PE Wire
BREAKING NEWS AND ANALYSIS FROM THE EDITORS OF THE Private Equity Analyst
FORMERLY THE PRIVATE EQUITY ANALYST WEEKLY

MARKET INTELLIGENCE // Forecast for Job Hunters: Mostly Cloudy ↘ P.5 December 23, 2002 | Vol.II Issue 49

CONTENTS

Calpers Settles San Jose Mercury News Suit, Posts Private Equity Return Data on its Web Site

The industry appears to be conceding that state open records laws require disclosure of individual fund IRRs, but remains firm in opposing release of portfolio company valuations.

California Public Employees' Retirement System last week settled a lawsuit filed by the *San Jose Mercury News,* agreeing to release IRRs, capital commitments and distributions for the 200-plus partnerships in its portfolio. Calpers posted the data on its website, at http://www.calpers.ca.gov/invest/private-equity-press-release.pdf.

Calpers Board President **William D. Crist** said in a statement that settling the suit will allow the pension plan to "work proactively on developing an industry standard for private equity reporting that allows us to do our fiduciary duty and provide maximum transparency."

For GPs, the message is loud and clear — IRRs are subject to disclosure under open records laws. However, much to GPs' relief, the *Mercury News* agreed as part of last week's settlement not to pursue release of portfolio company information. GPs say release of such information would cause them competitive harm.

The *Mercury News* sued Calpers in October after the pension fund re-

(continued on page 6)

Atlas Venture Cuts Fund VI for Second Time, Closes West Coast Offices, Reduces Staff

Atlas Venture has gone back to the chopping block.

The Waltham, Mass.-based firm—one of several venture firms that cut its fund size earlier this year—has asked its limited partners for approval to pare **Atlas Venture VI, L.P.** from $850 million to just $600 million. Atlas also is closing its two West Coast offices and shedding six of its 21 partners.

Fund VI closed last year on $967 million. Last summer, LPs approved cutting the fund to $850 million while at the same time freeing $120 million in reserves from Fund V to invest alongside the newer fund. As technology spending continued to deteriorate through the summer the firm became worried that Fund VI was still too large, said Atlas Senior Principal **Christopher Spray**. "We thought we could deliver a better return on a smaller fund," he said. Mr. Spray expects the LPs to approve the move next month.

Going forward, Atlas plans to concentrate its U.S. investment efforts on the East Coast and will close its Seattle and Menlo Park offices. As a result, Senior Principals **Laura Jennings** and **Jay Shiveley**, Venture Principal **Bill Bryant**, and six other employees will leave the firm. Atlas, however, will continue to support its existing West Coast portfolio companies through its

(continued on page 6)

LIMITED PARTNERS

Oregon and Washington State Say No to Investment in KKR

New York-based **Kohlberg Kravis Roberts & Co.** apparently won't be receiving a couple of eagerly anticipated gifts this holiday season.

One of the firm's long-time investors, **Washington State Investment Board**, has decided not to take up KKR's offer to invest directly in the firm, while another, **Oregon State Investment Board**, will likely take a pass as well.

A KKR spokesperson declined comment.

KKR first approached Washington and Oregon in the early fall about making a direct investment in the firm.

Joseph Dear, executive director of the Washington pension fund, said his group's decision not to invest in KKR stemmed largely from a move by three of the 11 plans that make up the pension's co-mingled trust toward employee-managed retirement investments and away from a board-managed program. He said the new structure requires a greater degree of liquidity, as plan participants can withdraw money from the funds at any time.

However, Mr. Dear emphasized that

(continued on page 2)

his pension still has faith in KKR's investment strategy, and described its relationship with the firm as "very solid."

As for Oregon, a source said the pension fund is not planning to pursue direct investment in KKR because the state is already at its maximum 13 percent alternative asset allocation level.

Despite the explanations, the two funds' decisions not to invest in KKR come as a surprise, as both states have deep and longstanding relationships with the firm.

Washington has invested or committed more than $3.4 billion to KKR over the course of a 20-year relationship with the firm. Most recently, the state made a $1.5 billion commitment to **KKR Millennium Fund, L.P.**, which closed on $5.1 billion this year.

Meanwhile, Oregon has committed more than $3.44 billion to KKR since 1984, including a $1 billion commitment to the Millennium Fund.

