

MEDIA ALERT

C.P. Eaton Partners 2009 Global Fundraising Outlook

Global Investors maintain cautious stance as deleveraging process continues;
Seek to move higher in capital stack during “wait and see” period

U.S.

Shutdown of debt capital market and increased equity requirements create opportunities for balance sheet lenders and “dry powder” funds

- RMBS and CMBS origination and securitization, which provided liquidity and propped up asset values in recent years declined by more than 90% from \$315B in 2007 to \$28B in 2008, shutting down the large balance real estate transaction market. Today lenders require 30-40% equity from sponsors, up from 5-10% in The Bubble years, implying asset devaluation of at least 20-30% from peak value. Sellers will not acknowledge this asset re-pricing until they are forced to re-finance loans, the bulk of which have lenient covenants and do not mature until 2011-12. This sets the stage for a drawn-out re-pricing process while fundamentals begin to bottom and slowly recover from the current global recession. The broad-based capital market shutdown has created highly attractive opportunities for traditional balance sheet lenders and new fund investors who have fresh capital to deploy in the 2009-2011 vintage years.
- Real Assets strategies (energy, infrastructure, and core capital assets) continue to draw LP interest as investors seek strong and stable cash flows and downside protection. But traditional providers of capital for the space are now constrained, with commercial banks being forced to sell non-core assets to generate liquidity and shore up their Tier 1 capital ratios. The combined result of motivated sellers and tighter debt markets has been a major devaluation of leveraged assets. Real Asset fund managers are opportunistically stepping in to fill the financing gap and are finding very attractive entry points in assets such as rail cars, shipping terminals, gas pipelines, utility-scale wind and solar installations, and other energy infrastructure. The Obama Administration has indicated strong support for both private and public spending on energy infrastructure. Veteran real asset specialists with the expertise to identify the most attractive assets are seeing unprecedented investment opportunities.
- Investors will continue to migrate away from hedge fund strategies with significant market beta and use of leverage as the principal driver of returns. Capital will be re-deployed into strategies that have demonstrated low correlation to broad market moves – specifically direct lending, managed futures and distressed debt funds. Actively managed equity strategies with detailed value added initiatives for underlying portfolio companies will be preferred over long/short equity funds with net long exposure. The Madoff Scandal will place increased investment scrutiny on compliance, third party auditing, and risk management processes.

Europe

Portfolio diversification strategies and attractive relative value drive capital to EU markets; LP capital sources less impacted as earlier in their program

- EU private equity and real estate managers continue to benefit from capital flows from the U.S. and the Middle East as investors divert funds toward international markets to achieve further geographic diversification. Key Western European markets such as the U.K., which is well ahead of the U.S. with regards to asset re-pricing, offer tremendous value for fund investors who are well capitalized and can obtain the appropriate matched term financing to pursue deals in this environment.
- Corporate balance sheet restructurings have created a need for more sale leaseback activity, re-capitalizations, and asset divestitures. Corporates need to raise cash to reduce debt levels, support tier one capital ratios and strive to maintain investment grade ratings. This creates an opportunity for

investors well-versed in complex deal structuring. Challenging economic conditions similar to the U.S. has created a difficult market for traditional large scale PE buyouts. Headline risk and large scale staff reductions on recently announced deals further increase investor aversion towards large cap buyout funds. Investors are seeking more traditional PE players with deep operational teams and strong track records managing through earlier downturns.

- European institutional investors are still allocating to alternatives, particularly in new areas like infrastructure, distressed and highly differentiated strategies. The Denominator Effect is less of a factor for European alternatives investors as the majority still are in the early phases of their allocation programs.

Asia

Asia continues to present attractive growth opportunities in a weak global economy and emerges as a new source of capital

- Foreign capital and private equity is increasingly welcome in Asia. In Korea, a recent court ruling in favor of Lone Star paved the way for a positive environment for foreign investment and private equity. The Chinese government is welcoming the participation of private equity funds in its effort to stimulate the economy and continue to lead the global economy with 8%+ GDP growth expectations.
- Asia has become a new source of LP capital. After years of high growth in this region, Asian LPs are now looking at diversifying outside of their home countries, with a focus on opportunities in other Asian countries and distressed assets in U.S. and Europe. Emerging sovereign wealth funds and pension funds will quickly move up the learning curve and become more engaged in global alternative investments.
- While Asia is not immune to the global financial slowdown, the region is well positioned for a quick and sustained recovery. The Asian banking system and corporate balance sheets are in relatively good shape. Consumers are also well-positioned, as they generally did not develop the same high levels of household debt as their Western counterparts. GPs are seeing highly attractive valuations, making 2009-2011 very exciting vintage years.

If you would like to speak with **Dan Vene**, Senior Vice President in the U.S., **Anne Gales**, Managing Director in London and/or **Edward Greene**, Managing Director in Shanghai, about the trends/predictions noted above, please contact:

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About C.P. Eaton Partners

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