An Overview of Private Equity

For Managers and Institutional Investors

Prepared by Aviva Capital in Conjunction with
Proexport & the Superintendencia de Valores

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Agenda

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Overview

Private Equity is

•A young alternative asset with --

•Low correlation to fixed income and listed equities

•Long time horizon

•And which is an efficient complement to a traditional institutional portfolio.

What is Private Equity?

- The term "private equity" refers to a class of alternative assets which are typically –
  - Investments acquired through a negotiated transaction
  - In securities that are not publicly listed
  - Purchased by an investor seeks to add-value to the investment
- There are a couple of confusing aspects to the term
  - First, it refers to both the asset class generally as well as to a particular stage of investment
  - Second, it has different meanings in different parts of the world
    - In the US, private equity refers to the whole asset class and to buyouts and other non-early stage investments
    - In Europe, to the contrary, the asset class as a whole is often referred to as "venture capital."
    - Europe seems to be adopting the US convention, however, of referring to the entire industry as Private Equity.

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Alternative Assets include

- *Private Equity*
- *Hedge Funds*
- *Real Estate*
- *Commodities*
- *Derivatives*
- *Resources*

What are Alternative Assets?

- The term “Alternative Assets” typically refers to the universe of investments open to institutions as *alternatives* to listed equities and fixed income.

Alternative Investments

Private Equity
- Venture Capital
- Buyout
- Mezzanine Capital
- Special Situations

Hedge Funds
- Long/short
- Global Macro
- Event Driven
- Market Neutral
- Arbitrage
- Emerging Markets

Real Estate
- Office
- Retail
- Residential
- REITs

Physical Commodities

Currencies

Interest Rates

Natural Resources

Source: EVCA

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Overview

What are the other Stages of Investment?

Venture includes

•Seed

•Start-up

•Expansion

Private Equity includes

•Expansion

•Replacement

•Buyout

•Special situations

•Quasi-equity

- The “stages” of private equity investment refer to the maturity of the investee companies
- Investments in young companies are described as “early stage”
- In the US, such investments are also described as “venture capital” investments
  - These include
    - Seed
    - Start-up, and
    - Some expansion
- Later stage investments are also described as “private equity” investments
  - They include
    - Some expansion
    - Replacement capital
    - Buyouts
    - Special situations (i.e. turnarounds)
    - Quasi-equity or mezzanine

Source: EVCA

Overview

Later Stage Investments are More Successful in Most Countries

Outside IT centers, later stage strategies tend to be the most successful

With a few exceptions, in countries where the private equity industry is nascent, the most successful investment strategies tend to focus on later stage investments.

This pattern is discernable across regions.

Because venture investing is inherently both riskier and more resource intensive, it may only be justified by substantially higher returns than an investment in a more mature company.

To date, those high rates of return have only been provided with any consistency through investment in information technology centers.

Overview

Historical Background

What is new about PE investing?

- *Systematic*
- *Professionalized*
- *Specialized*
- *Value Added*
- *Finite*

- For centuries, wealthy individuals have invested in risky private ventures in the hopes of securing an outsize return.

- *So, why is private equity either new or noteworthy?*

  – Until the last few decades, there has never been a rational market for such transactions.

  – Those with capital had no organized method for identifying, analyzing, structuring, managing and exiting private transactions.

  – Similarly, entrepreneurs had no market to turn to to gain the capital and skills of professional investors.

  – Rather, they relied on an informal network of relationships.

  – These networks systemization, transparency, specialization and, therefore, persistence.

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Historical Background

A few American families retained professionals to systematize their investment in private companies.

ARD followed this pattern with third party capital.

Following WW II, in the US, this situation began to change.

– The first impetus to organize investing came from wealthy Americans. In the 1930s and 1940s, members the Rockefeller, Bessemer, and Whitney families hired professional managers to seek out investment in promising young companies. (Gompers;Kenney).

– These were the first family venture capital funds, and many remain active to this day.

– Creation of American Research and Development (ARD) in Boston in 1946 another significant milestone . ARD was important, not only because of the firms it funded, but also because it founder, General Georges Doriot [Kenney]. Doriot was both an innovator and a strong advocate.

– Under Doriot, ARD provided substantial expertise and management experience to the companies they backed. [Kenney]

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Government's Central Role -- SBICs

Government Support was critical to Private Equity

•SBICs contributed to developing fund management skills

•They also addressed a market failure by supplying capital

- The US Government was also an integral participant in promoting private equity's growth.
- Through a series of legislative and regulatory actions, the government set the stage for the extraordinary expansion of the asset class.
- Between 1945 and 1960, two developments -- one public and one private -- foreshadowed the dawn of the industry.
- In 1958 the U.S. government passed legislation creating the Small Business Investment Corporations (SBICs) - private equity funds supported by substantial government investment - to encourage investment in small businesses.

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Government's Central Role – Pension Regulation

Changes to the tax code and pension regulation altered private equity dramatically.

- Two further governmental actions catalyzed the dramatic growth of the US private equity industry.
  - The first was the 1978 Revenue Act, which decreased the capital gains tax from 49.5% to 28%.
  - The second was the change in ERISA's "prudent man" rule in 1979, which explicitly allowed pension funds to invest in venture capital.
- This change altered the rules governing pension fund investment permitting an expansion into higher-risk asset classes including private equity. Clarification of ERISA's rules now allowed pension fund managers to invest in high-risk assets, including venture capital.
- While both changes may have been favorable to venture capital investment at the time, the long term impact of the "prudent man" rule change was substantially greater than the reduction in the capital gains tax rate.
- Many believe that this change which permitted pensions to invest in the asset class have contributed dramatically to success of the industry and, thus, to the US economy.

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Government Role – European Pension and Tax Reform

European governments have also sought to stimulate institutional investment in private equity.

Spurred particularly by pension and tax reforms, European investment in private equity has grown substantially.

- Similarly, governments throughout Europe have initiated legal changes, in a number of areas including to pension fund and insurance company regulation.
- These changes have broadened the investment choices available to institutions. In addition, tax reforms around Europe, which made investments that return capital gains more attractive, have also catalyzed growth of private equity.
- In recognition of the importance of the potentially dramatic impact of private equity on economic growth, the EU has adopted a far reaching "Risk Capital Action Plan" to encourage member states to further liberalize to encourage investment in the asset class.
- During the 1980's and 90's, institutional investors increasingly diversified out of fixed income and into other asset classes with an increasing allocation to private equity.
- Over the last 10 years international private equity has grown rapidly. It reached its high point around the turn of the century with more than $200 raised globally in 2000.

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Private equity has had a profound impact on American productivity and economic growth.

Less than 1% of economic activity supports:

•15% of innovation;

•More than 30% or IPOs;

•6% of US employment;

•More than 13% of US GDP.

- On the surface, the innovation of organized investment in private companies may not seem revolutionary. Its effects have been.

- A recent study by the Harvard Business School's private equity expert Josh Lerner and Boston University's Samuel Kortum found that venture capital accounted for about 15 percent of American industrial innovation over the past decade.

- The impact on the US economy is substantial. For the 8 years from 1972 to 1980, 78 venture backed firms went public. From 1990 to 2000 approximately 5,500 U.S. firms went public with about 84% of those listing on the NASDAQ. By 2000, approximately 42% of all NASDAQ IPO's were venture backed, and approximately 55% of the NASDAQ equity market capitalization is represented by venture backed firms.

- The National Venture Capital Association (NVCA) found that the $273.3 billion of venture capital invested over the three decades from 1970 to 2000, created companies that were responsible for 5.9 percent of the nation's jobs and 13.1 percent of the U.S. Gross Domestic Product in 2000. This study also concluded that one American job existed in 2000 for every $36 invested over the last three decades. Joseph Kasputys, Chairman of the firm which produced the study, commented, "Given that venture capital was less than one percent of U.S. investment activity during most of the period studied, its impact is remarkable."

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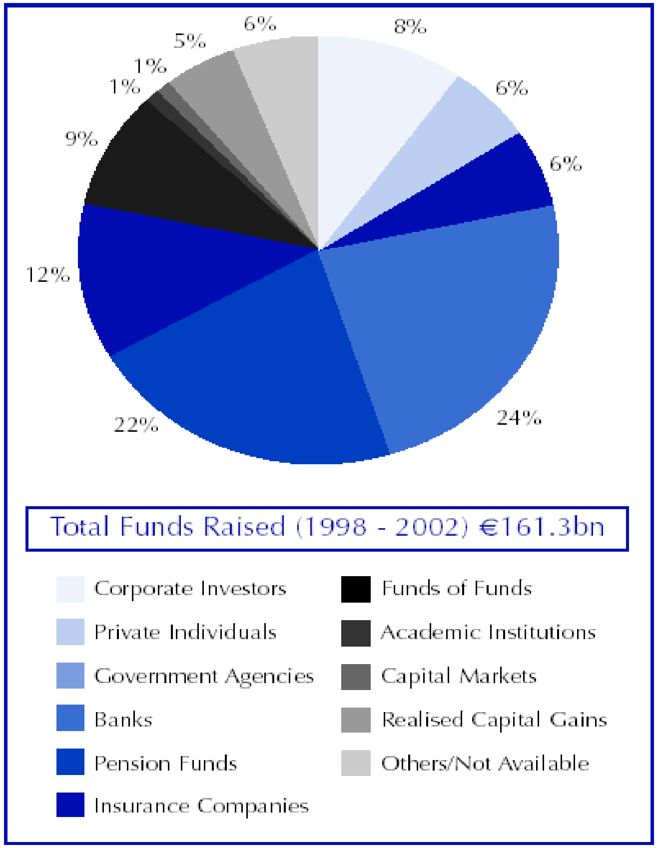
Sources of Private Equity Investment

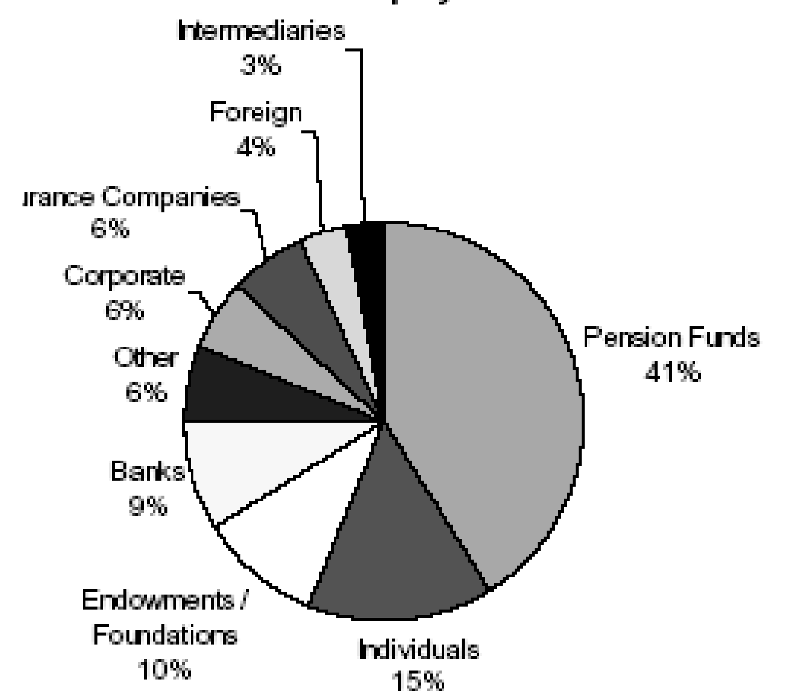
In Europe banks and insurance companies continue to provide much of the capital for PE firms.

In the US, much higher percentages from pensions, HNW, endowments and foundations.

Notably, in each country, most capital is invested in local funds.



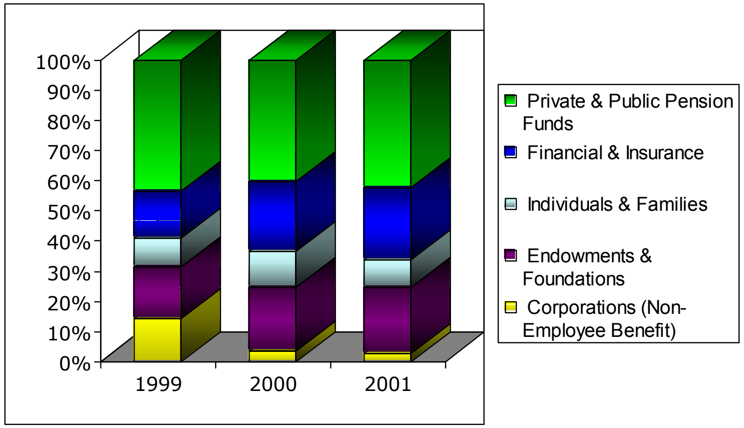
Source: EVCA



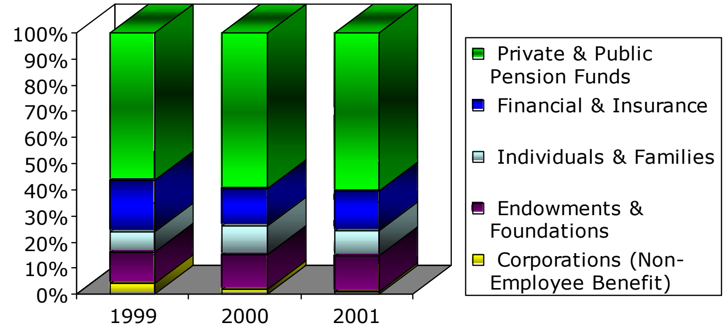
Overview

Sources of Private Equity Investment

LP Commitments to US Venture



LP Commitments to US Non-Venture



Although pensions predominate in US venture investment, their role is even more pronounced in non-venture investing.

