www.PEinsider.com

Private Equity INSIDER

JULY 8, 2009

THE GRAPEVINE

Doug Blagdon has landed at hedge fund manager **SAC Capital** as global head of marketing and investor relations. The new role confirms talk that Blagdon would leave former employer **Citigroup** following a decision by the embattled bank in April to shut down a 45-member placement-agent division he was heading. He is set to join the $14 billion SAC, headed by **Steve Cohen** in Stamford, Conn., at the end of this month.

Partner **Luke Belcastro** has left placement agent **Mallory Capital** to join **Jefferies Group's** fund-marketing division, Jefferies Helix. Belcastro arrived in his new employer's New York headquarters on July 6. He had joined

See GRAPEVINE on Back Page

BlackRock Fund of Funds Falls Short of Goal

BlackRock has stopped accepting capital for its latest private equity fund of funds, coming up more than 20% short of its $1 billion target due to a weak investment climate and concerns about the stability of its staff.

The vehicle, BlackRock Diversified Private Equity Program 4, held a final close on June 30 with $790 million of commitments.

Investor appetite for funds of funds in gerneral has waned considerably since BlackRock's investment unit began marketing the fund last year. But at least one institutional investor appears to have pulled a commitment to the vehicle because it was unsure of the cohesiveness of BlackRock's investment team. And a limited partner in prior BlackRock funds of funds declined to participate this time around for a similar reason.

Click Here to View Article moil over there as they try to integrate different

See BLACKROCK on Page 4

Delayed Audax Offerings Back in Pipeline

Audax Group is contacting investors about a plan to raise $1.75 billion for two funds.

Of that amount, $1 billion would go to the Boston firm's latest buyout fund, Audax Private Equity Fund 4. The other $750 million would be for its next mezzanine-finance vehicle, Audax Mezzanine Fund 3.

Audax originally intended to start marketing both funds late last year. But like most of its peers, the outfit has seen its investment pace decelerate amid the global financial crisis. That caused the amount of capital deployed from its previous funds to remain below the 75% threshold at which it could begin shopping their sequels.

Audax's investments have remained slow this year. Its third buyout fund, which held its final close in 2007 with $1 billion, is now just over 50% invested. However, its second mezzanine-finance vehicle, which closed in 2006 with $700 million, is a

See AUDAX on Page 6

Individuals Punt on Fund-of-Funds Holdings

Secondary-market players are forecasting an increased flow of offerings from family offices and individuals who want to unload stakes in funds of funds.

Only a handful of such trades have taken place lately, most arranged quietly by wealthy individuals. But with buyers sensing opportunities to pick up similar holdings at steep discounts, the talk is that more deals are on the way.

Drum Capital of Stamford, Conn., and **Lombard Odier** of Geneva are among fund-of-funds managers whose vehicles have popped up in recent offerings. Limited partners have also sold interests in funds run by **HRJ Capital,** after recent troubles forced the Woodside, Calif., firm to agree to a takeover by **Capital Dynamics** of Zug, Switzerland.

Secondary-market buyers typically prefer to deal with stakes in direct-investment funds, as opposed to funds of funds. However, they're now finding funds of

See PUNT on Page 2

Ethos Offering Back on Track

Johannesburg buyout firm **Ethos Private Equity** is moving toward an official marketing campaign for its sixth fund, a year later than planned.

The vehicle's formal capital-raising effort could start as soon as Sept. 1 with an equity target of $750 million to $1 billion. While Ethos hasn't finished drafting a placement memorandum, it has been talking to prospective investors in a variety of locales.

Ethos initially intended to shop the fund in late 2008 with a higher target, but shelved the effort as deteriorating financial-market conditions caused it to deploy existing equity at a slower pace than anticipated. Under terms of its $750 million fifth fund, the firm can't launch a follow-up until 75% of that capital is put to work.

Credit Suisse is serving as placement agent for the new vehicle worldwide, with New York fund-raising boutique **Litati Capital** led by **Michael Geffrard,** assisting in North America.

