

**Presenting  
debate on  
contemporary  
and emerging  
portfolio  
construction  
issues**



portfolio  
construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney

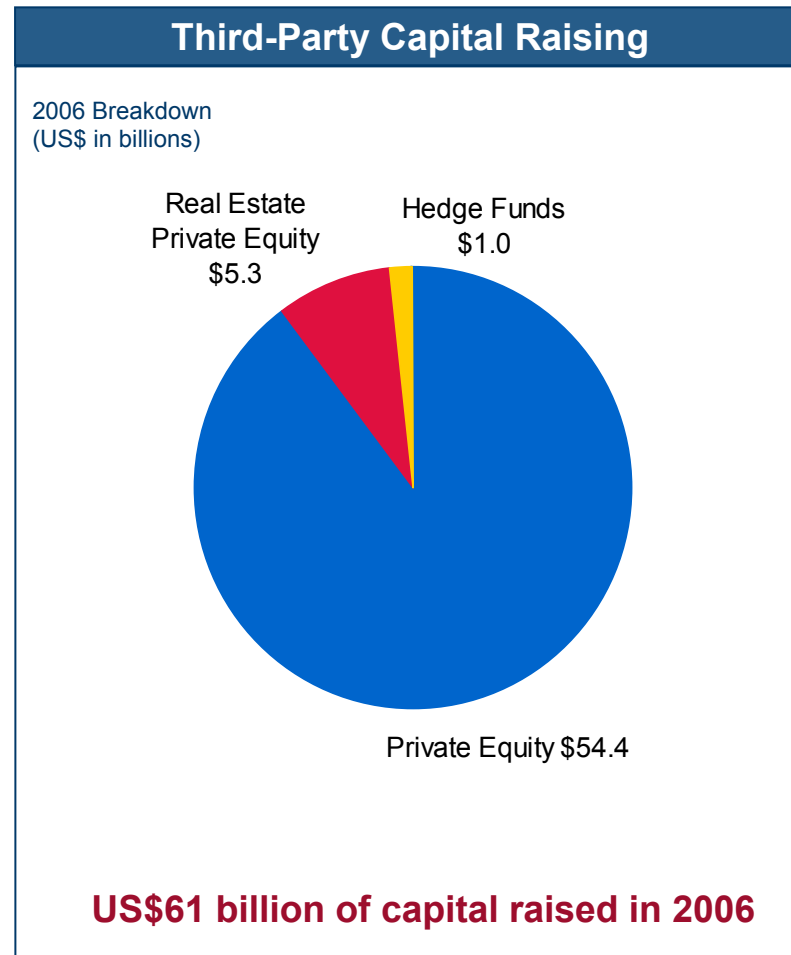
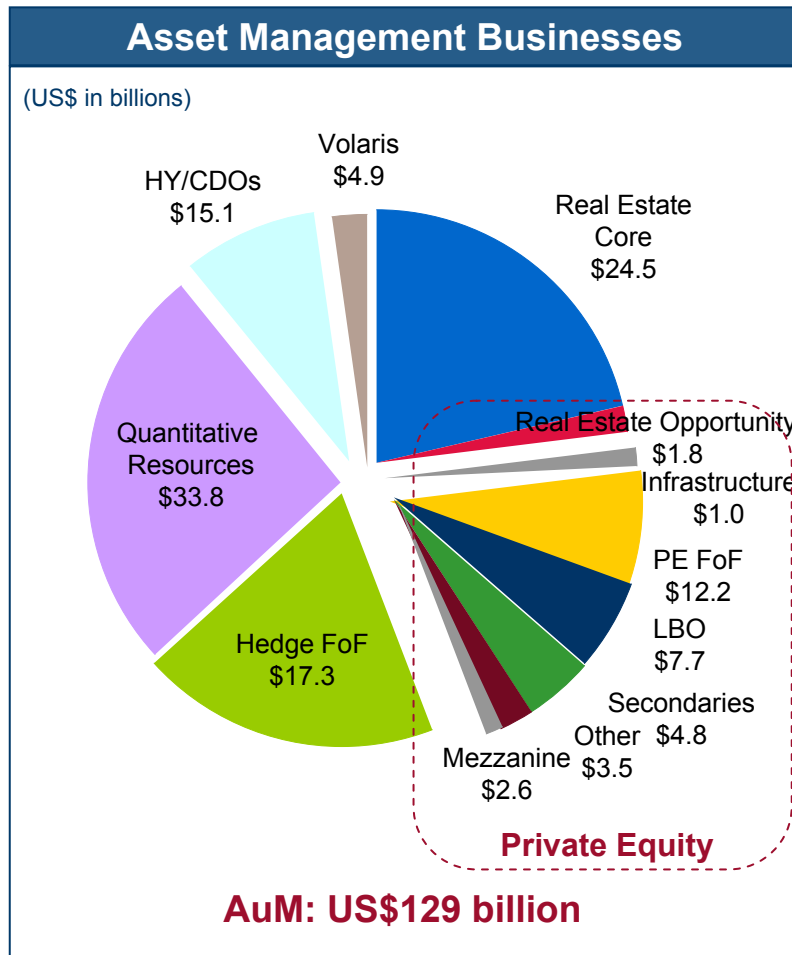


## Private Equity – a world of opportunities

August 2007

Simon Ford  
Managing Director, Alternative Investments Australia

# Credit Suisse Alternative Investments



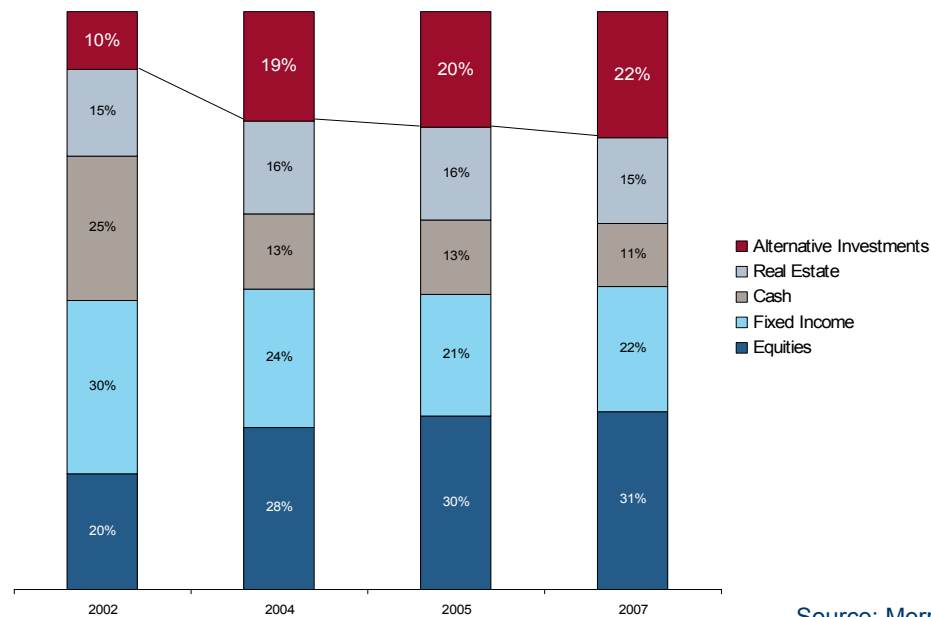
## Market-leading Businesses

# High Net Worth Investors (HNW) in Alternatives

Clients with net financial investable assets of over USD 1 million

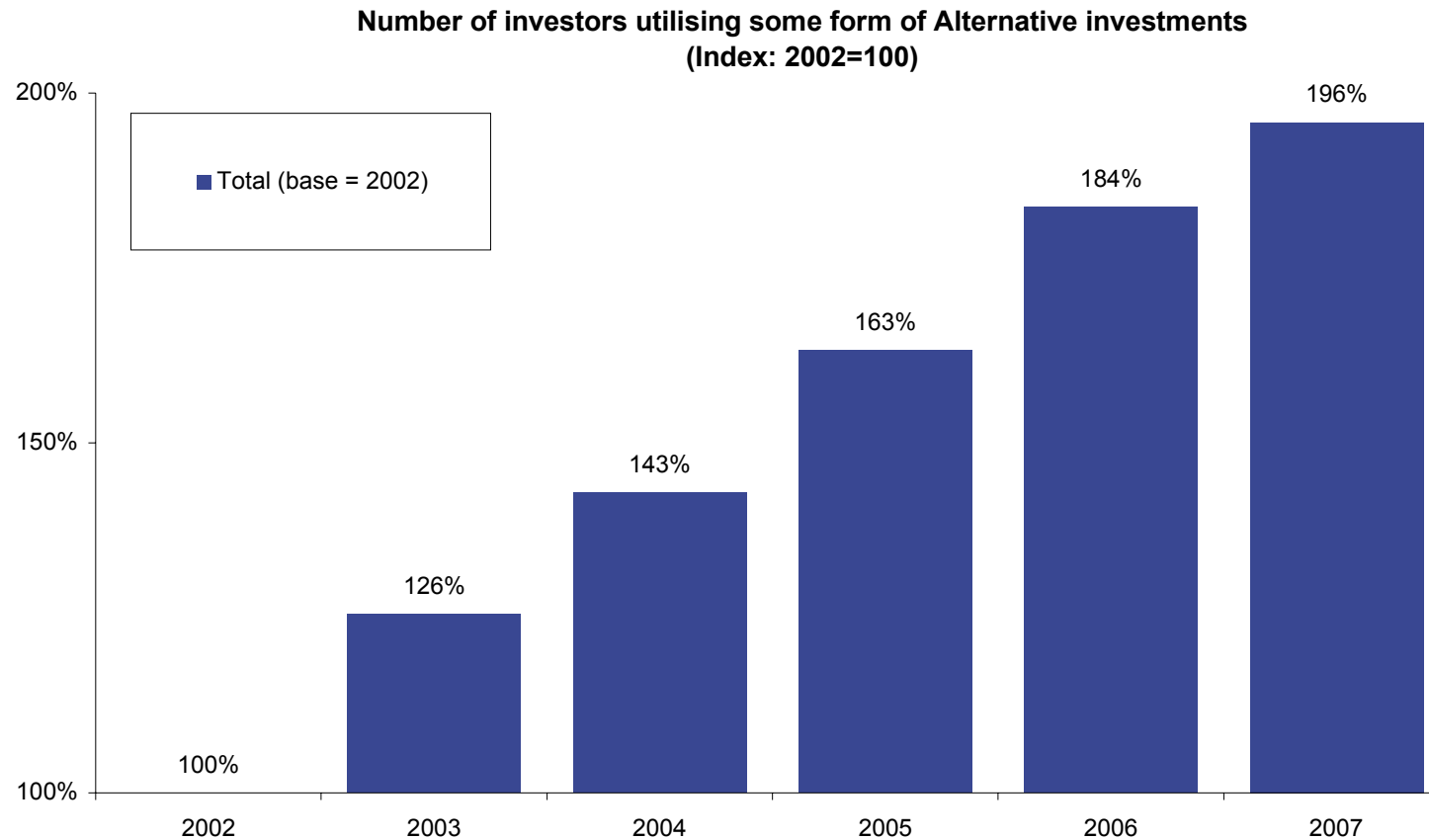
- Global HNW financial wealth is over USD 33 trillion
- 8.7 million households worldwide
- Investment goals shifting from preservation to wealth growth accumulation

