A CHALLENGED BUSINESS MODEL

Relative to an overall expanding and dynamic private equity market, Funds of Funds (FoFs) have largely been regarded as an underwhelming subset, lagging in growth and under pressure to assert their relevance. It is not unreasonable to ask whether there is a place for FoFs among alternatives down the line, or whether they will retreat into obsolescence.

At the core of the FoF client base was the relatively unsophisticated private equity investor. Now more experienced, those clients are much less willing to pay an additional layer of fees, and have reined in fund sourcing and selection to manage private market allocation independently. The appeal of FoFs as a direct line to high-demand private equity funds remains a selling point, particularly for pioneers of the FoF industry. However, as LPs build up their internal programs, the access card is not enough.

Growing proficiency in private equity gives investors greater leverage around manager selection and terms & conditions. The classic 1-and-10 fee model has become outdated. FoFs that relied on established client relationships can no longer expect easy commitments from their LPs. More sophisticated limited partners now issue RFPs in search of competitive market offers, paying close attention to price but also to quality of services.

Large separate account mandates, as opposed to classic multi-LP discretionary FoFs, allow investors to negotiate tailor-made investment programs. While not generally captured in the data, these accounts are estimated to represent tens of billions of dollars.

Some signs point towards both the persistence and revival of FoF offerings. FoFs are favored among North American pension funds for private equity investment. These investors carry significant weight: just over 50% of all LP capital deployed comes from only ten plans.

Another large but unexploited client pool is the retail market - similarly drawn to the diversification and risk mitigation offered by FoFs. Funds may develop additional products accessed by retail clients through registered vehicles, as well as offerings geared towards individuals that wish to invest directly with FoF managers. A scaling back of financial regulations is foreseeable in light of the recent overhaul in US politics, and may yield new access and flexibility for all types of investors. In this context, adaptability and scale in the face of new paradigms becomes all the more crucial.

Funds of Funds raised in 2015	Market dynamics	Competition
17 bn USD Raised by Funds of Funds closed in 2015	**Stable since 2010** Fund of Funds fundraising activity has been stable since 2010, when 16.5bn USD was raised	**167** Private equity Funds of Funds raising capital at start of 2016 (targeting 28bn USD)
60 Funds of Funds closed in 2015	**Halved since 2005** Fund of Funds fundraising activity in 2015 decreased by 50% relative to 2005	**- 48%** Decline in the number of Funds of Funds closed in 2015 compared to 2014
22 months Average fundraising duration for funds closed in 2015	**Halved since 2010** Due to the growth of the Private Equity Market, the size of the Fund of Funds market by AUM dropped 50% between 2011 and 2015	**50%** Of the Fund of Funds market represented by US managers

MARKET BRIEF

The shift away from single-product Private Equity firms to diversified providers was brought on by FoF managers following the global crisis in 2008. Buyout fund managers soon followed with multi-strategy platforms. For large scale mandates and competitive RFP processes, diversification and global exposure check key boxes that managers need to satisfy clients.

As we see it, for FoFs managers the right play is in diversified offerings. Distinct secondary and co-investment vehicles meet LPs' growing appetite for sub-segments of the private equity market. They are also viewed as more advantageous for FoF managers as they typically allow higher management fees.

FoFs with a single offering can develop recognition for their expertise in a given area, e.g., emerging managers, venture. While the 'niche' approach seems to work, it is not fundamentally scalable because highly selective strategies requiring deep expertise tend to only justify small fund size.