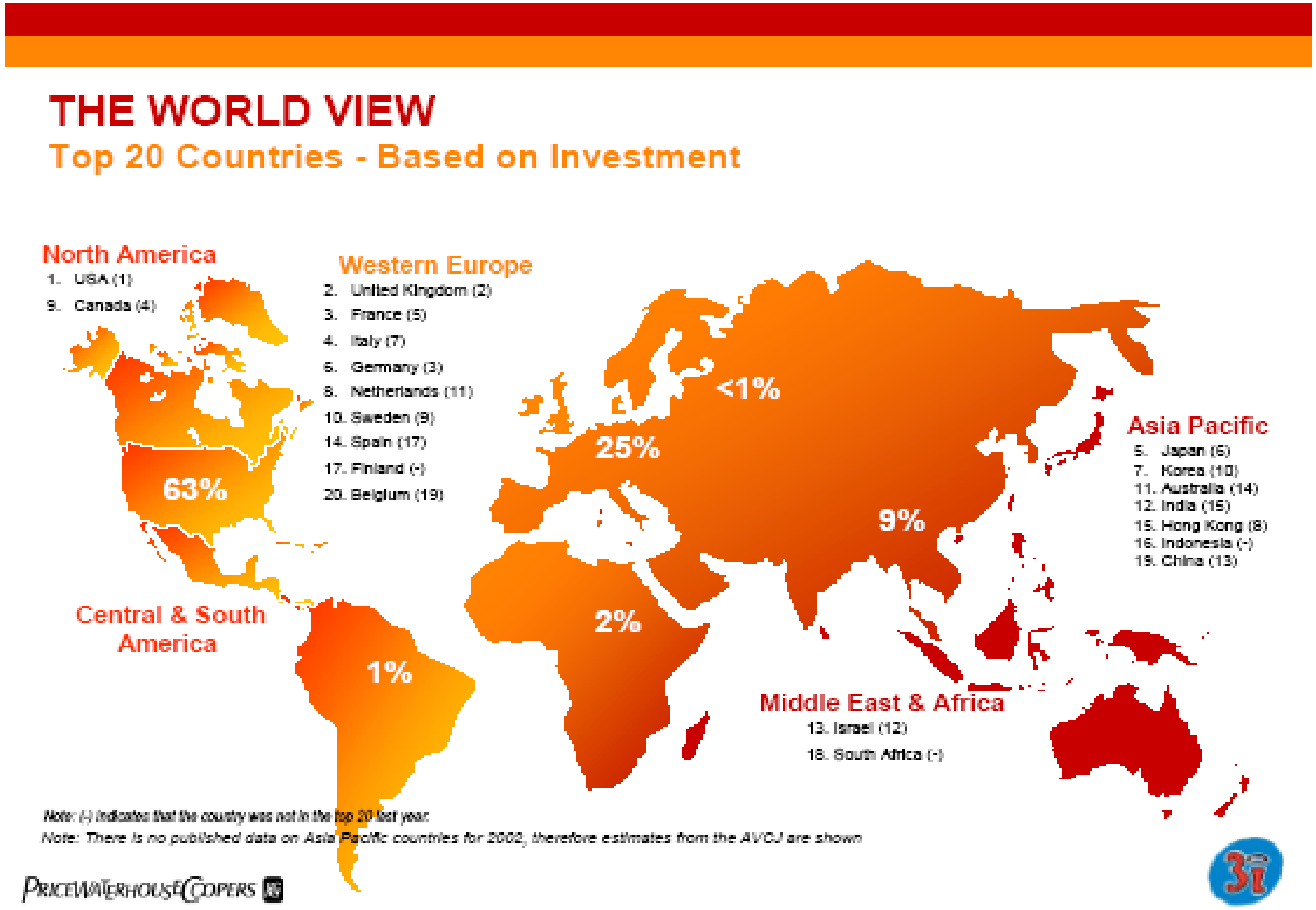
Overview

Sources of Private Equity Investment

On both an absolute and a per capita basis, the US still predominates in this asset class.

Most of the rest of the word receives very little investment.

Latin America, though, is one of the few parts of the world with little or no capital overhang.



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THE WORLD VIEW

Cumulative Investments and Funds Raised (98-02)

US $ Billion

Region	Investment Value	Funds Raised	Overhang
Global	660.10	788.04	127.94
North America	466.19	554.76	88.57
Western Europe	122.53	153.50	30.97
Asia Pacific	46.49	54.83	8.34
Middle East & Africa	10.75*	12.14*	1.39
Central and South America	12.30*	9.68	-2.62
Eastern Europe	1.86*	3.13*	1.27

* Data upweighted to take account of under-reporting in these regions

Note: There is no published data on Asia Pacific countries for 2002, therefore estimates from the AVCJ are shown

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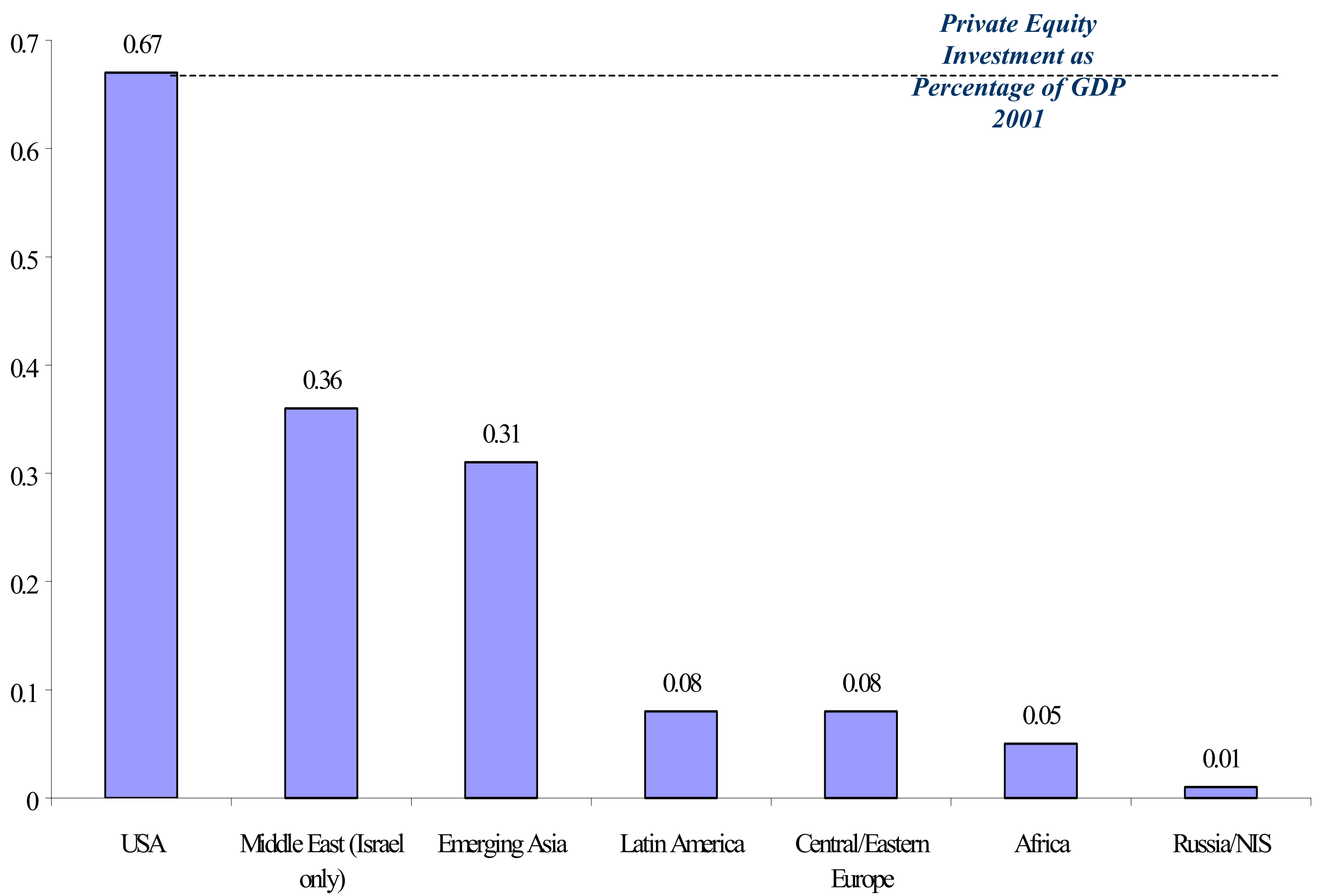

Sources: EVCA, AVCJ, MITI/Japan, VE-LA Publications, SAVCA/KPMG, IVC, 3i/PWC, OPIC, Cambridge Associates, IEA

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Investment and Funds Raised by Country – US $ Billion

Country Ranking 2001		Investment Amount	Funds Raised
1.	USA	59.7	99.6
2.	United Kingdom	6.2	18.4
3.	Germany	4.0	3.3
4.	Canada	3.2	3.0
5.	France	3.0	4.9
6.	Japan	2.1	3.1
7.	Italy	2.0	1.7
8.	Sweden	1.8	1.6
9.	Korea	1.8	1.2
10.	Hong Kong	1.8	2.3
11.	China	1.8	1.9
12.	Netherlands	1.7	0.6
13.	Israel	1.6	1.4
14.	Australia	1.3	0.7
15.	India	1.1	0.4
16.	Singapore	1.1	1.0
17.	Spain	1.1	0.7
18.	Taiwan	0.8	1.0
19.	Belgium	0.4	0.6
20.	Denmark	0.3	0.4

Source: PWC 3i Global Private Equity Survey

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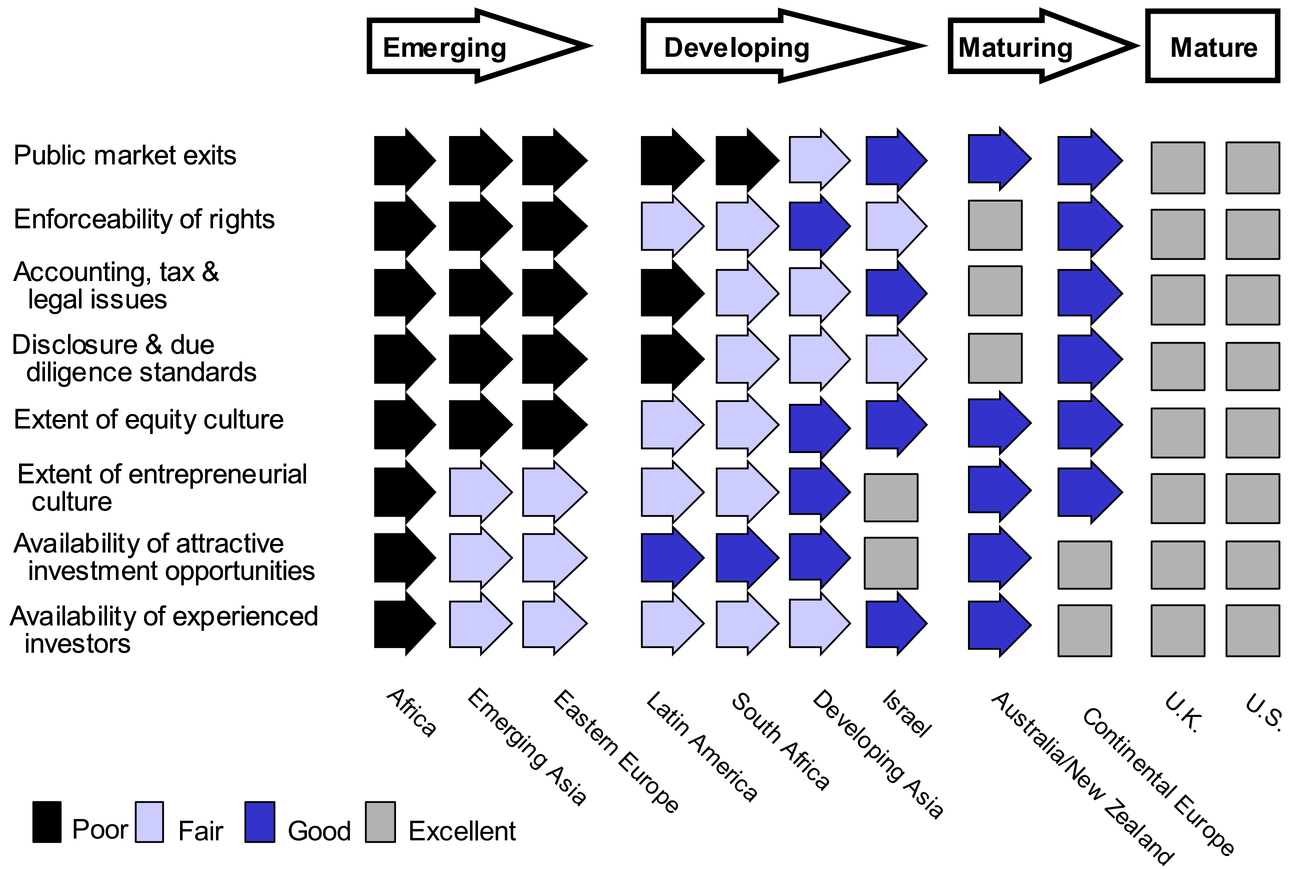
Sources of Private Equity Investment

The table to the right provides a US institutional investor's view of the relative attractiveness of a number of regions rated by a series of different criteria.