Changes in typical Asset Allocation, 2002-2007



# Investment Trends 2007 Australian Alternative Investments Report

Number of investors in “Alternatives” has doubled in last five years



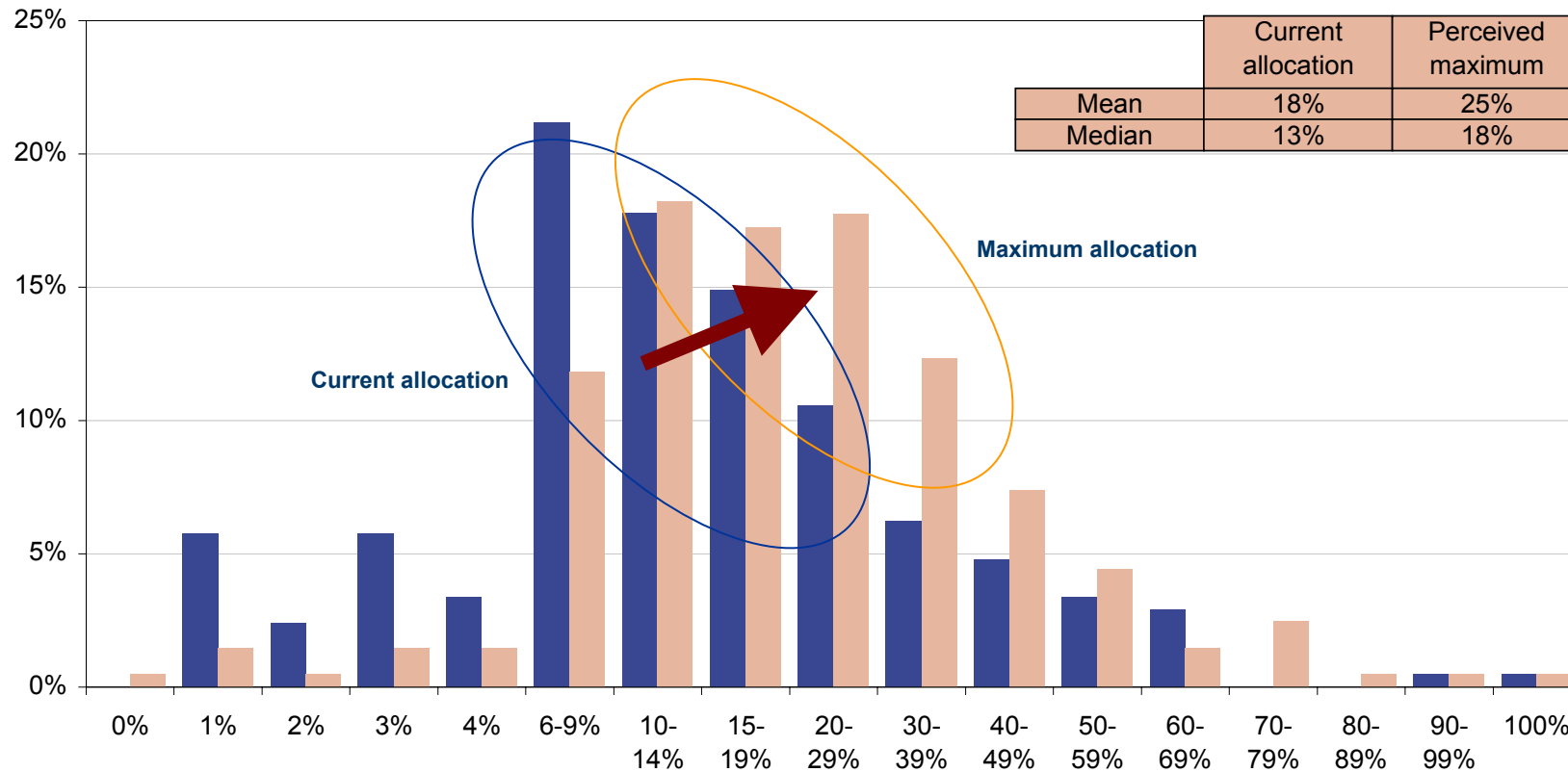
Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report.

Based on a quantitative survey conducted over November 2006 through January 2007 of over 3,000 Australian investors who have utilised alternative investments. Covers a broad range of alternative investments

# Australian HNWs want more Alternatives in their Portfolio

Current allocations versus maximum % of total assets that investors believe should be in alternatives (among those with \$2million+ in total investable assets)

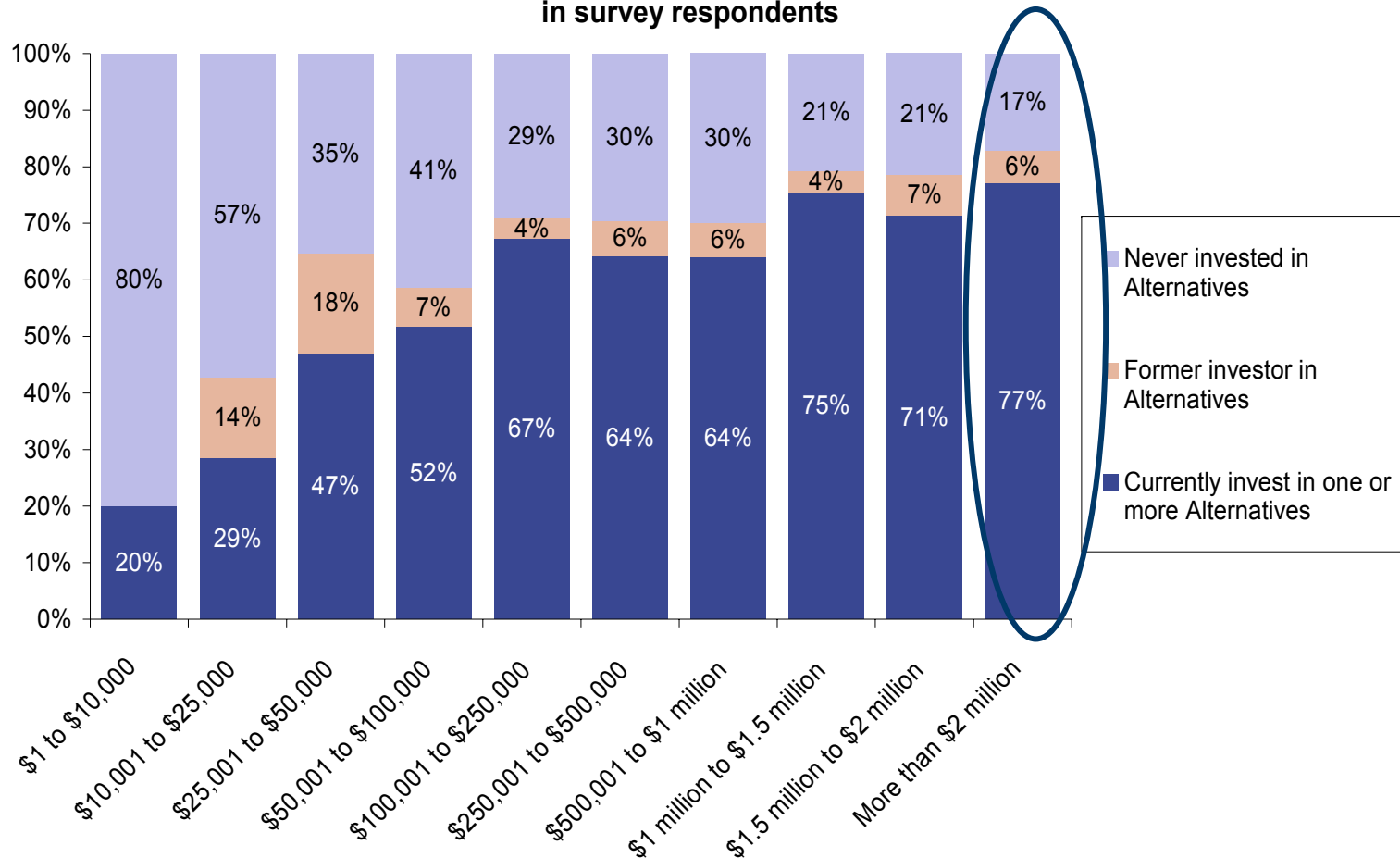
- % of all investment assets in alternatives among those utilising alternatives
- Maximum percentage of total assets that should be invested in alternative investments at the current time



Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report.