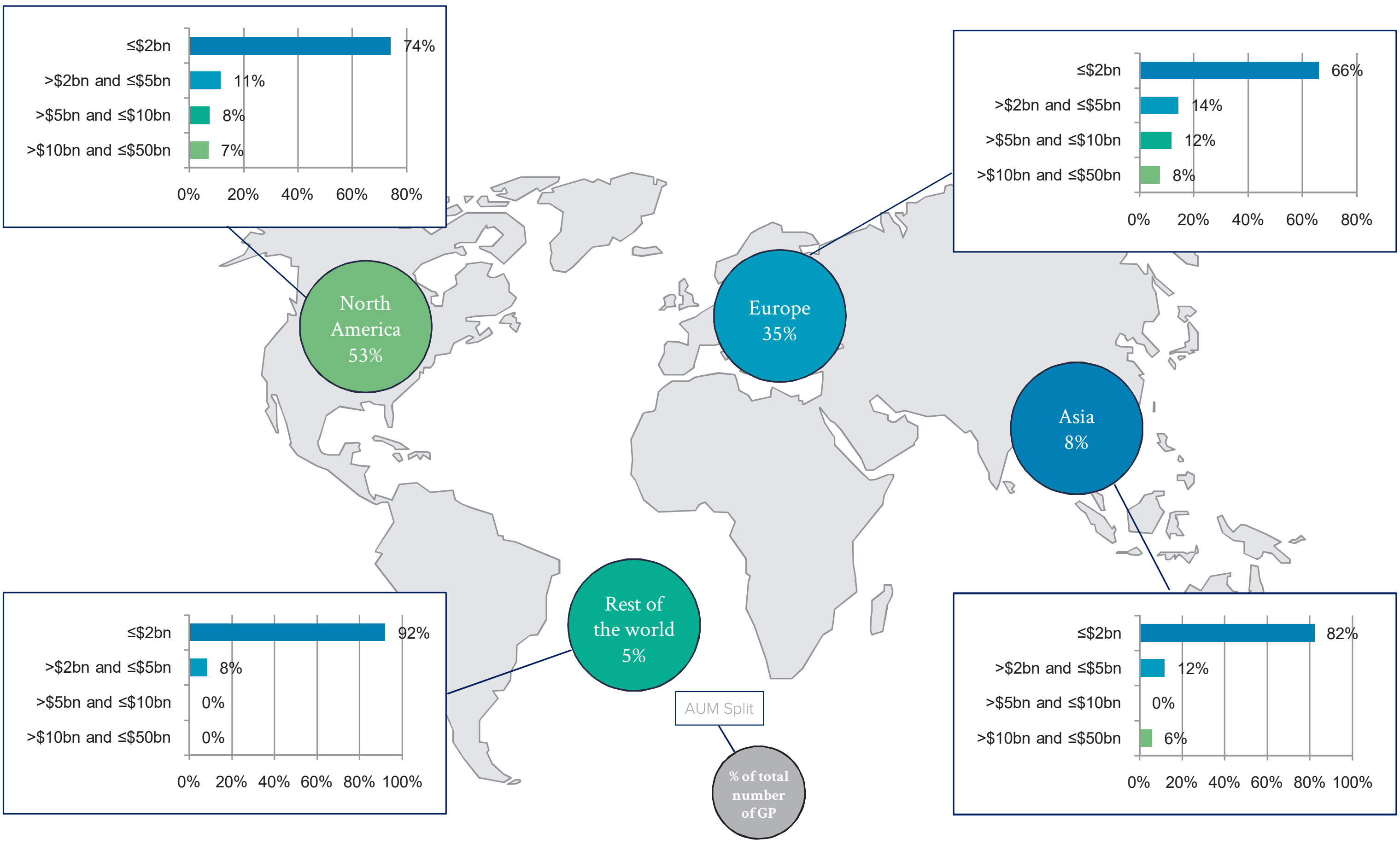
Interestingly, there are more small FoF managers in existence today than one might expect. There are 233 FoF managers managing less than $2bn AUM across both Europe and the US. A strategic and right-sized consolidation may present an opportunity for smaller managers to maintain a differentiated approach within the umbrella of a scaled organization.

432 Fund of Funds Managers identified and monitored by Triago

167 Private equity Fund of Funds vehicles currently raising capital

$28bn Aggregate amount that those 167 vehicles are looking to raise currently

27% Proportion of aggregate sought by the 10 largest Funds of Funds



FUND OF FUNDS M&A

The Private Equity market has seen over 100 management company mergers and acquisitions since 2005, of which 83% were executed after 2010. One third of those transactions involve Funds of Funds, which account for only 3% of the capital raised in 2015.

Consolidation in asset management is not a new theme; however, our findings suggest renewed M&A vigor around the FoF strategy. After a first wave of local M&A transactions among FoF managers, we now see more complex and international unions - notably with increasing interest shown by generalist Asset Managers. Diversified exposure and risk mitigation appeal greatly to Asset Managers looking to develop or enhance private equity offerings. In cross-border transactions between a FoF target and acquirer, client base acquisition seems to be the primary driver.

