The Private Equity Hedge Funds And the Structural Change

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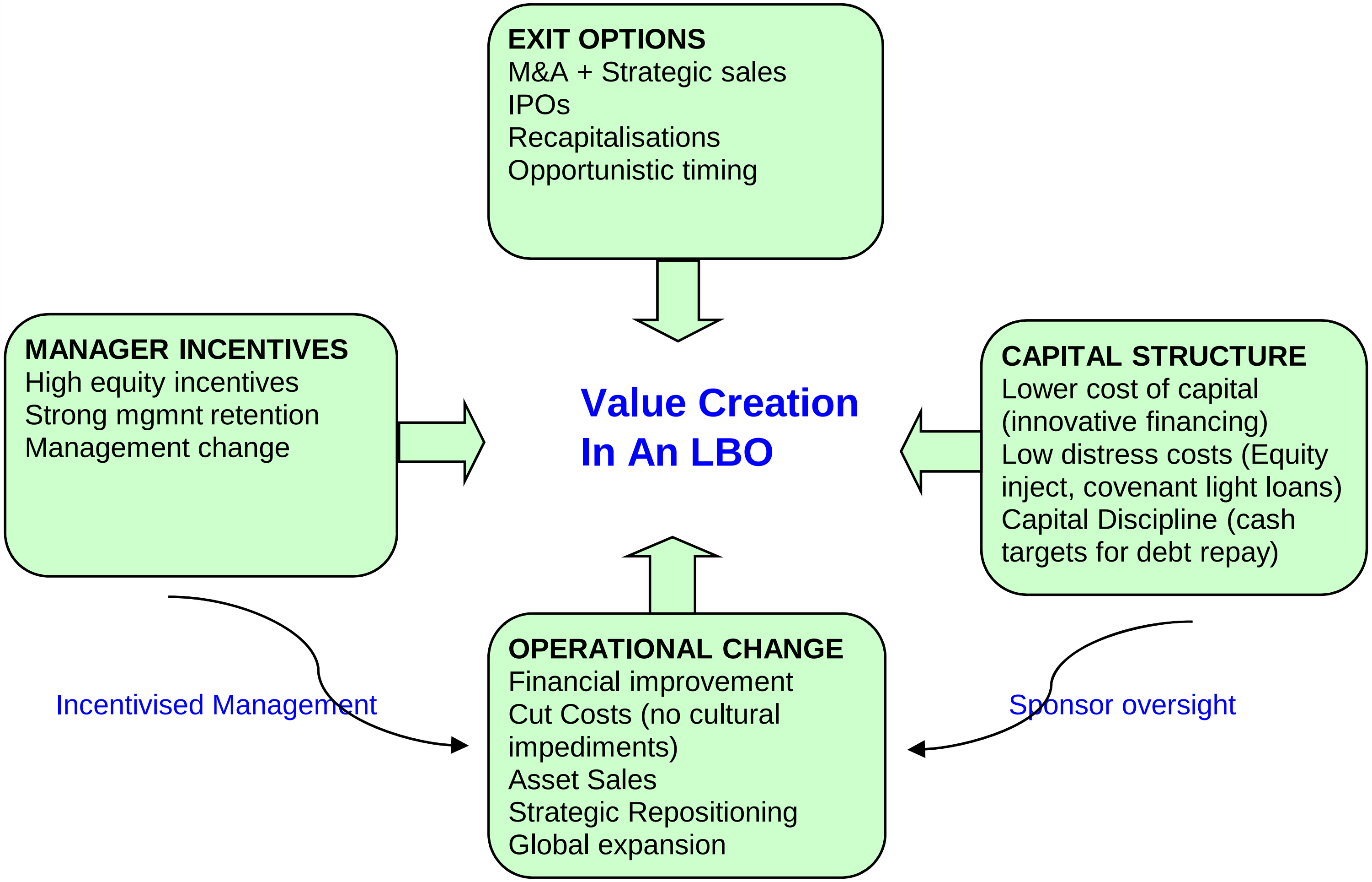
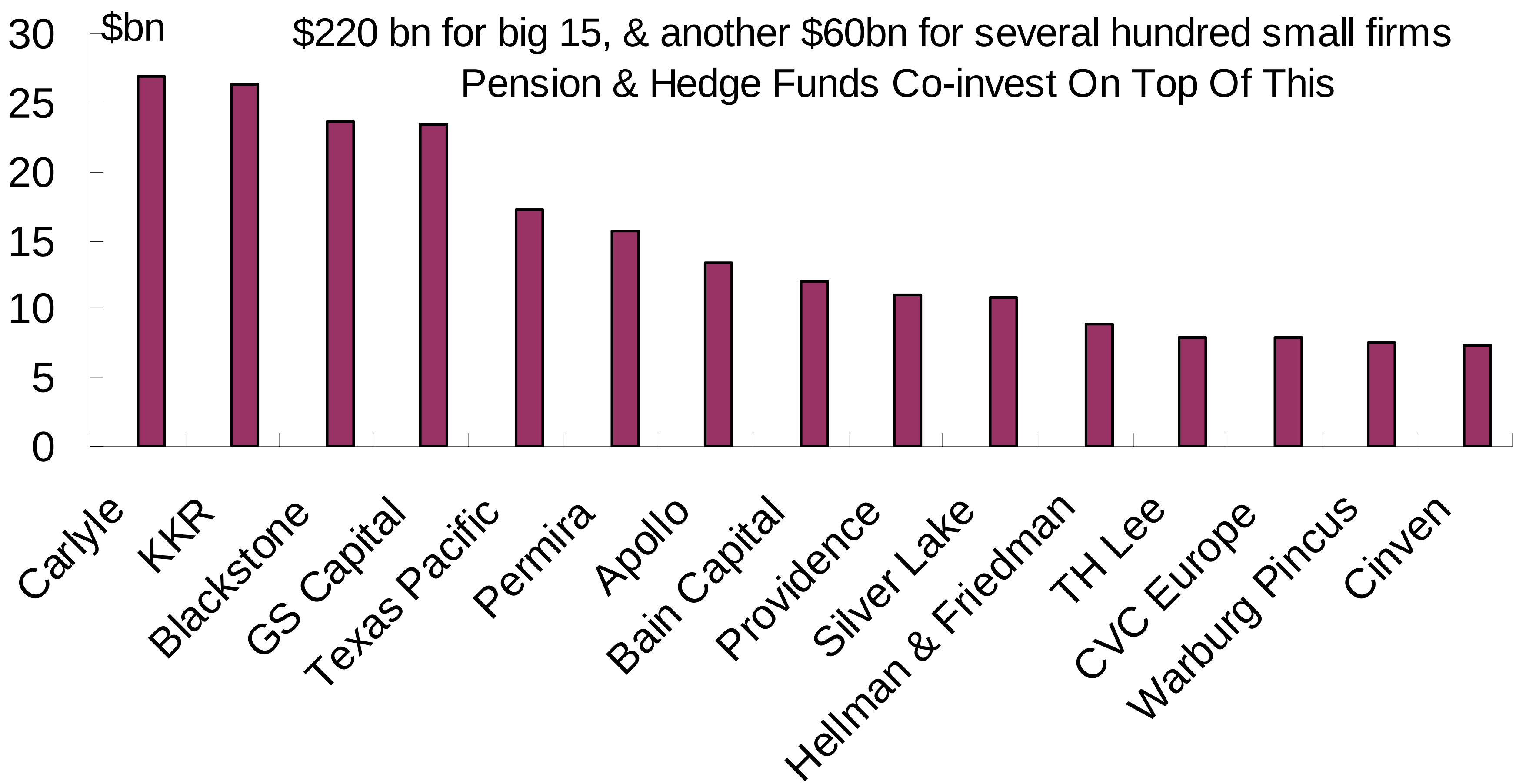