# 83% of Australian investors with more than \$2million invested in alternatives...

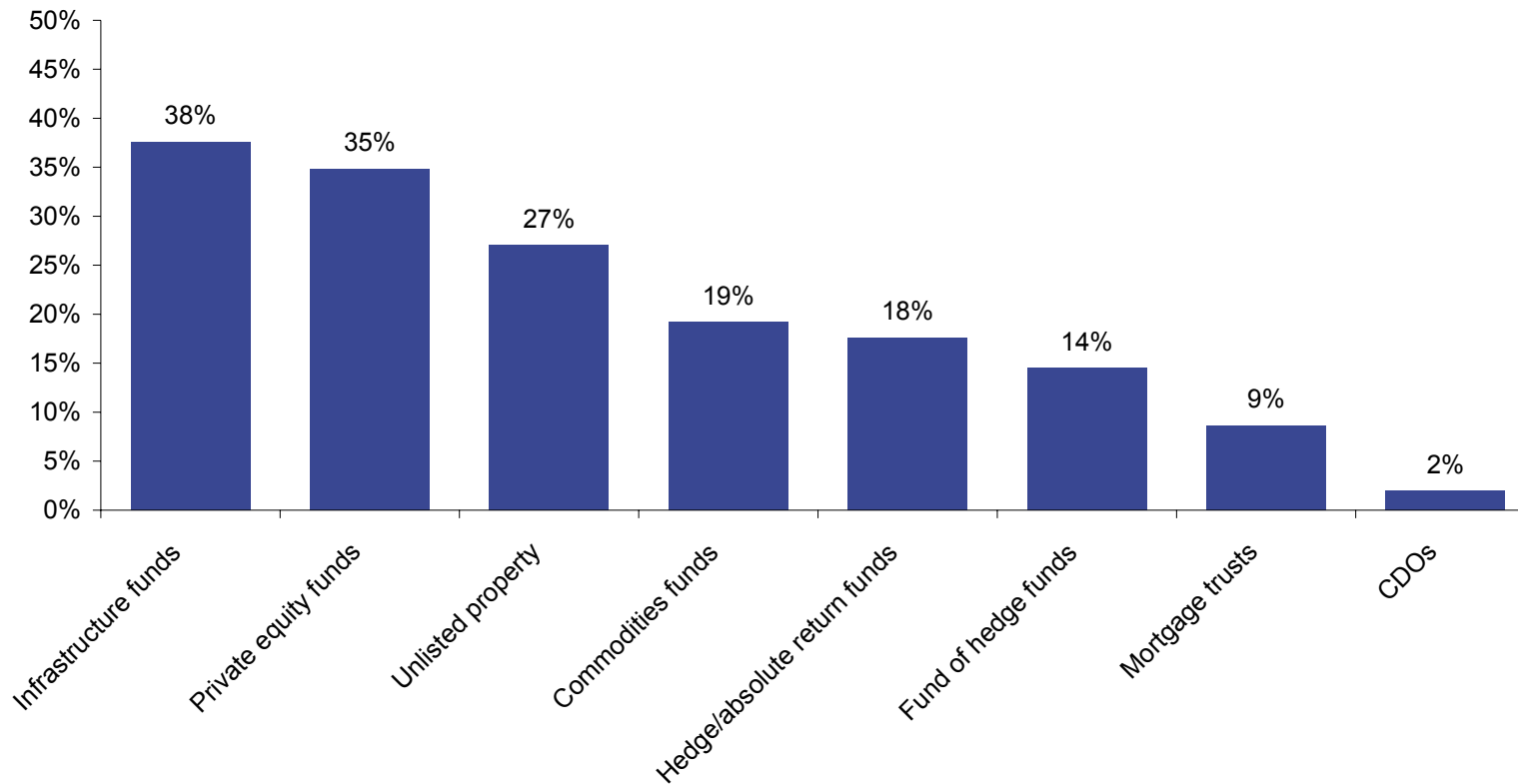
Incidence of people using one or more types of Alternative investment in survey respondents



Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report

...and their current investments include:

Proportion of HNW investors (\$2million+ investable assets)  
using each type of alternative asset class

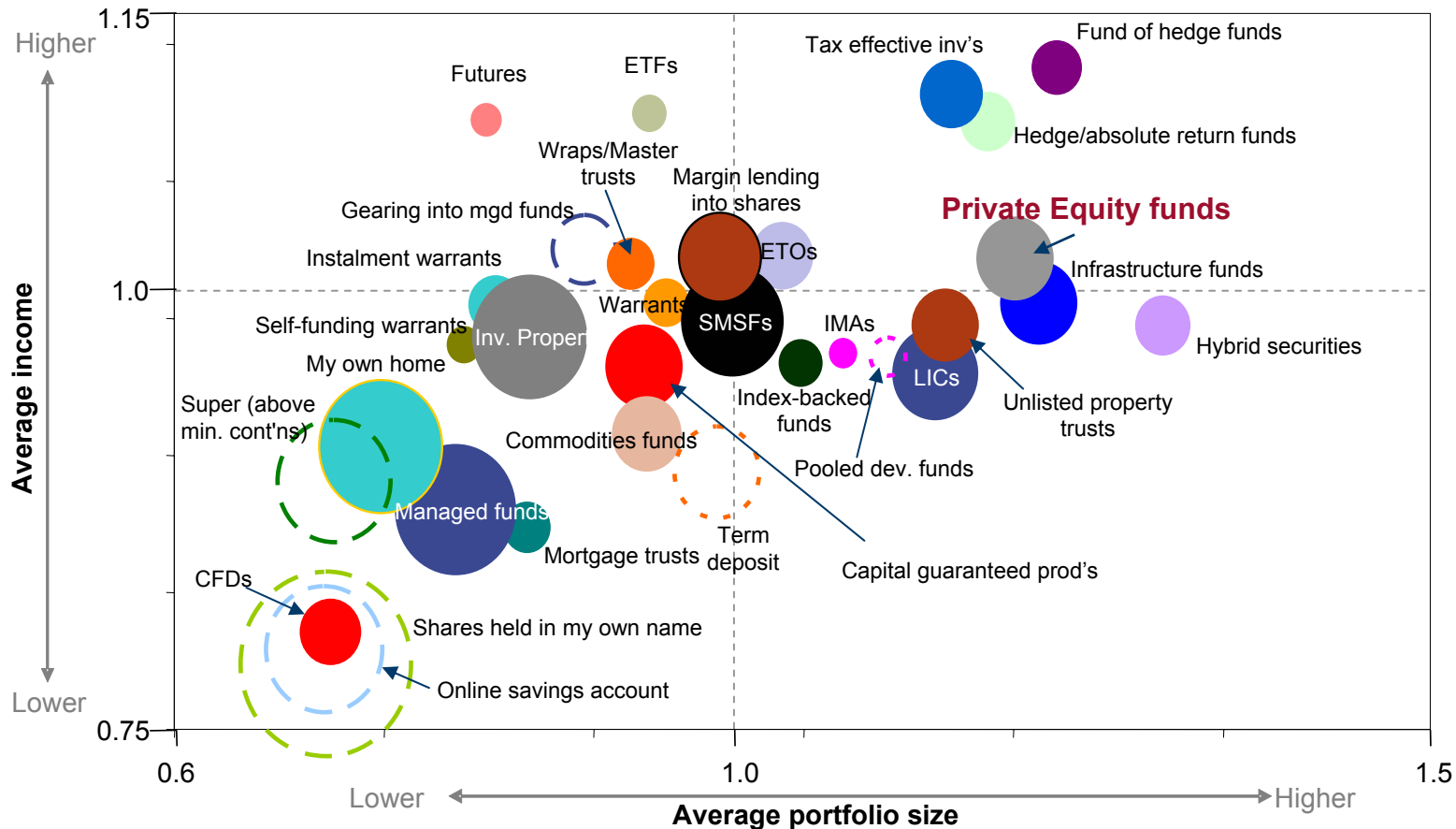


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# Increase in Alternatives investing as wealth increases

