Private Equity Institute

Oxford Private Equity Forum

Monday 16 March 2015

SAID BUSINESS SCHOOL

UNIVERSITY OF OXFORD

INTRODUCTION

Welcome to the ninth annual Private Equity Forum. The Forum brings practitioners, investors and advisers from the private equity industry together with leading academics to discuss some of the key issues facing the sector.

An opportunity for participants to hear insights from leading authorities, the Forum will discuss the critical issues facing the industry at this time. There will be an overview of private equity research being conducted at Oxford, and five debate sessions. We have deliberately allocated plenty of time for questions from the audience, offering 20 minutes for discussion during each session. We look forward to a lively debate on the current state of the private equity sector.

There will also be an update on the executive education courses offered by the Private Equity Institute, including the Oxford Chicago Valuation Programme in collaboration with the University of Chicago Booth School of Business. This unique programme encapsulates teaching, application and discussion of corporate and investment valuation techniques for a variety of asset classes including private equity, growth capital, infrastructure and distressed transactions.

The objective of the Private Equity Institute is to be the leading academic institution in the field of private equity and its interconnected world of investors, banks and entrepreneurs.

The Institute maintains an authoritative, independent and unbiased perspective on the private equity industry, in line with the high standard of academic integrity associated with the University of Oxford. Our research often involves working closely with industry practitioners and is published in top peer-reviewed academic journals as well as more policy and practice oriented publications.

We look forward to a stimulating debate, and hope you enjoy the Forum.

Tim Jenkinson
Director, Private Equity Institute

Andreas T. Angelopoulos
Executive Director, Private Equity Institute

POLITE NOTICE
Please do not record, post or copy any part of the presentations on any media, including social media, without the presenters' prior permission.

WIFI
If you would like to use WiFi today, we offer two access points. You can connect to SBS-Conf, for which there is no password. Alternatively, you can connect to _The Cloud and proceed to follow the instructions on your web browser.

PROGRAMME

12.15-13.00	Registration & coffee
13.00-13.15	Welcome and introduction **Tim Jenkinson,** Professor of Finance and Director, Private Equity Institute **Andreas T. Angelopoulos,** Executive Director, Private Equity Institute
13.15-14.00	What is the future for private equity fund structures? Moderator: **Tim Jenkinson** **Khaled Saïd,** Managing Partner, Capital Generation Partners, London
14.00-14.45	Current Private Equity Institute research **Ludovic Phalippou,** Associate Professor of Finance **Tim Jenkinson,** Professor of Finance and Director, Private Equity Institute
14.45-15.15	Break
15.15-16.00	Global investment climate for alternative asset classes Moderator: **Andreas T. Angelopoulos** **Andrew Wolff,** Head of Goldman Sachs Merchant Banking Division, EMEA
16.00-16.45	Evolution of leveraged finance and the impact on future restructurings Moderator: **Andreas T. Angelopoulos** **Philippe Chmelar,** Vice President in the Restructuring & Reorganisation Advisory Group, Blackstone
16.45-17.15	Break
17.15-18.00	Investing in LBO in Europe and USA Moderator: **Tim Jenkinson** **Humphrey Battcock,** Managing Partner, Advent International, London
18.00-18.45	Private equity: investing in Africa and South Asia Moderator: **Ludovic Phalippou** **David Easton,** Director, Direct Investments, CDC Group, London
18.45-19.45	Drinks reception

BIOGRAPHIES

ANDREAS T. ANGELOPOULOS

Andreas T. Angelopoulos is the Executive Director of the Private Equity Institute and the Programme Director of the Oxford Chicago Valuation Programme. He joined Saïd Business School in 2012 with a role to develop the Institute's programme of innovative courses, executive education initiatives, challenges and internship programmes, and case development.

Andreas has more than 22 years' experience in private equity, entrepreneurship and engineering advising various funds, entrepreneurs or corporates in their investment plans in South East Europe. He started his career working for Commercial Capital, a member of Credit Agricole, investing in growth capital transactions in South Eastern 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 holds an MBA from the University of Chicago Booth School of Business, a Master of Science from Columbia University, and a graduate 5 year degree, the Diploma in Civil Engineering, from the University of Patras School of Engineering in Greece.

