Private Equity Liquidity:
A Perspective on the Secondary Market

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Private Equity Liquidity
Discussion Topics

- Overview of the Secondary Market
  - Secondary Transaction Types
  - Common Characteristics of Secondary Transactions
  - Secondary Market Overview

- Case Studies of Liquidity Solutions
  - Active Management
  - Securitization
  - Permanent Capital Vehicles
  - Strategic Transformations
  - Solving Strategic Problems
  - Balance Sheet Management

- Current State of Play
A. Overview of the Secondary Market
Secondary buyers provide liquidity and capital solutions to private equity investors and managers through acquiring and structuring private equity portfolios.

**LP Secondaries**

- Interests in existing limited partnerships

**Synthetic Secondaries / Portfolios of Directs**

- Interests in portfolios of direct company investments

**Structured Transactions**

- Structured solutions around the GP, including securitizations and co-investments

- **For Illustrative Purposes Only**

- **✓** Diversify exposure
- **✓** Accelerate investment program
- **✓** Mitigate “J-curve”
- **✓** Re-price existing assets
- **✓** Capitalize on market inefficiencies
<table>
<thead>
<tr>
<th><strong>The Secondary Market Opportunity</strong></th>
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<tbody>
<tr>
<td><strong>Investors Have Focused on Several Benefits and Portfolio Characteristics</strong></td>
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</table>

<table>
<thead>
<tr>
<th><strong>Diversify Exposure</strong></th>
<th>Secondary Investment Programs are typically highly diversified across strategy, industry, geography, manager and vintage year (often with &gt;1,000 underlying companies in any given fund).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accelerate Investment Program</strong></td>
<td>Secondary programs allow for an accelerated deployment of capital, since transactions are generally more funded than unfunded at closing.</td>
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<tr>
<td><strong>Mitigate “J-curve”</strong></td>
<td>An accelerated investment program, coupled with the shorter duration of many transactions, contributes to J-curve mitigation.</td>
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<td><strong>Re-Value Assets to Improve Risk-Return</strong></td>
<td>Because secondary buyers are structuring and acquiring portfolios that are largely funded, existing assets can be valued and “re-priced.” Access to information can be a key competitive advantage.</td>
</tr>
<tr>
<td><strong>Capitalize on Market Inefficiencies</strong></td>
<td>We believe the secondary market is characterized by informational and pricing inefficiencies, in addition to a significant supply-demand imbalance in the market for private equity liquidity.</td>
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Primary Private Equity Market Overview

Significant Capital has been Raised for New Private Equity Funds...

**Primary Private Equity Market Growth**

**Drivers of Increased Turnover**

- Strategic & personnel shifts
- Over-allocated or imbalanced portfolio
- Suboptimal cash flows
- Too many relationships
- Financial distress

* Based on fundraising figures for buyout and venture capital funds only. Source: Thomson Financial VentureXpert
Capital Raised by Secondary Specialists

...Secondary Capital has been Raised to meet the Increasing Demand for Liquidity...

Source: Probitas Partners, Jan-08
Secondary Transaction Opportunities
...but Investment Opportunities Remain Greater than Available Secondary Capital

Bids Evaluated by Goldman Sachs Vintage Team

USD in Billions

Source: GS Vintage Funds
Liquidity and the secondary market
Factors Driving Increasing “Turnover Rates”

Originally
- Consistent with strategy
- Balance sheet capacity
- Diversification
- Predictable cash flows
- Optimal GP relationships
- No other option, but to wait

2006/2007
- Strategic / personnel shifts
- Over-allocated
- Imbalanced portfolio
- Suboptimal cash flows
- Too many relationships
- Fiduciary obligation?