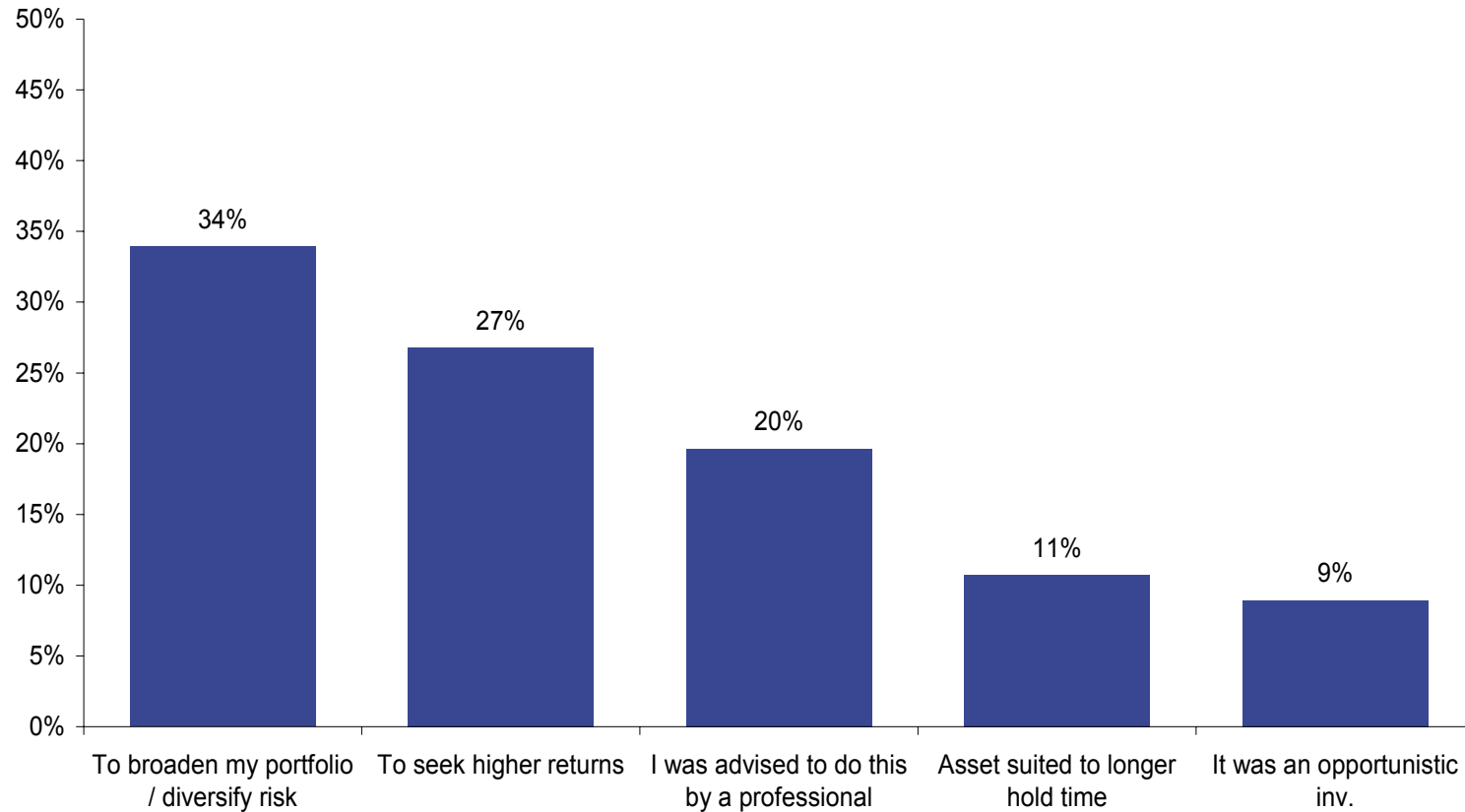
by average portfolio size and income



Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report

# Diversification is the most common motivator for Private Equity

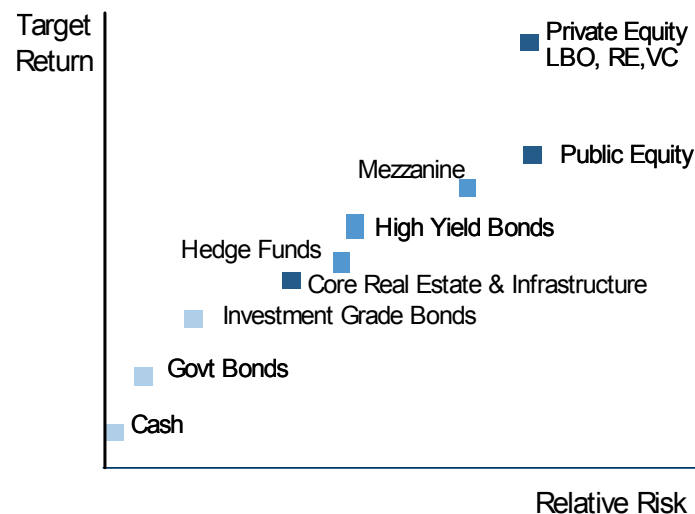
**Main reason for investing in Private Equity**  
(among those with \$1million plus in investable assets including their SMSF)






Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report

# Where Private Equity fits in asset allocation?

## Estimated Relative Risk



## Allocations of U.S. endowments

	 Yale <sup>(1)</sup>	 Harvard <sup>(2)</sup>	 Princeton <sup>(3)</sup>	<b>Educational Institution Mean <sup>(4)</sup></b>
<b>Private Equity</b>	<b>14.8%</b>	<b>13.0%</b>	<b>12.8%</b>	<b>9.3%</b>
Equity	27.8%	30.0%	32.5%	44.9%
Fixed Income	4.9%	27.0%	6.9%	14.2%
Hedge Funds	25.7%	12.0%	29.3%	21.7%
Real Estate/Natural Resources	25.0%	23.0%	14.7%	7.4%
Other <sup>(5)</sup>	1.8%	-5.0%	3.8%	2.4%

Other Marketable Assets: Cash, other (minimal amount)

(1)Yale University Financial Report 2005  
 (2)Harvard College Financial Report 2005  
 (3)Princeton University Financial Report 2005  
 (4)National Association of College and University Business Officers (NACUBO) Endowment Study 2006  
 (5)Cash and other marketable securities



## Value Proposition of Private Equity

## What is Private Equity?

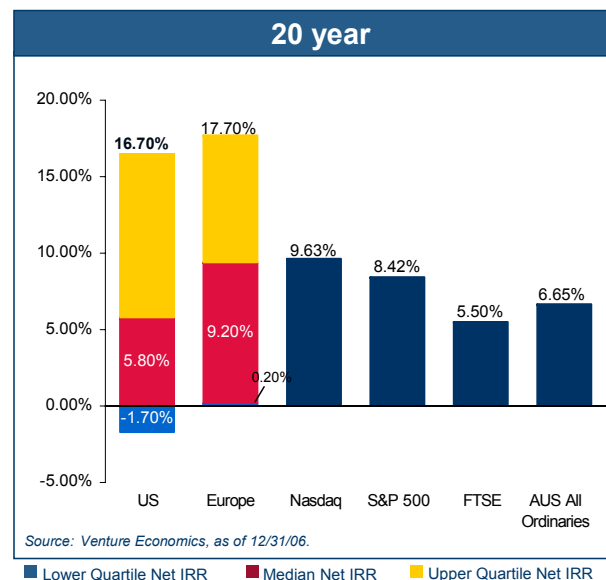
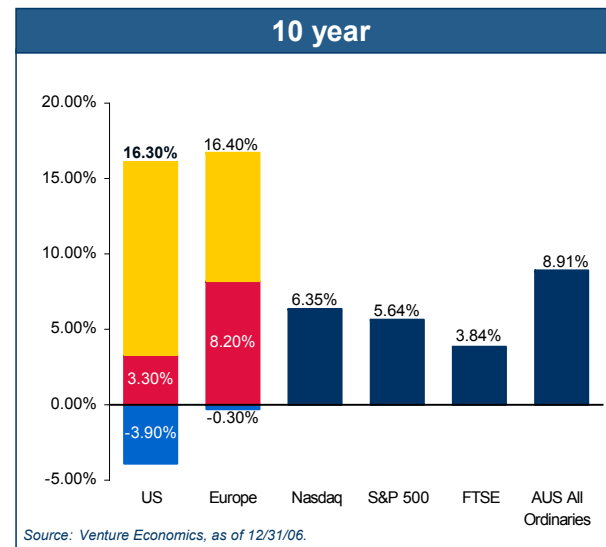
**“Buy a business, don’t rent stocks” Warren Buffet**

- Investment in private (unlisted) companies
- Investments generally conducted through unlisted limited partnerships or trusts

# Why invest in Private Equity?

- **Portfolio diversification**
  - Private companies, geography, industries
  - Reduction of volatility
  - Growing asset class
- High long-term absolute returns
- Access to experienced Managers
  - Highly selective investors
  - Very informed investments
  - Transparent “proprietary” information
  - Active operational management
  - No pressure to manage quarterly earnings
  - Repeat performance (McKinsey)
- Alignment of interest
  - Performance fees based on realised gains

