



Selecting Successful Fund Managers

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European Investment Fund



Key Aspects in Investment Selection

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Assessing a Market Opportunity

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Market Opportunity

- Money follows the Opportunity
- PE depends on other Segments of Capital Markets.
- Risk/Return Allocation decisive.

Challenges

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Market Opportunity

- Information Intransparency
- Know-How Intensive
- Subject to Market Cycles

Challenges

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Market Opportunity

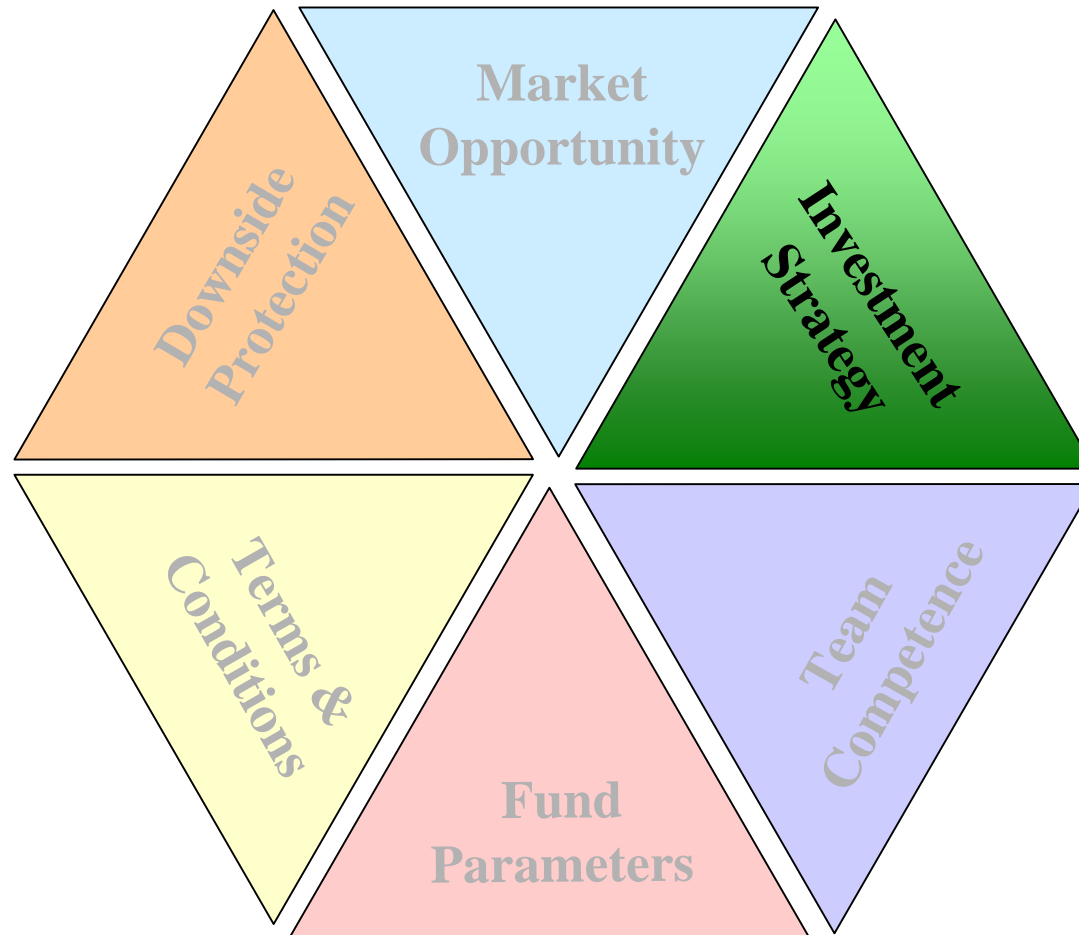
Supply of money is driven by historic statistics.

Result: Mismatch between Supply and Demand of
Capital is the Norm.

BEWARE OF HERD EFFECTS!

