PRIVATE EQUITY INSTITUTE

SAID BUSINESS SCHOOL

UNIVERSITY OF OXFORD

Private Equity Forum

Thursday 5 June 2014

INTRODUCTION

The Private Equity Institute is a leading academic institution in the field of private equity. It combines an independent and authoritative perspective on the private equity industry with the highest standards of academic integrity expected of the University of Oxford.

We run courses and events and produce research that is of equal importance to investors and private equity fund managers as well as to advisors and those companies attracting the attention of private equity funds.

We pride ourselves on connecting theory with practice, having developed courses and case studies with leading practitioners from the both the finance and investment industries.

In collaboration with the University of Chicago Booth School of Business we are now offering the Oxford Chicago Valuation Programme for company and private equity investments. This new executive programme combines theory by faculty, cases by executives and discussions by alumni.

In addition to research and education, the Private Equity Institute encourages and supports a number of network initiatives. We hold the annual Oxford Private Equity Forum, and various competitions for our students, such as the Bridgepoint Private Equity Challenge and Jefferies Equity Research Challenge.

We would like to welcome you to the Oxford Private Equity Forum 2014 which brings together practitioners, investors and advisers from the private equity industry along with leading academics to discuss some of the key issues facing the sector.

This year, for the first time, the Forum will be structured around a series of debates on some of the most provocative questions being asked in and about the sector. After an overview of Private Equity research being conducted at Oxford, there will be four debate sessions in which speakers will defend their positions in response to a specific question. After speakers have concluded their remarks, questions will be taken from the floor.

Tim Jenkinson — Director, Private Equity Institute
Andreas T. Angelopoulos — Executive Director, Private Equity Institute

PROGRAMME

12:00-12:40	**Registration**
12:40-12:50	**Welcome and introduction by Tim Jenkinson**
12.50 – 13.45	**Oxford research in Private Equity** **Tim Jenkinson** and **Ludovic Phalippou**
13.45 – 14.45	**Do we need PE to add value into a company?** Convenor: **Tim Jenkinson** • **Chris Woodhouse**, CEO, RAC • **Zillah Byng-Maddick**, CEO, Future Plc • **Jean-Marc Jabre**, Managing Director Private Equity, Morgan Stanley
14.45 – 15.45	**PE under fire: Misalignment of interest, LPs going solo, taxes, the SEC et al.** Convenor: **Ludovic Phalippou** • **Peter Cornelius**, Managing Director, Economics & Strategy, AlpInvest Partners • **Stephen Catling**, Investment Director, Chamonix Private Equity
15.45 – 16.15	**Break**
16.15 – 17.15	**Is leverage going wild again?** Convenor: **Andreas Angelopoulos** • **Peter Marshall**, Managing Director and Co-Head of European Restructuring, Houlihan Lokey • **Justin Bickle**, Managing Director, Oaktree Capital Management (UK) LLP • **Oliver Kehren**, Managing Director, Morgan Stanley
17.15 – 18.15	**Do emerging markets need Westerners or can they do it themselves?** Convenor: **Li Jin** • **Lloyd West**, Director, The Abraaj Group • **David Easton**, Director, Direct Investments, CDC Group Plc
18.45 - 19.00	**Drinks reception**

If you would like to use the WiFi today, please connect to the 'SBS-conf' wireless network using the details below:
Username: June_2014
Password: June_2014

BIOGRAPHIES

Andreas Angelopoulos

Andreas is the Executive Director of the Private Equity Institute and the Programme Director of the Oxford Chicago Valuation Programme.

He has more than 22 years' experience in private equity, entrepreneurship and engineering. He worked with Englefield Capital (Bregal Group) a £2 billion UK private equity fund leading their origination in South Europe and for Dresdner Kleinwort Benson's principal finance and venture capital division investing in USA and Europe. He started his career working for Commercial Capital, a member of Credit Agricole, investing in growth capital in SE Europe having worked before in the area of engineering (real estate and infrastructure) with Bechtel, Dames & Moore and Hochtief – ABB J/V in USA and Europe.