Source: See disclaimers for important information about this track record



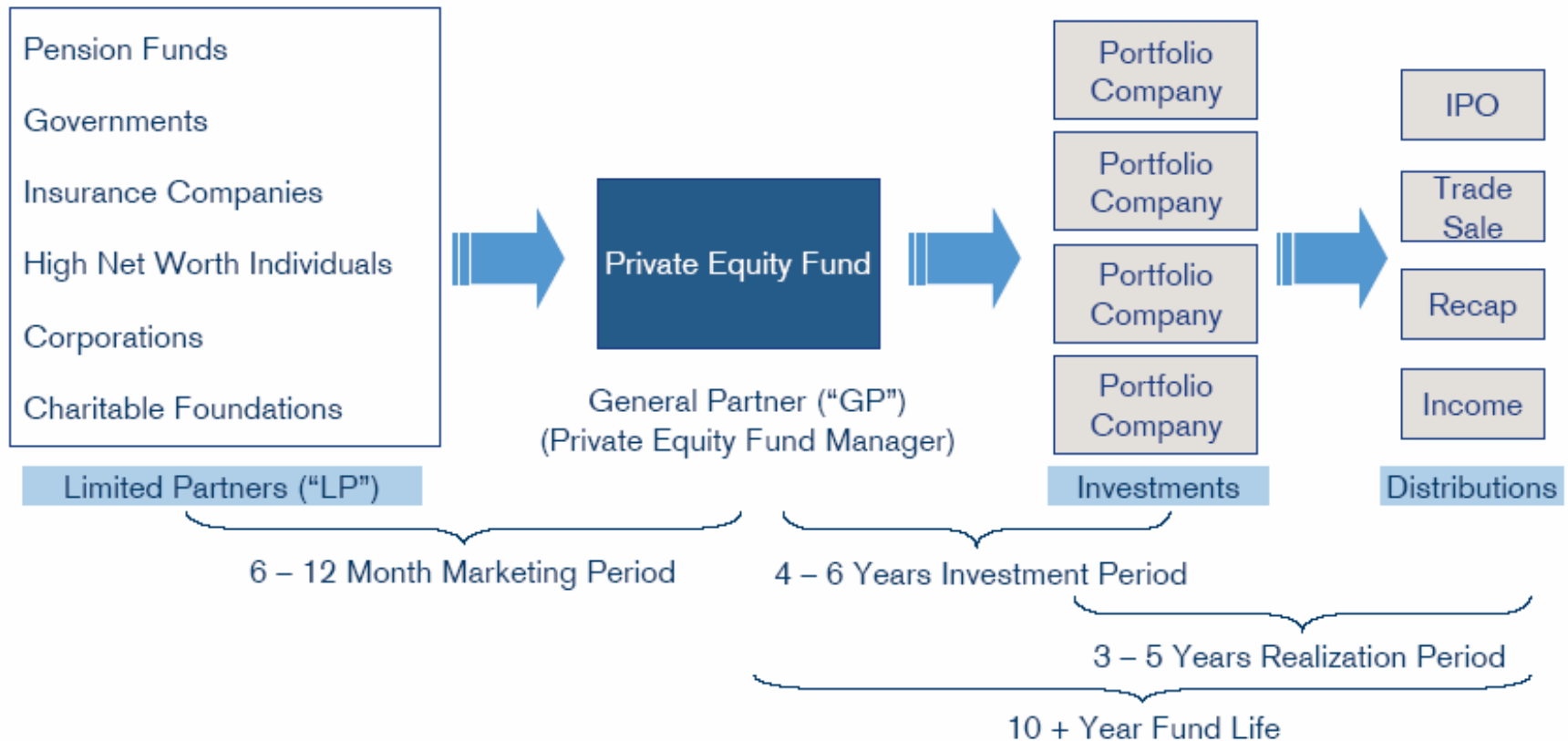
# How to Access Private Equity?

## Investors

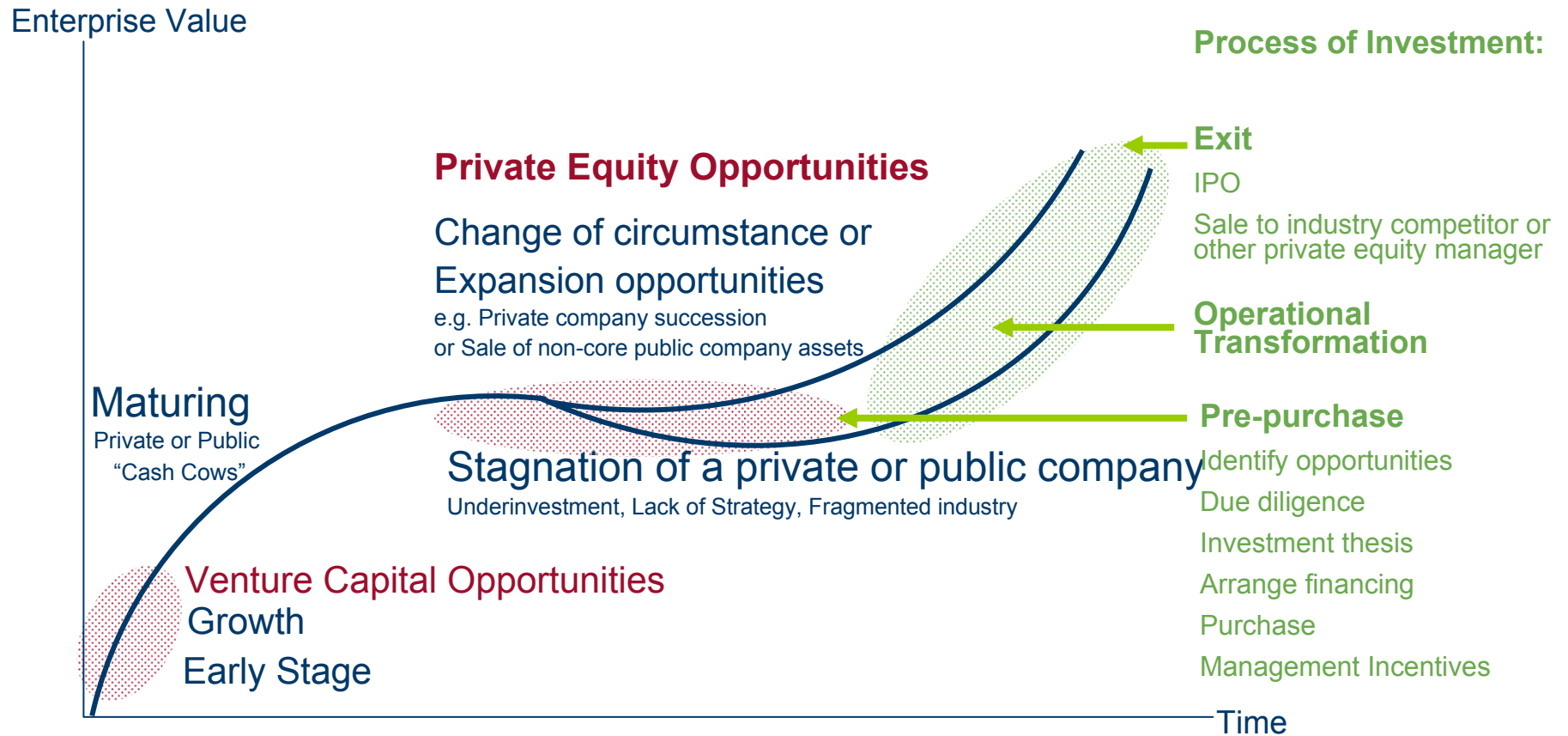
## Manager Selection Single-Managers or Fund of Funds

## Investments

## Exit

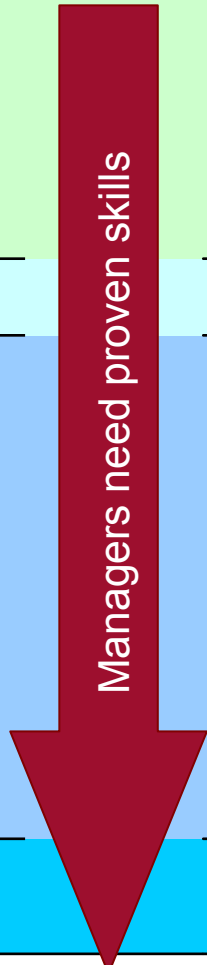
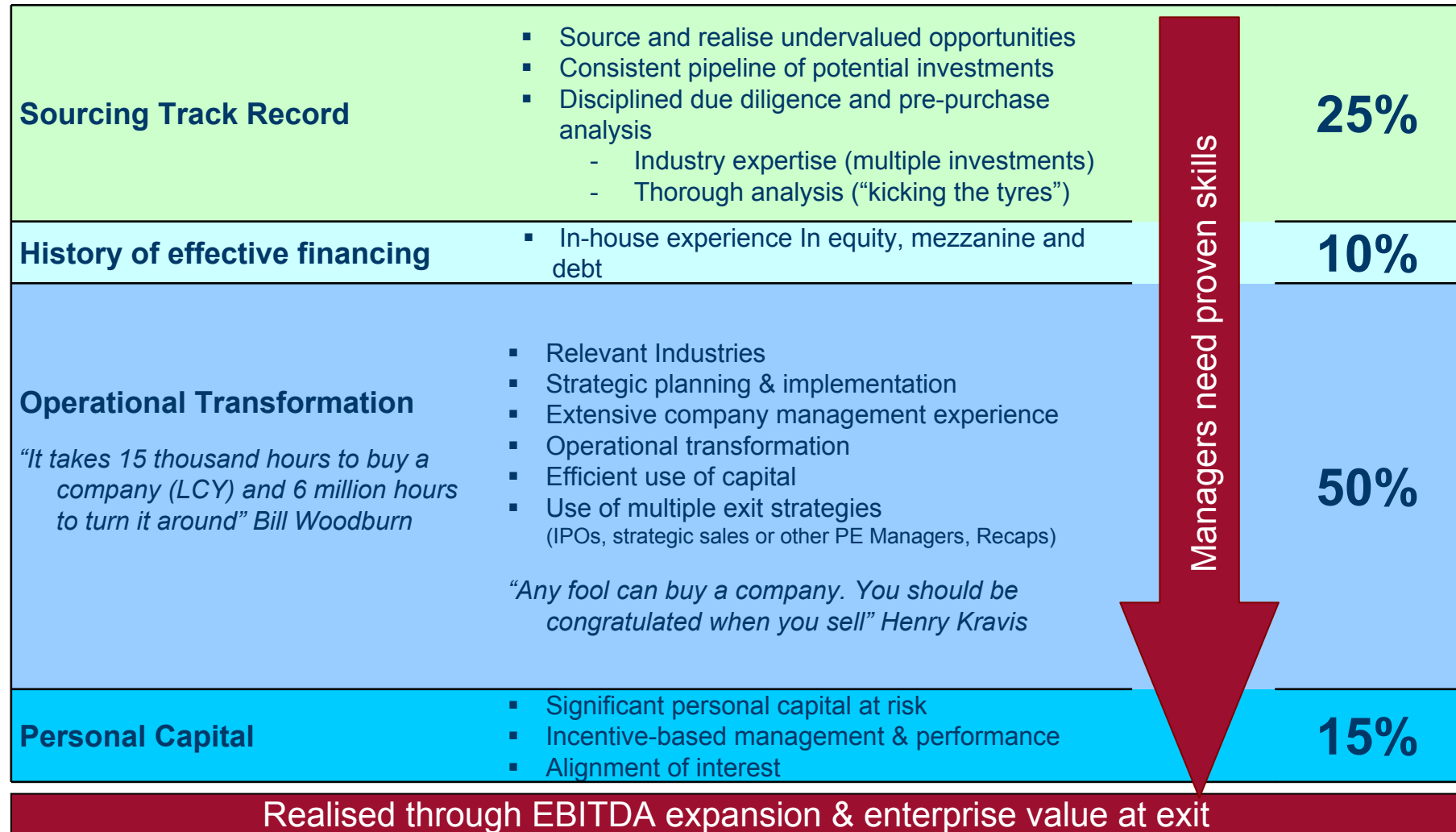