Key Aspects in Investment Selection

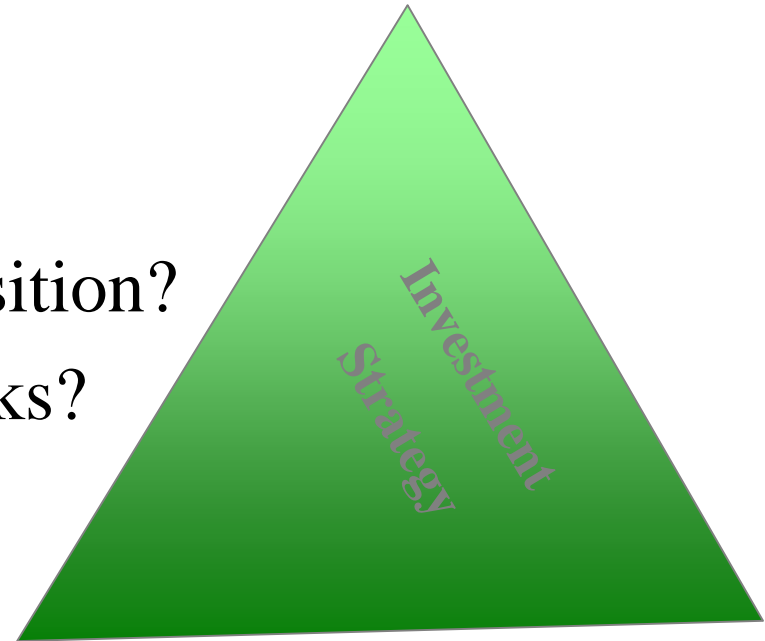
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How does a Team make Money...

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- Value Creation Proposition?
- Addressing market risks?
- Key success factors?

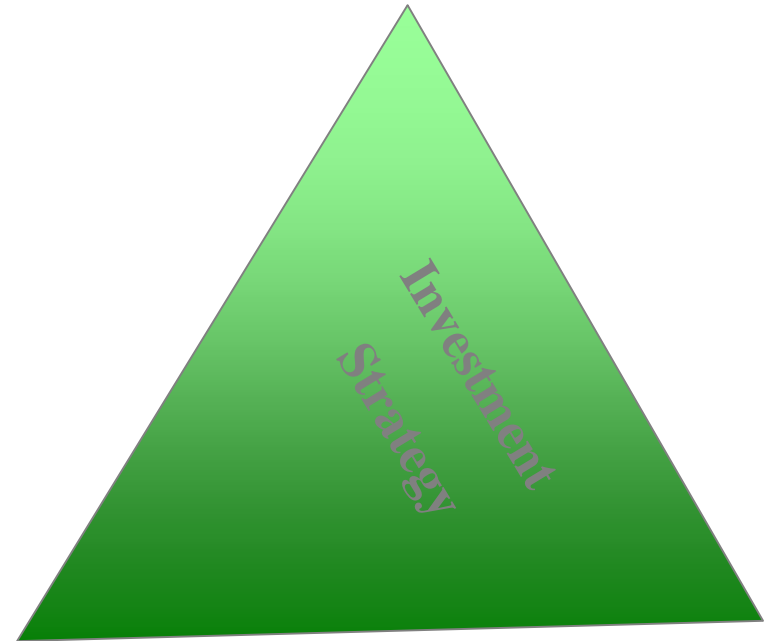


How does a Team make Money...