Andreas is lecturing at the University of Oxford's Saïd Business School and he has been visiting as an Adjunct Professor the Chicago Booth and Imperial College (founded the IC Private Equity Programme), since 2006. Andreas holds an MBA from The University of Chicago Booth School of Business, a Master of Science from Columbia University School of Engineering & Applied Sciences in New York City and a graduate 5 year degree, Diploma in Civil Engineering from the University of Patras School of Engineering in Greece.

Justin Bickle

Justin Bickle is a Managing Director in the European principal investing team at Oaktree in London, and a member of the strategy's Investment Committee. Oaktree currently manages c. $80 billion worldwide and is listed on the New York Stock Exchange. Before joining Oaktree in 2005, he was a Partner in the Financial Restructuring Department of U.S. law firm Cadwalader, Wickersham & Taft LLP where he specialized in European debt restructurings. Justin is a board member of various Oaktree portfolio companies and has responsibility for structuring and executing Oaktree's principal investments across Europe.

Justin is a Guest Lecturer in Distressed Investing at London Business School, serves as a member of the Advisory Board of the Private Equity Institute at Saïd Business School, Oxford University and is the Chairman of English National Ballet. Justin is a UK solicitor and law graduate from the University of Exeter.

Zillah Byng-Maddick

Zillah Byng-Maddick became Chief Executive of Future plc in April 2014. She joined Future in November 2013 as Chief Financial Officer. Before joining Future, Zillah was Chief Financial Officer of Trader Media Group, one of Europe's largest multimedia publishers, serving latterly as interim Chief Executive until July 2013. Prior to this Zillah was Finance Director of Fitness First Group Ltd, and CFO of the Thresher Group. Zillah has also previously held senior finance positions with GE Capital and HMV Media Group and qualified as an accountant with Nestle UK Ltd. Zillah is a non-executive director of Mecom and Betfair Group plc.

Stephen Catling

Stephen is an Investment Director with Chamonix Private Equity and is a director on the Boards of Apex Space Solutions, Caldicot Metal Decorating, Leafield Environmental and Regain Polymers. Stephen joined Chamonix in 2007. He was involved in the acquisitions of the Linpac portfolio and Peverel, and the disposals of HTG and Intellident.

Stephen works closely with the management teams of Chamonix's portfolio companies to help them identify and execute value generating strategies, and also manages Chamonix's investor reporting. Prior to joining Chamonix, Stephen worked in Strategy and Business Planning for the telecoms turnaround Energis, and for ABN AMRO in London and Tokyo as an equity analyst.

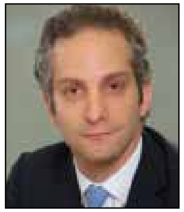
Stephen holds an MBA and MA in Philosophy, Politics and Economics from Oxford University.

Peter Cornelius

Peter Cornelius is a Managing Director at AlpInvest Partners, the private equity arm of Carlyle's Global Solutions Group. In his current position, he heads AlpInvest's economic and strategic research. Prior to this, he was the Group Chief Economist of Royal Dutch Shell, chief economist and Director of the World Economic Forum's Global Competitiveness Program, Head of International Economic Research of Deutsche Bank, a senior economist with the International Monetary Fund, and a staff economist of the German Council of Economic Advisors. A German national, Peter Cornelius is a member of EMPEA's Latin America Council and was the chairman of the EVCA's working group on private equity risk measurement guidelines. He has been a visiting professor at the Vlerick Leuven Gent Management School, an adjunct professor at Brandeis University and a Visiting Scholar at Harvard University. He is the author of International Investments in Private Equity (Elsevier/Academic Press, 2011) and a co-author of Mastering Illiquidity (Wiley, 2013). He studied at the London School of Economics and Political Science and received his doctorate in economics from the University of Göttingen.

