



How Do Family Offices Regard Listed Private Equity?
A Research Survey of 50 European Family Offices

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in association with

scorpiopartnership
what wealth needs next

Contents

Overview	3
Profile of participant FOs	4
Key findings	5
Private equity investment trends among family offices	9
Views of family offices that currently invest in LPE	13
Views of family offices that do not currently invest in LPE	17
About LPEQ	22
About Scorpio Partnership	23

Overview

In December 2009, LPEQ, the trade body for European listed private equity companies, engaged Scorpio Partnership to undertake research among 50 European family offices (FOs).

Interviews were primarily conducted face to face with the head of the FO, head of investment strategy or the head of private equity, where the role exists.

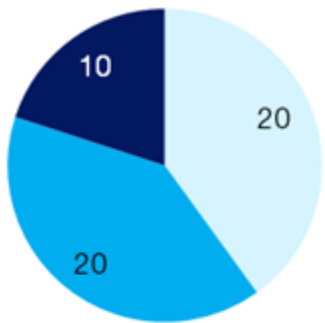
The research was aimed at understanding how FOs are engaging with private equity and listed private equity (LPE) in today's investment climate.

Specifically, the research addressed:

- What are the investment levels into private equity and LPE today?
- What are FO attitudes to private equity and LPE in the current market conditions?
- What is the investment process for private equity and LPE considering selection, monitoring and administration?
- How do family offices typically invest into private equity and LPE?
- How does LPE fit into the private equity investment framework of family offices?

Profile of the participant FOs

Business model of the FOs that took part in the research (all respondents)



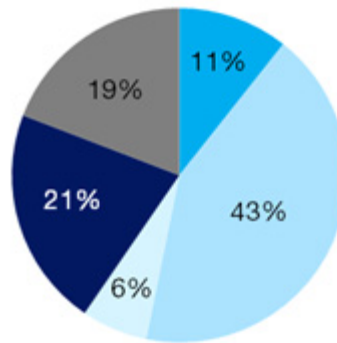
■ SFO ■ MFO ■ PBFO

SFO – Single Family Office

MFO – Multiple Family Office

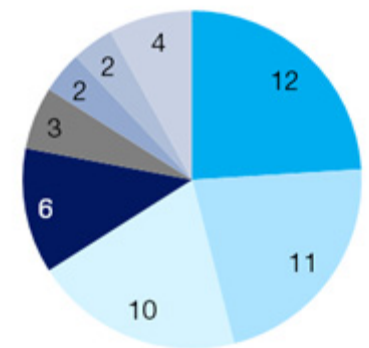
PBFO – Private Bank Family Office

What is the profile of founding family? (all respondents)



■ Inheritance
■ Family business
■ Investments
■ Entrepreneur
■ No founding family

Where are the FOs located? (all respondents)



■ Germany ■ Switzerland
■ UK ■ Austria
■ Italy ■ Sweden
■ Spain ■ Other Europe

KEY FINDINGS

“I think that LPE managers have to make clear what it is that makes them different from other private equity funds and particularly from listed equities.”

Key findings

- Private equity is currently a “hot topic” for FOs. 57% are considering increasing their exposure to private equity this year. It is also regarded as a key asset class for families and FOs believe they are well-positioned to benefit from the recovery.
- FOs typically invest in private equity through a combination of direct holdings and limited partnership funds, or unlisted funds of funds, which provide diversification. This allows families to have hands-on involvement with the companies in which they directly invest, while maintaining a well-balanced private equity portfolio.
- Currently around one-quarter of FOs invest in LPE and the majority of FOs are aware of LPE as an investment opportunity.
- One in five of the FOs who are not currently invested in LPE would consider investing this year, if a compelling investment case were made to them.

57% of European FOs market are considering increasing their private equity exposure this year.