Assessment of Attractiveness of Geographic Private Equity Markets – Adams Street Partners LLC



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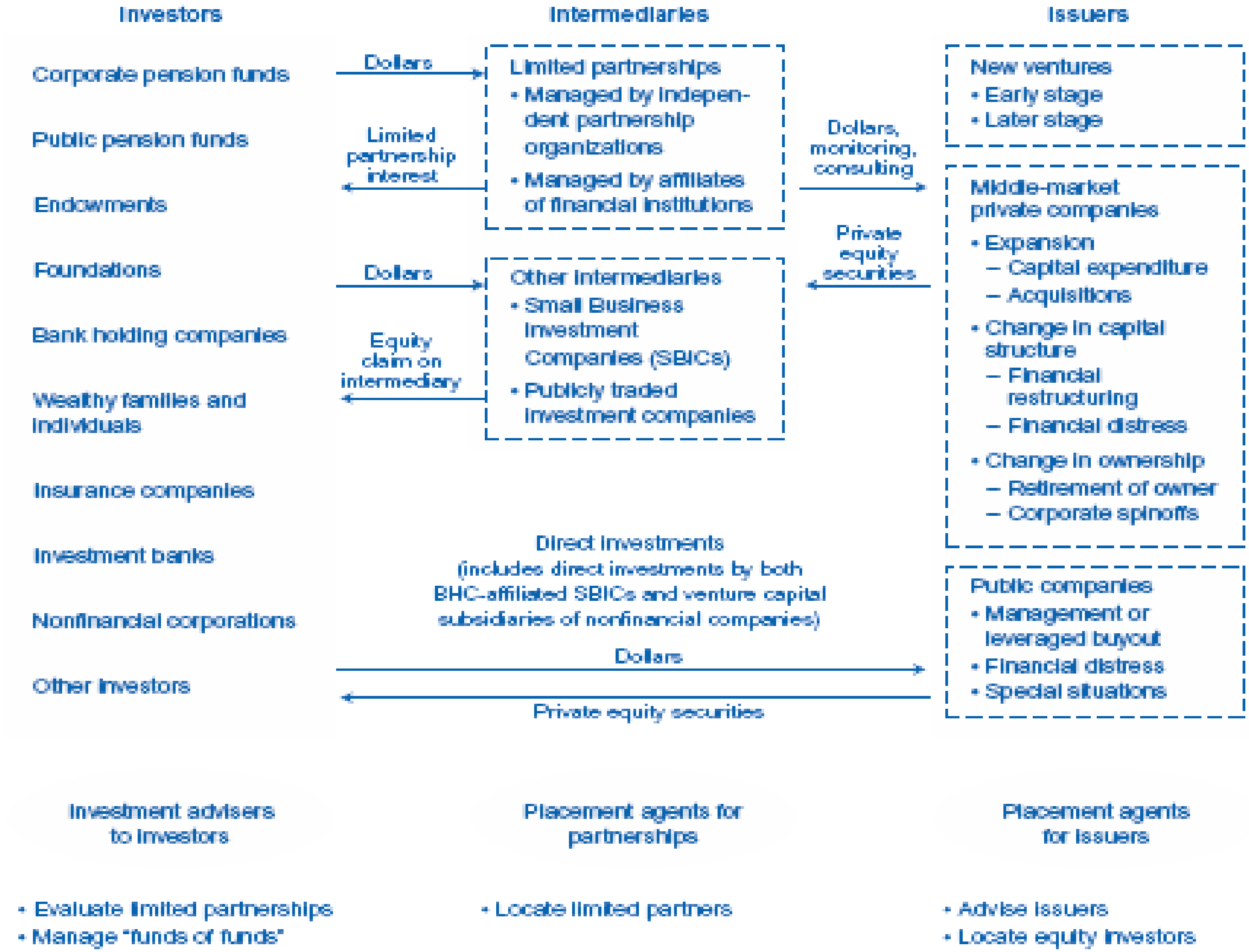
Participants in Private Equity Investment

To better understand the range of participants involved in the organized private equity market, the following chart is very helpful.



Source: The Economics Of The Private Equity Market, Stephen D. Prowse, Nellie Liang, Federal Reserve Bank Of Dallas , Economic Review Third Quarter 1998

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Colombia Today – At the Beginning

Colombia has had very limited experience with organized private equity.

- There are very few dedicated funds.
- There are no large funds.
- There have been few fund investments in Colombia by international firms and even fewer that have been successful.
- There is no substantial *institutional* experience with investment in funds in Colombia.
- Colombia has no organized forum for exchange of information and initiatives related to private equity.
- Except for these current efforts, there is no government program designed to support private equity development.
- There is no donor or multilateral program supporting private equity in Colombia.
- Pension regulation does not encourage pensions to diversify into private equity.
- Except for these current efforts, there has been no analysis of the legal regime to ensure structures that enable private equity.
- There is limited acceptance of third party investment in firms in the Colombian business culture.
- Other barriers in the business environment including:
  - Security
  - Corruption
  - Limited infrastructure

Why Invest in Private Equity?

To Reduce Risk and Enhance Return

Investors allocate to Private Equity: to increase

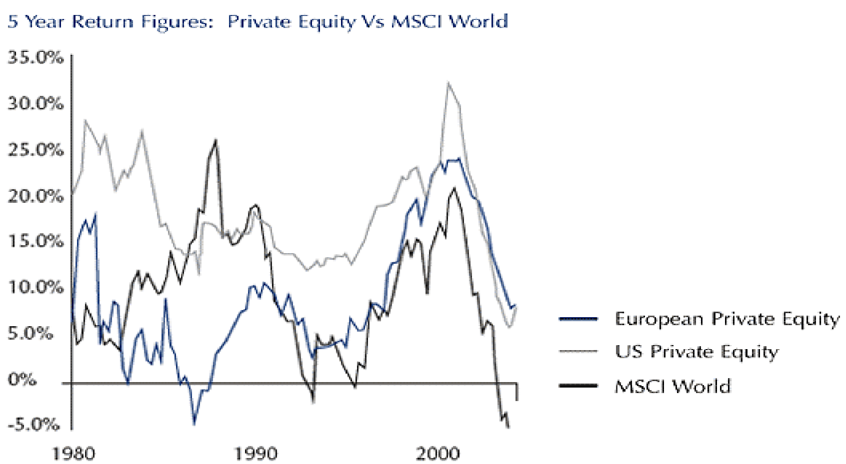
•Returns, and

•Diversification

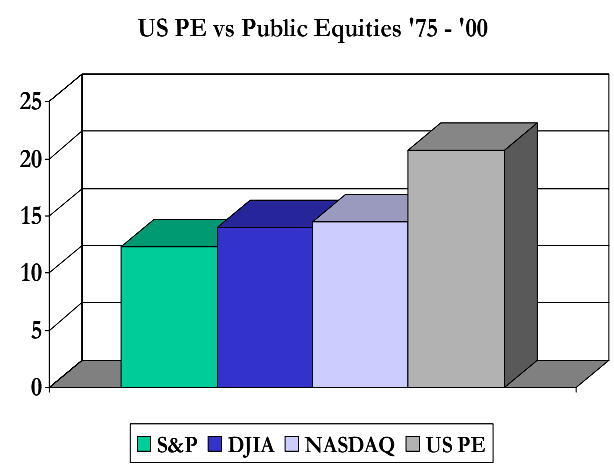
Simply put, investors allocate capital to private equity to capture increased yield and greater diversification.

Superior Performance

- Where the markets for each are relatively well-developed and statistics are available, the long-term returns of private equity represent a premium to the performance of public equities or fixed income alternatives.
- Such out performance has been true of the US for more than 20 years and also in Europe, as reliable statistics have become available and the market has deepen, for more than 10 years.



Source: Venture Economics / Datastream



Source: Venture Economics

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Why Invest in Private Equity?

Low Correlation to Listed Fixed Income and Listed Equity

- Academic analysis concludes private equity has a low correlation to other assets.

Correlation of Private Equity with Other Asset Classes				
	Equity Markets (%)		Bonds (%)	
	Long Term	Short Term	Long Term	Short Term
Annual[1]	0.57 to 0.59	0.49 to 0.58	-0.18 to 0.12	-0.37 to -0.07
Quarterly[2]	0.58 to 0.59	0.58 to 0.61	0.00 to -0.11	-0.22 to 0.03

1 Long term horizon 30 years, short term horizon 19 years. Correlation ranges for large and small cap stocks; Treasury bills and bonds and corporate bonds.
2 Long term horizon 24 years, short term horizon 16 years. Correlation ranges for large and small cap stocks; Treasury bills and bonds and corporate bonds.
Sources: Venture Economics, Investment Benchmarks Report: Venture Capital (2002 Edition)

Source: EVCA

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Why Invest in Private Equity?

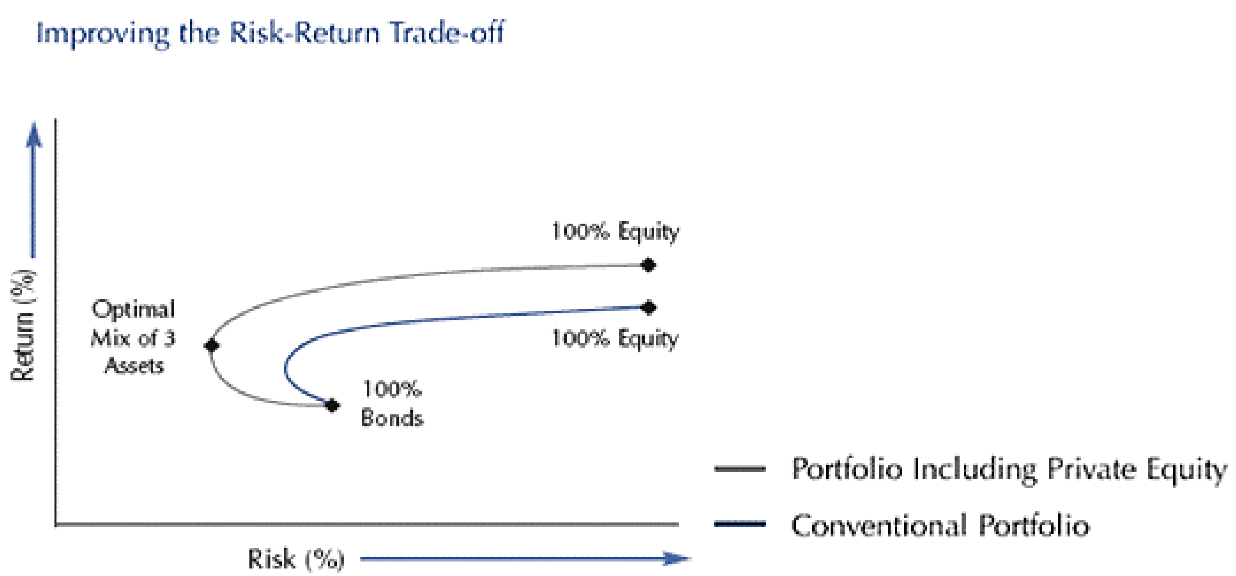
According to Modern Portfolio Theory, combining higher return with low correlation results is a portfolio with higher return and lower risk.

The Efficient Frontier

Higher Return + Low Correlation =

Higher Portfolio Return and Reduced Risk

- Based on this combination of superior returns and low correlation, numerous analyses have demonstrated that in accordance with Modern Portfolio Theory, addition of private equity moves a portfolio closer to the efficient frontier by increasing return ***and*** reducing risk.



Source: EVCA

Why Invest in Private Equity?

Access to Growth and Innovation

Private equity investors generally participate actively in their investee companies.

This participation can help to reduce the risk of information asymmetry and agency.

Private Equity can provide access to attractive yield while controlling uncertainty.

- As active investors, private equity investors often take either controlling positions in investee companies or gain contractual protections to assure a voice at important junctures such as:
  - company's strategic direction,
  - the development of a business plan to selection of senior executives, introduction of potential customers,
  - M&A strategy, and
  - identification of eventual acquirers of the business
- These factors give the private equity investor the right to substantial information concerning the operations of the investment and the right to act to create and protect value.
- Such third party investors may encourage enhanced corporate governance simply through their participation in the company.

Why *Not* Invest in Private Equity?

Private Equity investment also has features that make it appropriate only for sophisticated long-term investors.

Most significant among these issues are:

- **Illiquidity**

  As a Long-term investment, with typical holding periods of 5 to 7 years, between investment and realization, investors must be prepared for an extended lock-up.

- **Greater resource allocation**

  Private equity portfolios require investors to have special expertise (or to outsource to obtain specialist expertise) to select and monitor a private equity portfolio.

- **Blind pool investment**

  Investment in private equity involves turning money over to a manger for years with no knowledge ahead of time of the portfolio.

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Portfolio Construction

How Does an Investor Design a PE Portfolio?