Today
- Active management continues
- Market dislocation driving renewed focus on liquidity
- Balance sheet pressures
- Concern over unfunded commitments
- Distressed situations

Imbalances can arise from changes in the LP, GP or portfolio
B. Case Studies of Liquidity Solutions
**Active Management**

*Cleaning Up of a Large Private Equity Portfolio*

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### Transaction Summary

**Transaction Type:** LP portfolio secondary

**Date:** 2006 (announcement) to 2008 (closing)

**Portfolio:** limited partnership interests in 60+ funds from 30-40 private equity managers (primarily middle market)

**Size:** $2 billion NAV + $1 billion unfunded (at time of announcement in 2006); final sale in 2008 reported to be ≈ $1.5 billion

**Seller:** The California Public Employees’ Retirement System (CalPERS)

**Buyers:** portfolio purchased by a syndicate of five secondary buyers who split the assets up among themselves; some interests were sold in separate one-off transactions at the request of the private equity manager

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### Transaction Rationale and Execution

**Situation:** As one of the largest investors in private equity, The California Public Employees’ Retirement System (CalPERS) had built a substantial portfolio over a long period of time that consisted of a number of different managers pursuing various strategies. Some of these managers were core relationships where CalPERS committed increasingly larger amounts of capital. In other cases the relationships did not develop because managers underperformed or did not raise funds large enough to allow CalPERS to participate in a meaningful way.

As part of a 2006 strategic review of the pension fund, CalPERS decided to reduce the number of private equity relationships it managed and realign its management structure. This allowed CalPERS to free up capital to make larger investments in core relationships and reduce the management burden associated with other investments.

**Solution:** Once the strategic decision had been made to reduce the number of private equity relationships, a “legacy portfolio” was created to hold non-core investments, underperforming managers and relationships that were being retired. CalPERS hired an advisor to auction a portfolio of their interests in the secondary market. The portfolio contained generally older funds from managers that CalPERS had not funded in years, as well as strong performers that were too small or time-consuming for an investor of CalPERS size to manage.

**Outcome:** Through a year long process that was widely covered and reported to include 40 bidders, CalPERS sold most of the interests to a syndicate consisting of five secondary buyers; these buyers split the portfolio up among themselves, agreeing in advance on what stakes they wanted to purchase; a number of private equity managers refused to participate in the auction and demanded that their stakes were sold in one-off transactions to certain pre-approved buyers.

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**Sources:** Private Equity Analyst, Buyouts, Corporate Financing Week, Private Equity Week, Wall Street Journal, CalPERS press releases and website
Active Management
CalPERS Portfolio Sale Transaction Structure

Transaction Structure

CalPERS

Advisor

Core Portfolios
- Fund 1
- Fund 2
- Fund 3
- Fund 4
- Fund 5
- ...

Legacy Portfolio
- Fund 1
- Fund 2
- Fund 3
- Fund 4
- Fund 5
- ...

Syndicate of Five Secondary Buyers
- Preferred Buyer
- Preferred Buyer
- Preferred Buyer
- Preferred Buyer
- Preferred Buyer
- Preferred Buyer

Portfolio Purchase

For Illustrative Purposes Only
### Active Management
#### Portfolio Rebalancings

<table>
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<td><strong>Transaction Type</strong>: LP portfolio secondary</td>
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<tr>
<td><strong>Date</strong>: 2005</td>
<td><strong>Date</strong>: 2008</td>
</tr>
<tr>
<td><strong>Portfolio</strong>: handful of limited partnership interests</td>
<td><strong>Portfolio</strong>: portfolio of limited partnership interests</td>
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<tr>
<td><strong>Size</strong>: not reported</td>
<td><strong>Size</strong>: $200 million</td>
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<tr>
<td><strong>Seller</strong>: University of North Carolina (UNC)</td>
<td><strong>Seller</strong>: Harvard University</td>
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**Rationale**: UNC’s portfolio had a 15% target allocation to private equity; investments had exceeded that allocation in recent years (approximately 17% at time of reported sale); UNC decided to pursue a secondary sale of a handful of limited partnership interests in order to get their private equity allocation back in line with target.

**Rationale**: seeking a portfolio rebalance, Harvard approached the secondary market with a portfolio of more mature limited partnership interests from mainstream middle market buyout and venture capital funds; the assets were reported to “fall outside the top tier” and rumored to likely sell at a discount to NAV.