Key findings

- Those who do invest in LPE value the ability to provide family members with a well-diversified portfolio of underlying holdings for a relatively modest investment outlay and with good liquidity. The administrative advantages of a listed vehicle are also regarded as advantageous.
- Indeed, all participants in the research were agreed that the administrative benefits of an LPE vehicle would have advantages in the FO environment. Private equity presents considerable administrative challenges, particularly from a valuation point of view. The daily pricing of LPE is therefore particularly attractive.
- The benefits of LPE were regarded as especially advantageous for FOs that deal with family members who have smaller portfolios (EUR50 million – EUR150 million). These clients would not otherwise be able to access the diverse range of private equity investments offered by LPE managers.
- By contrast, those who do not currently invest in LPE regard the correlation with equity markets as negating its potential value as a diversified private equity investment vehicle.
- They also have concerns about the discount to net asset value (NAV), which is regarded as a distortion of the underlying portfolio value and negates the benefits of liquidity in the portfolio.

FOs that invest in LPE value

- diversification
- low minima
- liquidity
- accessibility

These qualities are particularly attractive for families with smaller investment portfolios.

Key findings

- With these concerns in mind, both current LPE investors and FOs that do not currently invest believe LPE managers have not made their investment case strongly enough. Across the board, FOs would welcome more information on:
 - The performance of LPE relative to private equity and listed equity opportunities;
 - Its risk/return profile from a portfolio perspective;
 - Information on its correlation to the main markets;
 - Information about valuation methodologies and the relationship between price and NAV;
 - Information about the managers and the portfolios.

FOs that do not currently invest in LPE are open-minded to the investment case.

PRIVATE EQUITY INVESTMENT TRENDS AMONG FAMILY OFFICES

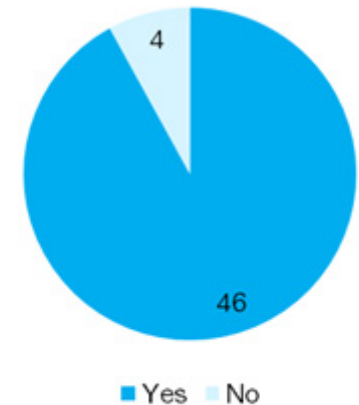
“Private equity is a key, key, key asset class for families.

Most families have made money in business and that is how they believe they will continue to be wealthy.”

FO attitude to private equity as an asset class

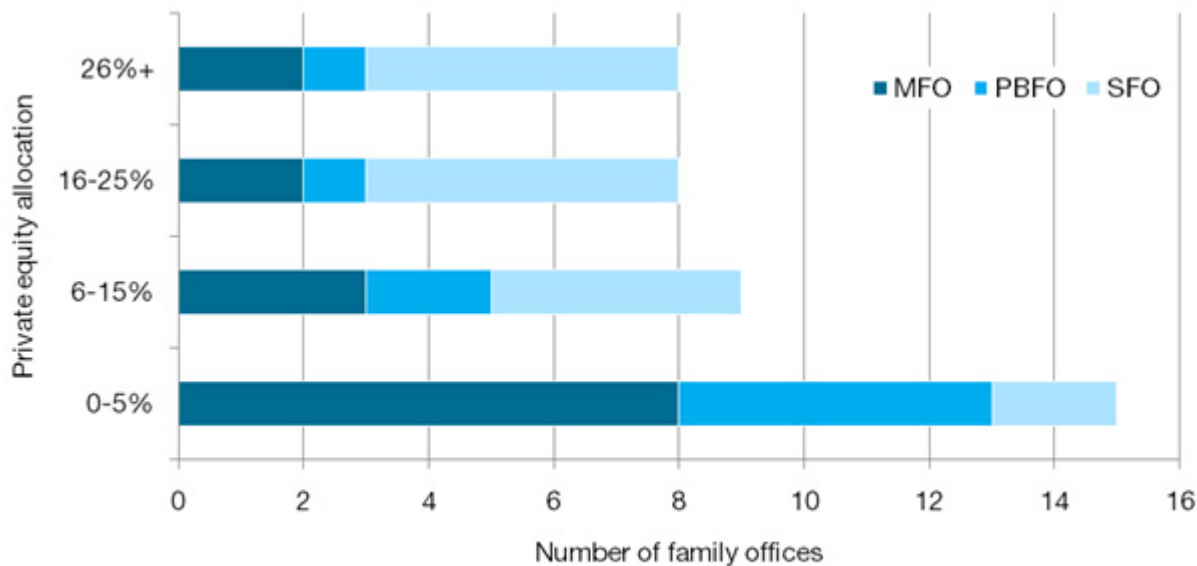
- Nearly all FOs consider private equity to be a key asset class. Primarily because the vast majority of families with FOs have made their fortune through business or entrepreneurial ventures.
 - It is an asset class with which they have a high level of affinity.
 - Families are also keen to maintain entrepreneurial drive throughout the generations and private equity offers a suitable vehicle to promote this spirit.
 - These factors mean that families often seek direct investment opportunities on which they can have a degree of influence.
- In addition, private equity offers portfolio diversification away from the main asset classes and the potential for above-average market returns with moderate levels of correlation.
 - Moreover, the high minimum thresholds and long-term nature of the investment mean that private equity remains a specialist area of investment and one that FOs regard as a natural fit with the mandate they have from their family members.
- Only 8% of FOs did not view private equity as a suitable asset class for their family members.
 - These FOs frequently represented clients who had specific liquidity requirements; or were already invested in illiquid investments; or were uncomfortable with private equity's risk/return profile.

