

Private Equity

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THE GRAPEVINE

General Catalyst Partners has hired **Neil Sequeira** away from **Time Warner** to serve as a principal in its Cambridge, Mass., headquarters. Sequeira is responsible for investing in software, computer-systems and new-media startups. Prior to joining General Catalyst in January, Sequeira was a managing director at **Time Warner Investments**, the New York venture capital arm of the multi-media company. At Time Warner, Sequeira has been replaced by **Gus Warren**, who was previously a principal at **Granite Ventures**.

The **John S. and James L. Knight Foundation** has dissolved its in-house investment unit and reassigned oversight of the group's \$1 billion-plus portfolio of alternative investments to consultant **Cambridge Associates**. The move comes in response to a suggestion from general consultant **Ennis**

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Thomas Lee Exec to Quit Mass PRIM Board

Thomas H. Lee Partners executive **Gregory White** is expected to leave the board of the Massachusetts public pension plan within the next year because of a potential conflict of interest.

The exact timing of his departure is still not determined, but White has apparently talked to Massachusetts Gov. **Mitt Romney** about the possibility of relinquishing his seat on the board of **Massachusetts Pension Reserves** before Thomas H. Lee starts marketing its sixth buyout fund.

Romney appointed White to the pension fund post in February 2004, before White took a job as senior vice president at Thomas H. Lee last summer. When he accepted the position, White assured Romney that no conflicts existed.

Over the past decade, Mass PRIM, which has \$1.9 billion committed to buyout and venture capital funds, has invested in three Thomas H. Lee vehicles, including its most recent **Thomas H. Lee Equity Partners 5**, which closed in 2001

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Boeing Auctioning Off Venture Holdings

Boeing is shopping a \$250 million portfolio of venture-fund holdings amassed over the past five years, following a recent decision to stop making new investments in the sector.

The portfolio consists of limited partnerships in 31 venture capital funds. However, almost half of the commitments have not been drawn. The investments already made predominantly involve vehicles launched in 1999 and 2000 — right before the high-tech implosion. The holdings are expected to sell at a deep discount.

Boeing's broker, **Probitas Partners**, has already pitched the offering to about 50 firms according to market sources. The aerospace company is willing to sell the portfolio intact or divide it among multiple buyers.

The way the auction is shaping up, many players that focus on secondary-

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Ohio System Jump Starts Investment Program

Ohio State Highway Patrol Retirement System plans to plow \$70 million into private equity and hedge funds, its first investments in the sectors.

The \$700 million pension system will invest up to \$35 million in each asset class, seeking an 8% return. It has asked fund-of-funds managers to make proposals for the two mandates by March 31.

The strategy was recommended by the pension system's consultant, **Callan Associates** of San Francisco. After an asset-allocation study last year, Callan urged the system to set 5% target allocations for both private equity and hedge funds, with strict restrictions prohibiting either asset class from exceeding 7% of total assets.

The system will aim to invest a portion of the allocation with Ohio-based and minority-owned funds, in order to comply with a new state law. ♦

Niche Secondary Market Growing

New players are targeting the purchase of company stakes from private equity funds — a trend that suggests the so-called “secondary-direct” market is maturing.

Until recently, only a handful of firms actively sought to buy portfolios of private companies from fund operators. Such firms as **W Capital**, **Saints Capital**, **Industry Ventures** and **Protostar Equity Partners** started emerging about three years ago to snap up equity stakes from distressed sellers.

But over the past several months, a number of new firms have begun chasing secondary-direct deals involving nondistressed companies, providing a growing source of liquidity for private equity funds — especially venture-capital vehicles — seeking an exit strategy for investments.

The new players include **Live Oak Capital** of San Francisco, **Lake Street Capital** of San Francisco and **Headway Capital**, a London-based spinoff of **Coller Capital** that focuses on European deals.

Meanwhile, traditional secondary-market players, such as Coller are also getting into the act. Those firms had typically acquired stakes in seasoned private-equity vehicles, but now they are also looking to buy interests in companies directly from private equity funds.

What's more, New York-based **Annex Capital**, which was spawned out of a secondary-direct acquisition Coller made from **Dresdner Bank** last fall, is now pursuing secondary-direct investments, with backing from Coller. **Morning Street** of New York started pursuing such investments about a year ago. And a **Rothschild** unit, **Private Equity Select**, has also entered the market in Europe.

Some are skeptical that the niche's rapid growth can be sustained. Most of the early secondary-direct deals were forced sales by venture capital funds eager to cut losses on bad investments. The skeptics contend that the secondary-direct market can thrive only with a steady flow of distressed portfolio offerings.

Such offerings have now largely dried up as the economy has rebounded, but venture capital firms are increasingly seeking early exits from performing investments, often to capture profits and prepare for their next funds. The sellers “are not distressed, they're just being creative about liquidity,” said one active buyer of secondary directs.

The practice mirrors the recent trend in which buyout funds sell assets to other buyout funds, rather than waiting for the traditional exit via an initial public offering or recapitalization.

“It's accepted that if you have a buyout asset, you just sell it to another buyout firm,” said one market player. But such transactions seldom occur between venture funds, he said, even though there is plenty of supply. That void has been primarily responsible for the surge in secondary-direct buyers.

To be sure, not all secondary-direct deals involve venture capital. **W Capital**, **Saints** and a few others have done their fair share of buyout deals. But venture capital is where

secondary buyers can have the biggest effect, by providing fund operators with liquidity options not otherwise available.

As a result, most of the new secondary-direct shops have sprung up in Silicon Valley, where they have easy access to venture players.

“Secondary direct is red hot out there, especially over the past 90 to 120 days,” said a broker who handles secondary and secondary-direct transactions. “Everybody in San Francisco is setting up a secondary-direct operation.”

In addition to **Headway**, several other new firms have sprung up in Europe over the past year or two, chasing secondary directs in European funds. Among them are **Cipio Partners** of Munich and three London firms: **IRRFC**, **Nova Capital** and **Vision Capital**. ❖

Novel Guggenheim Fund Takes Flight

An unusual fund sponsored by **Guggenheim Partners** has been developing so quickly that the firm will likely base an entire series of vehicles on the strategy.

The New York firm just finished the first round of fund raising for its **Guggenheim Aviation Investment Fund**, a novel entity that buys and sells commercial aircraft. The vehicle has now amassed \$200 million, and it's expected to reach its ultimate target of \$250 million to \$275 million in just two more months — well ahead of the fourth-quarter date that Guggenheim originally scheduled for the conclusion of the marketing efforts.

Guggenheim has already managed to put nearly 50% of the entity's existing capital to work, setting itself up to launch a sequel fund in the near future. In fact, investors have speculated that Guggenheim's next aircraft fund could hit the market later this year.

Rather than investing in companies, Guggenheim Aviation buys used passenger planes, jet engines and aircraft parts and then converts them for use by freight carriers. While that strategy isn't typical of private equity funds, industry participants are viewing the entity as part of the market — since Guggenheim has an established presence in the business and is marketing the entity to private equity fund investors.

Guggenheim Aviation's investors include funds of funds, pension systems and family offices in the U.S. and Europe. Guggenheim also kicked in \$50 million of its own money. The firm operates a few other private equity funds and serves as a placement agent for third-party managers. ❖

Planning Your Travel Schedule?

Check out the comprehensive listing of upcoming private equity conferences in The Marketplace section of PEinsider.com. The calendar is divided into three sections: the industry's main events, conferences to be held in the U.S. and those to be held outside the U.S.