But the two pension plans' very dedication to KKR's funds might have helped put the kibosh on any plans to make direct investments in the firm.

Currently, KKR commitments represent nearly 62 percent of Washington's $5.39 billion exposure to alternative assets, as well as 34 percent of Oregon's $9.2 billion invested and committed to class.

At the same time, KKR's returns have been respectable but not incredible, with an annual IRR of about 17 percent for Washington. No IRRs were available for Oregon's KKR investments.

Reach Oregon at (503) 378-4111; reach Washington at (360) 664-8900.

Ohio PERS Considers Cutting Annual Commitments by $400M

The $54 billion **Public Employees' Retirement System of Ohio** may shift its nascent private equity program into low gear in anticipation of a reduced fund supply next year.

At its December board meeting, the pension system planned to vote on a plan to cut annual private equity commitments to about $600 million, down from roughly $1 billion originally anticipated.

Ohio Public Employees had previously intended to deploy $1 billion per year for the next few years as part of a plan to ultimately reach a 4 percent target allocation approved in 2000.

But because general partners have taken longer to digest capital in their current portfolios — effectively delaying new fund launches — the pension plan has decided to reconsider its commitment pace.

Ohio Public Employees still plans to eventually reach its 4 percent target allocation, albeit in a longer time frame. The pension system also plans to stick to its strategy of deploying larger amounts of capital into a small number of funds, particularly ones that offer co-investment opportunities.

Even with just $600 million in dry powder available for new commitments, Ohio Public Employees still promises to be one of 2003's more active limited partners.

In early 2002, the pension fund hired **Pacific Corporate Group Inc.,** La Jolla, Calif., to recommend potential commitments to the pension fund's board, which retains discretion over final investment decisions.

Since then, Ohio Public Employees has only committed about $276 million, investing in two funds: **Blackstone Capital Partners IV, L.P.,** New York, a $6.45 billion buyout fund; and **Coller International Partners IV, L.P.,** London, a $2.5 billion global secondary fund.

Prior to 2000, Ohio Public Employees had invested less than 1 percent of its portfolio in private equity. Until the mid-1990s, state law required the pension system to only invest with Ohio-based firms. Those that got business from the pension fund included **Linsalata Capital Partners,** Mayfield Heights, Ohio; and **Primus Venture Partners,** Cleveland. Reach Ohio Public Employees at (614) 387-2712.

OVP Stops Charging LPs Management Fees on Fund V

In an effort to beef up reserves for its portfolio companies, Kirkland, Wash.-based **OVP Venture Partners** is deferring management fees on its $148 million OVP V Venture Fund, which closed in 2000.

General Partner **Gerard Langeler** said the deferral would continue until the firm has returned 100 percent of the 10-year fund's committed capital, and "even then, we may not choose to take it."

Although Mr. Langeler would not disclose the size of OVP's management fees, he estimated that the deferrals will total $5 million to $10 million. A clawback provision does not apply because OVP's policy is to return all committed capital to LPs before taking any profits.

Mr. Langeler also said that with continued uncertainty in the economy, OVP has twice strengthened its reserves policy in recent years.

In earlier funds, OVP reserved one third of its capital for follow-on rounds. But the firm upped that to 50 percent for the 2000 fund, then to two thirds for the current $190 million Fund VI, which closed in June.

So far, OVP has made only two investments from the VI fund, and has no plans to defer fees on that portfolio. Mr. Langeler expects that when fully invested, the 2002 fund will have a portfolio of roughly 15 to 19 companies, putting an average of about $10 million in each corporation.

According to VentureOne, OVP currently has a total of $502 million under management, and has invested in 58 companies. About half of the firm's investments have gone to software companies, with about another 20 percent in health care (although the firm recently decided to stop making new health care investments). OVP has spread its remaining investments among communications, electronics, retail and consumer/business services.

The firm has seven investment partners, including four general partners.

Reach OVP at (425) 889-9182.

▸ *FUND RAISERS*

Leonard Green & Partners Surpasses $1.5 Billion Target

Leonard Green & Partners' investors are rewarding the firm for a string of public market exits during this most inhospitable of times.

Limited partners say the Los Angeles-based buyout firm expects to close **GEI IV, L.P.** by year's end at $1.85 billion, besting a $1.5 billion target set earlier this year.