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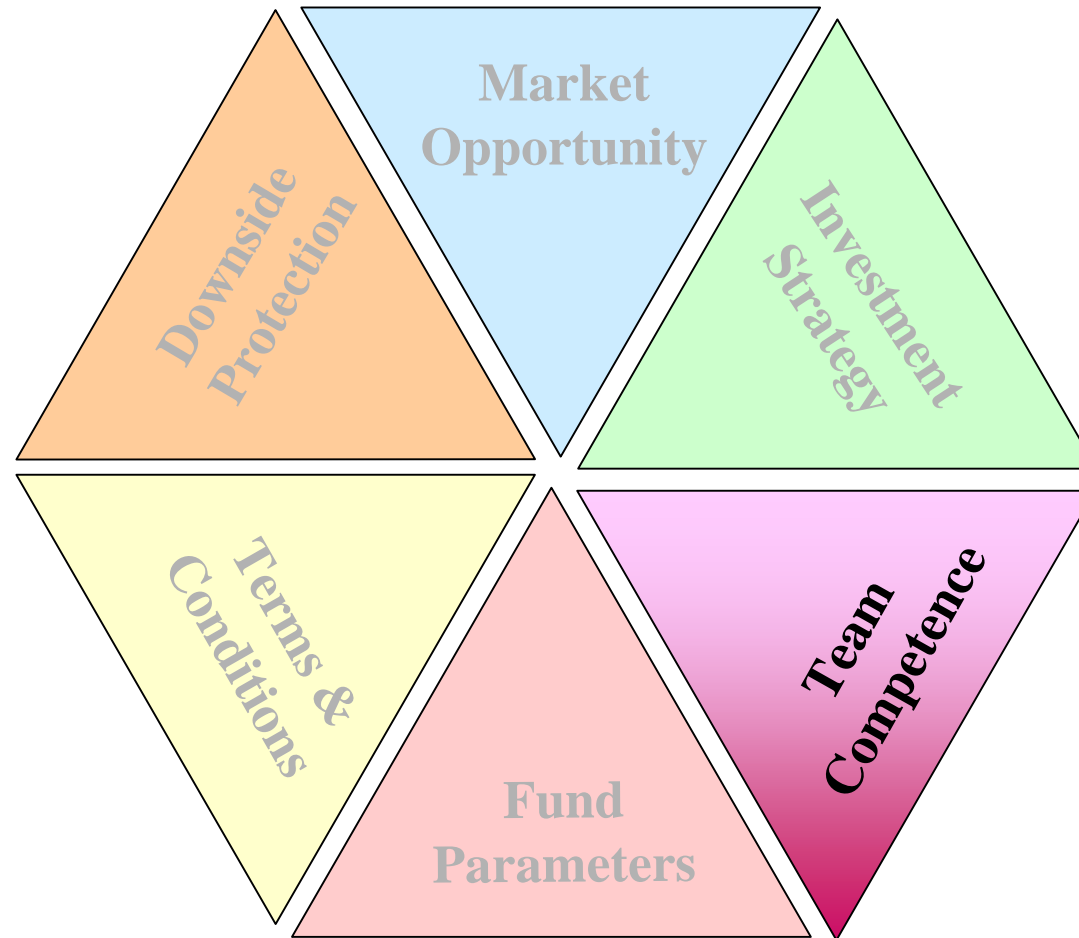
Identify:

- Key Risks
- Key Success Factors



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Key Challenge: Darwin is lazy!

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Lack of Transparency and Liquidity prevents:

- Asset Allocation Efficiency
- Arbitrage within the asset class

There is no quick elimination of the underperformer!