Source: Factiva

Source: Private Equity Insider
Active Management
Outlook for Active Management in an Uncertain Market

- Private equity active management prominent in 2006/2007
  - “Smart money” university endowments and foundations driving the trend
  - Pension plans and other large investors also participated
  - Intermediaries and secondary buyers encouraged the practice

- Factors that were driving active management
  - Robust secondary market (with pricing that was perceived to be attractive)
  - Loss of stigma associated with secondary sales
  - Application of public market discipline to private equity (firing under-performing managers; reallocating or rebalancing asset mix)
  - Fiduciary duties

- Will active management continue in an uncertain market?
  - Harder to make an active management sell decision when pricing is at a discount…
  - …but unfunded commitments to strategies that may not work in the current market environment creates an incentive to rebalance
  - Conclusion is “too early to tell”; some recent examples of active management sales, but true sale motivations are not easy to determine
Securitization
Structuring a Private Equity Portfolio for Various Risk Appetites

Transaction Summary

**Transaction Type:** securitization of an existing private equity LP portfolio

**Date:** 3Q 2006

**Portfolio:** diversified portfolio of 46 limited partnership interests

**Size:** $810 million raised (debt and equity)

**Seller:** Temasek Holdings

**New Entity:** Astrea (special purpose vehicle)

**Buyers:** traditional and non-traditional fixed income investors purchased the debt tranches; a syndicate of three secondary buyers purchased the equity alongside Temasek’s rollover interest

Transaction Rationale and Execution

**Situation:** As a sophisticated and large investor in private equity across a number of direct and indirect strategies, Temasek Holdings was seeking ways to more effectively manage its portfolio from a capital standpoint. The issue was not overall exposure to the private equity asset class, but rather how to most efficiently use the Temasek balance sheet.

**Solution:** By securitizing part of their private equity portfolio, Temasek could access robust debt markets to raise liquidity while maintaining exposure to the portfolio by reinvesting (or rolling over a stake) in the equity of the securitization. Temasek contributed a portfolio of 46 limited partnership interests to a newly created special purpose vehicle (Astrea). Astrea then separated the portfolio cash flows into tranches and had them rated by various rating agencies. Bonds associated with the various tranches were sold to debt investors, providing partial liquidity to Temasek. “Brand name” investors purchased the equity of Astrea, providing validation of the structure and pricing (Temasek also maintained an interest in the equity). The portfolio was selected to be attractive to the eventual debt and equity purchasers, consisting of both buyout and venture capital funds and well diversified by vintage year and geography.

**Outcome:** Extremely complicated transaction that took advantage of the increasing depth of the debt markets at that time and a willingness by debt investors to participate in non-traditional asset classes; the transaction provided attractive financings terms for Temasek, which maintained a highly levered interest in the portfolio via the equity tranche.

Sources: Business Times of Singapore, TODAY (Singapore), Private Equity News, Temasek annual report, press releases and website
Securitization
Astrea (Temasek Portfolio) Transaction Structure

Transaction Structure

- SENIOR DEBT
- JUNIOR DEBT
- EQUITY

SPECIAL PURPOSE VEHICLE

Fund 1  Fund 2  Fund 3  Fund 4  Fund ...

Pool of Limited Partnerships

- Trustee
- Rating Agencies
- Auditors
- Servicer
- Payment Agent
- Liquidity Provider
- Valuation Agent
- Letter of Credit Provider

For Illustrative Purposes Only
Permanent Capital Vehicles
Increasing Popularity in Recent Years

U.S. Direct Funds
- Apollo Invest. Corp. $930mm IPO
- Ares Capital Corp. $165mm IPO
- Macquarie Infrastructure Co. $535mm IPO
- Compass Diversified Trust $202mm IPO

Europe Direct Funds
- RHJ International €747mm IPO
- KKR PE Investors $5.0bn IPO
- AP Alternative Assets $1.6bn IPO