LPs in the new fund include **California Public Employees' Retirement System, Florida State Board of Administration, Hamilton Lane Advisors, Michigan Department of Treasury, New Mexico State Investment Council, Washington State Investment Board, Kentucky Retirement Systems,** and **Pantheon Ventures. Credit Suisse First Boston** served as placement agent.

Partners **John M. Baumer, John G. Dahnakl, Peter J. Nolan, Jonathan Seiffer,** and **Jonathan D. Sokoloff** plan to co-manage the new fund. Founder **Leonard Green,** who had scaled back his role in the firm in the last few years, recently passed away.

The successful fund raising apparently indicates that LPs still have open pocketbooks for GPs with track records of returning money to investors.

According to **University of Texas Investment Management Co.** data, Leonard Green & Partners has distributed roughly 25 percent of invested capital from a $1.25 billion predecessor fund raised by in 1998. The fund's net IRR totaled 20.4 percent, according to UTIMCO.

Leonard Green & Partners has distributed upwards of $350 million to previous funds' LPs in just the past 12 months.

Recent exits include 2002 IPOs for PETCO Animal Supplies, San Diego; VCA Antech Inc., a Los Angeles-based provider of veterinary services; and Big 5 Sporting Good Corp., an El Segundo, Calif.-headquartered sporting goods retailer. A fourth company, Northbrook, Ill.-based Liberty Publishing Group, has also filed registration to go public. Reach Leonard Green & Partners at (310) 954-0444.

U.S. LPs Propel Swedish Firm Nordic Capital to 1B Euros Close

Swedish mid-market buyout firm **Nordic Capital** has successfully held a first closing on about 1 billion of the 1.5 billion euros ($1.5 billion) that it seeks for a fifth Scandinavian buyout fund.

A source familiar with the effort said the fund raising benefited from a surge of support among American investors.

So far, at least five U.S. investors contributed more than 200 million euros to **Nordic Capital V, L.P.,** a mid-market buyout fund that will focus on companies based in Denmark, Finland, Norway and Sweden. **Salomon Smith Barney Inc.,** New York, is placing the fund.

U.S. limited partners backing the fund include **Massachusetts Pensions Reserves Investment Trust**, **New Mexico State Investment Council, Virginia Retirement System** and **Washington State Investment Board.**

According to one LP, Nordic Capital plans to invest 50 million euros to 150 million euros per deal in companies generating annual sales of 125 million euros to 600 million euros.

Chief Executive Officer **Robert Andreen** and Partner **Morgan Olsson,** who founded Nordic Capital in 1989, head a 23-member executive team at the Stockholm, Sweden-based firm.

Nordic Capital has already invested **Nordic Capital IV, L.P.,** which closed in 2000 at about $788 million, in at least nine Scandinavian platform companies. The portfolio includes 2002 investments in Maersk Medical A/S, a medical device company based in Denmark, and S.A.T.S., a chain of fitness centers operating in Denmark, Norway and Sweden.

With its new fund raising, Nordic Capital joins a bevy of European mid-market buyout firms that have tapped growing interest from U.S. institutional investors in recent months.

Earlier this year, Paris-based **Chequers Partenaires** closed its debut buyout fund at 300 million euros, well north of a 200 million euros target. Roughly one third of the commitments came from U.S. limited partners.

Reach Nordic Capital in Stockholm at 46-8-440-5050.

Blum Capital Partners Pulls In $950M for Second Hybrid Fund

Blum Capital Partners has raised $950 million for **Blum Strategic Partners II, L.P.,** surpassing a $750 million target.

The fund won backing from some 20 LPs, including **Minnesota State Board of Investments**, **New York State Common Retirement Fund** and **United Mine Workers of America**.

Blum Capital touts an unusual strategy of investing in out-of-favor public companies, partnering with management, increasing its stake over time and sometimes taking corporations private.

For example, the firm last year took real-estate company CB Richard Ellis Services private in a $750 million buyout. Blum Capital had paid roughly $150 million for a controlling stake in the El Segundo, Calif.-based corporation.

Founded in 1975 as Richard C. Blum & Associates, Blum Capital raised money on a deal-by-deal basis for more than two decades before launching a 1998 debut fund at $640 million. All told, the firm currently has more than $5 billion under management.