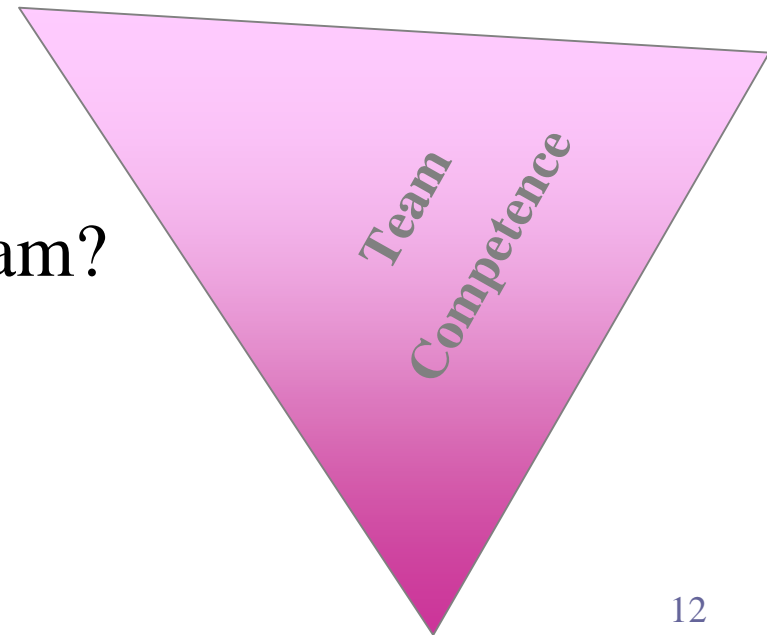


*Team
Competence*

Assessing the Skill-Set

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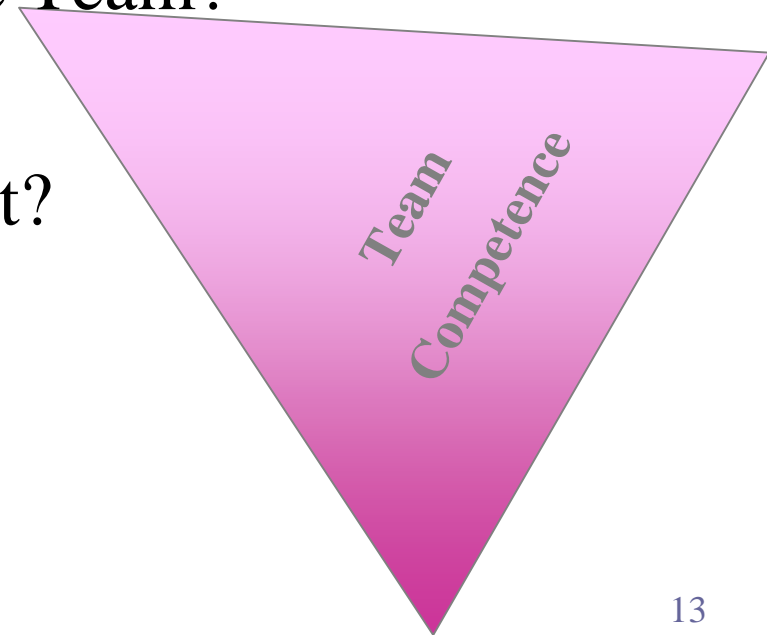
- Skill-set versus investment strategy?
- Experience?
- Awareness of the key risks/success factors?
- Who is KEY in the Team?



Why do they do it...

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- Individual Motivation?
- Chemistry within the Team?
- Incentive Structure?
- Alignment of Interest?



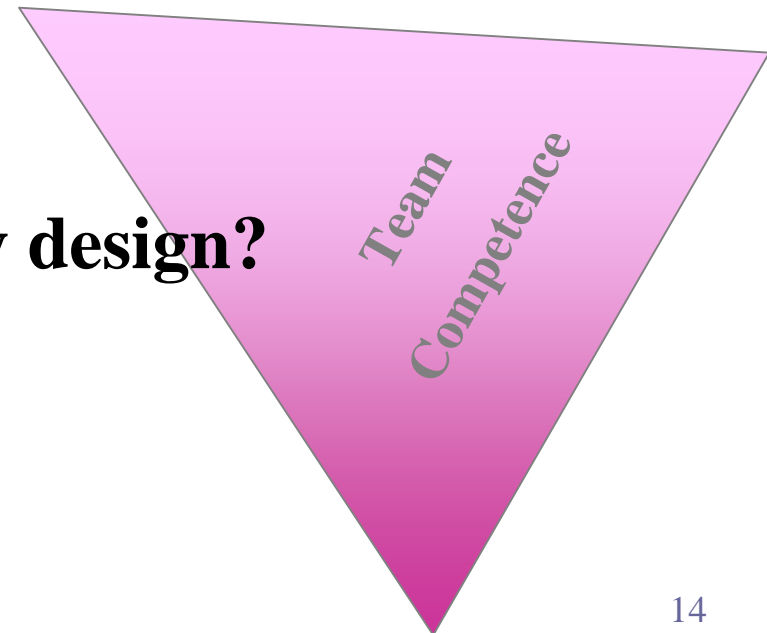
The famous Track Record Analysis

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It's about more than figures!