Europe Fund of Funds
- Bear Stearns PEL $265mm IPO
- Partners Group GOF €400mm IPO
- Bear Stearns PEL $307mm Follow-on
- Pantheon £100mm Follow-on

U.S. Fund of Funds
- Lehman Bros $500mm IPO
- Harbourvest $400mm IPO
- Conversus $1.8bn IPO

Any reference to a specific security does not constitute a recommendation to buy, sell or hold such security.
Permanent Capital Vehicles

Transaction Summary

Transaction Type: permanent capital vehicle listing of existing LP portfolio

Date: Q2 2007

Portfolio: diversified portfolio of 160+ limited partnership interests

Size: $1.8 billion

Seller: Bank of America Corporation

General Partner: Conversus Capital, L.P. (newly-formed investment manager owned by Bank of America and Oak Hill, with participation from CalPERS and Harvard)

Buyers: CalPERS and Harvard as “strategic investors”; certain other institutional investors; public investors

Transaction Rationale and Execution

Situation: Similar to other financial institutions, Bank of America had built a sizable portfolio of limited partnership commitments on its balance sheet, in part as a sourcing strategy to provide lending and advisory services to private equity backed companies. As part of a strategic review of their balance sheet and private equity investments, Bank of America was seeking ways to reduce their exposure to certain private equity activities while at the same time creating new business or revenue opportunities for the bank.

Solution: By listing a portion of their private equity portfolio as a permanent capital vehicle, Bank of America could realize liquidity from the portfolio while at the same time maintaining a relationship with the managers through the bank’s ongoing relationship with the listed vehicle. Additionally, Bank of America could earn fees as an underwriter of the vehicle and create an ongoing asset management revenue stream from its participation in the public vehicle’s general partner.

To execute this transaction, a new partnership was created (Conversus Capital) and listed on the Euronext Amsterdam. Shares were sold to fund the purchase of the initial portfolio from the Bank of America balance sheet. A diversified portfolio of over 160 limited partnership interests was acquired post listing. On a go forward basis, Conversus will use investment proceeds and additional capital to pursue a fund-of-funds and secondary/direct co-investment strategy.

Outcome: Strategic investors (including CalPERS and Harvard) were brought in pre listing to subscribe to the offering; additional shares were sold to select institutional investors and placed by the underwriters with various public market investors; the vehicle was successfully listed in June 2007.

Sources: Private Equity Analyst, Conversus press releases and website
Permanent Capital Vehicles
Conversus (Bank of America Portfolio) Transaction Structure

Transaction Structure

- **Oak Hill**
  - GP Interest

- **Bank of America**
  - GP Interest

- **Conversus GP** (investment manager)
  - GP Interest

- **Conversus Capital** (new fund, listed on Euronext)
  - Portfolio Purchase

- **Portfolio to be Sold**
  - Fund 1
  - Fund 2
  - Fund 3
  - Fund 4
  - Fund 5
  - ...

- **“Strategic Investors”**
  - GP Interest

- **Private Investor**
  - Private Interest

- **Public Investor**
  - Public Interest

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Permanent Capital Vehicles
Unwinding a Permanent Capital Vehicle

Transaction Summary

Transaction Type: de-listing of a permanent capital vehicle ("take private" transaction)

Date: Q1 2008 (announced)

Portfolio: publicly-listed fund-of-funds with investments in 44 private equity partnerships (over 300 underlying companies)

Size: $118 million (NAV 12/31/07)

Seller: Macquarie Private Capital Group

Buyer: Bear Stearns Private Equity Limited

Manager: Macquarie Investment Management Limited (retained by buyer to continue to manage the portfolio)

Transaction Rationale and Execution

Situation: In 2005, Macquarie Investment Management Limited raised a publicly listed fund of funds vehicle, Macquarie Private Capital Group (MPCG). It listed on the Australian Stock Exchange with approximately 30 Australian and US private equity, distressed debt and infrastructure fund interests. Interests were acquired from the Macquarie balance sheet and new capital was raised as part of the listing to make additional investments. Since the listing, MPCG consistently traded below the offer price of A$1 (making it one of Macquarie’s worst performing listed vehicles).