Ethos is among South Africa's best-known private equity firms, posting annual returns of about 25%. The firm held the final close for its previous fund in 2006, with a roster of investors including **Allstate, New York Common Fund** and **Ontario Teachers.** The **World Bank's International Finance Corp.** contributed $25 million, and is leaning toward another commitment.

Ethos, led by **Andre Roux,** invests in a range of companies in South Africa and, to a lesser extent, other African nations. The firm is telling prospective backers of its planned fund that portfolio-company prices are falling, in part because of diminished competition from foreign players and sales of non-core African assets by distressed companies outside the continent. The lower prices, meanwhile, are reducing the need for leverage. ❖

Maranon Touts Mezzanine Finance

Maranon Capital is showing prospective investors a report that seeks to highlight the upside of mezzanine-finance funds.

The move is meant to aid an ongoing push by Chicago-based Maranon to raise $250 million for a vehicle employing the strategy.

In large part, Maranon's study reinforces what many market players have said about mezzanine-finance funds lately: that opportunities abound for the vehicles to step in as a source of leverage for buyout managers, whose power to obtain senior debt through traditional channels has been curtailed by the financial crisis.

Maranon also pointed out that mezzanine-finance funds are facing less competition from business development companies, which used to offer leverage for buyouts but have cut back following hefty losses.

Meanwhile, investors have shown strong interest in the sector. A number of pension funds have recently put mezzanine-finance vehicles on short lists of commitments they are planning for this year, including **Calpers, San Diego City Employees** and **San Bernardino County Employees.**

Maranon says $25.8 billion was raised for mezzanine-finance funds in 2008, a record. But the vast majority of that amount involved funds of $500 million or more run by such firms as **Goldman Sachs, Blackstone Group** and **TCW,** whose lending tends to focus on larger deals.

Among smaller funds like Maranon's, the total was up just 15% to $2.9 billion, meaning supply hasn't necessarily kept up with demand.

The downside for borrowers in mezzanine transactions is that the financing typically costs more than senior loans, while creditors must contend with the fact that the arrangements are typically unsecured.

Maranon's mezzanine-finance fund is its first in the sector and its second overall. The firm began marketing the fund in early 2008, around the same time it held the final close for a senior debt vehicle with $350 million. ❖

BlackRock ... From Page 1

cultures, and they may lose some good people along the way," said the Blackrock LP. Indeed, the day after he made that comment, BlackRock lost senior executive **Kevin Nee,** who defected to investment advisory shop **Wilshire Associates.** Nee was a co-founder of **Quellos Private Capital,** the fund-of-funds unit that BlackRock bought in 2007 from hedge fund manager **Quellos Group.**

The previous year, BlackRock absorbed **Merrill Lynch's** fund-management business to create a global investment juggernaut that now oversees $1.3 trillion. At the time, BlackRock chief **Larry Fink** proclaimed the two operations to be "highly complementary, in terms of both expertise and culture." However, sources said the BlackRock and Merrill teams have sometimes clashed, adding that some members of the Quellos unit feel overshadowed by the former Merrill staff. They maintain that while Quellos chief investment officer **Bryan White** was made head of BlackRock's fund-of-funds platform, Merrill's **Russell Steenberg** has emerged as the operation's driving force.

"Russ is a very strong character and was never likely to take a back seat," said a source. "Some people were okay with that, some aren't."

And those concerns don't even reflect the cultural clash that could arise after BlackRock completes its pending acquisition of **Barclays Global Investors,** a $13.5 billion purchase announced last month that will make BlackRock the world's largest money manager.

But the perceived chemistry problems didn't stop many BlackRock investors from coming back for more. The firm established an impressive track record with its first two funds of funds, set up under the Diversified Private Equity banner. Those vehicles, launched in 2001 and 2004, are first-quartile performers. A 2005-vintage third fund, however, was down 3.3% as of Sept. 30. The series focuses mainly on U.S. buyout funds, with around 20% of each portfolio going to venture capital vehicles in the States and a third allocated to a mix of Western European opportunities. Fund 4 will make 25-35 fund commitments of up to $60 million each, and a further 15-25 direct co-investments. ❖