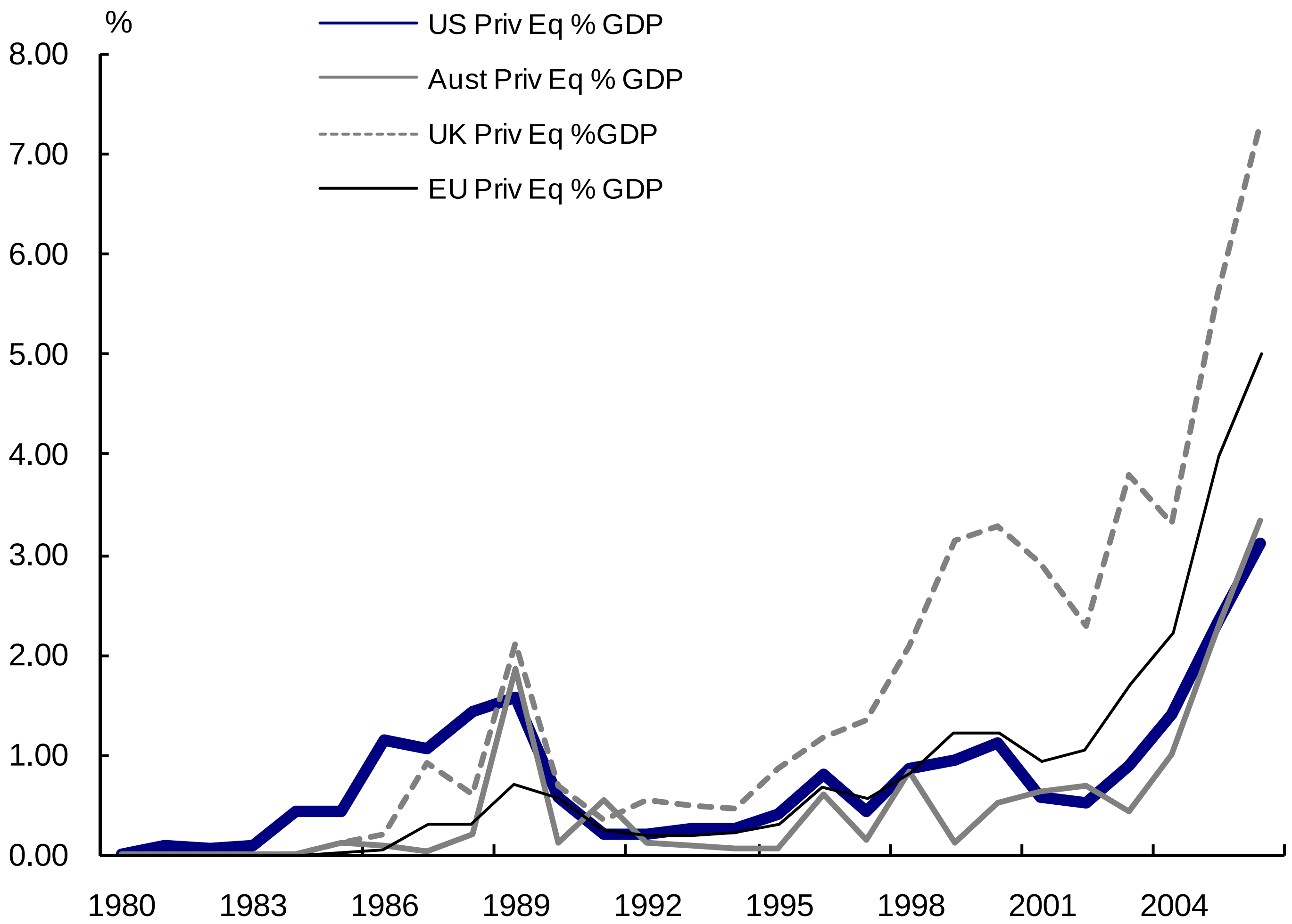
The Private Equity Value Proposition