To construct a portfolio, an investor must consider:

- *The level of allocation;*
- *Diversification;*
- *Implementation;*
- *Outsourcing.*

Portfolio construction is influenced by a variety of factors. Most significant among these are the correlation to the existing portfolio and investment opportunities permitted by the investor's regulatory regime, if applicable.

For investment entirely within Colombia, an allocation to private equity is likely to be constrained by the available opportunities rather than by portfolio correlation issues.

In other markets, the following are among to issues to address when designing the architecture of a portfolio including private equity.

How much capital to allocate

When deploying capital, investors are always conscious of ensuring a match between tenors. With private equity, that means that investors may only allocate capital to private equity that will not be required for other purposes.

On average, large US institutions allocate 7.5% to PE. European institutions allocate around 4.0%.

How to maintain diversification

Maintaining appropriate diversification is also important in designing the portfolio. Typically, such diversification is by manager, year, stage, geography and industry.

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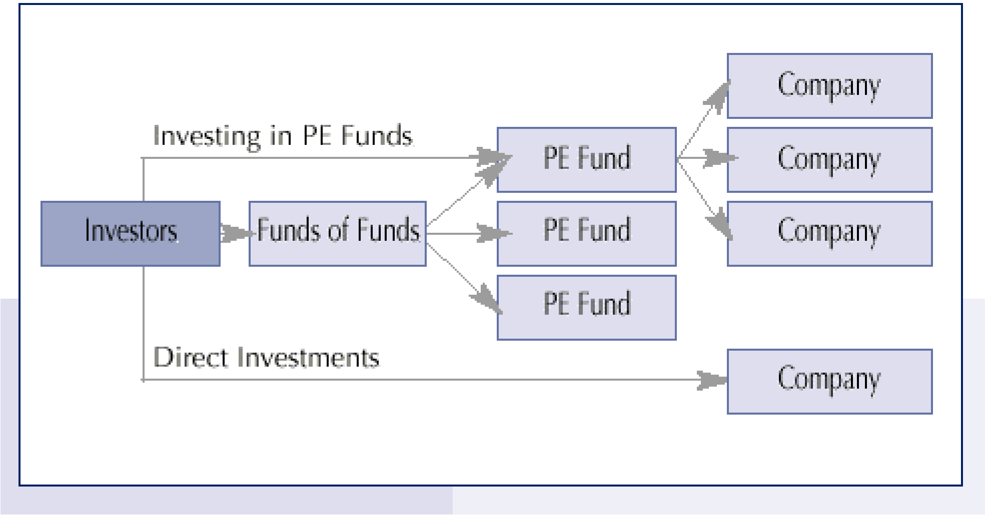
Building a Private Equity Program

Investors have 3 avenues for investing in Private Equity

They may:

- Invest in funds;
- Outsource selection of funds, usually by investing in a fund of funds;
- Invest directly in private companies.



Source: EVCA

Building a Private Equity Program

Investing Directly in Companies or Funds

Each of the potential routes to developing a private equity portfolio requires resources different form those required for other assets.

Direct

Investing directly in companies requires the most intensive resource dedication and presents the greatest challenge to an investor attempting to maintain a well-diversified diversified portfolio.

Co-Investment

Some investors will use their relationship with funds to develop a side-by-side portfolio in investee companies. Through this "co-investment" process, they seek to reduce the time and attention required to invest in a portfolio of private companies.

Funds

A more efficient means of acquiring the benefits of private equity is through investing in a fund. Providing the opportunity to benefit from a fund manager's experience and expertise as well as the diversification inherent in a well invested fund, is the most compelling option for most investors in this asset class.

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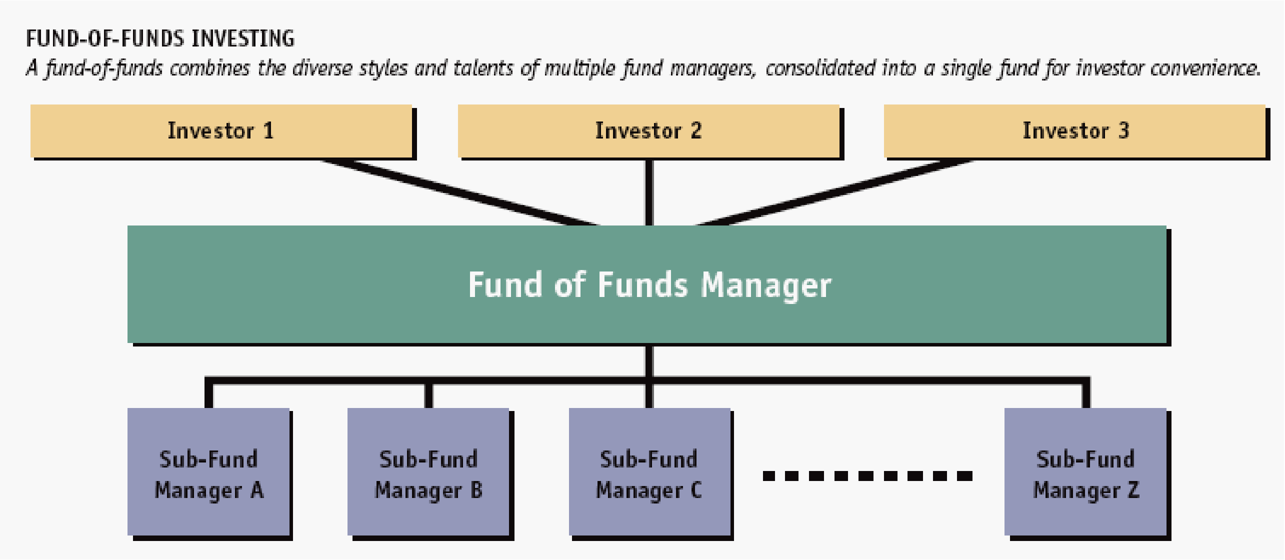
Building a Private Equity Program

Outsourcing

For a number of investors, a means of gaining the benefits of adding private equity to their portfolio without incurring the cost of developing expertise in house and avoiding the problems of insufficient diversification, comes through outsourcing.

There are two basic means of accomplishing this:

- **Fund of Funds**
  A fund of funds is a fund whose manager evaluates, selects and deploys capital to a number of private equity funds.



Building a Private Equity Program

Outsourcing

Fund of Funds

This structure can be particularly useful for investors new to private equity as they gain experience with the asset class through the manager and its experience and relationships.

- For investors unwilling or unable to deploy sufficient capital to have a broadly diversified portfolio placed with top managers, a fund of funds is also an attractive option.
- For large investors experienced with private equity, a fund of funds can be useful for addressing certain niche markets (venture capital, for example) or deploying capital in smaller amounts than the institution usually considers.
- Funds of funds also decrease substantially the administrative burden on the investor.

Building a Private Equity Program

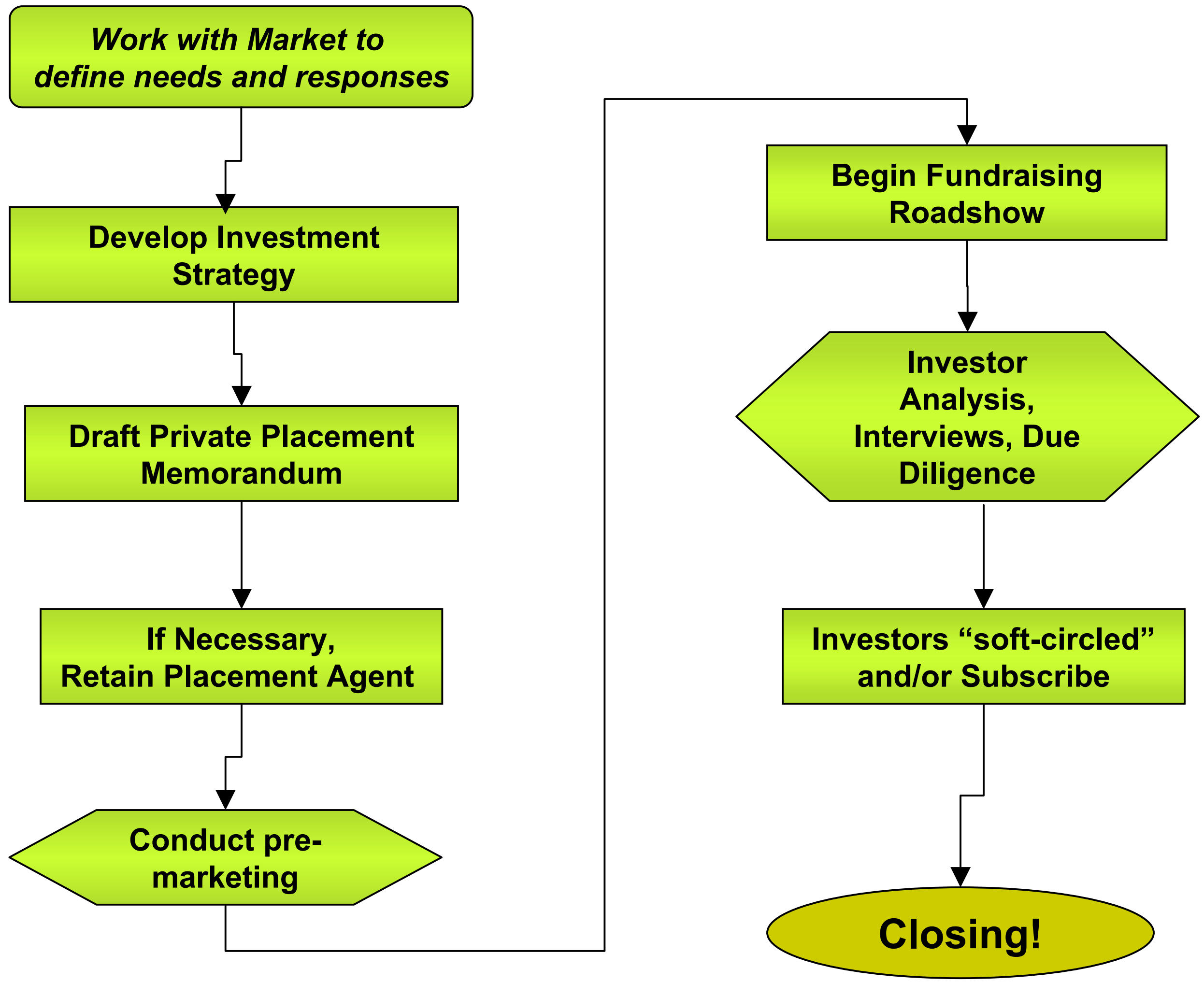
Outsourcing

- **Consultants**

  Another means of gaining some of the benefits conferred through a fund of funds may be supplied by retaining a private equity consultant to assist in portfolio design, manager identification, due diligence, transaction analysis and monitoring.

The Life Cycle of a Fund Through Closing

Starting with an analysis of the market, the GP or sponsor designs its fund and portfolio to address needs and to ensure balance.

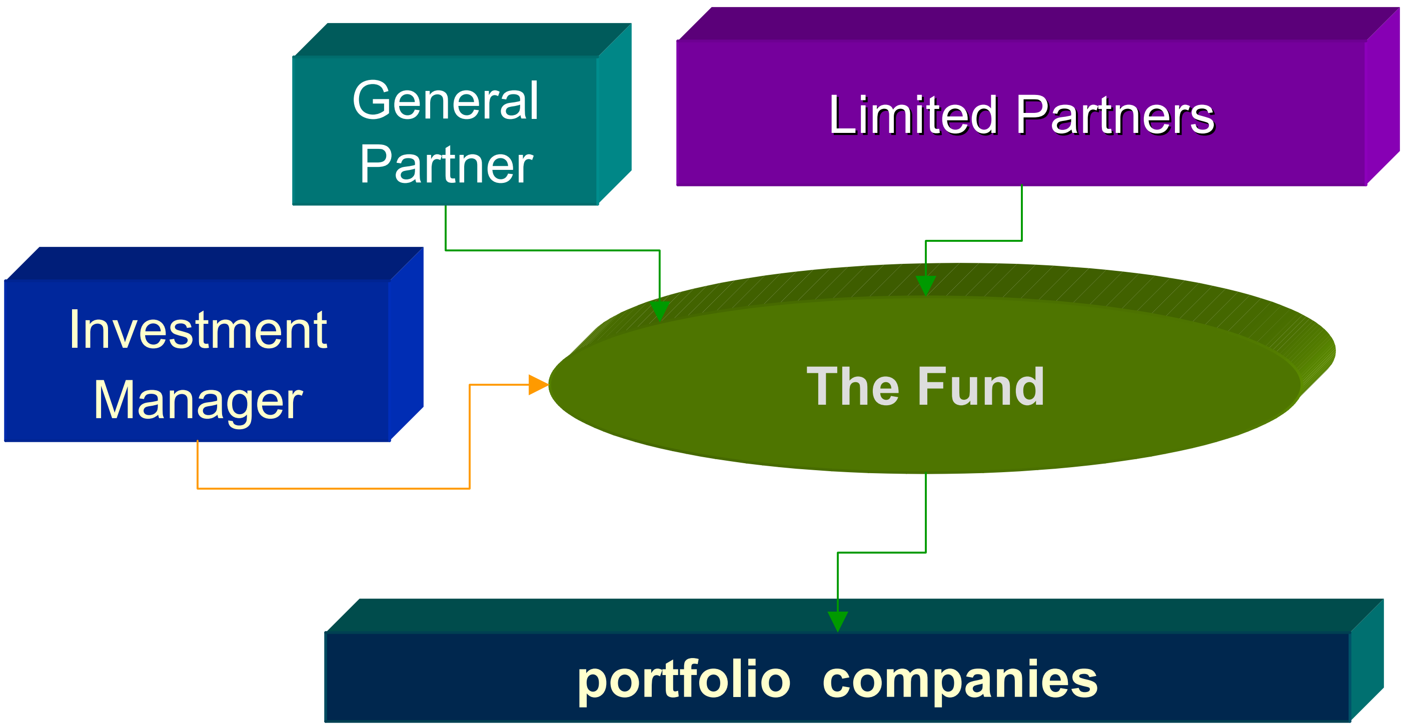


Typical Fund Structure & Terms

In most jurisdictions, funds are structured as limited partnerships.