Do you believe private equity is a suitable asset class for your family clients? (all respondents)



FO allocation to private equity

- There is a wide divergence in the allocation made to private equity by FOs.
 - This divergence does not directly reflect the business model of the FO, although there are some broad patterns that emerge.
 - MFOs and PBFOs are more likely to have a modest allocation to private equity. This reflects their more conservative, institutional approach to asset management.
 - By contrast, SFOs often have far higher allocations to private equity. Because they represent only one family, their risk tolerance is often higher and their portfolios are often more idiosyncratic.

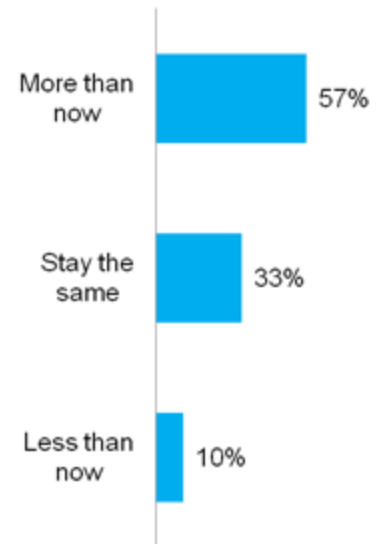


Representing just one family means SFOs often have a much higher tolerance for risk than either MFOs or PBFOs. Their portfolios are often more idiosyncratic than the mainstream.

Increasing allocations to private equity

- 57% of FOs indicated that they will be increasing their exposure to private equity over the coming year.
 - A further 33% will maintain their current exposure.
- Most FOs see private equity as a major investment opportunity over the next 2-3 years.
 - They remain confident that private equity remains a quality long-term investment.
 - Many regard the current recessionary conditions as an opportunity to acquire assets at lower or distressed values.
 - In addition, credit conditions mean some private equity investors are not currently active, reducing competition for transactions.
 - By contrast, some FOs believe they are in a strong position to access credit and can therefore leverage their exposure to private equity.
- However, there is a minority of FOs that will reduce their exposure to private equity this year.
 - Liquidity is their major concern. Lack of certainty in other asset classes means they are less willing to tie up capital for long periods.
 - Some also believe that the potentially long recovery from recession is not favourable for private equity. They believe that transaction values already look steep given that it is likely to be a long time before they see significant returns.