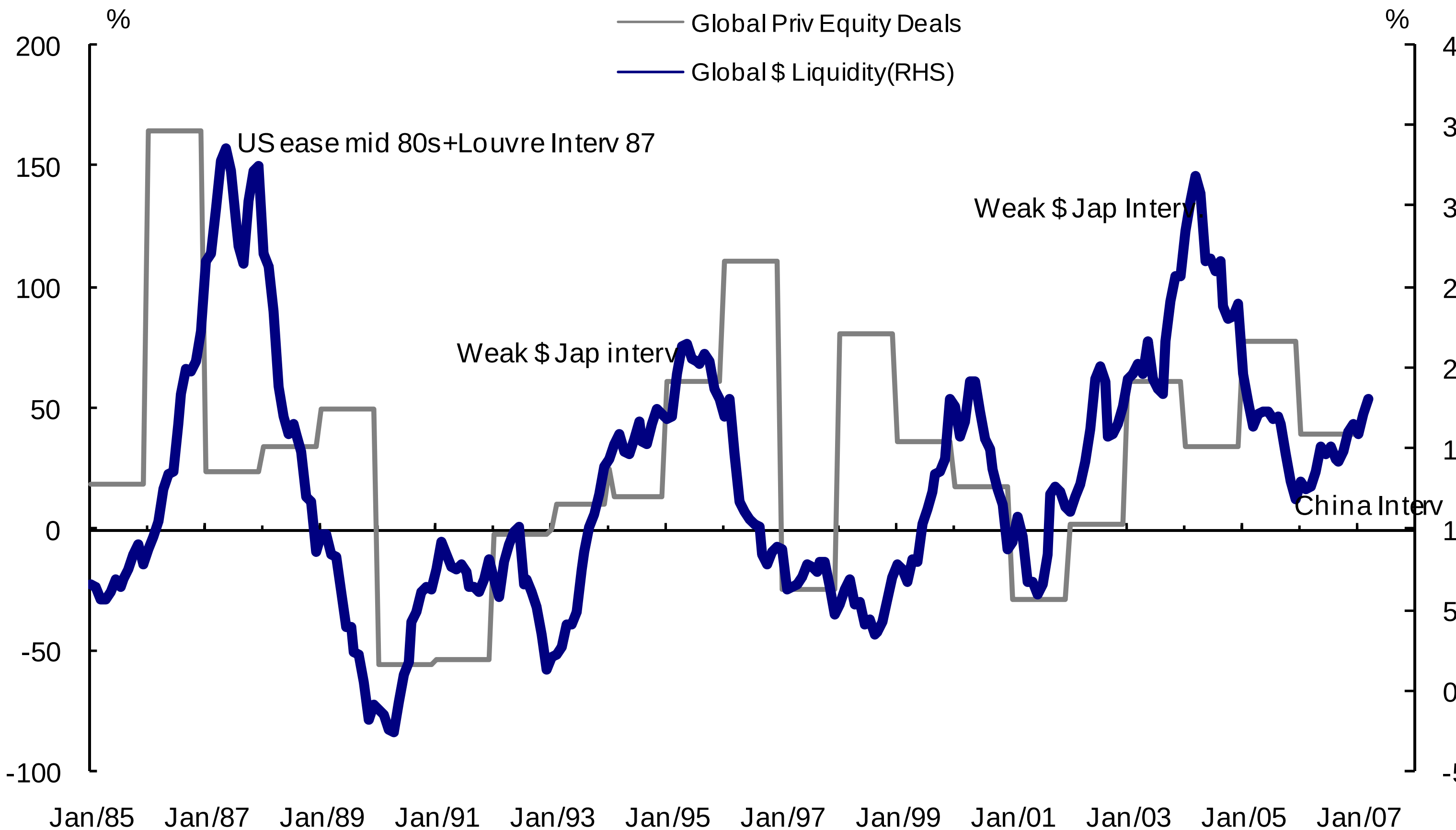
Major Private Equity Companies