Typically, in this structure:

- *The General Parmer contributes 1% of fund capital;*
- *The Limited Partners supply 99% of fund capital;*
- *The investment manager manages the fund's operations day-to day and receives a fee of between 2 and 2.5% of committed capital.*
- *The fund's capital gains are usually divided 20/80%.*



Any private equity structures must have a few essential qualities including:

Tax efficiency

Limited liability and

Well aligned incentives

Typical Fund Structure & Terms

Some Typical Fund Terms

This table shows a number of typical terms of a private equity fund.

LP Commitment	Threshold Investor commitment level. Often high enough to ensure a relatively small investor group.
GP Commitment	Fund managers, through the GP entity, typically invest their personal capital alongside their investors' capital, which often creates a higher level of confidence in the fund. Investors look for a "meaningful" manager investment of at least 1% of the fund.
Partnership Term	Most funds have a 10 year term with 2 optional 1 year extensions. Distributions typically will begin substantially earlier.
Investment Period	The committed capital may typically be invested for the fund's first 4 to 6 years.
Commitment Period	Investor's capital is typically committed for a period similar to – or slightly longer than – the Investment Period.
Management Fees	The investment manager is paid through a management contract with an annual fee generally of between 2 and 2.5%. This fee is intended to provide just enough to manage the capital or, "keep the lights on."
Carried Interest	Referred to as the "carry," this fee represents the GP's portion of the fund's capital gains.
Hurdle Rate or Preferred Return	Frequently, LPs will require that in addition to return of their capital invested, that they receive a preferred return before the GP receives any carry. This return is often in the range of 8 to 10%.
GP Catch-up	Where the LPs receive a preferred return, the GP will typically receive outsized returns thereafter until it "catches-up" by receiving an amount to bring its portion of the capital gains into line with the amount paid to the LPs.
Uses of Capital	Investment guidelines
Termination Provisions	Bases for removing the manager.
Expenses	Costs of the fund that are not included in the management fee.

Typical Fund Structure & Terms

Management Fees

What is the right level of management fees?

- Enough to retain a talented team of professionals throughout the life of the fund. But, not enough to make the team comfortable or to be a profit center.

What is the right level of carry?

- Enough to provide a talented team to stay in place through the heart of their professional careers in the hope of building significant personal wealth.

LP's must be vigilant with respect to fees. Some investors require that management companies provide an annual budget.

Others have
- revised the ratio between fees and carry, and/or
- Separated commitments for the fund from the commitment for fees to avoid paying fees on fees

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Typical Fund Structure & Terms

This chart shows a number of typical terms of a private equity fund and the monitoring role that an LP will often assume.

Certain Terms & Monitoring Requirements

Some of the Primary Terms for Substantial Investors to Negotiate	Requires Active Monitoring Beyond Ordinary Reporting	Requires Monitoring Primarily (or Solely) of Reported Information	May Require Substantive Action and Participation
Advisory Board	X	X	X
Amending agreements		X	X
Carried interest		X	
Clawback/Escrow		X	
Company cash-flows		X	
Competing interests/successive or parallel funds		X	
Conflicts-of-interest		X	X
Deal-by-deal carry			
Defaulting LP		X	X
Distributions		X	
Expenses	X	X	
For cause divorce		X	X
Fund budgets	X	X	
Fund Size			
Fundraising period		X	
GP catch-up		X	
GP co-invest		X	
GP contribution			
Hurdle rate		X	
Indemnification		X	X
Investment committee			X
Investment period			
Key person provisions			X
Management fee		X	
Manager budgets	X	X	X
Most favored nation			
No fault divorce		X	X
Org. expenses		X	
Other fee income		X	
Placement fees		X	
Policy compliance	X	X	X
Re-investment		X	
Scale-up/down		X	
Take-downs & schedule	X	X	X
Term of fund			
Uses of capital	X	X	X
Valuation/NAV	X	X	X

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Typical Fund Structure & Terms

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FUND LIFECYCLE			
FUND PHASE	**GP'S ROLE**	**LEAD LP'S ROLE**	**OTHER LPS' ROLES**
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Fund Formation & Fundraising

Defining the Investment Strategy

- **Earnings Expansion**
  Earnings expansion involves taking a smaller company and expanding it into a larger company with the goal of growing the revenue or the bottom line (increased EBITDA).

- **Margin Improvement**
  Gross margin improvement involves two levers: higher revenues and lower costs. Improves the margin between revenue and profit by improving efficiency, cutting costs, or shifting product into a higher-margin niche.

- **Multiple Expansion / Strategic Repositioning**
  Multiple expansion involves buying a company at, for instance, 5 times Price to Earnings (P/E) ratio and selling it at 10 times P/E Multiple expansion is achieved by shedding the company's non-core assets and changing the concept of what it does. Subsequently, the company reaches a size at which it is a viable IPO candidate or attractive M&A target. The market as a whole is re-rated, and the industry redefined.

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Source, IFC

Fund Formation & Fundraising

Defining the Investment Strategy

Professionalization of a Family Business

Professionalizing a Family Business involves putting qualified staff in place, formalizing decision-making processes, focusing on the commercial, financial, and strategic aspects of decisions, and insisting on formal reporting and governance practices. Emerging markets companies may have informal and highly centralized decision making processes. Businesses may develop in an 'empire-building' fashion as conglomerates with many diverse interests. Hence, the professionalization of such businesses can make them more attractive to strategic buyers.

Transparency, Corporate Governance, and Management

Transparency and governance issues apply at both the Fund and Investee levels. Corporate governance is about unlocking corporate value locked up in a company's poor governance practices. Poor governance practices make minority investors, public markets, and strategic acquirers nervous and drive asset prices downwards. Various empirical studies support the now famous McKinsey reports that suggest poor governance practices reduce valuations by 20-30%. Since a sale to a strategic investor or via an IPO are the most likely exit routes for a private equity investment, Fund Managers should focus wherever they can on removing the discount for poor governance practices in their Investees.

Financial Restructuring

Financial restructuring involves re-engineering the Investee's capital structure; mainly de-leveraging. In these cases, there is an opportunity to buy into the equity at a low value, with the potential for substantial gain, but the risk that the company may fail. Restructuring can occur as part of normal business, but often the company is in a crisis.

Leverage

Financial leverage is created by borrowing. Although leverage can substantially enhance the returns to equity investors, leveraged buy-outs (LBOs) are rare in the emerging markets. Lack of access to debt at acceptable interest rates, particularly long-term local currency debt, makes this transaction type difficult.

Source, IFC

Fund Formation & Fundraising

Exit Strategies

- Trade Sale
- Initial Public Offering
- Put
- Mezzanine or Quasi-Equity

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Fund Formation & Fundraising

The Fundraising Process

As GPs begin fundraising, they focus on ensuring coordination of their investment strategy and their target investors.

In its "GP Toolkit" (http://www.gptoolkit.org), the IFC makes a number of useful recommendations for the GP initiating its fundraising.

One important element in designing a fund and its marketing requires retaining experienced advisors, particularly counsel to assist in appropriate tax and structuring advice as well as to prepare or review documentation including the PPM.

Experience is very important in retaining counsel. The IFC cautions,

> "Warning! Stay clear of third party service providers without prior Private Equity Fund experience."

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Fund Formation & Fundraising

The Fundraising Process

The Private Placement Memorandum (PPM)

The Private Placement Memorandum (PPM), plays a critical role in fundraising.

It is the primary mechanism for the GP to convey information and for potential LPs to determine whether to proceed with due diligence.

As a securities disclosure document, it must be carefully drafted to fulfill its multiple roles.

Typically, it will provide an overview of the:

- Investment strategy;
- Management team;
- Investment process;
- Summary terms;
- and fund risk factors.

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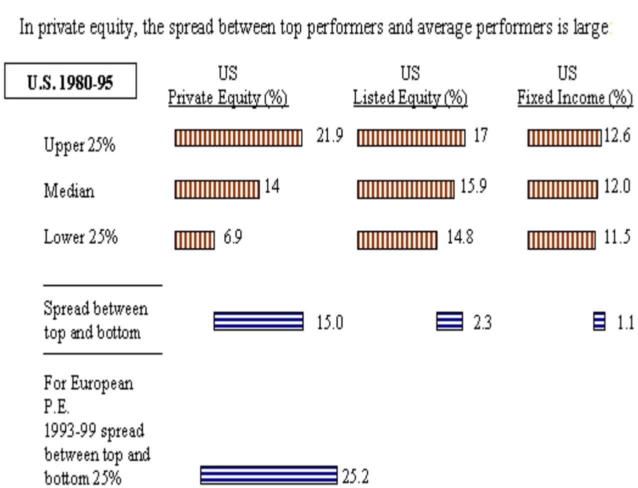
Fund Formation & Fundraising

The Importance Of The Manager

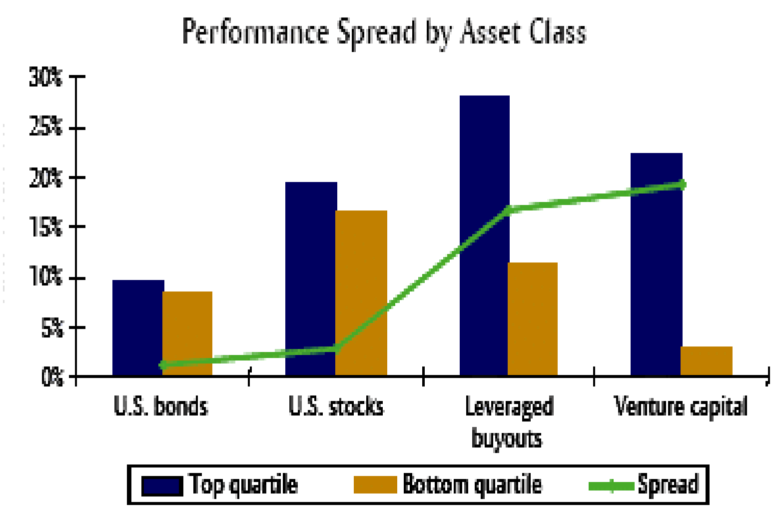
As a illiquid blind pool investment, no aspect of investing in a private equity fund is more important than gaining confidence in the abilities of the manager.

For the GP, no aspect of fund raising is more important than imparting that confidence.

The variation between the best and average private equity managers is dramatic. As a result, manager selection is more important in private equity than in other asset classes.



Source, IFC



Source, PCG

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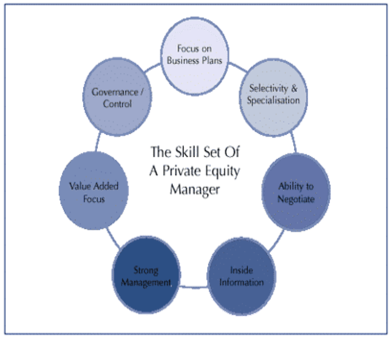
Fund Formation & Fundraising



The European Venture Capital Association summarizes some of the important skills of a qualified manager to include:

Focus on Business Plans Business plans will be carefully built and analyzed prior to any investment. Scrutinizing a business plan and helping to create the conditions for its effective execution is one of the major areas where private equity managers can add value to their portfolio companies.

Selectivity and Specialization Good private equity managers will see a large number of potential transactions each year, which permits them to be extremely selective, pursuing only those where they have the knowledge and capability to "add value." A full technological and operating knowledge of these opportunities has become increasingly important as the industry matures.

Ability to Negotiate Unlike the purchase of a public security, a private equity manager does not have to buy exclusively on the basis of price. The manager can negotiate a variety of protections including exclusion of liabilities, indemnities and retroactive price adjustments.

Inside Information Unlike the purchase of a public security, the private equity manager can legally employ inside information such as management projections in its investment process.

Strong Management Strong management, both within the private equity manager and the company itself, is crucial to the success of an investment. The private equity manager will depend heavily on the companies' management in the day to day operations of the business.

Value Added Focus Ownership and management become aligned, which almost always occurs to a greater degree than is usual in public equity. In addition the private equity manager will become involved in the strategic direction of the company and the risk management of the business. The imposition of debt, common in a buyout investment, forces aggressive business plans.

Governance / Control Unlike the governance structure of a public company, the private equity manager often has a degree of control or influence, allowing strategic and even operational intervention when necessary.

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Fund Formation & Fundraising

What Investors Look For In A Potential Fund Investment

Investors should look at a broad range of issues when assessing a fund investment opportunity.

These include:

Track record
Empirical data indicate successful managers are more likely than others to have future success

Investment strategy
The strategy should be coherent and consistent with the market opportunity, the manager's experience and the manager's staffing. In addition, the amount being raised should be consistent with the opportunity presented.