# Life Cycle of a Company – Private Equity Opportunities

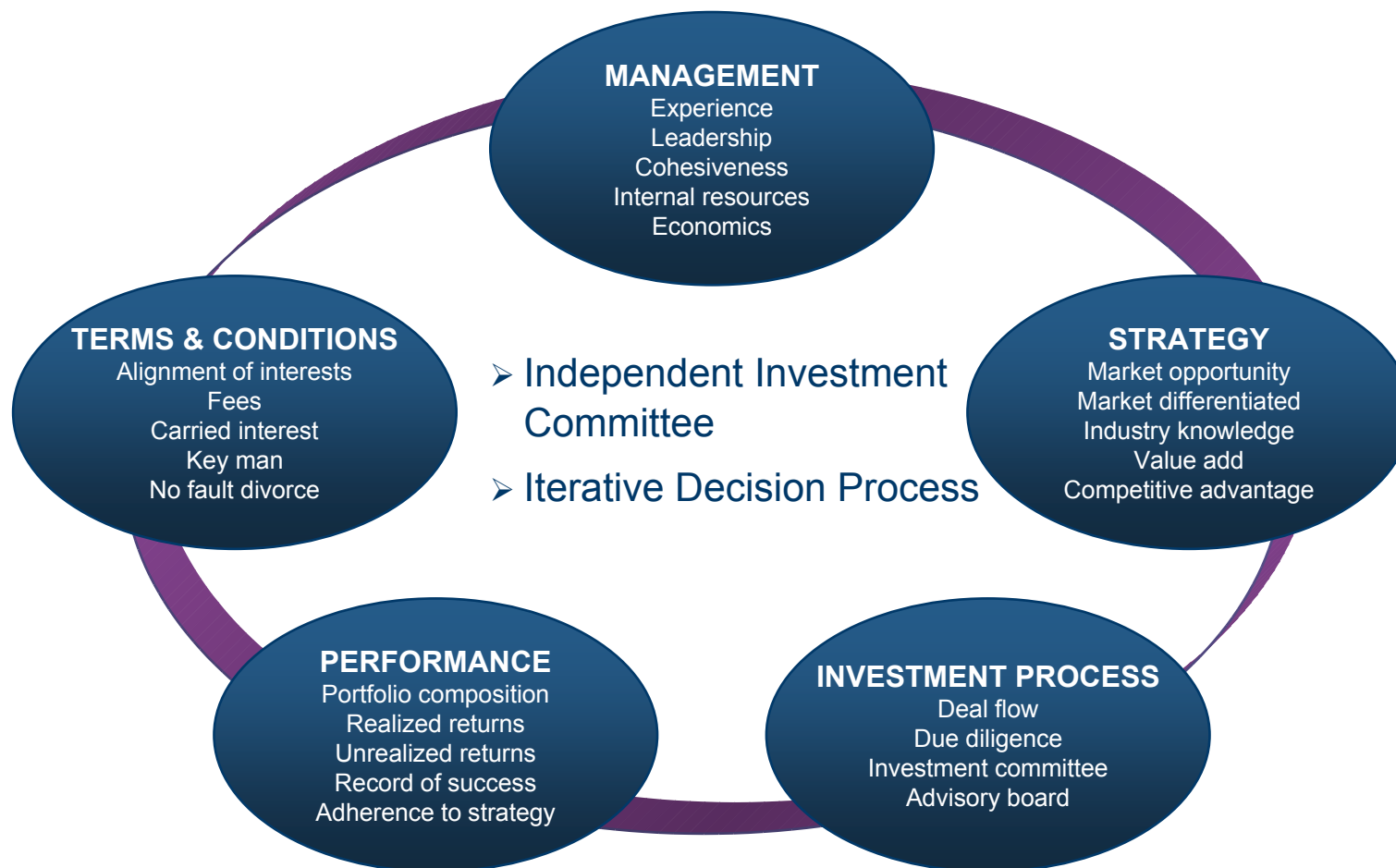




# Value Proposition of Experienced Private Equity Managers



# Criteria & Process for Manager Selection



**To identify managers capable of achieving top quartile performance, Credit Suisse evaluates all these criteria.**

# Types of Private Equity Investment

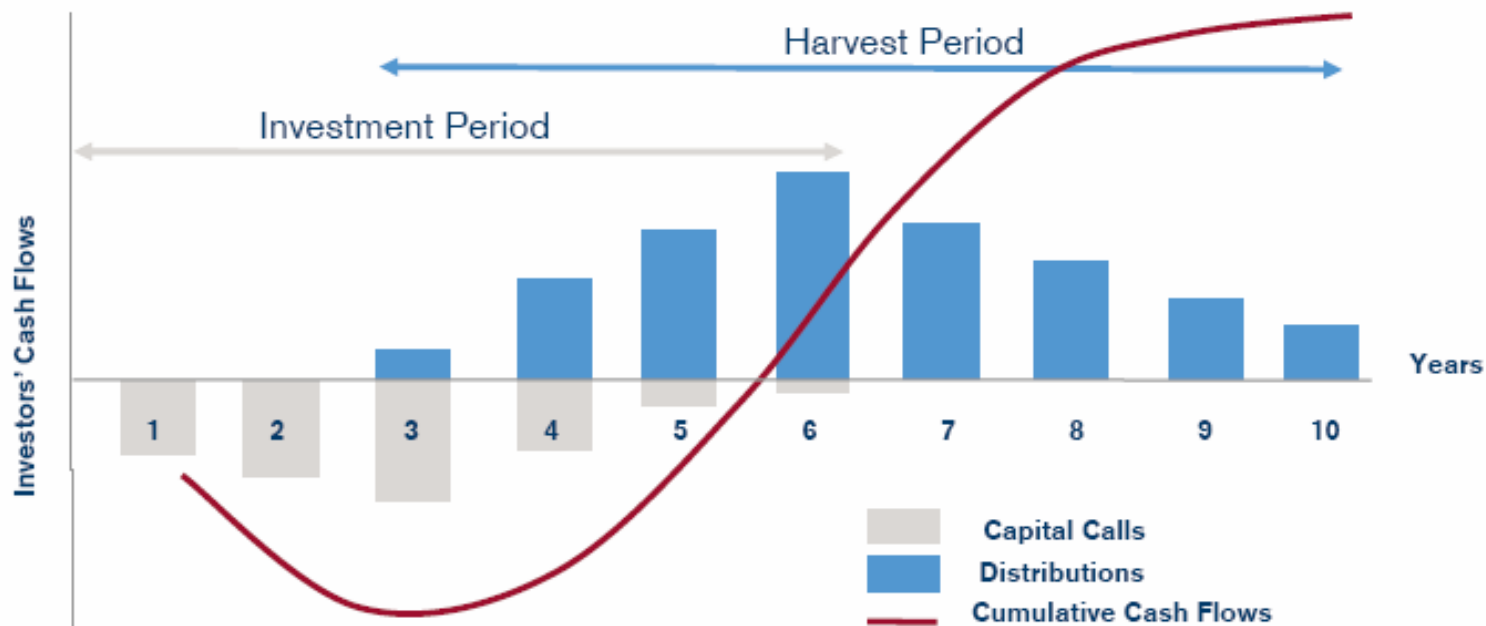
Primary Private Equity	Investment Timeframe (yrs)	Target Return	Return Profile
<p><b>Leveraged Buyouts (LBOs)</b></p> <ul style="list-style-type: none"> <li>▪ The predominant Private Equity investment</li> <li>▪ Control of existing companies requiring new capital/restructuring</li> </ul>	5 to 10	> 20%	Capital Growth
<p><b>Venture Capital</b></p> <ul style="list-style-type: none"> <li>▪ Invest in seed, start-up, or growth of new companies</li> </ul>	5 - 10	> 25%	Capital Growth
<p><b>Real Estate Private Equity</b></p> <ul style="list-style-type: none"> <li>▪ Invest in developmental/value-add real estate opportunities</li> </ul>	3 – 8	> 20%	Income/ Capital Growth
<p><b>Infrastructure Private Equity</b></p> <ul style="list-style-type: none"> <li>▪ Invest in new/existing infrastructure requiring expansion, upgrading or refurbishment</li> </ul>	5 - 10	> 15%	Income/ Capital Growth

## Types of Private Equity Investment

Other Private Equity	Investment Timeframe (yrs)	Target Return	Return Profile
<p><b>Private Equity Funds of Funds</b></p> <ul style="list-style-type: none"> <li>Access to more diversified portfolio of Primary/Secondary Private Equity partnerships and investments</li> </ul>	3 - 10	> 15%	Income/ Capital Growth
<p><b>Secondary Private Equity Investing</b></p> <ul style="list-style-type: none"> <li>Acquisition of interests in existing Private Equity partnerships</li> <li>Secondary investors receive income/capital back earlier</li> </ul>	3 - 8	~ 20%	Capital Growth
<p><b>Mezzanine Financing</b></p> <ul style="list-style-type: none"> <li>Middle layer of financing between banks and Private Equity</li> <li>High cash yield, less risk and more liquid than Private Equity</li> </ul>	5 to 10	~ 15%	High Annual Income
<p><b>Distressed Debt, Commodities, Geographic and Sector Funds</b> (e.g. clean technology, energy)</p>	5 to 10	~ 15%	Variable

## Considerations...

- Investors should diversify by Geography, Strategy, Manager, Vintage
- Long Term Investment - Capital returns typically accumulate in later years
- Limited liquidity - Private Equity is not listed and cannot generally be valued easily
- Flow of cash - “J curve” effect



Capital drawdown's and distributions shown above are typical for a 10-year fund. The graph is for illustrative purposes only; the actual profile of any given investment in a fund may vary substantially.