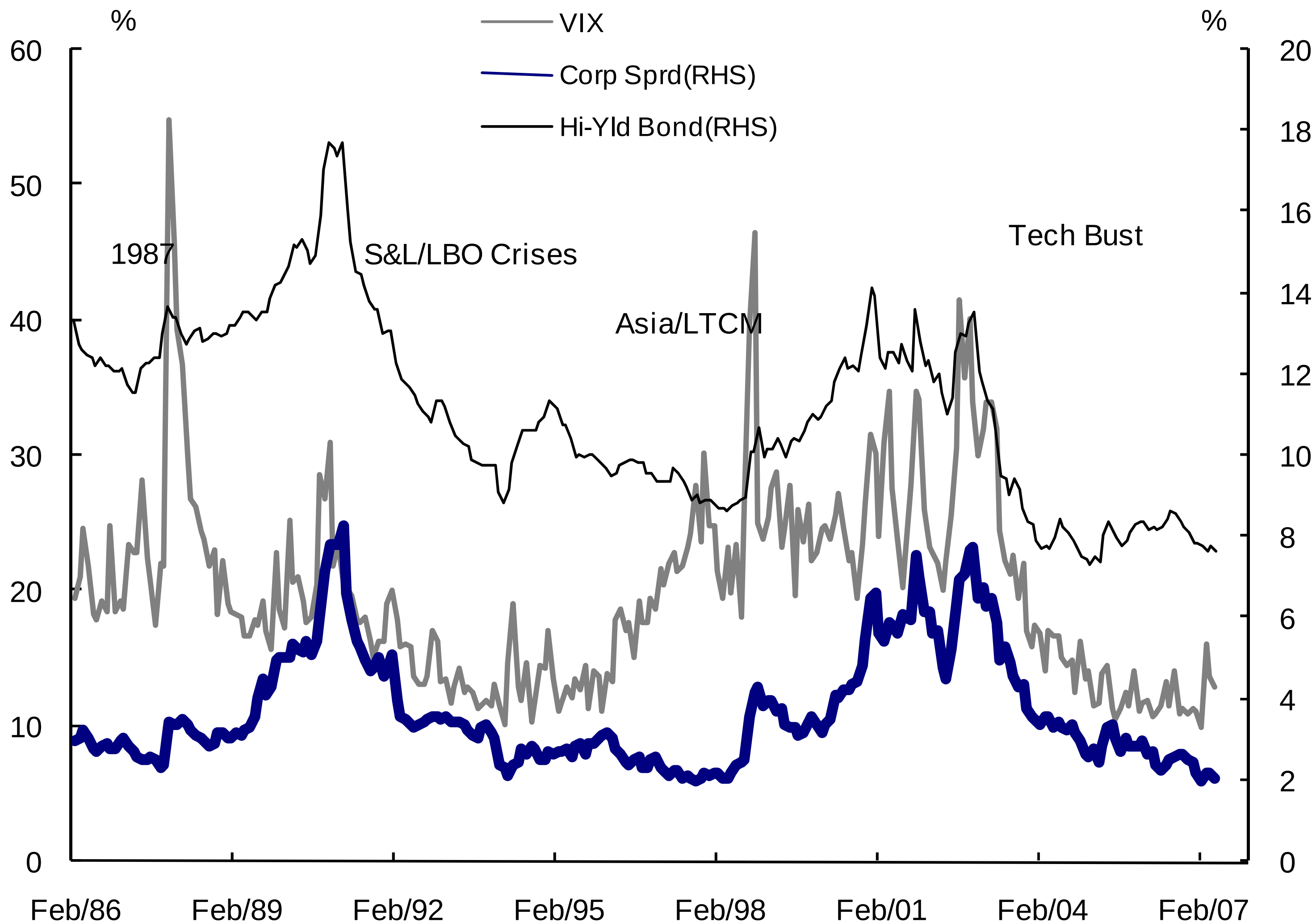
Completed Private Equity Deals (All Transactions) in 4 Regions