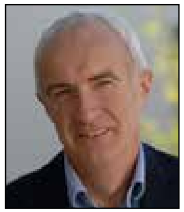
David Easton

David is a Director at CDC Group plc, the DFID-owned DFI. At CDC he has a focus on the health, education and food sectors and has led CDC's investments into Rainbow Hospitals, Feronia, Bridge International Academies and Jabong. Prior to joining CDC, David was with Bridges Ventures, the mission-driven investment firm. David also co-founded and was Director of Strategy for the Tony Blair Africa Governance Initiative, a non-profit working to improve government effectiveness and private sector development in post-conflict countries including Sierra Leone, Rwanda and Liberia. David started his career at McKinsey & Company.



Jean-Marc Jabre

Jean-Marc Jabre is a Managing Director of MSPE and is based in London. Jean-Marc joined Morgan Stanley in 1998 and has been a member of the private equity team since 2007. Prior to that he was responsible for debt restructuring advisory and execution for corporates in Europe and the Middle East. He began his career in Investment Banking in New York and subsequently joined Morgan Stanley Venture Partners in Menlo Park where he focused on investing in early-stage healthcare and technology companies. Jean-Marc currently serves on the Board of Directors of Accelerate Acquisitions Limited, the parent of the Zenith Provecta group of companies. He holds a Bachelor of Mechanical Engineering from McGill University, a Masters of Financial Engineering from Cornell University and an MBA from INSEAD.



Tim Jenkinson

Tim Jenkinson is Professor of Finance at the Saïd Business School, Oxford University. One of the leading authorities on private equity, IPOs, and institutional asset management, Tim is renowned for his ability to collect critical, previously inaccessible, data by building strong links with institutional investors, banks and other players in the financial industry. His research is widely quoted and has been published in the top academic journals. He is Head of the Finance Group at Saïd Business School, Director of the Oxford Private Equity Institute, and is one of the founders of the Private Equity Research Consortium. He is a partner at the leading economics consultancy Oxera, and has held board positions in several funds and companies. A renowned teacher and presenter, Tim teaches executive courses on private equity, entrepreneurial finance, valuation, and is a regular contributor to practitioner conferences.

He studied economics as an undergraduate at Cambridge University, before going as a Thouron Fellow to the University of Pennsylvania. He then returned to the UK and obtained a DPhil in Economics from Oxford.

Li Jin

Li Jin is Professor of Emerging Market Finance at Oxford University's Saïd Business School and Chair Professor of Finance at Guanghua School of Management of Peking University. Before he joined SBS and GSM, Li taught at the Harvard Business School from 2001 to 2012.

His current research is study emerging financial markets. He has also studied the compensation of corporate managers, the trading patterns of institutional investors such as hedge funds, mutual funds and pension funds, and the comparison of securities markets efficiency across countries.

Li has published articles at leading academic journals including Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Journal of Accounting and Economics, Review of Economics and Statistics, etc. He has won research rewards such as FAME Research Prize, PanAgora Quantitative Research Award, and Best Paper Award in TCFA Conference, FMA European Conference, etc.

Oliver Kehren

Oliver Kehren is a Managing Director at Morgan Stanley in London and Head of EMEA Special Situations Credit Analytics. Activities include acquisitions/trading of distressed debt as part of portfolio and single name transactions and the restructuring/-financing of distressed corporate and sovereign situations. Oliver has extensive experience in export-/project-financing, corporate finance and financial restructurings. He is a member of the board of the Gesellschaft für Restrukturierung TMA Deutschland e.V., an author of several publications on financial restructurings and a guest lecturer at several Universities.

Peter Marshall

Peter Marshall is a Managing Director and Co-Head of Restructuring at Houlihan Lokey. He has specialised in corporate restructuring since the early 1990s, with experience in complex cross-border transactions across various jurisdictions and involving combinations of bank debt, high yield and convertible instruments. He has considerable experience in advising on the restructuring of private equity owned companies, both as company and shareholder advisor and as advisor to creditor groups. Private Equity restructurings which he has advised on include Gate Gourmet, The Polestar Group, Welcome Break Group, TMD Friction, Ineos Group, 20:20 Mobile Group, BorsodChem and Sea Containers. Most recent transactions Peter has led include eircom, Truvo, hibu, Afrisam and Findus. Before joining Houlihan Lokey, Mr Marshall was co-head of Close Brothers Corporate Restructuring Group as well as a partner in Grant Thornton's Recovery and Reorganisation department. Mr Marshall graduated in Economics and qualified as a chartered accountant with Grant Thornton.