Do you believe your allocation to private equity will increase or decrease over the next 12 months? (all respondents)



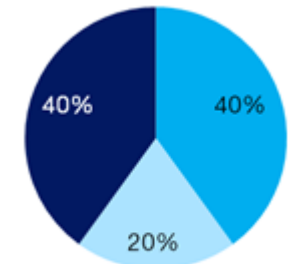
VIEWS OF FAMILY OFFICES THAT CURRENTLY INVEST IN LPE

“We believe that LPE provides the family members with a good starting point to investing in private equity in general.”

Appetite for LPE among current investors

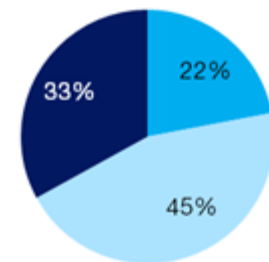
- Those already invested in LPE expect to increase this allocation over the next 12 months.
 - Over the last 12 months, only 20% of FOs who invest in LPE increased their allocation.
 - In contrast, 45% indicated that they will increase their allocation to LPE in the coming year.
 - A return to pre-crisis levels of investment in LPE can be expected.
 - LPE is also attracting new investors, particularly in markets where private equity has not achieved wide market penetration to date. Sweden was mentioned in this context.
- Only one-fifth of the respondents indicated that they will decrease their allocation to LPE over the next 12 months.
 - Notably, these FOs are decreasing in their allocations to private equity generally.

Has your allocation to LPE changed over the last 12 months?
(LPE users)



■ Less than ■ More than ■ Equal

How do you expect your allocation to change in the next 12 months?
(LPE users)

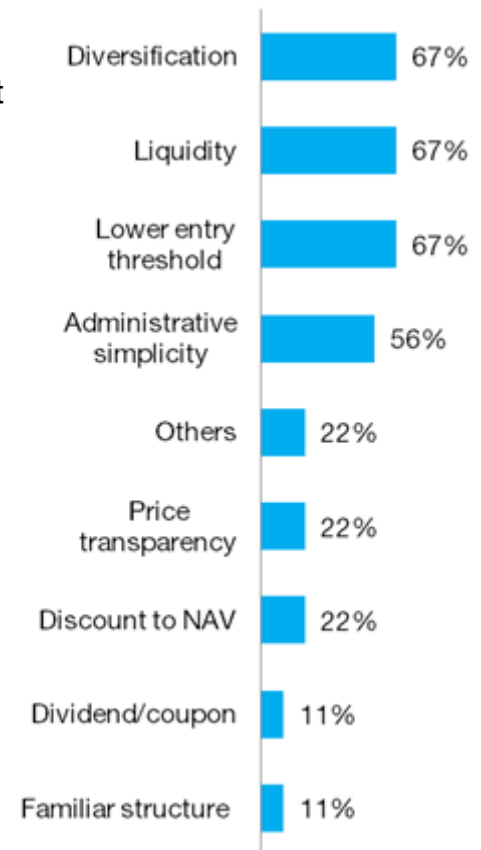


■ Less than ■ More than ■ Equal

Advantages felt by FOs with smaller portfolio sizes

- FOs experienced in investing in LPE highlight its core advantages as a convenient way for families with a smaller capital base to invest in a diversified portfolio of private equity.
 - Diversification, liquidity and the low entry threshold are seen as the most important benefits of LPE, allowing families with smaller portfolios to access a broad-based portfolio of private equity investments with the flexibility to move in and out of the asset class if required.
 - The administrative advantages are also regarded as important, particularly by smaller FOs who do not have extensive operational capabilities.
- Indeed, this combination of liquidity, diversification and ease of access plays strongly to smaller family offices that are often thinly staffed in both the front and back office.
 - As well as to MFOs and PBFOs who often handle smaller family portfolios.
- Notably, other benefits do not resonate nearly as strongly.
 - FOs typically do not regard LPE as a tactical instrument, but rather as a simple way to access a complex asset class.