Chairman **Richard Blum**—who is married to California Democratic Sen. **Dianne Feinstein**—heads an investment team that includes Managing Partners **Colin Lind** and **Claus Moller**; and Partners **Jeffrey Cozad**, **Murray Indick**, **Jose Medeiros**, **Kevin A. Richardson II**, **Marc Scholvinck,** and **John Walker**.

Mr. Blum is perhaps best known for his involvement in the $3.7 billion buyout of near-bankrupt Northwest Airlines in the late 1980s.

The firm also has close ties to the **Robert M. Bass Group,** whose CEO,

David Bonderman, founded **Texas Pacific Group**, Fort Worth, Texas. Blum Capital and Texas Pacific Group teamed up in 1995 to form **Newbridge Capital Group** to invest in distressed companies in Asia and Latin America. Reach Blum Capital at (415) 434-1111.

▸ *DEAL MAKERS*

Fox Paine Sows Seeds for New Agriculture Platform

Fox Paine & Co. LLC has turned its attention to the low hanging fruit of the public market—companies valued at less than $1 billion.

"There are far too many of these small cap companies out there where the stock really doesn't trade," says **W. Dexter Paine III**, president of Fox Paine. "We see these companies as a real opportunity."

The most recent opportunity for San Francisco-based Fox Paine came this month through a $650 million agreement to buy **Seminis Inc.**, an Oxnard, Calif.-based developer and marketer of vegetable seeds. Fox Paine partnered on the deal with Monterey, Mexico-based agricultural company **Savia, S.A. de C.V.**, which currently owns 70 percent of Seminis and controls about 85 percent of the company's voting shares.

Fox Paine and Savia agreed to pay roughly $3.40 per share for Seminis — a 35 percent premium over the company's closing price prior to the deal's announcement. According to a source familiar with the transaction, Fox Paine & Co. will commit roughly $150 million in equity to the deal from its current buyout fund, the $1 billion **Fox Paine Capital Fund II, L.P.** An undisclosed group of co-investors has agreed to commit an additional $70 million in equity.

Seminis is the world's leading marketer and developer of seeds for commercial agriculture. The company reported EBITDA for the quarter ended Sept. 30 of $19.9 million on sales of $113.7 million, an improvement of 37 percent and 2.7 percent, respectively, over the same period a year earlier.

Mr. Paine said his firm plans to further improve Seminis's performance by both expanding the company's product lines and acquiring additional seed producers. "There are literally hundreds of companies out there in this niche with revenue between $10 million and $50 million," he said.

This summer, Fox Paine completed its acquisition of another small cap publicly traded company. The firm paid $102 million to purchase **Paradigm Geophysical**, an Israeli oil and gas exploration company. Reach Mr. Paine at (650) 235-2075.

▸ *RAINMAKERS*

Former Barclay's Director Joins J.P. Morgan Partners

J.P. Morgan Partners, the private equity arm of New York-based **J.P. Morgan Chase & Co.**, is beefing up its U.K.-based management team with an eye toward making more control investments in middle-market companies.

J.P. Morgan Partners this month named **Stephen Welton**, a former co-head of London-based **Barclays Private Equity**, as the group's fifth partner in its London office. Mr. Welton, who specializes in buyout investments, will report to Jonathan Meggs, the head of J.P. Morgan Partners' U.K.-based private equity group.

Mr. Welton most recently served as CEO of TV Travel Shop, a Bromley, U.K.-based company that sells travel packages through television broadcasts in the United Kingdom and continental Europe. Following a buyout of the company by Barclays Private Equity in 1999, Mr. Welton helped grow the business's annual revenue from less than $120 million for the year ended Sept. 30, 1999, to more than $240 million two years later. New York-based USA Interactive purchased TV Travel Shop earlier this year for $100 million.

Prior to heading up TV Travel Shop, Mr. Welton served as co-chief of Barclays Private Equity's London operations. While with Barclays Private Equity, Mr. Welton led several successful buyouts, including the purchase of Crystal Holidays, a U.K.-based tour operator; and Autologic, plc, a U.K. company that ships and stores cars and car parts.

Other partners in J.P. Morgan Partners' London office include Philip Rattle, George Stratenwerth and Thomas Walker. The addition of Mr. Welton brings the number of professionals in the office to 22.