Ludovic Phalippou

An international authority in private equity investing, Ludovic has been named as one of "The 40 Most Outstanding B-School Profs Under 40 In The World" by the business education website Poets&Quants in 2014. He has strong links with senior practitioners in the private equity industry, routinely speaks at practitioner conferences, and appears in the media internationally. He worked with a number of large institutional investors on their private equity investment decisions and benchmarking systems. His papers have been cited more than 1,000 times, presented in over 50 university seminars around the world, at all major academic conferences, downloaded over 35,000 times, and have been published in leading academic journals. Ludovic achieved a degree in Economics from Toulouse School of Economics; a Master in Economics and a Master in Mathematical Finance both from the University of Southern California; and a PhD in Finance from INSEAD.

Lloyd West

Lloyd West is a member of The Abraaj Group's Investor Coverage team, focusing primarily on Europe and Sub-Saharan Africa. Prior to joining The Abraaj Group, Lloyd spent five years with MVision Private Equity Advisors in London, where he was responsible for investor relationships, fundraising, deal co-ordination and deal execution. During his time with MVision, he supported the fundraising and marketing activities of a number of private equity, infrastructure and real estate fund managers in both developed and growth markets, and was also responsible for maintaining relationships with investor communities in Europe, The Middle East as well as South Africa. He holds degrees in both Economics and Cognitive Psychology from the University of California, Davis.

Chris Woodhouse

Chris joined RAC as Chief Executive in February 2012 following the acquisition of the business by the private equity group Carlyle from Aviva at the end of 2011. Previously, he was Deputy Chief Executive of Debenhams Plc following a buy-in backed by CVC, Texas Pacific and Merrill Lynch Global Private Equity; Deputy Chairman of Halfords, a buyout backed by CVC, which, following a successful Stock Market listing in June 2004, was judged BVCA large deal of the year; Deputy Chief Executive and Commercial Director of Homebase, a buyout backed by Permira where a threefold improvement in operating profit was achieved prior to its sale to GUS Plc, which led Homebase to be judged European Venture Capital large deal of the year; Commercial Director of Birthdays Group following a buyout backed by Permira and PPM ventures; and has also held various Finance Director posts including Superdrug, which was then a division of Kingfisher Plc.

Chris is Chairman of Agent Provocateur, the iconic global luxury lingerie brand and is Chairman of the Gondola Group, operating PizzaExpress, Zizzi and ASK, a market leader in the UK dining sector employing over 15,000 people.

Chris is a Fellow of the Institute of Chartered Accountants, is an Associate Member of the Association of Corporate Treasurers and an Associate Fellow of Oxford University Saïd Business School. Chris was voted UK Finance Director of the Year 2002/03.

RECENT RESEARCH FINDINGS

Private equity performance: What do we know?

Robert S. Harris: University of Virginia - Darden School of Business; Tim Jenkinson: University of Oxford - Saïd Business School; Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI); Steven N. Kaplan: University of Chicago - Booth School of Business ; National Bureau of Economic Research (NBER).

July 2013

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1932316

Abstract:

We study the performance of nearly 1400 U.S. buyout and venture capital funds using a new dataset from Burgiss. We find better buyout fund performance than has previously been documented – performance consistently has exceeded that of public markets. Outperformance versus the S&P 500 averages 20% to 27% over a fund's life and more than 3% annually. Venture capital funds outperformed public equities in the 1990s, but underperformed in the 2000s. Our conclusions are robust to various indices and risk controls. Performance in Cambridge Associates and Preqin is qualitatively similar to that in Burgiss, but is lower in Thomson Venture Economics.

How fair are the valuations of private equity funds?