The question is:

Successful by luck or by design?

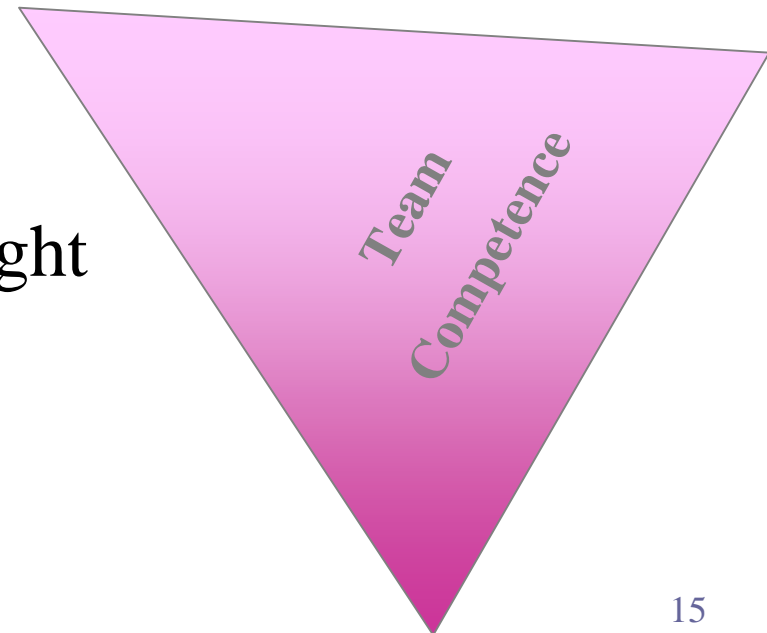


The famous Track Record Analysis II

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Track record to prove:

- Relevance of their experience
- Delivering on success factors
- Right decision at the right time.