How do you use LPE and what are the benefits for an FO? (LPE users)

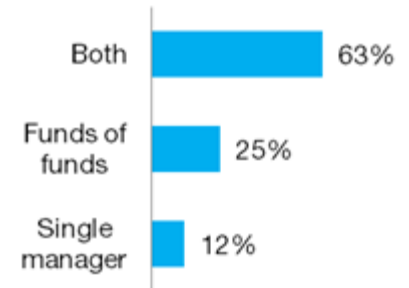


NB: Respondents were not limited to one response. The figures are shown as a percentage of those who gave their views on the benefits.

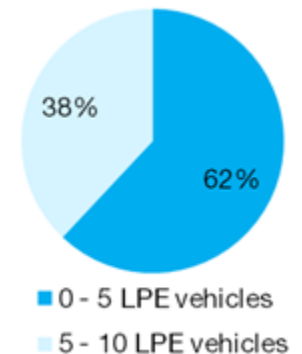
Diversified investment approach to LPE

- Moreover, FOs who invest in LPE often hold multiple structures and positions.
- Again, the objective is to maximise the benefits of diversification.
 - 88% of those invested in LPE invest via listed funds of funds or both fund of funds and single managers.
 - The vast majority of FOs currently invested in LPE also hold more than one LPE vehicle. And 38% hold more than five LPE vehicles in their portfolios.
 - SFOs feature prominently among those who hold more than five LPE vehicles, with two SFOs in particular holding some of the highest number of LPE funds and have the largest allocation to LPE among the sample group.
 - Moreover, among those FOs holding fewer than five vehicles, 26% were looking to increase the number of vehicles held in their portfolio.
- Essentially LPE is seen as a simple and cost effective way to gain exposure to a wide range of underlying private equity investments.
 - Of note, because diversification plays a key role in the investment in multiple LPE vehicles, FOs have rigorous selection processes for LPE funds of funds and single manager funds to ensure they are not exposed to the same portfolio company through different LPE vehicles.

In what type of LPE funds do you invest? (LPE users)



How many LPE vehicles do you currently hold? (LPE users)



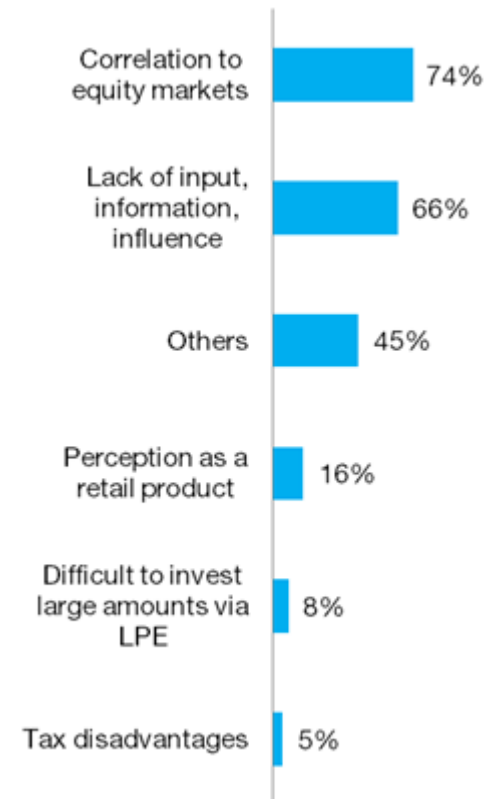
VIEWS OF FAMILY OFFICES THAT DO NOT CURRENTLY INVEST IN LPE

“LPE providers have to make it clear why a family office should invest into such a structure.
What are the advantages?”

Why aren't they investing?

- In particular, the correlation to equity markets was the leading concern and cited by 74% of respondents.
 - These FOs often felt that the market was a poor judge of the value of the underlying private equity assets and therefore distorted the investment.
- These FOs also had concerns about the lack of input, information and influence on the portfolio companies.
 - Which echoes the concerns of FOs that already invest in LPE.

