

Occasional Research Papers on Private Equity

1 Introduction

This is a catalogue of a series of occasional research papers dealing with topical issues concerning investors in private equity. These papers are prepared by Quay Partners.

Should you wish to obtain a copy of any of these papers please contact us (details at top of page).

2 Quay Partners

Quay Partners is Australia's first independently owned private equity fund of funds manager. It was established in October 2000.

Quay Partners offers diversified fund of funds investing primarily in Australian venture capital, expansion capital and buy-out funds and also secondary interests and co-investments. It services a wholesale client base which includes some of Australia's foremost institutional investors.

3 Catalogue

#	Title and date (date sequence)	Synopsis
1	Succeed in Private Capital Investing May 2001	The body of this research paper has been prepared by Commonfund Capital, a leading US private equity investor for endowments. This paper provides an excellent introduction to the principles, processes and jargon of private equity investing from a US perspective. Because of the global nature of private equity programs this perspective provides insights applicable everywhere and also an introduction to the US terminology which differs markedly from the Australian.
2	Private Equity: Why Who How Aug 2001	This research report systematically addresses issues facing trustees considering an allocation to private equity. These are the issues of why have and what is private equity, who invests in private equity and how a fund should invest in private equity. This report is in the form of a power point chart set.
3	Private Equity: Implementation Issues Oct 2001	With private equity investing, investors often share the frustrating experience of establishing a strategic target allocation, which is very difficult to reach in practice. Investors establishing a private equity program address implementation issues which are different to those arising in the traditional more liquid asset classes. Private equity is an illiquid asset class and one in which it takes time to establish an exposure. This paper addresses a wide range of implementation issues.
7	Private Equity: Secondaries Programs, Allocations - analysis & targets, Return expectations, & Manager concentration risks. Jun 2002	This paper addresses a number of issues surrounding the implementation of a secondaries allocation into a private equity program. These are (1) the level of allocation that should be made to a secondaries program from the perspective of new private equity programs, mature private equity programs and maturing programs, (2) the level of returns expectations that should be established for an Australian secondaries allocation and (3) the impact that the introduction of a secondaries allocation has on manager concentration risk.
4	Private Equity: Local & international allocations for Australian superannuation funds Aug 2002	This paper addresses the question of the allocation split between Australian and international private equity. Prospective investors in private equity often ask two related questions. Both questions assume the investor has already made a decision to invest in the

#	Title and date (date sequence)	Synopsis
		asset class. The first question is "What is a sensible allocation split between Australian private equity and international?" The follow-up question, to be dealt with in another paper, deals with international regional allocations.
8	Managing Private Equity & Infrastructure Portfolios: The issues to consider in selecting a manager, and governance standards to implement for monitoring and managing the results. Feb 2003	A hypothetical analysis of governance and agency issues involved in the decision by a superannuation investor to invest in illiquid asset classes such as private equity.
5	More on the J-curve Oct 2004	<p>Many Australian superfunds are dissuaded from investing in private equity because of the "J-Curve" and its perceived implications on short- to mid-term portfolio performance. However it is Quay Partners contention that the J-Curve is widely misunderstood. The negative returns incurred in the trough of the J-Curve in the early years of private equity funds apply to a relatively small amount of capital actually invested.</p> <p>When looking at the J-Curve solely on an IRR basis it appears much worse than it actually is. In fact, we believe that on a dollar weighted basis, the implications on overall portfolio performance for Australian super funds is very small. Also, adoption of Fair Value as the standard for private equity reporting in Australia means that domestically, the J-curve may even cease to exist.</p>
6	How much to commit – Some "Rules of Thumb" Oct 2004	A question often asked by investors is "How much should I commit to my private equity program and how often should I make re-commitments?" A general rule of thumb and how it is derived is explained in this research note.
10	Private Equity: Current Trends affecting Australian MBO Fund Investors Feb 2005	In this paper we seek to explore and highlight issues and challenges facing investors in MBO funds in Australia at the present point of the cycle. The recent trend to increased MBO fund sizes combined with a cyclical increase in investment into MBO funds has thrown up issues and challenges for investors. These apply to both for both the rationale and approach to investing in MBO funds and the alignment of interest between the MBO managers and their investors.
11	Understanding and Managing Liquidity in Private Equity Aug 2006	<p>Private Equity and Venture Capital (PE) is an asset class that has many attractions for diversified institutional investors. However, many wrestle with the issue of liquidity and how PE fits into their portfolios given the constraints of a potentially mobile member base.</p> <p>The purpose of this paper is to discuss the sources of liquidity for private equity investors. The intent is to allow institutions to make informed decisions as to whether the illiquidity/return trade off of private equity is suitable for their fund.</p>
12	Buyout Pricing – Some Current and Long Term Issues Aug 2006	This paper provides a discussion of various aspects of pricing in the current buyouts cycle and the looks to the lessons of past cycles in the US for enlightenment regarding the best strategies. It is in the form of a power point chart set.

13	Revisiting Alignment of Interest – Fees February 2007	Recent press coverage has been critical of private equity fee structures. While there is a lot of truth in the commentary it is worth revisiting the fundamentals: why are PE funds structured the way they are, where does the structure work and where can the structure fail? (PowerPoint chart set)
14	Private Equity Penetration in Australia May 2007	PE penetration levels in Australia are now comparable to international benchmarks. We provide an analysis of the PE penetration metrics, what has driven them and consider where penetration levels might be in the future given a range of assumptions (PowerPoint chart set)
15	Note on Private Equity Volatility and Correlations May 2007	Analysing the volatility of private equity and its correlation with other asset classes is a difficult problem, albeit one that is important for determining asset allocations. This note provides some observations and data pertaining to the problem without trying to draw generic conclusions. We review some academic research, provide some pragmatic views from overseas industry players and report on the experience observed in Quay Partners funds.
16	Paper Review – Private Equity Spotlight May 2007	A brief review of Private Equity Spotlight research on performance of listed private equity and persistence of performance among managers.
17	Debt Trends in Private Equity August 2007	A topical paper that looks to determine the potential implications of the sub-prime credit crunch on financing of MBOs
18	A disaggregated view of Australian Venture Capital October 2007	An analysis of the Australian Venture Capital and the enabling factors that cause Quay Partners to take a favourable view on the sector.
19	Still in development	
20	Paper Review: The Advantage of Persistence How the Best Private Equity Firms .Beat the Fade.	A review of a paper on persistence of performance by Boston Consulting Group and some interpretations from Quay Partners perspective