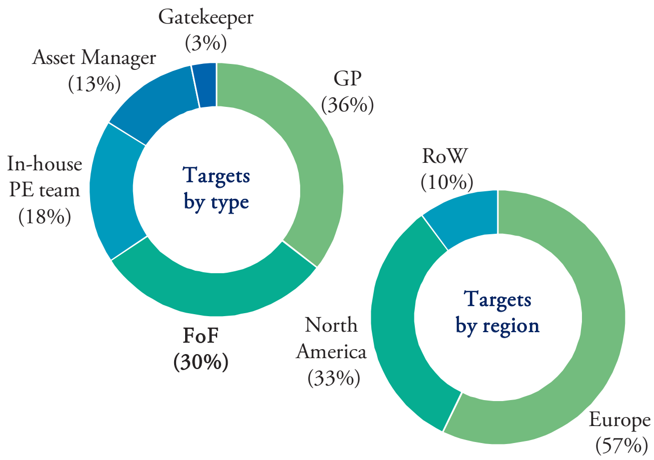
The decision to pursue external growth through M&A can be explained by several factors:

i. Macroeconomics drivers: global consolidation trend in Asset Management, particularly across mature markets.

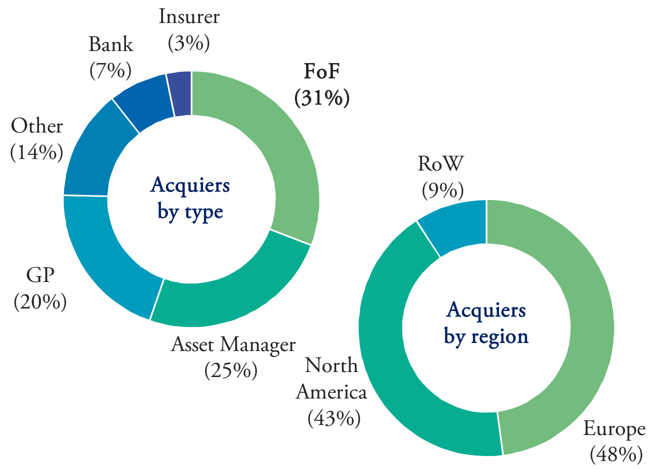
ii. Private Equity-specific drivers: pressure on terms & conditions due to product standardization and market competition; increased cost of operations due to compliance and regulatory requirements; need for scale and consolidation plays.

iii. Maturing industry: development of Private Equity platforms providing all sub-asset classes of Private Equity.

Target profiles



Acquirer profiles



Aberdeen | Flag Capital

Aberdeen to acquire Flag Capital to boost global alternatives capability and establish a strong alternatives footprint in the US.

Press release | May 27th 2015

The Carlyle Group | AlpInvest

The Carlyle Group announced an agreement to acquire AlpInvest, a private equity manager with €32.3 billion in capital under management.

Fortune | January 26th, 2011

Natixis | Euro Private Equity

In line with the development of its third party business, Natixis' Private Equity has just taken over Euro Private Equity.

Press release | May 14th, 2013

Blackstone | Strategic Partners from Credit Suisse

Blackstone announced an agreement with Credit Suisse to acquire Strategic Partners, Credit Suisse's dedicated secondary private equity business with $9 billion in assets under management.

Streetinsider | April 22nd, 2013

Stepstone | Parish

Stepstone announced that it will acquire the funds management business of Parish Capital, a PE manager with $2bn in AUM.

BusinessWire | November 30th, 2011

Flag Capital | Squadron

U.S. private equity investor FLAG Capital Management said it has agreed to buy Squadron Capital Advisors, an Asian private investment firm.

Reuters | October 23rd, 2012

ICG | Graphite Trust

ICG will take over management of the London-listed investment trust Graphite Enterprise Trust, following the acquisition of Graphite Capital Management's private equity fund-of-funds business.

Pionline | December 23rd, 2015

TRIAGO

Triago was founded in 1992 by Antoine Dréan to assist general partners in raising capital from investors in the United States at a time when there were very few limited partners in Europe and when most private equity groups were captive of larger organizations. Since then, Triago has grown as a dedicated private equity fund advisor operating on a global basis.

Independent, pragmatic and success-driven, Triago has built a strong expertise as an advisory-focused private equity fund specialist. The firm's three complementary activities allow its long-standing team of professionals to address the needs of both limited and general partners with their fundraising, portfolio management, and strategic development. This unique positioning in the market allows Triago to be creative, value-added and effective across all market cycles.

ENVIRONMENT

Change in regulations and practices
Pressure on investment returns
Need for differentiation
Fluctuation in brand value
Consolidations among GPs and LPs

CHALLENGES

Keep a leadership position
Build best-in class processes
Attract top-quality LPs
Answer to clients' needs
Retain and motivate team

TRIAGO

Creative thinker, independent and discreet

Deep-rooted player
Daily interactions with PE players (GPs, LPs)
Global PE coverage
Broad experience of fundraising
Strong knowledge of the market

Private Equity specialist
For private equity managers
For institutions
For corporates
For banks, for funds

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