Mr. Welton's appointment follows the final closing of **J.P. Morgan Partners Global Investors, L.P.**, a mammoth diversified private equity fund, on $7.7 billion – a new all-time high for the industry.

Reach J.P. Morgan Partners at (212) 899-3400.

Siemens Venture Capital Arm Names Head of Medical Group

Siemens Venture Capital, the corporate venturing arm of electronics giant Siemens, recently hired Dr. Andrew Jay to head its new **Medical Solutions Fund**.

The Burlington, Mass-based fund would invest in medical imaging technologies and other ventures related to Siemen's core business. The fund would invest as little as $750,000 to as much as $5 million in companies at all developmental stages.

Dr. Jay worked previously a medical technology analyst at Alex. Brown and Wachovia Securities. His coverage areas included imaging, orthopedics, cardiovascular, vision, diabetes and neurological-devices companies. Reach Dr. Jay at (781) 270 -3825.

Editor's note: To mark the holidays, we will not publish *PE Wire* on Dec. 30 and Jan. 6. Please look for the next issue on Jan. 13. Happy Holidays!

▸ MARKET INTELLIGENCE

Forecast for Job Hunters: Mostly Cloudy

By Jerry Kronenberg

What will the climate be like for private-equity job seekers in 2003?

Executive recruiters that we talked to forecast fairly cold conditions, albeit with a short thaw around January and a few sunny spots for those with experience in select sectors.

"The year as a whole will not be a banner year," predicts **Geoff Dunbar**, managing partner of the global private equity practice at search firm **Heidrick & Struggles**. "I believe that it goes without saying that we are having a significant shakeout in the private equity world."

Dunbar sees the industry as split between three types of firms:

1) Those with money to spend. These include large independent multi-tier firms like **Kohlberg, Kravis, Roberts**; large financial institutions like **Goldman Sachs**; and newer firms that still have plenty of money to invest, such as **Golden Gate Capital**.

2) Firms he calls 'workouts.' These groups already have roughly 50 percent of their capital deployed, and probably need most of the rest for follow-on investments. Mr. Dunbar says such firms' prospects will depend on how their existing portfolio companies perform in coming years.

3) 'Road kill.' "These are firms that, regardless of what they do going forward, will not be able to raise another fund — period," Dunbar says.

"The better firms will be able to do the better deals and will be able to attract the better people, while the weaker firms will simply cease to exist," he says. "There will be a lot of private equity people who will be displaced and won't find jobs in the private equity world."

The good news? Mr. Dunbar says those who find themselves shut out of most private equity positions might end up as CFOs at portfolio companies, or find work in expanding investment areas like mezzanine or distressed debt.

He and **Solveigh Marcks**, managing director at rival search firm **Denali Group**, also add that hiring remains strong in a few specific private equity sectors.

Both see strength in the consumer, industrial and business-services segments, as well as in some parts of health care. (Ms. Marcks reports activity in biotech and medical devices, but not in health care services).

Additionally, Mr. Dunbar sees hiring in the power utility sector.

Ms. Marcks says these select areas "have had steady investment returns, so firms that haven't focused much on those sectors may be looking to hire expertise or build out existing teams."

The two recruiters add that they both expect a slight hiring bump in 2003's first quarter as the industry gears up for the new year.

"I think to the extent that firms feel there's going to be more investment activity in one sector or another, they'll try to staff ahead of time," Ms. Marcks says. "The typical recruiting uptick that you see at beginning of the year is, 'Better to hire earlier in the year and maximize the benefit of having new people on your team.'"

What will it take to get hired next year?

Ms. Marcks says winning candidates will have "a strong, proven track record in an industry where investment activity remains robust, and who couple that with a strong team orientation and really solid presentation skills."

Mr. Dunbar stresses that "the key is to play to your greatest strengths, and to stay close to home. In other words, if you've been with an institutional private equity firm, don't go looking at a small boutique firm, because your skill set may not be appropriate."

And both recruiters caution that next year's job market won't look much like 1999's.

"There are always opportunities for talented people in private equity and there always will be," Ms. Marcks says. "But I think hiring next year will be selective — not across the board."

Adds Mr. Dunbar: "Most people in the private-equity world went to the better schools and are accustomed to being the first, the fastest, the foremost or whatever. But those of us who have been around 25 years have learned that we all get 'corrected' in the course of our careers. To expect that it will be a straight-line dash to the finish line is simply naive and unrealistic."

