranted, given the long time horizons of most PE investments,” said **J.P. Flaum, Managing Partner at Green Peak Partners**, which co-sponsored the survey research with **Capricorn Investment Group**. “The challenge for LPs is two-fold – first, how to deepen and broaden this due diligence so LPs don’t limit opportunities by restricting themselves to a too-small universe they already know well, and, second, how to avoid accidentally placing bets in the wrong funds due to an under-emphasis or sub-optimization of the critical people and leadership factors.” (Green Peak is an organizational consulting firm serving the private equity industry – both GPs and LPs – and Capricorn is a private, independent investment firm.)

LPs Care Most About the People Dimension of GPs

Among the insights from the survey of 27 LPs with a range of capital under management include:

- **More emphasis is being placed on a team’s ability to deliver in the future than the fund’s historical track record of success.** The most commonly cited criterion for evaluating PE firms was “perceived strength of team members”: 68% of LPs said this was an “extremely important” criterion. While 64% cited “clarity of investment strategy” as extremely important, only 40% rated “track record of the firm’s successful returns” as extremely important.

- **The fund leadership team’s personal and professional qualities matter.** 84% of LPs said having a solid understanding of fund professionals’ personal qualities, including ethics and engagement, is very or extremely important; 68% said having an understanding of managers’ leadership and talent management capabilities is important.
- **LPs are prioritizing tenure and consistency of the fund leadership team.** The same percentage of LPs rated “lack of turnover/ tenure of senior fund team members” as extremely important as they did the funds’ “strength of due diligence process” and “alignment of interests” (i.e., percentage of GP net worth invested in the fund). And, lack of turnover was a *more* important criterion than sector specialization, “control position and activism in portfolio investments” and “extent of sustainable/ socially responsible investments.”

However, Getting a Sense of the People Part is a Major Challenge

- While most LPs (58%) said they feel fully equipped to assess clarity of the manager’s investment strategy, only 21% said they feel equipped to assess the strength of a PE fund’s key team members.
- Further, only 17% of LPs said they feel equipped to assess the collaboration and cohesion of the fund’s team, and only 13% said they feel equipped to assess the fund managers’ ability to recruit, train and retain team members.

The Gap in “People” Due Diligence Capabilities May Narrow Opportunities

“LPs told us that while they’re still committed to allocating dollars to private equity, they’re much more selective about which funds they’ll invest with, particularly if they haven’t worked with the fund before. The bottom line is that these investors don’t feel like they have the expertise or resources to get as deep as they think they should, especially when it comes to managers they’re not intimately familiar with,” said **Neel Bhatia, Green Peak’s West Coast Head.**

- The majority of LPs complained of only having deep knowledge of 50% (or fewer) of a PE fund’s senior/ key investment professionals.
- 72% of the LPs said they expect to limit investments to fewer than five PE firms.

“The move to a more team-focused and people-focused approach to assessing managers can have huge benefits. The trick is to up the ante on that kind of due diligence – and do it across a greater universe of managers. Otherwise, there’s a high likelihood that good opportunities get passed up,” Bhatia added.

To learn more about the study, or to arrange an interview with J.P. Flaum or Neel Bhatia, please contact Frank Lentini of Sommerfield Communications, Inc. at (212) 255-8386 or lentini@sommerfield.com.

About Green Peak Partners

Green Peak Partners is an organizational consulting firm dedicated to assessing and expanding the talent and leadership capability of organizations at both the individual and team level. Green Peak helps investors and their companies secure a competitive edge by backing the best people and fully leveraging their leadership talents. Green Peak serves leading private equity firms, their limited partners and their portfolio companies, as well as other private companies and outstanding public companies. The firm strives to offer the best in talent assessment, executive coaching and senior-level facilitation.

Green Peak's proprietary PE fund due diligence capability delivers deep insights into key dimensions of a target fund's talent, team, and leadership. It explores the strength and weaknesses of key senior fund managers, including the uniformity of talent across the team; whether the fund is aligned behind a consistent investment strategy and is adequately resourced to execute on the strategy; how big investment decisions get made; transition issues and the quality of in-place succession plans; the morale within the fund; and the value that the fund provides to portfolio companies. For more information on Green Peak Partners, please visit <http://greenpeakpartners.com/>.

About Capricorn

Capricorn Investment Group is a private, independent investment firm designed to be an ideal partner for clients desiring a global portfolio driven by consistent returns and underpinned by a principled philosophy. Capricorn currently manages approximately \$5 billion through various investment strategies, which cover a range of areas, from long-term, diversified global growth investment strategies, venture capital and private equity, credit strategies, and "clean and green" growth capital. Capricorn's investment philosophy is grounded in a strong fundamentals focused investment model, comprehensive research on long-term, global mega-themes, such as energy, agriculture, transportation, consumer, health and wellness, technology, and consideration of business-smart sustainability principles.

About the Survey Sample

Respondents to the survey included executives from 27 family office and endowment funds with a wide range of capital under management by, and expected to be committed to, the private equity asset class. 48% of the respondents have between \$500 million and \$2 billion under management, 15% have more than \$2 billion under management, and 37% have less than \$500 million. The vast majority (92%) expect to commit funds to PE funds within 24 months, with 44% of them expected to commit over \$25 million. 39% plan to increase their allocation to PE funds over the next 24 months, and 43% intend to decrease allocation.