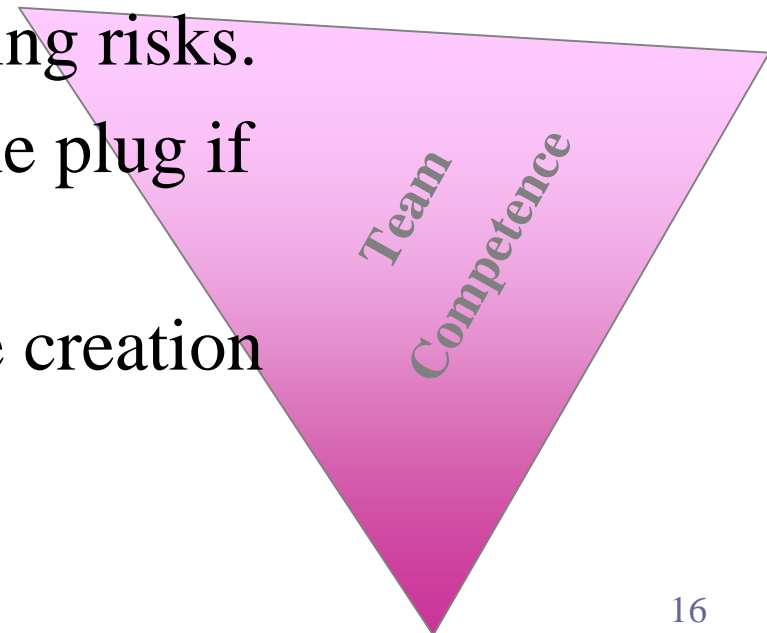


The famous Track Record Analysis III

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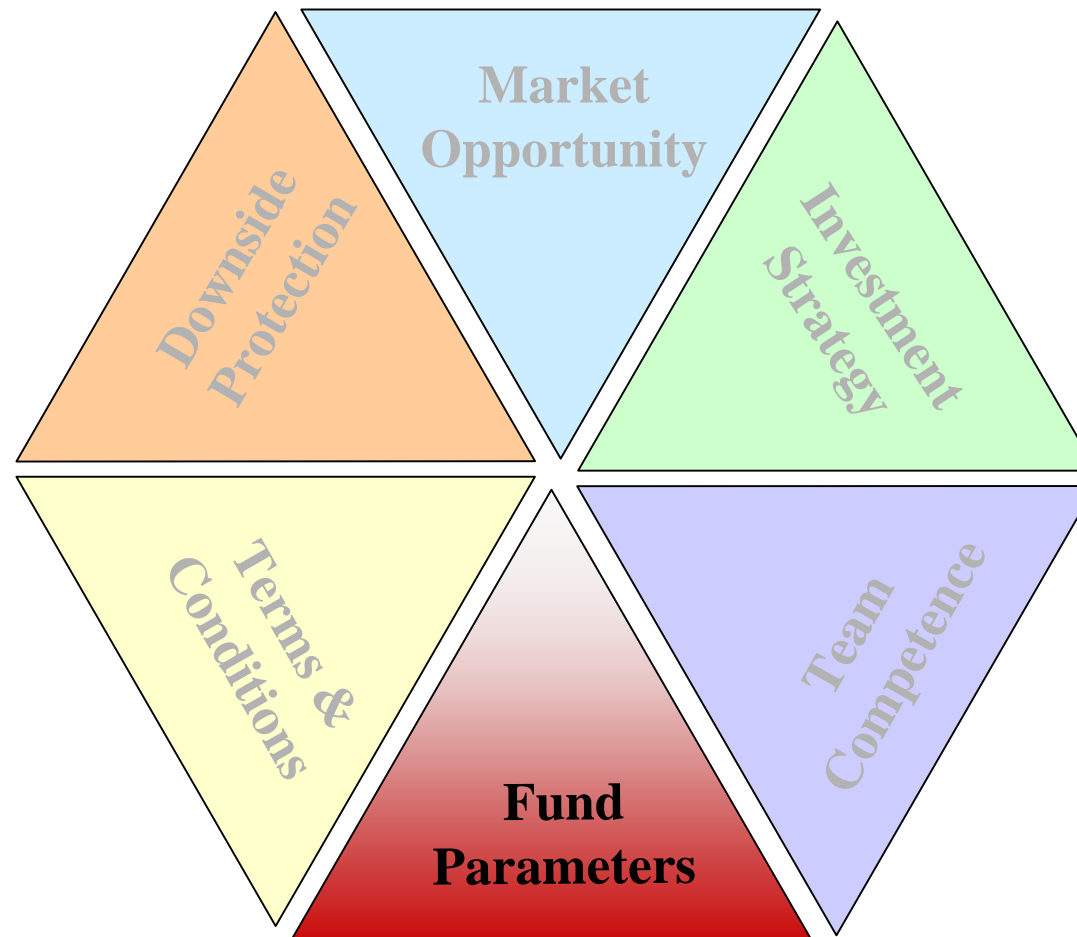
Things to look at:

- Compliance with investment focus.
- Discipline in investment selection.
- Discipline in pre-empting risks.
- Discipline in pulling the plug if needed.
- Compliance with value creation proposition.



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Can it fly...

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- Investment strategy versus key parameters of fund?
- Do they mitigate/amplify risks?
- Is the fund's strategy viable?