Some Firms That Cut Jobs in 2002

- Atlas Ventures
  Waltham, Mass.
- BancBoston Capital, Boston
- Battery Ventures, Wellesley, Mass.
- J.P. Morgan Chase & Co., New York
- Whitney & Co., Stamford, Conn.

Calpers Settles Lawsuit

(continued from page 1)

buffed several requests for IRRs, portfolio company information and other performance data. But in trying to block the information's release, Calpers argued that IRRs and company valuations are "trade secrets," which California's open records laws exempt from disclosure.

However, a state judge tentatively ruled last month that IRRs are not trade secrets, although portfolio company valuations are. The judge had planned to issue a final ruling in January, although last week's settlement obviates the need for such a decision.

Meanwhile, other pension funds this month also began disclosing IRRs of funds in their portfolio. **California State Teachers' Retirement System** last week released IRRs for 65 partnerships in its 114-fund portfolio, along with data on capital committed, drawn down and distributed. CalSTRS' moves came in the wake of a separate request filed in October by the *Mercury News.* Unlike Calpers, CalSTRS did not attempt to block the information's release.

However, CalSTRS only released information on funds run by GPs who agreed to waive confidentiality agreements that the pension fund has signed with them. These included **Alta Communications,** Boston; **Blackstone Group,** New York; and **InterWest Partners,** Menlo Park.

Among those that didn't sign waivers: **Austin Ventures,** Austin; **Mayfield,** Menlo Park; and **Welsh, Carson, Anderson & Stowe,** New York.

Still, those firms' fund IRRs might eventually be subject to disclosure, as California's open records laws might trump confidentiality agreements.

Meanwhile, **Canada Pension Plan Investment Board** earlier this month voluntarily released information on capital drawn down, distributions and valuations of fund portfolios for the 33 funds in its portfolio. The investment board has posted the data on its Web site at http://www.cppib.ca/how/privmarket/partners.html.

Pension funds all over the country are likely to take the cue from Calpers in deciding how to respond to open records requests. A California-based entrepreneur, **Mark O'Hare,** has requested IRRs, GP quarterly and annual reports, and partnership agreements, among other documents, from pension funds in Alaska, Illinois, Massachusetts, Texas and Wisconsin. Reach Calpers at (916) 326-3991; reach CalSTRS at (916) 229-3012; reach CPP Investment Board at (416) 868-1538.

By Sree Vidya Bhaktavatsalam

Atlas Cuts Fund VI, Again

(continued from page 1)

East Coast offices.

Mr. Spray declined to identify three Europe-based senior principals who also will be leaving the firm. Atlas invests in communications, information technology and life sciences from offices in London, Munich and Paris.

Atlas is not the only venture firm reconsidering its fund size. looking closely at whether it cut deeply enough. At **Mohr, Davidow Ventures,** Menlo Park, which led the pack by cutting its fund early this year from $840 million to $650 million, the fund-size issue is "something we discuss pretty much on a weekly basis," according to Managing Partner **Nancy Schoendorf.** As yet the firm, which backs early-stage technology companies, has made no decision to cut further, she said.

Billion-dollar funds became a standard for successful venture firms during the tech boom, but VCs have spent this year dealing with the results of having raised more capital than they can invest in the current economy. About a dozen large venture firms have decided not to call all the money that LPs committed to funds closed in 2000 and 2001. Reach Atlas at (781) 622-1700.

By Russ Garland

*__PE Wire__ is published 48 times per year (no publication weeks of 7/8, 12/2, 12/23, or 12/30) and is delivered via fax every Monday morning by the Alternative Investor division of Wicks Business Information LLC. Alternative Investor is at 170 Linden Street, Wellesley, MA 02482-7919. **Reporter: Sree Bhaktavatsalam** (tel: 781-304-1428 or sree@AlternativeInvestor.Info); Copy Editor: Mitch Evich; **Managing Editor: David M. Toll** (tel: 781-304-1412 or david.toll@AlternativeInvestor.Info); Contributing Editors: David Barry, Tom Davey, Robert Dunn, Russell Garland, Brian Gormley, Laura Kreutzer, Tom Salemi. $1,095/yr. for 48 issues. **To subscribe or for customer service, call 781-304-1500.**