Bear Stearns Asset Management Inc. had raised a similar listed vehicle, Bear Stearns Private Equity Limited (BSPEL), that was focused on secondary and direct private equity assets. BSPEL, listed on the London Stock Exchange, had raised almost $500 million across three fund raising rounds and was seeking opportunities to deploy that capital. In examining the market for publicly listed vehicles, it identified MPCG as an attractive investment opportunity.

Solution: BSPEL proposed acquiring the MPCG vehicle and delisting it. This transaction would provide liquidity to the MPCG investors at a significant premium to the current trading price. The assets of MPCG would become investments for the BSPEL vehicle, therefore deploying some of the available capital that BSPEL had raised. BSPEL proposed retaining the existing manager (Macquarie Investment Management Limited) to continue to manage the investments.

Outcome: Transaction announced January 2008 at A$1.062 per share (represented a 56% premium to the pre-announcement closing price and a 4% discount to NAV).

Sources: Private Equity News, Macquarie Private Capital Group press releases, regulatory filings and website
Permanent Capital Vehicles
MPCG / BSPEL Transaction Structure

Transaction Structure

Macquarie Investment Management Ltd

MPCG Listed Vehicle

Fund 1  Fund 2
Fund 3  Fund 4
Fund 5  ...

Bear Stearns Private Equity Limited (BSPEL)

Investment Management Agreement

Portfolio Purchase

Purchase of Public Shares

Public Investor

For Illustrative Purposes Only
## Transaction Summary

**Transaction Type:** purchase of a strip in existing middle market private equity investments  

**Date:** Q3 2007  

**Portfolio:** diversified portfolio of equity in over 80 middle market companies  

**Size:** $585 million  

**Seller:** American Capital  

**Buyer:** syndicate of six secondary market investors

## Transaction Rationale and Execution

**Situation:** American Capital, a NASDAQ-listed Business Development Company (BDC) was seeking to transform itself into a publicly-traded private equity manager by expanding into the management of private funds. In addition, American Capital was seeking access to additional capital for new investments.

**Solution:** A transaction that accomplished American Capital’s key objectives (private capital management and liquidity) was achieved by contributing a strip of American Capital’s equity portfolio to a newly created partnership. The partnership interests were sold to new investors who agreed to pay a management fee and carried interest to American Capital in return for managing the assets. Through this structure, American Capital was able to achieve significant liquidity that they could recycle into new investment opportunities and created a long term asset management fee base from the management of the legacy portfolio.

**Outcome:** Transaction closed October 2007; American Capital continues its transformation, announcing the launch of a third-party private capital fund to invest alongside the public BDC in the equity of American Capital-sourced transactions.

Sources: Buyouts, Private Equity Analyst, American Capital press releases and website
Repositioning BDCs
American Capital II Transaction Structure

For Illustrative Purposes Only
Strategic Transformation / Market Validation
Repositioning Business Development Companies as Asset Managers

Transaction Summary

Transaction Type: purchase of a strip of existing middle market private equity debt and equity investments + LP secondary portfolio purchase + commitment of capital for future investments

Date: Q1 2008

Portfolio: diversified portfolio of debt and equity in over 50 companies + 11 venture capital and middle market private equity limited partnership interests

Size: $325 million

Seller: Allied Capital

Buyer: “brand name” secondary fund investor

Transaction Rationale and Execution

Situation: Allied Capital, a New York Stock Exchange-listed Business Development Company (BDC) was seeking to transform itself into a publicly-traded private equity manager by expanding into the management of private funds. In addition, Allied was seeking validation of its portfolio valuations and access to additional capital for new investments.

Solution: A transaction that accomplished Allied’s three key objectives (private capital management, validation of valuation and liquidity) was achieved by combining an asset sale with a commitment of new capital. A pro-rata strip of assets was sold to a brand name institutional investor whose participation could validate the valuation of the assets. The sale proceeds received by Allied for this strip could be redeployed into new investment opportunities. Additionally, the institutional investor agreed to provide capital for a new third-party fund that Allied is seeking to raise in an expansion of its private funds management business.