Fund
Parameters

Coherence is Key:

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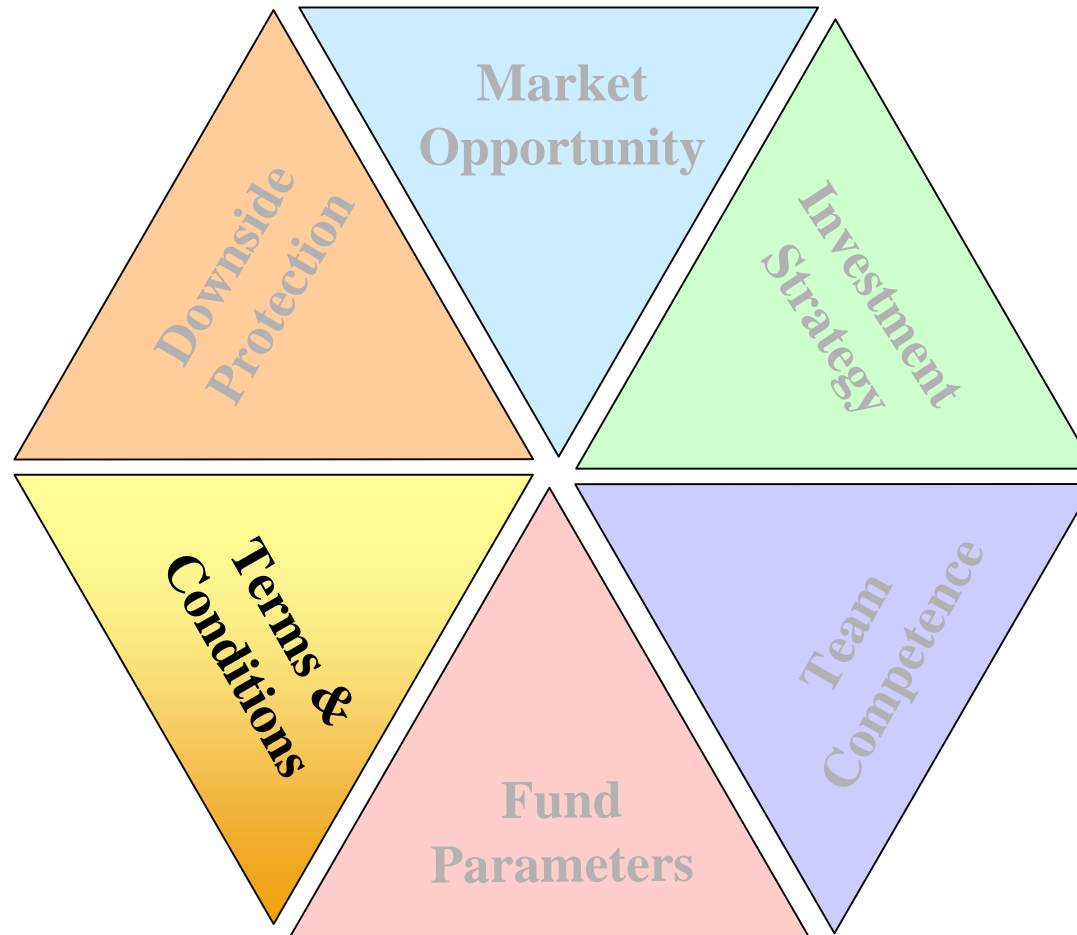
- A skilled team is valuable but not sufficient.
- The right strategy is meaningless if team has the wrong skill-set.
- **The best team and the best strategy will fail if economics of the fund are wrong.**



Fund
Parameters

Key Aspects in Investment Selection

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What may it cost...

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- How much Management Fee?
- What should it cover?
- Should the Fund Manager invest?
- How much?
- How much carry?
- When should it be paid?
- Fee Offset?
- Broken Deal expense?
- Etc.

Conditions
&
Terms

What may it cost...

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Principle:

Terms are negotiable, but...