# Summary

## Private Equity for Australian HNW Investors:

- Diversifies a traditional portfolio into private companies, geographically and across industries
- Experienced Managers have established track records of transforming companies and realising value
- Access to experienced managers is critical
- High absolute long-term returns
- HNW Investors continue to increase allocations to Private Equity
- Credit Suisse manages US\$37 billion in Private Equity



Credit Suisse Premier Managers II  
Private Equity Instalment Notes  
INDICATIVE TERMS

# Credit Suisse Premier Managers II

## Private Equity Instalment Notes: INDICATIVE TERMS

<b>Key Benefits</b>	<ul style="list-style-type: none"> <li>• Exclusive access to four of the world's premier Private Equity Managers</li> <li>• Established top quartile track records over several business cycles</li> <li>• Diversifies your investment portfolio</li> <li>• High absolute return target of 15% to 20% compounded per annum, over 3-8 years</li> <li>• Instalment Note structure simplifies investments in offshore Private Equity</li> <li>• Non-recourse finance will gear &amp; maximise utilisation of investor capital from the outset</li> <li>• Limited global offer USD200m</li> <li>• Ideal, but not limited to, Self Managed Super Funds</li> </ul>
<b>Investment Manager</b>	<p>Credit Suisse Customised Fund Investment Group which manages approximately USD19 billion of commitments representing 46 separate accounts and 14 commingled programs with current, active commitments to 254 fund investments and 38 co-investments which, in aggregate, have generated an underlying fund net return of 18.04% as of September 30, 2006. Credit Suisse Alternative Investments Group manages USD37 billion in Private Equity.</p>
<b>Prospective Managers</b>	<div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;">     </div> <div style="text-align: center;">     </div> <div style="text-align: left;"> <p>Bain Capital Fund X, L.P.              Apollo Investment Fund VII, L.P.              Carlyle Partners V, L.P.              CVC European Equity Partners V, L.P.</p> </div> </div>

The illustrated example of funds may not be available at investment. Credit Suisse has not yet discussed allocations to Credit Suisse Premier Private Equity Managers II and the information provided is from public sources. The targeted selection, allocation and percentages are estimates and the Fund's final portfolio composition will ultimately fund size, the number of underlying funds committed to, allocations to those funds and the manner in which such underlying funds invest. The fund may include a secondary investment, which is defined as an investment into a fund which is over 30% funded providing increased visibility and earlier return capital



# Credit Suisse Premier Managers II

## Private Equity Instalment Notes: INDICATIVE TERMS

Fund features	
<b>Issuer</b>	Credit Suisse Premier Managers II Private Equity Instalment Note Limited
<b>Structure</b>	Private Equity Instalment Notes which provides a leveraged investment in Premier Managers II
<b>Investment</b>	The Face Value of each Note Instalment is USD160,000 paid in two annual instalments of USD80,000.
<b>Non-recourse gearing</b>	In addition, up to USD80,000 of non-recourse finance will be provided to gear the returns of the investments such that each investor will thereby benefit from a Commitment of USD240,000 to Premier Managers II. This non-recourse finance will be repaid from realisations from the investments in Premier Managers II.
<b>Currency</b>	USD - no currency hedging
<b>Distributions</b>	When underlying investments of Premier Manager II are sold and non-recourse finance has been fully repaid
<b>Limited Offer</b>	Premier Managers II limited globally to USD200m. Note Investors pay a deposit to ensure priority of investment
<b>Management Fee</b>	Annual management fee of 1.25%
<b>Performance Fee</b>	5% provided investors have received a minimum net Preferred Return of 8%per annum compounded
<b>Distribution Fee</b>	2% + GST
<b>Non- recourse Fee deferral</b>	The Note will utilise non-recourse finance for all Fees and Expenses. These will be deferred and deducted from realisations of underlying investments. Interest on finance will be charged at a market rate.
<b>Investment timeframe</b>	5 - 10 years
<b>Transaction confirmations</b>	On investment, transfers and withdrawals
<b>Note pricing</b>	Calculated quarterly
<b>Reporting</b>	Quarterly statement and annual financial statements
<b>Information Memorandum</b>	Investors should read the Information Memorandum and accompanying Private Placement Memorandum of Premier Managers II before investing.

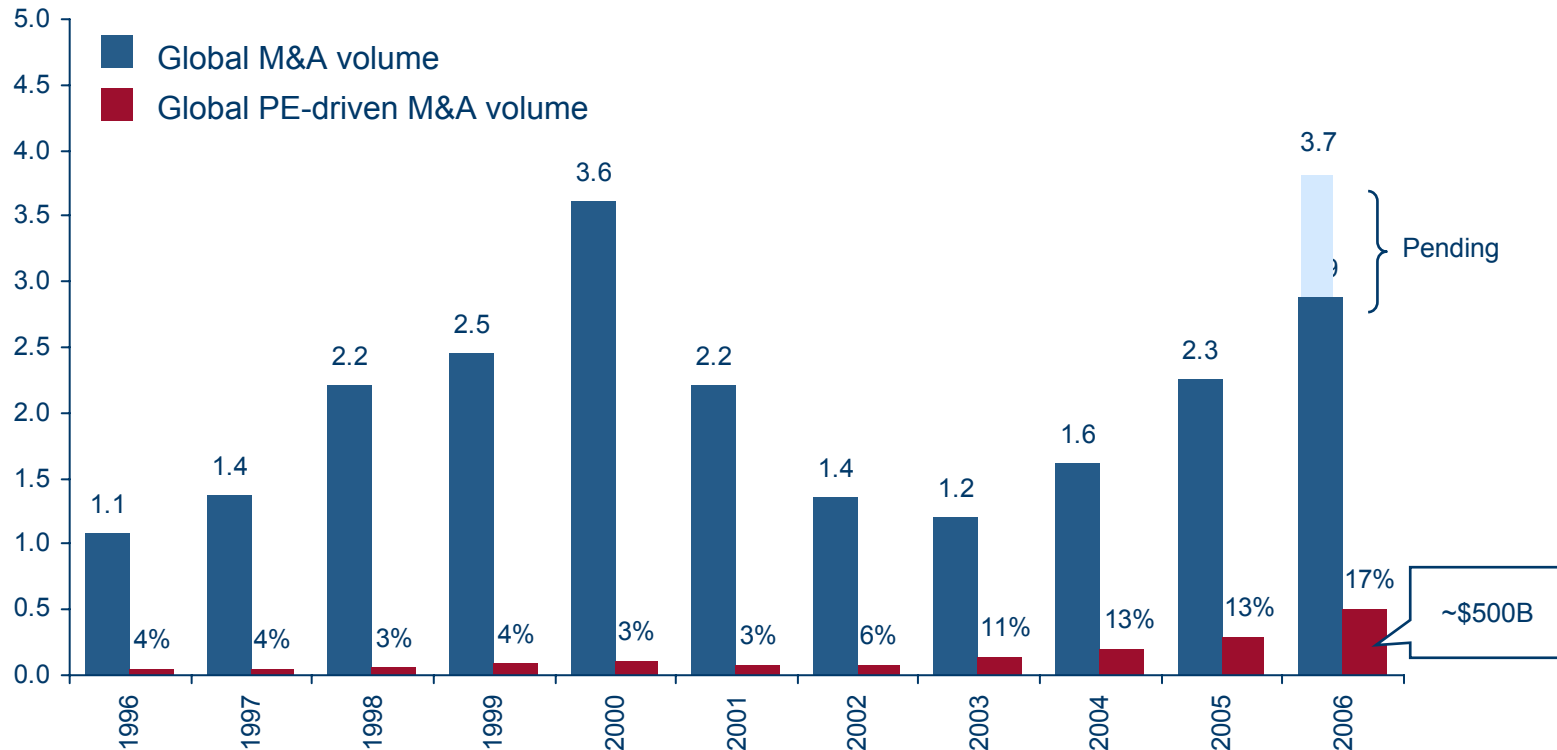


# Questions about Private Equity

## Not enough deals to go around?

### Global M&A Transaction Volume

Transaction volume (\$T)