Outcome: Transaction announced January 2008 and well received by the market; Allied continues its transformation, announcing additional third-party private funds, including a senior debt fund and a unitranche fund with General Electric.

Sources: Private Equity Analyst, Private Equity Week, The Deal, Allied Capital press releases and website
Repositioning BDCs
Allied Capital Transaction Structure

Transaction Structure

Allied Capital

Debt / Equity Portfolio
- Company 1
- Company 2
- Company 3
- Company 4
- Company 5
- ...

Non Core LP Portfolio
- Fund 1
- Fund 2
- Fund 3
- Fund 4
- Fund 5
- ...

Allied Capital (new private fund)

Secondary Investor

New Capital

Strip Purchase

Portfolio Purchase

For Illustrative Purposes Only
Solving a Strategic Problem
Competing Internal Private Equity Efforts

**Transaction Summary**

**Transaction Type**: "spin out" synthetic secondary

**Date**: 2Q 2006

**Portfolio**: global buyout and growth equity portfolio

**Size**: $1+ billion

**Seller**: J.P. Morgan Chase

**General Partner**: CCMP Capital (fka J.P. Morgan Partners)

**Buyers**: dedicated secondary fund and large pension plan; additional small interests syndicated to select existing investors

**Transaction Rationale and Execution**

**Situation**: Following the merger of J.P. Morgan Chase and Bank One, the combined bank had two separate private equity teams: J.P. Morgan Partners (the legacy team of J.P. Morgan Chase) and One Equity (the legacy team of Bank One). After an intense analysis, the bank decided to spin off the larger J.P. Morgan Partners team into an independent entity and retain the One Equity team as the bank’s in-house captive private equity effort.

**Solution**: Once the strategic decision had been made to spin the J.P. Morgan Partners team out, the focus became how to effectively execute the spin out. The transaction by complicated a number of factors, including the billions of dollars of bank balance sheet capital that the team managed, a refinement of the investment strategy for the new independent firm, and the fact that the spun out team would not be able to use the J.P. Morgan name.

Although the J.P. Morgan Partners team managed approximately $1.7 billion in third party capital (in addition to bank balance sheet money), it was perceived that they would need to raise capital from many new investors, given the separation from J.P. Morgan Chase. J.P. Morgan Chase agreed to give the new firm a commitment up to $1.0 billion and entered into a creative transaction with a large secondaries fund to sell $925 million of existing J.P. Morgan Partners private equity exposure in return for an anchor commitment to the independent firm’s new fund.

**Outcome**: complicated transaction involving three disparate parties (seller, buyers, and private equity management team); transaction was done exclusively with a large secondaries fund and a large pension plan that was an existing J.P. Morgan Partners investor; CCMP is now operating separately from the bank, having raised $3.4 billion for their first independent fund.

Sources: Private Equity Analyst, Private Equity Intelligence, Wall Street Journal, CCMP Capital press releases and website
Solving a Strategic Problem
CCMP Capital (fka J.P. Morgan Partners) Transaction Structure

Transaction Structure

- J.P. Morgan
  - Spin out of Team
  - Sale of Existing Investments from Balance Sheet
  - New Investment

- CCMP Capital (fka J.P. Morgan Partners)

- New Fund (CCMP Capital Investors II, L.P.)
  - New Investment
  - Purchase of Interests

- Primary Investors
  - Primary Commitments
  - New Investment

- Secondary Buyer + Pension Fund Investor
  - Purchase of Interests

- Company 1
- Company 2
- Company 3
- Company 4
- Company 5
- ...
Balance Sheet and Strategic Rebalance
Excess Exposure to Certain Private Equity through Captive Teams

Transaction Summary

Transaction Type: "spin out" synthetic secondary

Date: Q3 2006

Portfolio: European mid-market private equity

Size: €425 million (includes funded and unfunded amounts)

Seller: Banc of America

General Partner: Argan Capital (fka BA Capital Partners Europe)

Buyers: syndicate of eight secondary buyers initially with 36 investors ultimately participating; Banc of America maintained a minority stake in the transaction

Transaction Rationale and Execution

Situation: Banc of America, the investment arm of Bank of America Corp., was seeking to reduce its direct exposure to certain private equity activities. The bank sponsored several in-house private equity teams (as their sole investor) and as a result had exposure on the bank’s balance sheet to companies these teams had invested in as well as undrawn commitments to these teams for new investments.