Tim Jenkinson: University of Oxford - Saïd Business School; Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI); Miguel Sousa: University of Oxford - Saïd Business School; School of Economics and Management, University of Porto; Rüdiger Stucke: University of Oxford - Saïd Business School.

February 2013

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2229547

Abstract:

The ultimate performance of private equity funds is only known once all investments have been sold, and the cash returned to investors. This typically takes over a decade. In the meantime, the reported performance depends on the valuation of the remaining portfolio companies. Private equity houses market their next fund on the basis of these interim valuations of their current fund. In this paper we analyze whether these valuations are fair, whether the extent of conservative or aggressive valuations differ during the life of the fund, and at what stage interim performance measures predict ultimate performance. This paper is the first to use the quarterly valuations and cash flows for the entire history of 761 fund investments made by Calpers – the largest U.S. investor in private equity. Our main findings are as follows. First, over the entire life of the fund we find evidence that fund valuations are conservative, and tend to be smoothed (relative to movements in public markets): valuations understate subsequent distributions by around 35% on average. We find a significant jump in valuations in the fourth-quarter, when funds are normally audited. Second, the exception to this general conservatism is the period when follow-on funds are being raised. We find that valuations, and reported returns, are inflated during fundraising, with a gradual reversal once the follow-on fund has been closed. Third, we find that the performance figures reported by funds during fund-raising have little power to predict ultimate returns. This is especially true when performance is measured by IRR. Using public market equivalent measures increases predictability significantly. Our results show that investors should be extremely wary of basing investment decisions on the returns - especially IRRs – of the current fund.

Has persistence persisted in private equity? Evidence from buyout and venture capital funds

Robert S. Harris: University of Virginia - Darden School of Business. Tim Jenkinson: University of Oxford - Saïd Business School; Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI). Steven N. Kaplan: University of Chicago - Booth School of Business; National Bureau of Economic Research (NBER). Rüdiger Stucke: University of Oxford - Saïd Business School.

February 2014

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2304808

Abstract:

The conventional wisdom for investors in private equity funds is to invest in partnerships that have performed well in the past. This is based on the belief that performance in private equity persists across funds of the same partnership. We present new evidence on the persistence of U.S. private equity (buyout and venture capital) funds using a research-quality dataset from Burgiss, sourced from over 200 institutional investors. Relying on detailed cash-flow data for funds, we study the persistence of buyout and venture capital fund performance of the same general partners across different funds. We pay particular attention to persistence pre- and post-2000. Previous research, studying largely pre-2000 data, has found strong persistence for both buyout and venture capital firms. We confirm the previous findings on persistence in pre-2000 funds. There is persistence for buyout funds and, particularly, for venture funds. Post-2000, we find little evidence of persistence for buyout funds, except at the lower end of the performance distribution. When funds are sorted by the quartile of performance of their previous funds, performance of the current fund is statistically indistinguishable regardless of quartile. Performance for partnerships in all previous fund quartiles exceeds those of public markets as measured by the S&P 500. Regression results confirm the absence of persistence post-2000 except for funds in the lower end of the performance distribution. Post-2000, we find that performance in venture capital funds remains as persistent as pre-2000. Partnerships whose previous venture capital funds are below the median for their vintage year subsequently tend to be below median and have returns below those of the public markets (S&P 500). Partnerships in the top two quartiles tend to stay above the median and their returns exceed those of the public markets.

Estimating private equity returns from limited partner cash flows

Andrew Ang: Columbia Business School - Finance and Economics; National Bureau of Economic Research (NBER); Bingxu Chen: Columbia Business School - Finance and Economics; William N. Goetzmann: Yale School of Management - International Center for Finance; National Bureau of Economic Research (NBER); Ludovic Phalippou: University of Oxford - Saïd Business School; University of Oxford - Oxford-Man Institute of Quantitative Finance

November 2013

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2356553

Abstract:

We introduce a methodology to estimate the historical time series of returns to investment in private equity. The approach is quite general, requires only an unbalanced panel of cash contributions and distributions accruing to limited partners, and is robust to sparse data. We decompose private equity returns into a component due to traded factors and a time-varying private equity premium. We find strong cyclicality in the premium component that differs according to fund type. The time-series estimates allow us to directly test theories about private equity cyclicality, and we find evidence in favor of the Kaplan and Strömberg (2009) hypothesis that capital market segmentation helps to determine the private equity premium.