Team skills
Critically, an investor must focus closely on the experience and performance of the actual individuals on the managers team with responsibility for the fund. It is also important to asses the team's ability to work together and to examine the firm's compensation structure to assure an appropriate alignment of incentives.

Fund Formation & Fundraising

What Investors Look For In A Potential Fund Investment

Investment Flow

The manager's investment process is also central to success. The investment process should demonstrate a disciplined approach to deal sourcing, due diligence, execution and back-office processing.

Monitoring & Value Addition

A fundamental premise of private equity investment is that the investor will actively manage the investment to add value. Among the issues to analyze in considering the manger's capacity is to attempt to gauge their ability to enhance the value of investees. In addition, the manager should demonstrate a systematic approach to monitoring and valuing its investment portfolio.

Portfolio Consistency

As a complement to ensuring that the described investment strategy meets with the manager's abilities, an investor should also examine the existing portfolio to ensure that it is internally consistent and similarly matches with the previously described strategy. Style drift is one of the problems private equity fund investors may face. To guard against it, they must examine the firm's past experience and monitor its performance closely.

LP Reporting

A particularly important area for an investor, but one sometimes neglected by managers, is investor relations. Investors should examine the manager's ability and transparency in reporting.

Fund Formation & Fundraising

What Investors Look For In A Potential Fund Investment

Performance Attribution

By Partner

Although many groups emphasize a “team” approach, attributing performance to each lead remains important.

By Strategy

This is far from a science in private equity, but still worth considering.

By Event

The quality of exits, and the manner of losses, should be evaluated.

Fund Formation & Fundraising

What Investors Look For In A Potential Fund Investment

In a market with few experienced managers, where the firm is new to private equity, no single skill set is an adequate substitute. Instead, combining a number of qualities is necessary.

Private Equity requires ability with respect to:

- Fundraising and a financial network;
- Portfolio design/asset allocation;
- Deal sourcing and selection;
- Valuation and due diligence;
- Investment structures;
- Transactional experience;
- Exit planning;
- Culture of value addition;
- Company operations;
- Monitoring;
- Reporting to limited partners;
- Exit procedures;
- Workout experience; and
- Business principles including compliance with social and environmental legislation, and
- Best practices in terms of accounting, financial transparency, and general corporate governance.

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What Investors Look For In A Potential Fund Investment

In markets with little private equity history, investors may be confronted with assessing the value of local knowledge weighed against prior private equity experience.

Where possible, such investors often prefer to invest with management companies that combine local and international experience.

- Sometimes this combination comes through an international firm opening an office and retaining staff with local expertise.
- In other cases, a local firm will enter into a relationship with a firm or “mentor” with prior fund experience

Fund Formation & Fundraising

In these situations, LPs must look closely at the skills required and assess the types of qualities necessary.

This table provides some very broad generalizations about the relative strength of various backgrounds.

Of course, each individual's capacity is independent of professional experience.

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Required Skill	Investment Bankers	Management Consultants	Lawyers	Accountants	Commercial Bankers	Company Operations
Fundraising and a financial network	+	=	=	+	=	-
Portfolio design/asset allocation	-	=	-	-	=	-
Deal sourcing	+	=	=	+	=	-
Deal Selection	-	=	-	-	-	+
Valuation	+	+	-	+	+	+
Due diligence	=	=	=	=	=	=
Investment structures	+	-	+	-	-	-
Transactional experience	+	-	+	-	+	-
Exit planning	=	=	-	=	-	=
Culture of value addition	-	+	-	-	-	+ +
Company operations	- -	+	-	-	-	+ +
Monitoring	-	+	=	+	=	+
Reporting to limited partners	-	-	-	-	-	-
Exit procedures	=	=	=	-	-	-
Workout experience	-	-	=	-	+/=	-

Monitoring the Portfolio & Measuring Performance

An LP's Role Post Investment in a Fund

Monitoring

The level of resources committed to monitoring varies a great deal among investors. For those who take a fairly active role in their portfolio, monitoring can be quite resource intensive.

It will typically involve participating on the fund's advisory board and reviewing its investments closely.

In addition, careful examination of the fund's financial statements is also central to a private equity investor's monitoring.

Measuring performance

There are three statistics investors typically examine closely when assessing a fund's performance:

- Fund internal rate of return, or IRR,
- Multiple of cost, and
- Expenses.

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Typical Fund Structure & Terms

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FUND LIFECYCLE			
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Monitoring the Portfolio & Measuring Performance

Measuring performance

IRR

Fund internal rate of return, or IRR, is the most widely used yardstick for private equity fund performance.

IRR information provides a great deal of insight into the fund's efficiency at achieving returns. As a measure over time, however, it does not provide a view of absolute return to the investor.

Multiple

Because IRR information provides an incomplete view of performance, investors also frequently look also at the multiples of cost that a fund achieves. As with IRR, the multiple will be analyzed at both the company and the fund level.

Expenses

The other critical factor in measuring fund performance are its expenses. This factor can be incorporated by examining the "net IRR" as opposed to the "gross IRR" and at the fund level multiple after expenses. A difficult issue can arise, however in ensuring that the manager and the investor are in complete agreement with respect to the definitions of net and gross and are including each of the same items as expenses.

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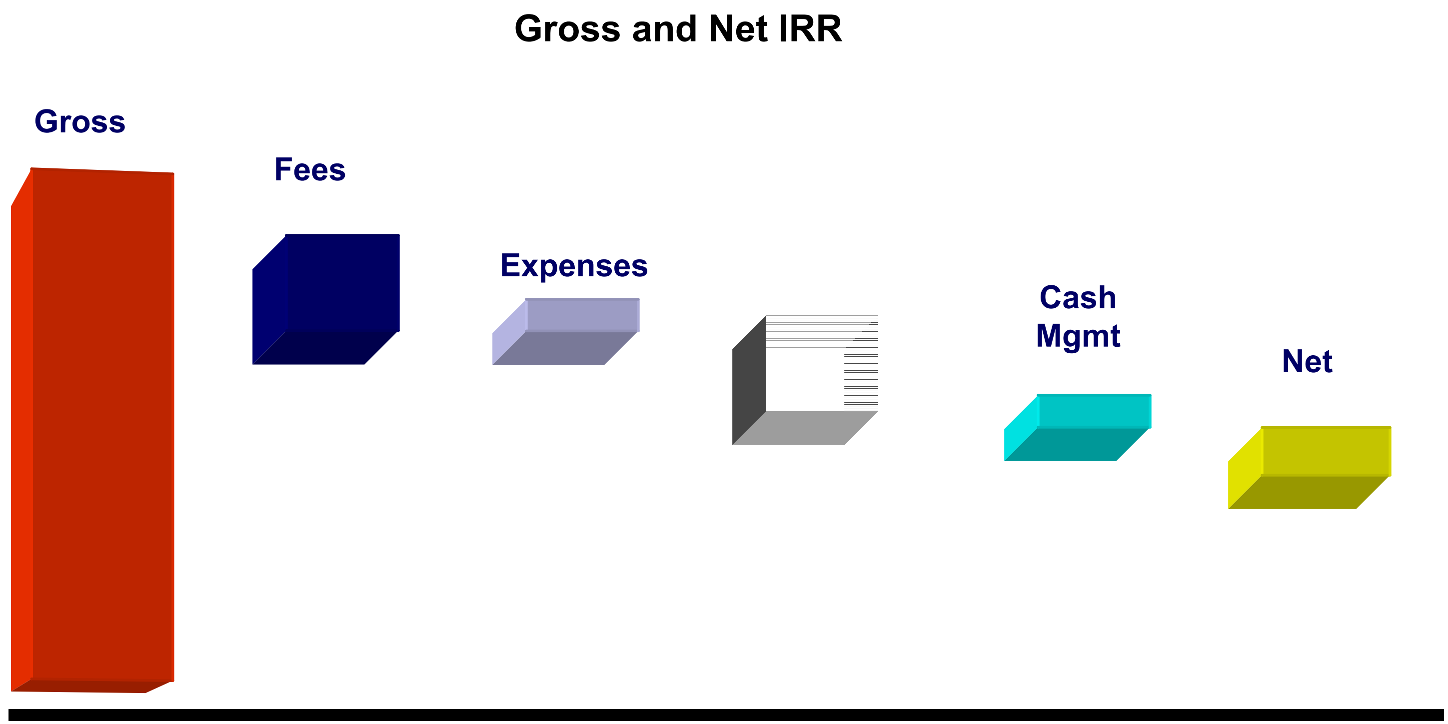
Monitoring the Portfolio & Measuring Performance

Measuring performance

LPs must focus on both the top and bottom lines.

Numerous items can have an impact reducing an attractive gross IRR.



x %

2% Management Fee

- **Auditing**
- **Board**
- **Broken Deal**

50 / 50

Various Fees paid to fund

- **Capital calls in advance**
- **Capital returns on a schedule**
- **Keep dividends**
- **Need J.I.T**

y%

Source, IFC

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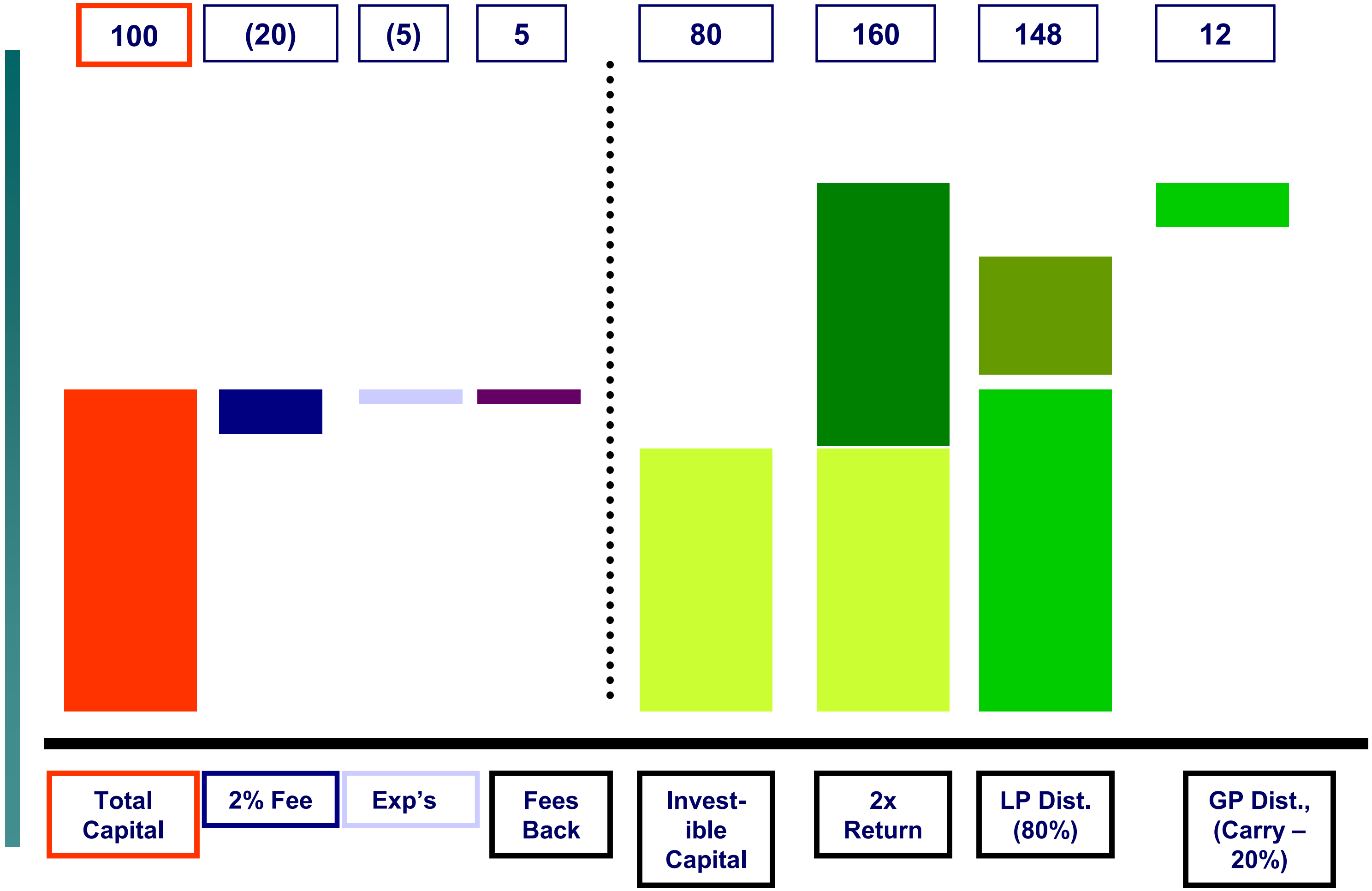
Monitoring the Portfolio & Measuring Performance

This example shows hypothetical returns with a 2x return on invested capital.



Monitoring the Portfolio & Measuring Performance

Benchmarking

Benchmarking is a substantial challenge for emerging markets private equity. Because of the illiquid nature of the investments, and the J-curve effect, measuring performance during the fund's early years is particularly challenging.

As with other asset classes, an important part of assessing a private equity fund's performance lies in comparing the fund both to its peers and to other asset classes.

