



# MORE ON PRIVATE EQUITY MANAGERS

*A private equity allocation can pay handsomely if implemented properly.*

In recent years, private equity has attracted significant interest from Canadian institutional investors seeking to diversify their portfolios away from a traditional reliance on public equities and fixed income securities. Private equity offers institutional investors the potential for superior long-term performance driven by the investment strategies of professional private equity managers. These managers seek to build and realize shareholder value in their individual portfolio company investments through a mix of financial, operational and strategic initiatives.

For an institutional investor, however, this attractive asset class presents significant implementation issues. Unlike traditional asset classes, there is little public information available, no investable indices, few reliable benchmarks and no straightforward comparables.

An investor seeking exposure to private equity must address four principal implementation questions:

- How can I select and access top-tier private equity fund managers?
- What are the optimal diversification parameters for my private equity program, and what are the associated risks?
- How do I ensure my private equity program is efficiently administered, and what resources do I need to devote to it?
- How do I ensure my private equity program achieves its target allocation and maintains an ongoing exposure at that level?

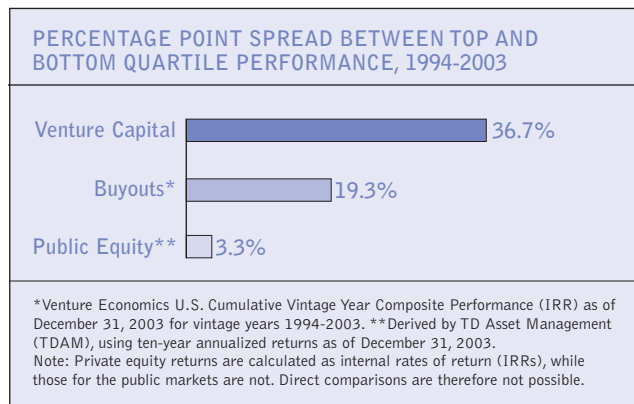
Successful participation in private equity requires that each of these key factors be considered and applied in building out a long-term investment program. This synopsis, however, will focus on manager selection.

## Manager Selection and Access

Selection of, and access to, top-tier fund managers is a critical driver of private equity performance. As the table above illustrates, there is a large spread in performance between top- and bottom-quartile private equity fund managers (particularly when compared to public equity managers), making manager selection and due

diligence key to long-term returns.

In private equity, the top-performing funds are often the most difficult to access, as they tend to raise capital primarily, if not exclusively, from existing investors. There has also been a large increase in the number of private equity funds over the last decade, making manager identification and selection even more critical for a successful program. In today's market, specialized expertise is required to analyze performance, while dedicated resources and long-standing relationships are crucial in identifying and gaining access to the best funds.



Manager selection and analysis are important components of the investment process and require extensive due diligence. As almost every fund claims top performance, it is critical to thoroughly understand the underlying sources of value creation and to compare these results against the strategy the manager claims to use. This is but one example of manager analysis.

In summary, the private equity asset class can be very attractive, provided the proper resources are utilized to implement and execute a successful program. Keys to success include manager selection and access, existing long-term relationships and proactive deal sourcing, in combination with significant industry experience, investment discipline, and the ability to perform detailed analysis. ■