HUMPHREY BATTCOCK

Humphrey Battcock is a Managing Partner and chairman of the European Investment Committee at Advent International Global Private Equity.

Humphrey joined Advent in 1994 and has 30 years of private equity experience. Previously he worked at Coopers & Lybrand in London and New York. He has a physics degree from Cambridge and an MBA from the London Business School.

PHILIPPE CHMELAR

Based in London, Philippe Chmelar is a Vice President in the Restructuring & Reorganisation Advisory Group at Blackstone. Since joining in 2007, Philippe has worked on a variety of restructuring and corporate finance transactions including CFS, China Development Bank, Jost, Mauser, Nybron, Punch Taverns, Technip, Thule, Vivacom and Wheelabrator. Before joining Blackstone, Philippe was an Analyst in the European Special Situations Group of Close Brothers Corporate Finance.

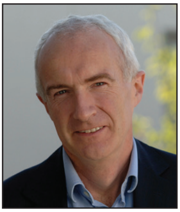
Philippe received a Masters Degree from HEC Business School in France and studied law at the University of Paris, the Ludwig Maximilian University in Munich and University College of London.

DAVID EASTON

David Easton is a Director in the Direct Equity Group at CDC Group, the UK Development Finance Institution. At CDC he has a focus on the health, education and food sectors and has led CDC's investments into Narayana Healthcare, Rainbow Hospitals, Feronia Inc, Bridge International Academies and Jabong.com.

Prior to joining CDC, David was with Bridges Ventures, the mission-driven investment firm. He 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 and was educated at Magdalen College, Oxford.



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. Tim then returned to the UK and obtained a DPhil in Economics from Oxford.

LUDOVIC PHALIPPOU

Ludovic Phalippou is Associate Professor of Finance at the Saïd Business School, Oxford University.

An international authority in private equity investing, Ludovic Phalippou 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.

KHALED SAID

Khaled Saïd is the Managing Partner of Capital Generation Partners LLP. He oversees client portfolios and relationships with clients. He has a particular interest in making use of his own experience as a client and an investor to inform the firm’s work. Khaled chairs the firm’s Asset Allocation Committee and serves on the Investment and Risk Committees.

Before the creation of CapGen in 2006, Khaled managed a family office, focusing particularly on asset allocation issues. Prior to joining the asset management world, he worked as a strategy consultant at Bain and Company.

Khaled is involved with various charities: he sits on the Boards of Saïd Foundation and Turquoise Mountain, and on the Patron Board of the Royal Academy of Arts.

Khaled has a degree in law from Oxford University and a Masters in History from Harvard. He also has an MBA (Dean’s List) from INSEAD where he won the Ford Prize.

ANDREW WOLFF

Andrew Wolff is head of Goldman Sachs Merchant Banking Division in Europe, the Middle East and Africa and co-head of MBD in Asia Pacific. He is a member of the Partnership Committee, European Management committee, Growth Markets Executive Committee, Firmwide Investment Policy Committee and the Corporate Investment Committee. Andrew joined Goldman Sachs in 1998 in the Principal Investment Area. He was named managing director in 2005 and partner in 2006.

Andrew has experience investing across global markets and has served on the boards of companies in the United States, Canada, Argentina, Brazil, Japan, China, Korea, the United Kingdom, France, Norway and Denmark.

Andrew earned a BA in Philosophy from Yale University in 1991 and a JD and MBA from Harvard Law School and Harvard Business School, respectively, in 1998.

RECENT RESEARCH FINDINGS

On 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

February 2015
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2329202

Abstract:
Private equity firms increasingly sell companies to each other in secondary buyouts (SBOs), raising concerns which we examine using novel datasets. Our evidence paints a nuanced picture. SBOs underperform and destroy value for investors when they are made by buyers under pressure to spend. Investors then reduce their capital allocation to the firms doing those transactions. But not all SBOs are money-burning devices. SBOs made under no pressure to spend perform as well as other buyouts. When buyer and seller have complementary skill sets, SBOs outperform other buyouts. Investors do not pay higher total transaction costs as a result of SBOs, even if they have a stake in both the buying fund and the selling 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 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.