Are you aware of any disadvantages? (LPE non-users)

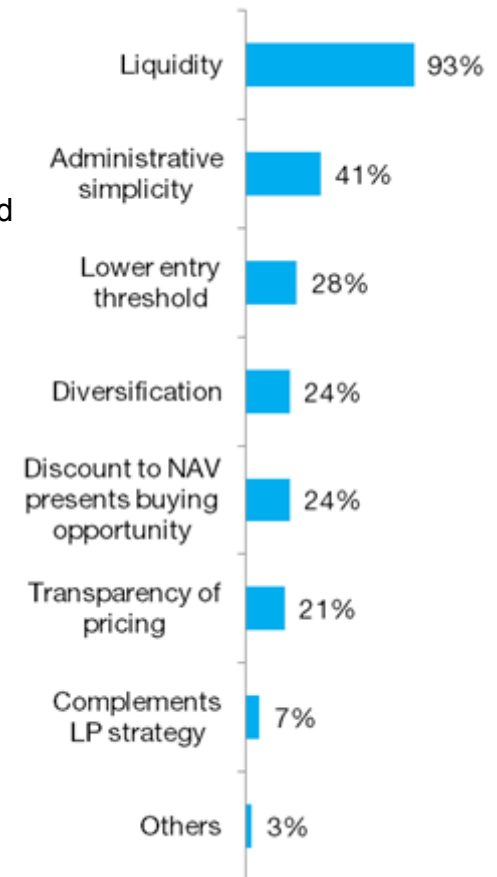


NB: Respondents were not limited to one response. The figures are shown as a percentage of those who gave their opinions on the disadvantages.

Liquidity is seen as the main benefit...

- When it comes to benefits, however, 93% of respondents identified liquidity as the main benefit of LPE.
 - But believe that under stress the perceived benefit of liquidity is only available at a steep discount.
- Of note, however, the benefits of a lower entry threshold and diversification were understated.
 - This stands in direct contrast to the benefits identified by those FOs currently invested in LPE.
- Interestingly, administrative ease features relatively strongly suggesting that even those FOs not currently investing in LPE can see the value of a listed instrument from an administrative perspective.

Can you identify any benefits of LPE for an FO? (LPE non-users)

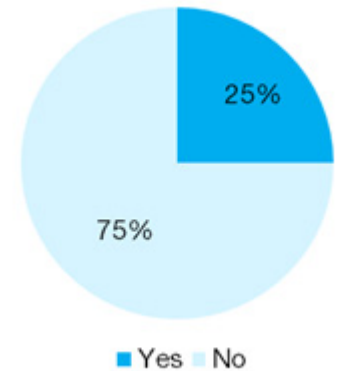


NB: Respondents were not limited to one response. The figures are shown as a percentage of those who gave opinions on the advantages.

... but they are suspicious of discounts

- Given the concerns about the correlation of LPE to the equity markets, it is not surprising that non-investing FOs are suspicious of the share price discount to NAV. Only 25% of non-investing FOs would regard the discount to NAV as a buying opportunity.
- This compares with 56% of FOs who currently invest in LPE that regard the discount as a tactical buying opportunity.
- It reflects the common view among FOs that private equity should be regarded as a long-term asset class.
- Indeed, non-investing FOs regard the discount to NAV as symptomatic of the problems they associate with the asset class.
- The discount reflects a distorted view of the value of underlying assets.
- It makes it difficult to model risk.
- And, it eliminates the liquidity advantages in bear markets.