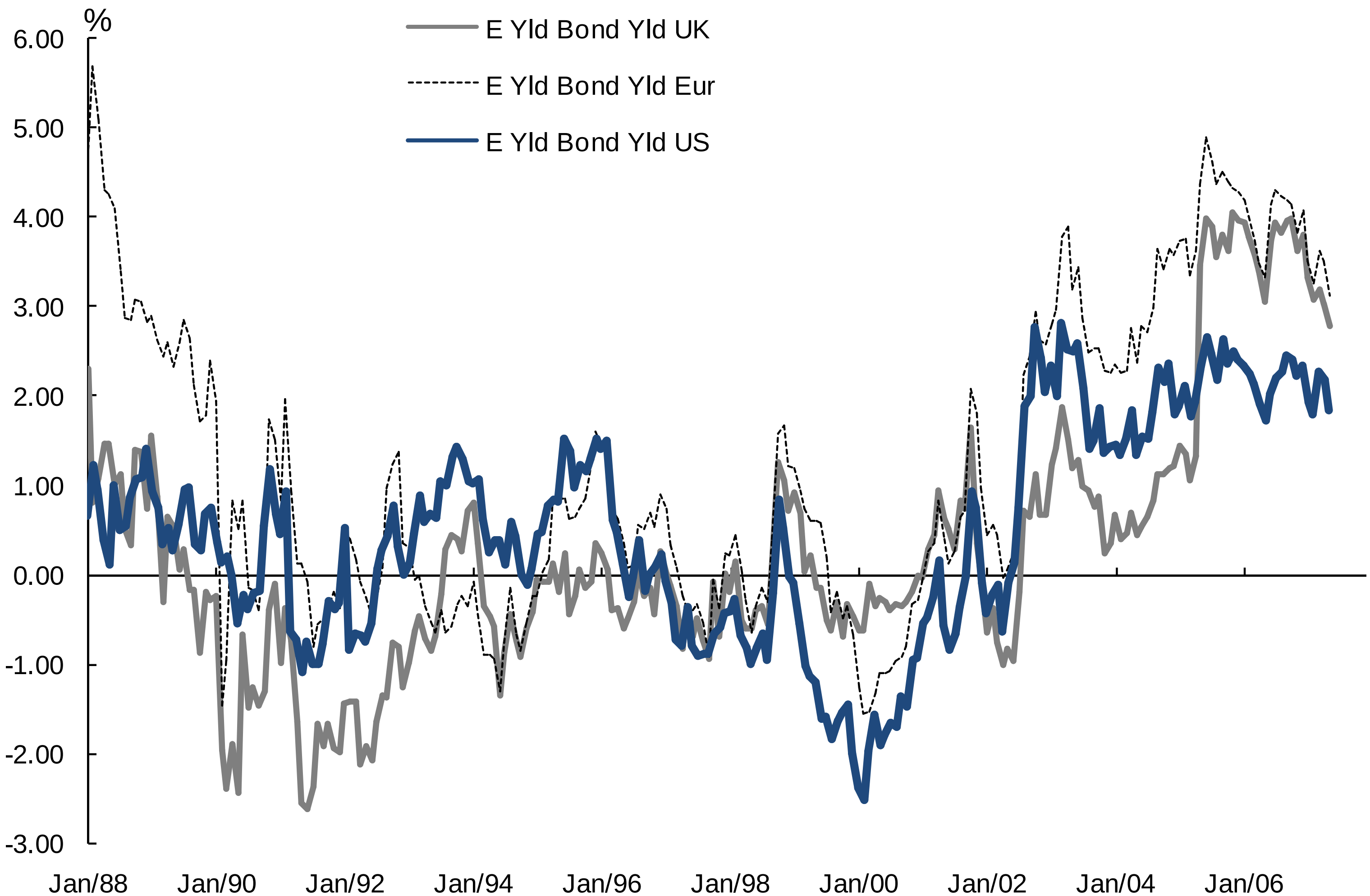
Global Liquidity & Global Private Equity



Volatility , Spreads & Junk Bond Yields



US Real 10 Year Bond, Curr/Acct & Inflation



Hedge Fund Leverage May Be Very High: Illustrative OECD Calculation

	AUM $bn	Req Ret %	Observed Return %	Req Asset For 20% ret on AUM $bn	Implied Gearing $bn	Leverage Ratio on AUM x
Fixed Income Arb.	96.6	20	1	1931.2	1834.7	19
Other long short	919.1	20	4	4595.6	3676.5	4
Long Only	414.9	20	20	414.9	0.0	0
Total	1430.6			6941.7	5511.2	3.9