Performance of buyout funds revisited?

Ludovic Phalippou: University of Oxford - Saïd Business School; University of Oxford - Oxford-Man Institute of Quantitative Finance.

November 2012

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1969101

Abstract:

This paper first shows that publicly available data on buyout fund returns are sufficient to replicate the recent findings derived from superior but proprietary datasets. The average buyout fund outperforms the S&P 500. But this study shows that buyout funds mainly invest in small and value companies. Adjusting for the size premium brings the average buyout fund return in line with small cap indices and with the oldest small-cap passive mutual fund ("DFA micro-cap"). If the benchmark is changed to small and value indices, and is levered up, the average buyout fund underperforms by -3.1% per annum.

Agency costs and investor returns in private equity: consequences for secondary buyouts

Francois Degeorge: University of Lugano - Faculty of Economics; Swiss Finance Institute; European Corporate Governance Institute (ECGI); Jens Martin: University of Amsterdam - Finance Group; Ludovic Phalippou: University of Oxford - Saïd Business School; University of Oxford - Oxford-Man Institute of Quantitative Finance.

December 2013

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2329202

Abstract:

Private equity funds are structured as finite-life entities with a fixed investment period. Fund managers with unspent capital towards the end of a fund's investment period have an incentive to burn capital. We argue that secondary buyouts (SBOs) are a natural channel for doing so. Consistent with this agency hypothesis, we find that SBOs made late in a fund's investment period underperform similar primary buyouts. After a fund invests in late SBOs, investors appear to shun the follow-on fund. Early SBOs, however, have similar performance as other buyouts and some SBOs appear to be value-enhancing.

A new approach to regulating private equity

Peter Morris: affiliation not provided to SSRN; Ludovic Phalippou: University of Oxford - Saïd Business School; University of Oxford - Oxford-Man Institute of Quantitative Finance.

February 2011

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1762840

Abstract:

Much of the controversy around private equity has missed the point. It has focused on the relationship between private equity managers and the companies they control. Yet on average private equity managers do not seem to harm the companies they control. Meanwhile, a second key relationship has not received enough attention. This is the one between private equity managers and their investors. The reason it needs more attention is that private equity shows signs of "price shrouding" and market failure. Many people will find this idea counter-intuitive. It is widely assumed that big institutions, unlike retail investors, can "look after themselves" and always write optimal contracts. Indeed, the way financial markets are organized and regulated takes this for granted. We put forward two reasons why price shrouding may occur in private equity. We believe they are generic and may apply to other complex investments as well; and that these issues have broader relevance for policymakers.

Is Yale a model?

Ludovic Phalippou: University of Oxford - Saïd Business School; University of Oxford - Oxford-Man Institute of Quantitative Finance.

September 2011

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1950257

Abstract:

The recent decade has seen the emergence of the ‘Yale model’ of portfolio management. Most of it rests on one fact: by having an aggressive allocation to private equity, Yale grew its endowment significantly. A key figure cited as supporting evidence is that the private equity return of Yale since the inception of their PE program is a staggering 30.4%. This paper points out that this figure is a since-inception-IRR. Even though since-inception-IRRs are recommended by the GIPS standards, they can be dramatically misleading. Presenting Yale as an investment model on such a basis is therefore probably premature. To illustrate, I show that an investor with a rather ‘average’ track record in venture capital could display a 30% return over a long horizon and that this number would hardly change in any year from 2000 to 2010, irrespective of the increase in capital allocation, which is similar to what is seen from the annual reports of Yale Endowment.

Private Equity Institute
Saïd Business School
Park End Street
Oxford
OX1 1HP
Tel: 01865 288904
www.sbs.oxford.edu/privateequity