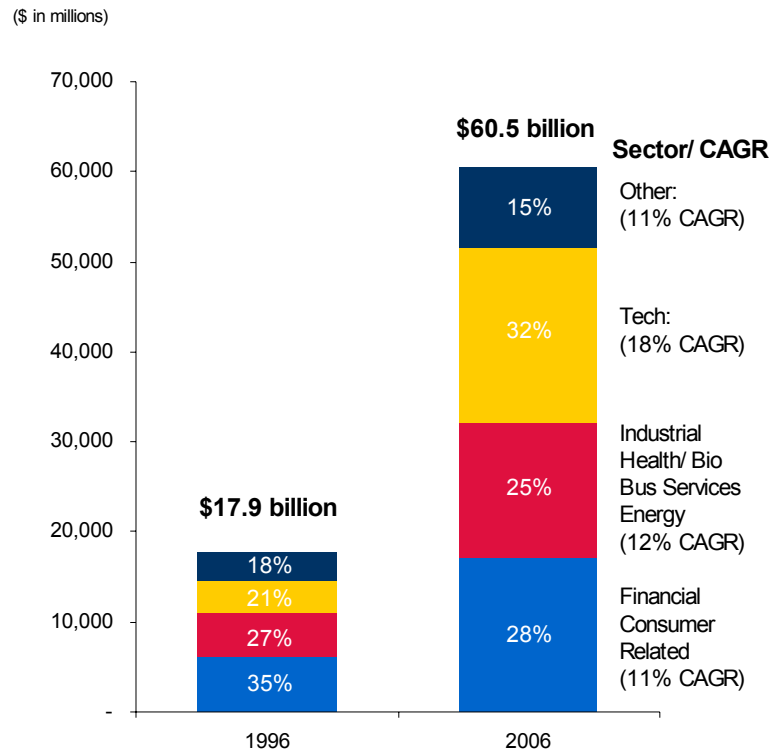
Source: Thompson SDC Platinum enterprise value of completed deals by effective date

**Private Equity is still a small proportion of global M&A.**

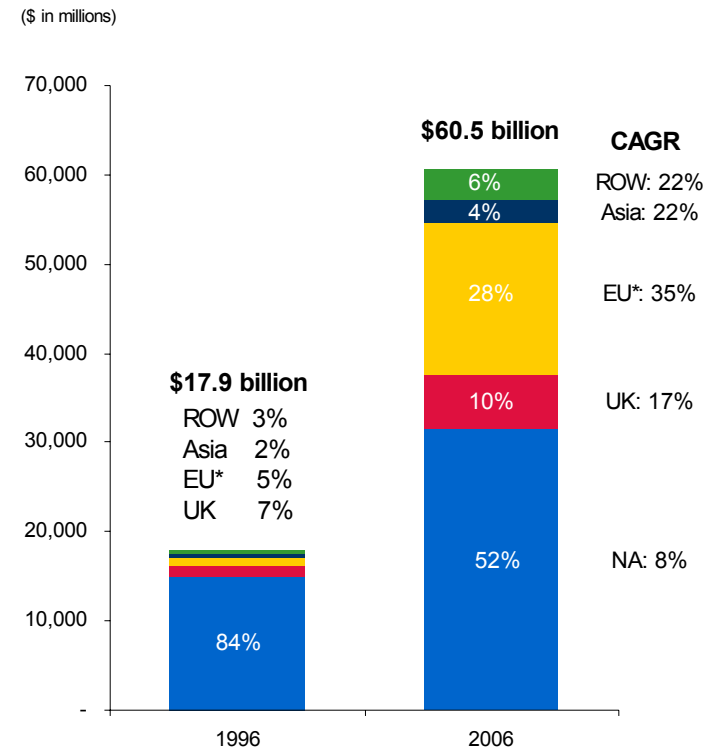
# Questions about Private Equity

## Not enough deals to go around

**Expanding Industries for Investment Buyout – Related Equity Investment**



**Expanding Geography for Investment Buyout – Related Equity Investment**



■ Financial/Consumer Related ■ Health/Bio/Industrial/Energy/Bus Services ■ Tech ■ Other  
Source: VentureXpert. Note: Europe (EU) does not include the United Kingdom

■ North America ■ UK ■ Europe\* ■ Asia ■ ROW

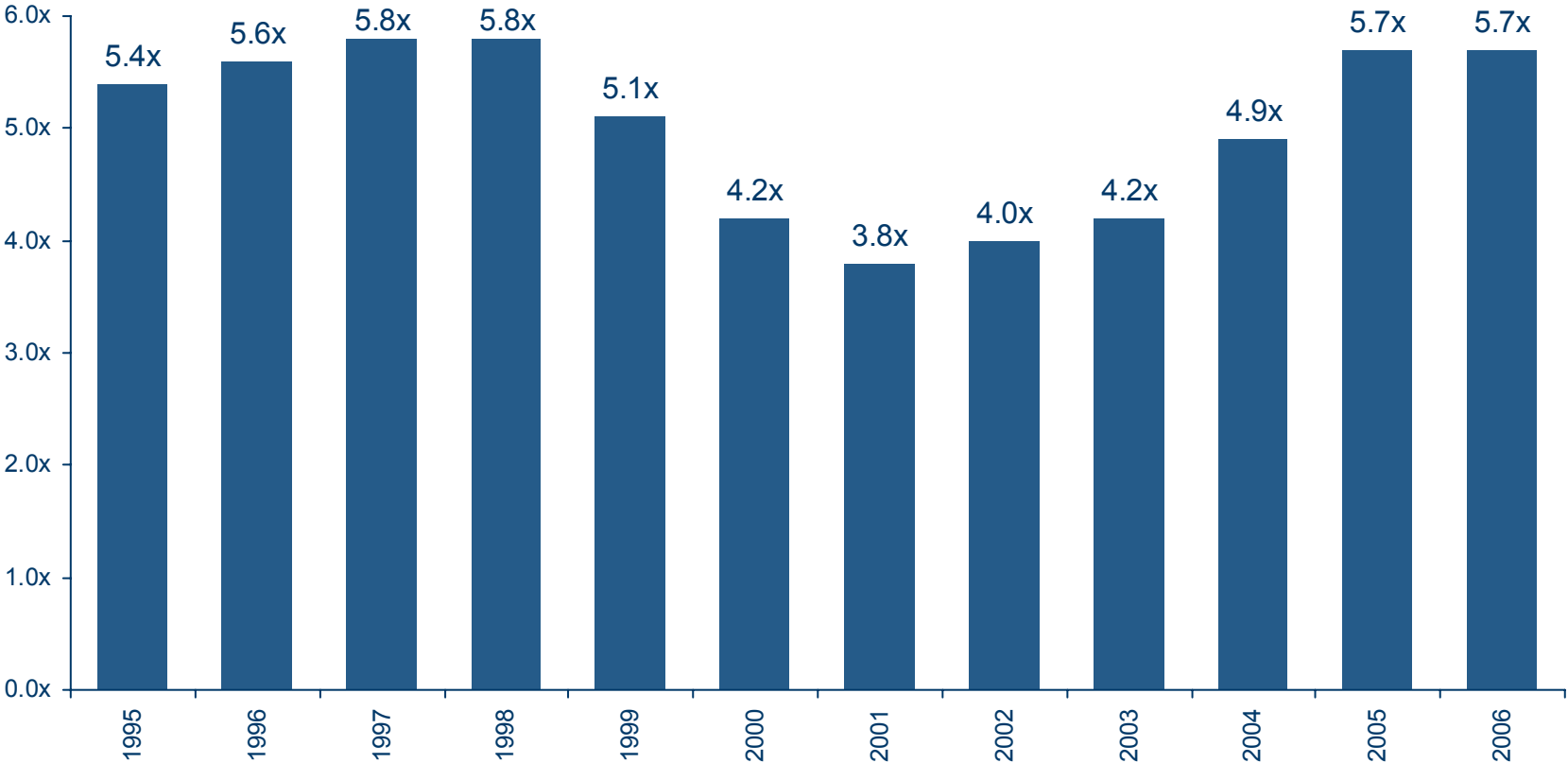
**Buyouts growing in multiple directions**

# Questions about Private Equity

## Have Managers been relying too much on debt?

### Debt as a multiple of EBITDA

Price/EBITDA of deals over \$500 million times total debt

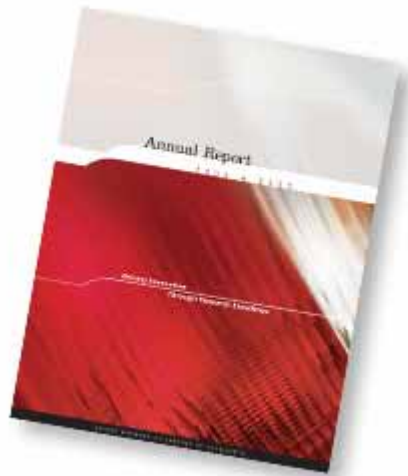


Source: Standard & Poor's US LBO commentary

# Questions about Private Equity

## Lack of transparency

- Private companies may disclose 100% of information to investors



Public Company Disclosure versus Private Company Disclosure

- Risk is mitigated through solid due diligence and thorough understanding of the target

# Disclaimer

In regard to the 10-year and 20-year return histories for U.S. and Europe Private Equity versus U.S., European and Australian stock markets, the returns are based on the cumulative net IRRs of all private equity funds formed since the beginning of each illustrated period and thereafter, excluding returns from private funds formed in vintage years 2004 to 2006 as they are deemed irrelevant because these funds are early in their investment cycles. Ten-year returns are for funds formed in vintage years 1994 to 2003 and 20-year returns are for funds formed in vintage years 1984 to 2003. Due to the historically poor performance of European venture funds, information displayed excludes performance of these funds. Including the performance of the venture funds, 10 year returns were -5.90%, -0.80% and 9.30% for lower quartile, median and upper quartile, respectively, and 20 year returns were -4.50%, 0.90% and 11.10% for lower quartile, median and upper quartile, respectively. Public markets were calculated using the compounded annual growth rates of end-of-the-month levels of various indices over the periods under construction. The 10-year and 20-year return numbers for the NASDAQ Composite, S&P500, FTSE and Australian All ordinaries are based on data starting June 1997 and June 1987, respectively.

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## Thinking New Perspectives.

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