How persistent is private equity performance? Evidence from deal-level data

Reiner Braun: University of Erlangen-Nuremberg. **Tim Jenkinson**: University of Oxford - Saïd Business School; Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI). **Ingo Stoff**: Technische Universität München (TUM) - Center for Entrepreneurial and Financial Studies

August 2013
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2314400

Abstract:
The persistence of returns is a critical issue for investors in their choice of private equity managers. Most academic research, and industry practice, considers the performance of successive limited partnership funds. This is problematic given that performance is only known when the fund has exited all its investments, which often takes a decade or more, and relative performance benchmarking is notoriously difficult. In this paper we approach the issue in a different way, using a unique database containing cash-flow data on 10,637 portfolio company investments by 236 private equity managers. For each fund manager we construct a sequence of portfolios containing only realised deals. We investigate how performance persistence has evolved as the industry has matured, and whether this development is contingent on GP experience. We confirm earlier findings of persistence until the late-1990s: which we find was driven by experienced GPs with strong relative outperformance. However, we find that for investments made since the late-1990s, experienced fund managers no longer exhibit performance persistence. Private equity has, therefore, conformed to the pattern found in most other asset classes where past performance is a poor predictor of the future.

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.

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.

Borrow cheap, buy high? The determinants of leverage and pricing in buyouts

Ulf Axelson: London School of Economics; Swedish Institute for Financial Research (SIFR). **Tim Jenkinson**: University of Oxford - Saïd Business School; Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI). **Per Strömberg**: Swedish House of Finance. **Michael S. Weisbach**: Ohio State University (OSU) - Department of Finance; National Bureau of Economic Research (NBER)

October 2012
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1596019

Abstract:
Private equity funds pay particular attention to capital structure when executing leveraged buyouts, creating an interesting setting for examining capital structure theories. Using a large, detailed, international sample of buyouts from 1980-2008, we find that buyout leverage is unrelated to the cross-sectional factors – suggested by traditional capital structure theories – that drive public firm leverage. Instead, variation in economy-wide credit conditions is the main determinant of leverage in buyouts, while having little impact on public firms. Higher deal leverage is associated with higher transaction prices and lower buyout fund returns, suggesting that acquirers overpay when access to credit is easier.

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.

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.

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This programme has been designed to develop a strategic view of the current challenges and opportunities facing real estate investment and development based on a deep analysis of current issues facing the sector. Bringing together a range of experienced professionals from all over the world, it will explore how to build a Real Estate enterprise in the current climate, and how to make it
resilient enough to withstand the changes that it will face in the future.

www.sbs.oxford.edu/orep
Fees: £4,950
Dates: 22-25 June 2015

Oxford Private Equity Programme

Develop outstanding expertise with thought leaders and industry experts from around the globe

This is the most comprehensive executive programme of its kind, that provides a deep understanding of the private equity industry, with access to world class research, renowned Oxford faculty and unrivalled business networks. Examine the main structures, transactions, leverage, valuation principles and modelling, fund selection, performance assessment and successful exit strategies of this key sector.

www.sbs.oxford.edu/pe
Fees: £4,950
Dates: 29 June - 2 July 2015

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This programme goes beyond the limitations of theory to provide an applied understanding of corporate and investment valuation for strategic decisions. Gain years' of experience with theory from senior faculty - Professor Mark E. Zmijewski from the Chicago Booth School of Business, Professor Tim Jenkinson and Andreas T. Angelopoulos from the Saïd Business School, Oxford. Explore case studies with executives from globally recognised firms, and engage in discussions with the Schools' combined alumni of industry leaders from around the world.

www.sbs.oxford.edu/ocvp
Fees: £6,500
Dates: 22-26 June 2015 and 9-13 November 2015

Contact us

If you would like further details on any of these programmes, or would like to discuss your learning needs in more depth please contact Steve Brewster on +44(0)1865 422727 or steve.brewster@sbs.ox.ac.uk

NOTES

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