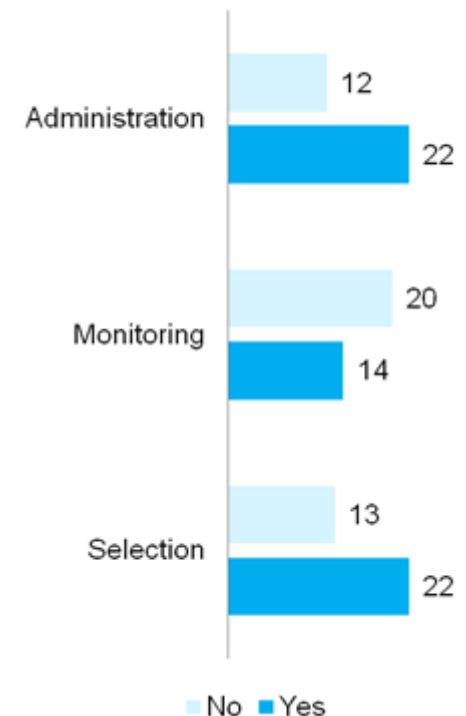
Do you regard the discount to NAV as a buying opportunity? (LPE non-users)



Administration advantages meet a critical need

- Indeed, the sample group as a whole was asked if LPE could provide specific solutions to the selection, monitoring and administration difficulties of private equity investments. Their responses suggest that the administrative benefits of LPE could be given greater prominence.
- Their responses focused on the benefits of accessing a diversified private equity portfolio through a simple share purchase.
- Many commented that transparent on-exchange pricing that assists monthly portfolio valuations is attractive.
- Some also observed that limited partnerships present other back office issues relating to custody and record keeping that LPE would potentially circumvent. For example, the difficulty of changing nominee custodian was raised by one PBFO, which can result in long-term cash flow issues if the family's custodian changes.
- However, interestingly, they did not believe LPE could offer significant advantages for the ongoing monitoring of a private equity portfolio.
 - In particular, FOs raised concerns about valuation methodologies.
- While they recognise that quoted pricing is an advantage for monthly reporting, they would require more detailed NAV calculations for their quarterly, half-yearly or annual portfolio valuations.
- Others commented on the complexities of performing risk analysis on a hybrid asset class like LPE.

Does LPE offer any solution to problems relating to administration, monitoring and selection?
(all respondents)



About LPEQ

LPEQ is the European listed private equity trade body, founded in 2006 to increase awareness and understanding of Listed Private Equity among investors, their advisors and the media. Visit www.LPEQ.com.

- LPEQ commissions and publishes proprietary research, and supports academic research, on the Listed Private Equity sector and its investors.
- LPEQ works with its members to identify and address investor concerns, such as establishing and promoting best practice in investor communications.

With a combined market capitalisation of over €6 billion LPEQ's members are:

Conversus Capital, L.P.

Deutsche Beteiligungs AG

Dinamia Capital Privado SCR SA

Dunedin Enterprise Investment Trust PLC

Electra Private Equity PLC

F&C Private Equity Trust plc

Gimv NV

Graphite Enterprise Trust PLC

HarbourVest Global Private Equity Limited

Henderson Private Equity Investment Trust plc

HgCapital Trust plc

J.P. Morgan Private Equity Limited

JZ Capital Partners Limited

NB Private Equity Partners Limited

Pantheon International Participations PLC

Standard Life European Private Equity Trust PLC

SVG Capital plc

About Scorpio Partnership

Scorpio Partnership is an insight-led global strategy consulting firm.

- Partner-owned and completely independent.
- 10+ years experience in international wealth management business insight and strategy.
- 10 in-house consultants and analysts plus six external practice area experts.

Specialists in international wealth management.

- 300+ projects completed for global wealth management businesses, suppliers, UHNWs and regulators.
- 6,000+ interview engagements with HNW, UHNW and billionaire consumers of wealth services.
- 10,000+ interview engagements with professional management, staff and intermediaries for assignments.

Our clients include:

- Top-quartile international private banks, wealth managers and family offices;
- Service and technology suppliers to the international wealth management industry;
- Single and multi-family offices together with HNW/UHNW individuals.

Our accolades include:

- Leading consultancy to the global wealth industry 2006-08 (*Wealth Briefing*, 2006 -2008).



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