Comparison with Similar Funds

Typically, in relatively developed markets, a private equity investor will seek to compare funds to the class of other funds with the same strategy.

In most emerging markets, such benchmarking is difficult or impossible. First, there are very few funds in most such markets and second, the information about the existing pool is private and of inconsistent quality.

Monitoring the Portfolio & Measuring Performance

Benchmarking Against Different Asset Classes

Due to the substantial dissimilarities between the cash flows and timing of private equity to other asset classes, it is difficult to compare private equity performance directly to fixed income, hedge funds or mutual funds.

Rather, investors seeking to compare across asset classes will typically chose a benchmark index pegged to a hypothetical holding of that index.

The investor may then attempt to simulate the fund's cash flows through hypothetical sales and purchases of the index at similar times.

Over time, this methodology will provide a comparison to the other asset classes into which the capital might have been deployed. Over shorter periods, however, it will still yield misleading results due to the combination of the J-curve and the inherently conservative valuation methodologies typically required in private equity partnerships.

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Fund Formation & Fundraising

Exit Strategies

- Trade Sale
- Initial Public Offering
- Put
- Mezzanine or Quasi-Equity

An Overview of Private Equity

For Managers and Institutional Investors

Thank You!

Prepared by Aviva Capital in Conjunction with
Proexport & the Superintendencia de Valores

May 14, 2004

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Appendix 1 - Glossary of Terms

This glossary of terms comes from the EVCA.

Glossary of Terms

Acquisition
The obtaining of control, possession or ownership of a company.

Angel
A wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutional and other individual investors.

Asset Stripping
Dismantling an acquired business by selling off operational and/or financial assets. Average IRR The arithmetic mean of the internal rates of return.

Balanced
A venture fund investment strategy that includes investment in portfolio companies at a variety of stages.

Bridge Financing
Mezzanine financing for a company expecting to go public within six months to a year or prior to raising a new funding round.

Buffer
Unused credit facility or cash reserves.

Burn Rate
Timeframe for a company to use up a capital injection.

Burn-out Turnaround
Radical restructuring of a business with severe economic difficulties; new third party funds are brought in and stakes of existing shareholders are diluted.

Buyout
The purchase of what is normally a majority stake in an established mature company.

Capital Gains
Short or long-term profits from the sale of assets.

Capital under Management
The amount of capital available to a management team for private equity investments.

Capital Weighted
Average IRR The average IRR weighted by fund size with funds contributing to the average in proportion to their size.

Captive Fund
Investment fund partly owned by a larger financial institution.

Carried Interest
Also known as "carry". The share of profits from investments made by the fund (generally 20-25%) that the managers receive. Typically, carried interest is only paid after investors receive their original investment back plus a preferred return.

Commitment
An investor's obligation to provide a certain amount of capital to a fund.

Corporate Venturing
Venture capital provided by large corporations to further their own strategic interests.

Dilution
A reduction in the fraction of a firm's equity owned by the founders and existing shareholders associated with a new financing round.

Distribution
Cash or the value of stock payments to investors after the realisation of investments in the partnership.

Distributions to Paid-in Capital
The amount a partnership has distributed to its investors relative to the total capital contribution to the fund. Disbursement Investments by funds into portfolio companies.

Due Diligence
The investigation and evaluation of a management team's characteristics, investment philosophy, and terms and conditions prior to committing capital to the fund.

Early Stage
A fund investment strategy involving investment in companies for product development and initial marketing, manufacturing and sales activities.

Equity Kicker
Option for private equity investors to purchase shares at a discount. Exiting Climates The conditions which influence the viability and attractiveness of various exit strategies.

Exiting Strategy
A fund's intended method for liquidating its holdings while achieving the maximum return possible.

First Stage
The first round of financing following a company's startup phase that involves an institutional venture capital fund.

Fund
The investment vehicle, often a limited partnership, to which the investors commit capital. Fund Capitalisation The total amount of capital committed to a fund by investors.

Fund Focus
The indicated area of specialisation of a private equity fund.

Fund of Funds
A fund which takes minority equity positions in other funds. If the focus is primarily investing in new funds this is a Primary fund of funds and if focusing on investing in mature, existing funds this is referred to as a Secondary fund of funds.

Appendix 1 - Glossary of Terms

Gatekeepers
Specialist advisers who assist institutional investors in their private equity allocation decisions. Most manage funds of funds.

General Partner
A partner in a limited partnership responsible for the day-to-day operations of the fund.

Holding Period
The amount of time an investment remains in a portfolio.

Horizon Return
An IRR calculation between points in time where the beginning point is variable and the end point is fixed. An example would be the 3, 5, and 10 year returns ending 12/31/99.

Inception
The starting point at which IRR calculations for a fund would be calculated; generally, the vintage year or date of first capital takedown.

Investment Philosophy
The stated investment approach or focus of a management team.

IRR (Internal Rate of Return)
The discount rate that equates the net present value (NPV) of an investment's cash inflows with its cash outflows.

IPO (Initial Public Offering)
The sale or distribution of a stock of a portfolio company to the public for the first time.

LBO (Leveraged Buyout)
A fund investment strategy involving the acquisition of a product or business, from either a public or private company, utilising a significant amount of debt.

Lead Investor
Member of a syndicate of private equity investors usually holding the largest stake, in charge of arranging the financing and most actively involved in the overall project. Limited Partners The investors in a limited partnership.

Limited Partnerships
The legal structure used by most private equity funds. Usually fixed life investment vehicles. The general partner or management firm manages the partnership using policy laid down in a Partnership Agreement. The Agreement also covers terms, fees, structures and other items agreed between the limited partners and the general partner.

Liquidation
The sale of the assets of a portfolio company to one or more acquirors where venture capital investors receive some of the proceeds of the sale.

Lower Quartile
The point at which 75% of all returns in a group are greater and 25% are lower.

Later Stage
A fund investment strategy involving financing for the expansion of a company which is producing, shipping and increasing its sales volume.

Management Buyin (MBI)
Take over of a company by external management.

Management Buyout (MBO)
Take over of a company by existing management.

Management Fee
Compensation for the management of a fund's activities, generally paid quarterly from the fund to the general partner or management company.

Mature Funds
Funds that have been in existence for over two years.

Median
The mid-point of a distribution where half of the sample are less than or equal to the median and half of the sample greater than or equal to the median.

Mezzanine
A fund investment strategy involving subordinated debt (the level of financing senior to equity and below senior debt).

Paid-in Capital
The amount of committed capital an investor has actually transferred to a fund. Also known as the cumulative takedown amount.

Pooled IRR
A method of calculating an aggregate IRR by summing cash flows together to create a portfolio cashflow and calculate IRR on portfolio cashflow.

Portfolio Company
The company or entity into which a fund invests directly.

Placement Agent
A financial intermediary hired by private equity organisations to facilitate the raising of new funds.

Preferred Return
Either (i) the set rate of return that the investors must receive before the general partners can begin sharing in any distributions, or (ii) the level that the fund's net asset value must reach before the general partners can begin sharing in any distributions.

Private Equity
Describes the universe of all venture investing, buyout investing and mezzanine investing. Fund of Fund investing and secondaries are also included in this broad term.

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Quartile
Segment of a sample representing a sequential quarter (25%) of the group. (First 10 out of 40 funds - first quartile, etc.)

Ratchet
Arrangement whereby the eventual value of a targeted business depends on its future performance.

Realisation Ratio
The ratio of cumulative distributions to paid-in capital.

Realised Multiple
The ratio of total gain/(loss) to cost.

Residual Value
The remaining equity which an investor has in a fund. Restricted Securities Public securities which are not freely tradable due to securities regulations.

Second Stage
Working capital for the initial expansion of a company.

Secondary Buyout
Exit mechanism whereby one investment firm sells its position in a venture on to another investment firm.

Secondary Sale
The sale of private or restricted holdings in a portfolio company to other investors.

Seed Stage
An investment strategy involving portfolio companies which have not yet fully established commercial operations, and may also involve continued research and product development.

Standard Deviation
A measure of the dispersion of the frequency distribution. Takedown Schedule The plan providing for the actual transfer of funds from the investors.

Terms and Conditions
The financial and management conditions under which funds are structured.

Third Stage
Funds provided for the major expansion of a company whose sales volume is increasing and which is breaking even or profitable.

Trade Sale
Sale of a portfolio company to another company, typically operating in the same industry.

Turnaround
Financing provided to a company at a time of operational or financial difficulty with the intention of improving the company's performance.

Upper Quartile
The point at which 25% of all returns in a group are greater and 75% are lower.

Valuation Method
The policy guidelines a management team uses to value the holdings in the fund's portfolio.

Venture Capital
Describes the universe of venture investing (see Private Equity). It does not include buyout investing, mezzanine investing, fund of fund investing or secondaries.

Vintage
The year of fund formation and first takedown of capital.

Warranty
Statement made by vendor regarding the terms of a proposed transaction.

Write-down
A reduction in the value of an investment. Write-off The exit from an investment at a valuation of zero.

Write-up
An increase in the value of an investment.

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Appendix 2 – Sample Due Diligence Questionnaire

From IFC's --GP TOOLKIT
INVESTOR PRIVATE EQUITY FUND DUE DILIGENCE QUESTIONNAIRE
INTERNATIONAL FINANCE CORPORATION
DRAFT APRIL 15, 2003

Investment strategy

- What sectors will the fund focus on? What is the strategy within each sector? What are the current trends in each sector and how do these trends relate to the fund's strategy?
- What is the geographical focus for the fund?
- If applicable, what is the fund's international strategy and does this differ by country? Discuss relevant country/international investment guidelines and restrictions.
- At what stage of development will the target companies be? Discuss the typical profile of target companies.
- What is the anticipated investment size?
- How many deals are expected to be completed per year?
- What are the investment limits and guidelines for the fund?
- Discuss deal sourcing channels and your firm's capabilities.
- Discuss the expected exit strategies for the fund.
- How does the current strategy differ from the prior strategies of your firm/team?

Market environment

- Who are your peers/competitors? What is your comparative advantage?
- How does your strategy/target market compare to that of your main peers/competitors?
- Discuss the current environment for private equity/venture capital and how that is impacting your firm and strategy.

Valuation Method

The Management team

- Provide the name, dates of birth and length of time with the firm for each of the key principals of your firm.
- Provide complete resumes of the key principals of your firm, including education and employment history.
- Does the firm have plans to hire additional staff? Discuss turnover and provide names and contact information for professionals who have previously left the firm.
- How are incentives provided to staff? Discuss compensation and bonus policies. Will staff be expected to re-invest any portion of their compensation into the fund?
- How was the carry split among the management team in previous funds, and how will the carry be split among the management team for this fund? Are individuals/entities other than the management team entitled to carry? Does the carry breakdown differ by deal, or is it the same for all deals invested in by the firm?
- How much capital will each principal commit to the fund? Will this commitment be in the form of cash/other?
- What will your firm's total commitment be to the fund? Will any affiliates of the firm co-invest with the fund?
- Discuss the other business interests of the key principals:
    - List all business endeavors and investments in which the principal is involved.
    - List all corporate and non-profit directorships and any other similar obligations.
- Please provide a list of references and the contact information of these references for the key principals of the fund (e.g., portfolio company executives, previous investors, co-investors, industry players, etc.).
- Litigation questionnaire (sample is attached as Appendix 3).

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Appendix 2 – Sample Due Diligence Questionnaire

- Investment Performance
  - Provide a summary of the prior investment performance of your firm, by deal and by fund. This information should include (sample is attached as Appendix 1):
    - Detailed cash flow information for each deal previously completed by the firm/team. In addition, provide management fee and carried interest cash flows.
    - Realized and unrealized gains/losses for each deal to date.
    - Gross and net IRR for each deal.
    - Multiple earned on capital invested in each deal.
  - Portfolio company information (sample is attached as Appendix 2):
    - Provide a summary of each deal previously completed by the general partner/fund sponsor, including company name, location, sector, investment date's), financial information (EBITDA, revenues, etc.), % ownership stake taken, board representation, etc.
    - Explain the role played by the general partner/fund sponsor in identifying, monitoring and exiting the investment.
  - Provide the latest annual financial statements of the most recent fund managed by your firm.
  - Will your firm continue to manage other funds at the same time as the fund under current discussion? If yes, please discuss. How will conflicts of interest be handled?
- Due Diligence Process
  - Provide a copy of a completed due diligence report on a relatively recent investment made by your firm/team.
  - Please discuss your current pipeline of deal flow.
  - Explain your due diligence process and the steps involved from identification of a deal to the actual investment.
  - Please discuss your firm's approach to deal structuring and risk control (relating to deal risk, sector risk, country risk, currency risk, etc.).
  - Does your firm have an investment committee? Who are the members of this committee, and how does it operate?
  - Please discuss your firm's approach to supervision of investments. What type of active involvement does the firm have with its investee companies (e.g., marketing support, industry introductions, exit structuring, etc.)?
  - Please discuss your firm's approach to valuation of portfolio holdings.
- Fund Opportunity
  - Please provide a summary term sheet for the fund.
  - Please provide, when available, the offering memorandum for the fund and the draft limited partnership and any other legal agreements pertaining to the fund.
  - Please provide any side letters as well as any additional information regarding any special arrangements entered into by the fund sponsor, which involve the fund and any investors in the fund.
  - Provide a three-year operating budget, outlining expected expenses.