Solution: Any solution that accomplished the objective of reducing the bank’s exposure to these private equity activities would preferably involve both a sale of the existing assets on the balance sheet as well as a reduction in the undrawn commitment that the bank had either explicitly or implicitly given to the captive teams.

In a transaction involving the BA Capital Partners Europe team (now renamed Argan Capital), the bank sought to solve their problem by spinning out the team into an independent entity which would raise a new fund from external investors to both acquire their existing portfolio from the bank’s balance sheet and provide additional capital to the Argan team for new transactions (this additional capital would reduce any amounts of undrawn capital that the bank had previously promised the team).

Outcome: Complicated transaction involving three disparate parties (seller, buyers, and private equity management team); transaction was shown to the market broadly and ultimately eight secondary investors led the initial tranche, with 36 investors ultimately participating in the fund; process took six months and was ultimately “oversubscribed”; Argan is now operating as an independent private equity fund pursuing European middle market investments.

Sources: Private Equity Analyst, Real Deals, LBO Wire, Argan Capital press releases and website
Balance Sheet and Strategic Rebalance
Argan Capital (fka BA Capital Partners Europe) Transaction Structure

**Transaction Structure**

- **Banc of America**
  - Spin out of Team
  - Minority Investment
  - Sale of Existing Investments from Balance Sheet
  - Existing Unfunded to BA Capital Partners (cancelled as part of transaction)

- **Argan Capital Team (fka BA Capital Partners Europe)**
  - New Argan Capital Fund
  - New Investment

- **Secondary Buyers**
  - New Investment

- **Other Investors**
  - New Investment

- **New Argan Capital Fund**
  - Company 1
  - Company 2
  - Company 3
  - Company 4
  - Company 5
  - ...
Market dislocations (and resulting retrenchment of liquidity) have led to increased focus on balance sheet management from a range of investors.

Private equity assets face particular scrutiny in a liquidity analysis:
- Regulatory capital requirements (e.g. Basel II)
- Loan losses tied to the asset class create perception of problems
- Recognition that certain asset portfolios built in “good times” may be non-core today
- Poor fundamental business environment is an overlay (certainly for financial institutions)

Market impact is most visible from financials, but also evident wherever an investor has a high percentage of illiquid assets or a business or strategy that depends on some form of credit.

Current examples:
- Bank raising capital for regulatory reasons
- Hedge fund raising capital for redemptions
- Fund-of-funds that had pursued an “over-commitment” strategy
- Family office that had “levered” a private equity portfolio

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C. Current State of Play
Secondary Market for Private Equity
Current State of Play

- Market for liquidity has expanded and become more creative
  - Options from “plain vanilla” sale of existing limited partnership interest to complicated spin outs of captive teams

- Dedicated secondary buyers have raised larger pools of capital and some new entrants; some non-dedicated investors (fund-of-funds, pension funds, etc.) entered the market
  - However, capital available for liquidity has not kept pace with overall growth in private equity and increasing turnover rates of existing investments (imbalance still remains)

- Recent market dislocations have changed the landscape; secondary buyers adjusting pricing to compensate for expected declines in valuation; demand for liquidity for certain investors has increased significantly
  - “Active management” still happening, but mostly focused on rebalancing due to perceived excesses or repositioning away from strategies believed to be unfavorable in the current environment

- Everyone perceives risk
  - Buy - buying into economic uncertainty
  - Sell - selling at the wrong time or from position of pressure or distress
  - Hold - holding a portfolio that may not be well positioned for future opportunities

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