Ten Top Prime Brokers

	Loaned Securities $bn	Ratio to Tier 1 Capital	Reverse Repos $bn	Ratio to Tier 1 Capital	Derivatives PRV $bn	Ratio to Tier 1 Capital	Margin Loans NYSE Total $bn	Total Credit Exposure $bn	Tier 1 Capital $bn
UBS	52	1.56	333	10.01	269	8.10	#N/A	#N/A	33
Credit Suisse	48	1.65	140	4.87	45	1.57	#N/A	#N/A	29
Deutsche	31	0.95	183	5.66	99	3.08	#N/A	#N/A	32
Goldman	22	0.66	82	2.45	68	2.02	#N/A	#N/A	34
Morgan Stanley	150	4.07	175	4.74	55	1.50	#N/A	#N/A	37
JP Morgan	9	0.11	122	1.51	56	0.69	#N/A	#N/A	81
Lehman	18	0.96	117	6.33	23	1.22	#N/A	#N/A	19
Merrill	43	1.09	178	4.47	32	0.80	#N/A	#N/A	40
Citigroup	60	0.66	121	1.33	50	0.55	#N/A	#N/A	91
Bear Stearns	11	0.89	39	3.03	12	0.91	#N/A	#N/A	13
TOTAL	444	1.09	1491	3.65	708	1.74	275	2926	408
Grossed Mkt Tot. (Top 10 =80%)	555	1.09	1864	4.57	885	1.74	367	3672	510

Summary: Private v Public Models

	Capital Structure	Ownership Structure	Operational Issues	Earnings Performance	Compensation Incentives	Corporate Govenance
Public Co Model	*Low leverage tolerance	*Retail & Insto mix, with low operating influence. *Pressure on instos to perform in s/run	*Continued investment to expand *Reluctance to major divestitures	*Market pressure to meet Qtly or 6-monthly performance.	*Options gone post FAS 123 *More limited upside for management Intense public scrutiny	*Frequent investor meetings *Guidance to analysts *Realtionships with analysts *Mark-to Market discipline
LBO Firm Model	*High leverage 5 to 8 x EBITDA	*Financial sponsors have maj ownership & role in the business	*Stringent cost reduction *Sale of non-core assets	*Longer-term focus to max value for eventual exit from private model	*Significant ownership & upside potential for management. *No public reporting.	*Reduced pub. discl. *Analysts & investors cant get info.on deal *Fee structure & incentive moral hazard *Potential misuse priv Information Refinacing profit lock in *Transfer of risk via debt and securitisation.

Poison Pills and Market Characteristics

	USA	Japan	Asia	France	Australia
Poison Pill Introd.	1984	2005	N/A	2006	1984
Hostile Takeovers?	Frequent	Almost Never	Rare	Rare	Frequent
Shareholder Approval Req. For Poison Pill	No	Unclear, most firms ask	N/A	Yes, unless recip. exception applies	Yes
Automatic Trigger? Or Board Action Needed?	Autom. trigger if bidder acquires min threshold.	Board action required	N/A	Board action required.	Board action required.
Level of Board Independence	Majority indep. req. since 2003.	Overwhelming Non-indepdent.	1/3 thought desirable.	1/3 indep. req.(45% on avg.)	Majority
Classified Boards?	Decreasing, now minority of S&P500	Some/but director terms 2yr limit	Yes	Yes	Rare
Unequal Voting Rights?	Infrequent	No	No	Yes, common	Yes
Cross Share Holding?	Rare	Yes, but less	Yes, but less.	Some, plus pre-emptive sh/holder agreements	No
Major Blockholders (>20% of Shares)	Very rare,esp. larger Co's	Yes/but these don't introd poison pills	Yes & Govt Involved	Common.	Rare/some