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Appendix 2 – Sample Due Diligence Questionnaire

Appendix 1 – Investment Performance – Example Data Presentation

Firm X – Historical Investment Performance

Company Name	Invest. Date	Amount Invested	Amount Distributed	Unrealized Value	Gross Cash Flow	Gross IRR
Fund I						
Company A	May-94	(10,000)			(10,000)	
	Oct-96	(2,900)			(2,900)	
	Mar-98		32,200		32,200	
	Jul-98		3,300		3,300	34.1%
Company B	Sep-94	(30,000)			(30,000)	
	Dec-94	(200)			(200)	
	Apr-97		78,000		78,000	44.4%
Company C	Oct-95	(38,000)			(38,000)	
	Jul-96	(80,000)			(80,000)	
	Dec-98			271,772	271,772	35.3%
Carried Interest	Apr-97	(9,460)			(9,460)	
	Mar-98	(4,060)			(4,060)	
	Jul-98	(685)			(685)	
Management Fee	Dec-93	(2,000)			(2,000)	
	Mar-94	(2,000)			(2,000)	
	Jun-94	(1,950)			(1,950)	
	Sep-94	(1,800)			(1,800)	
	Dec-94	(1,799)			(1,799)	
	Mar-95	(1,799)			(1,799)	
	Jun-95	(1,799)			(1,799)	
	Sep-95	(1,799)			(1,799)	
	Dec-95	(1,609)			(1,609)	
	Mar-96	(1,609)			(1,609)	
	Jun-96	(1,609)			(1,609)	
	Sep-96	(1,209)			(1,209)	
	Dec-96	(1,195)			(1,195)	
	Mar-97	(1,195)			(1,195)	
	Jun-97	(1,195)			(1,195)	
	Sep-97	(1,195)			(1,195)	
	Dec-97	(239)			(239)	
	Mar-98	(239)			(239)	
	Jun-98	(239)			(239)	
	Sep-98	(239)			(239)	
	Dec-98	(239)			(239)	
Fund I Summary						
Gross Realized IRR						40.8%
Gross IRR						37.4%
Net IRR						27.3%

Company Name	Amount Invested	Amount Distributed	Unrealized Value	Multiple of Cost	Gross IRR
Company A	(12,900)	35,500	--	2.8	34.1%
Company B	(30,200)	78,000	--	2.6	44.4%
Company C	(118,000)	--	271,772	2.3	35.3%
Total	(161,100)	113,500	271,772	2.4	37.4%
Gross Realized IRR					40.8%
Net IRR					27.3%

Appendix 2 – Sample Due Diligence Questionnaire

Appendix 2 – Portfolio Company – Example Summary Information

- Company Name: Company B
- Location: Cape Cod, Massachusetts
- Business: Manufacturer and distributor of dried cranberry products.
- Management Team: Mr. Berry, CEO
- No. of Employees: 1,500
- Source of Deal: Sourced by Mr. A through existing relationship with juice manufacturing company, in which Fund I had made an investment.
- Lead Principals: Mr. A, Ms. Q
- Investment Amount:

Date	Amount	Security
Sep-94	$30,000,000	Stock & warrants
Dec-94	$200,000	Stock & warrants

- Purchase Price Multiple: EBITDA Trailing: 6.6x
- Leading: n/a
- Capitalization Of Company:

Security	At Investment	Current
Senior Debt	$120.0m	n/a
Sub-Debt	--	n/a
Preferred Stock	--	n/a
Common Stock	$90.0m	n/a
Cash	--	n/a
Total Investment Sold	$210.0m	

- Ownership Stake: At Investment: 27%
- Current: n/a
- Co-Investors: List co-investors, their interest in the company and contact information.
- Financial Performance & Projections: Provide sales, operating income, EBITDA, net income, etc. for prior years as well as future projections.
- FMV for Unrealized Deals: Provide estimate of fair market value for unrealized deals, including methodology used in calculation.
- Exit Method & Date: Trade sale to Company ABC in April 1997.

Appendix 3 – Litigation Questionnaire

- Principal Name: ____________________
- Fund Name: ____________________
- Please provide details of any "yes" answers separately.
- Are you now, or have you ever been, a named defendant in any criminal proceeding or in any civil legal action involving a claim of greater than $250,000?
- Yes ___ No ___
- Has any organization of which you have been a member of senior management, or in which you have had a meaningful ownership interest (greater than 5%), ever been named defendant in any criminal proceeding or any civil legal action involving a claim greater than $500,000?
  Yes ___ No ___
- Have you or any organization in which you have had a meaningful ownership interest (greater than 5%), or which you are, or were, a member of senior management, ever filed voluntarily, or had filed against you involuntarily, a bankruptcy petition?
  Yes ___ No ___
- Has any licensor, franchisor, or master distributor ever initiated proceedings to terminate a business relationship with you or any organization of which you have ever been a member of senior management?
  Yes ___ No ___
- Has any business partner, joint venture partner or sub-contractor ever sought injunctive relief or arbitration to terminate any business or contractual relationship?
- Yes ___ No ___
- Have you or any organization in which you have had a meaningful ownership interest (greater than 5%), or of which you are, or were, a member of senior management, (i) been subject of any federal, state or other regulatory investigation or disciplinary hearing or proceeding, (ii) agreed to any consent order or decree in connection with any federal or state securities matters, or (iii) pleaded no contest in any legal proceeding?

Yes ___ No ___

Signature: Date:

Aviva Capital Management

Aviva Capital brings experience with:

- *Asset allocation;*
- *Manager selection;*
- *Portfolio valuation;*
- *Fund of funds portfolio management;*
- *Credit enhanced fund development and structure;*
- *Insolvency and corporate distress.*

Aviva Capital Management's experience includes:

- Investor portfolio asset allocation;
- Work with development of innovative leveraged and credit enhanced fund products;
- Managed a global private equity fund portfolio of approximately one billion dollars;
- Participated in valuation analyses of dozens of international funds and international portfolio companies;
- Participated on numerous fund advisory boards and committees including for:
  - **Apax-Leumi's Israel Growth Fund;**
  - **H&q Asia Pacific's Asia Pacific Growth Fund;**
  - **Acon's (TPG Affiliate) Newbridge Andean Partners; and**
  - **Olympus Capital's (Ziff Brothers Inv. Affiliate) Asia Development Partners.**
- Developed a proprietary fund manager evaluation matrix providing a unique tool for evaluating managers;
- Participating in the structure, organization, documentation and capitalization of many international funds;
- Extensive US and international workout and insolvency experience.

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Appendix -- Summary Biography

Aviva Capital

Steven J. Cowan - Managing Director

Experience

Overseas Private Investment Corporation, Washington, DC,

Director, Private Equity, Investment Funds Department -- responsible for structuring new funds and managing the relationship with much of OPIC's more than $3 billion dollar investment funds portfolio including through Advisory Board and Investment Committee representation, overseeing OPIC's review of each investment; have also lead the process of designing and implementing private equity program's asset allocation plan; working to design, improve and implement OPIC's manager selection process; developing new funds and fund products including OPIC's principal protected and leveraged funds, evaluating fund management proposals, choosing fund managers, and restructuring troubled funds.

Senior Commercial Counsel participated in structuring, negotiating and drafting documentation in investment funds, project finance and political risk insurance transactions; instrumental in designing OPIC's ground breaking capital markets political risk insurance product; also responsible for liasing with US embassies, foreign governments, investment banks, multilaterals, other insurers, lenders and export credit agencies and managing numerous US and foreign law firms.

Munger, Tolles & Olson, Los Angeles, CA,

One of two lawyers recruited to found an insolvency practice; primarily represented financial institutions, bondholders and utilities in substantial corporate reorganization matters; including acquisitions, claims trading, lending, reorganization and litigation.

Aviva Pacific Limited, Hong Kong,

Founder and managing director of a boutique firm advising investors in strategic acquisition of distressed assets.

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Appendix -- Summary Biography

Aviva Capital

Steven J. Cowan - Managing Director

Advisor working with the Canadian Commercial Corporation, a Crown Corporation,

to assist the Canadian Government in the design and structure of the *Canadian Investment Fund for Africa,* a pioneering undertaking in government support to build private equity capacity in Africa.

American University, Washington College of Law, Washington, D.C., Adjunct Professor of Law, designed and taught law school course entitled "*International Private Equity and Venture Capital.*."

Harvard University, Economics Department, Cambridge, MA,

Economics fellow, designed the syllabus for, and taught, a course examining the international debt crisis and its potential impact on development in the third world entitled "*Debt, Saving and Development in LCD's.*"

Milbank, Tweed, Hadley & McCloy, New York, NY,

Attorney primarily representing money center banks, creditors' committees and investors in substantial corporate reorganization matters; including acquisitions, claims trading, lending, reorganization and litigation.

Education

Harvard Law School, Cambridge, MA -- J.D.

Brown University, Providence, RI -- B.A, ***magna cum laude***, dual majors:

Political science and development studies, honors thesis: "*the role of saving in developing economies*," using China, Hong Kong and Mexico as case studies.

Chinese University of Hong Kong, ***Yale-in-china***,

Courses included Cantonese and post-revolutionary Chinese political philosophy and economics.

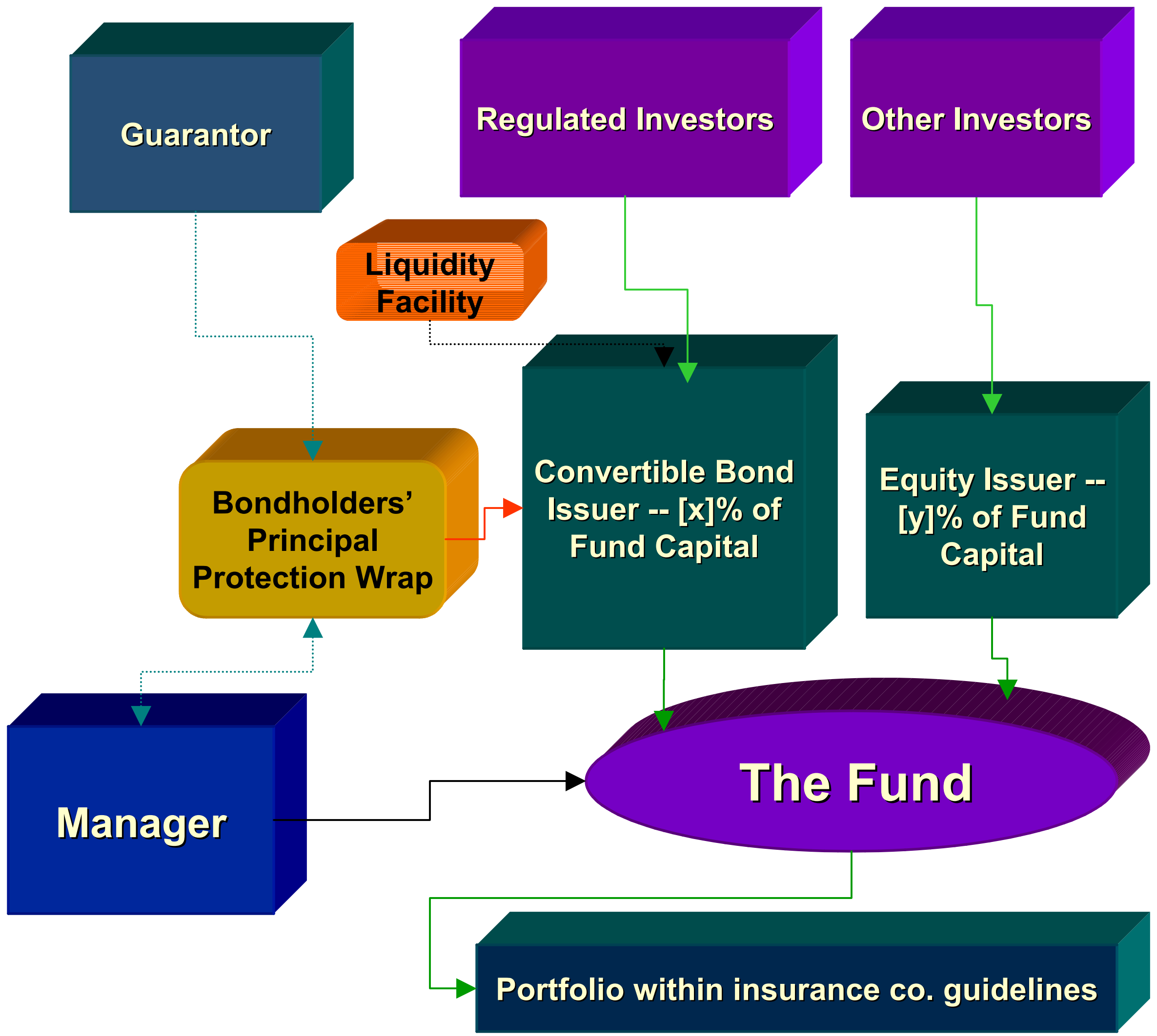
Asset Recharacterization – Principle Protection Structure

For regulatory and other reasons, certain institutional investors have limited allocations to Private Equity

Although true in the US, such limitations are even more pronounced offshore

To attract this capital, the Fund will use a modified guarantied fund structure to provide investors:

- *a [fixed income] security with*
  - *[investment grade] rating acceptable to insurance regulators*
  - *principal protection, and*
  - *the right to participate in Private Equity upside*



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