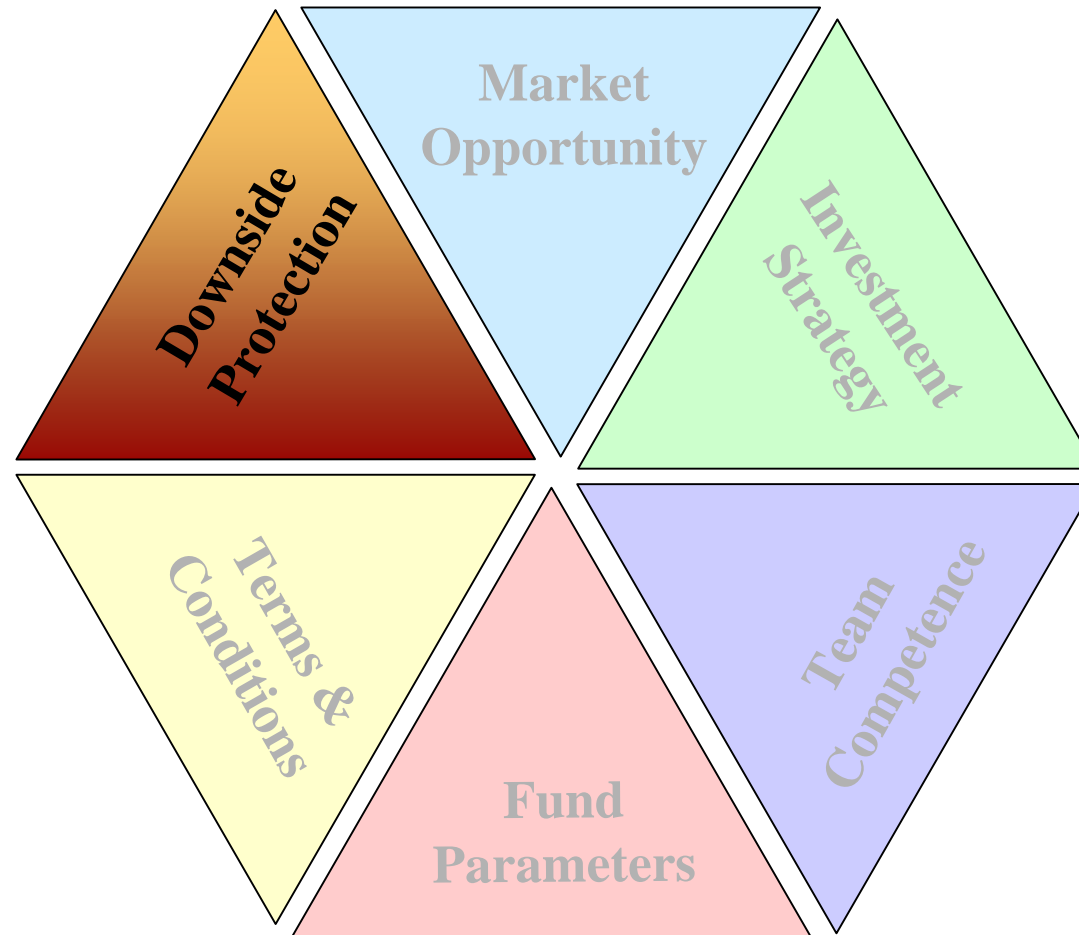
- Watch alignment of interest
- Beware of structural risks
- Check the Price/Value ratio



Terms &
Conditions

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Key Challenge I: Only one shot!

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*Downside
Protection*

- Once an investment is made no more influence on the upside.
- Only influence on the performance through **DOWNSIDE RISK** management.

Challenge II

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*Downside
Protection*

- Information Asymmetry.
- Bilaterally managed relationships.
- Objective legal advice?

What if we got it all wrong...

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*Downside
Protection*

- Clear Rules and Swift Action are Key!
- Believe in the best but prepare for the worst!

How to prevent...

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Downside
Protection

Avoid Conflict of Interest

- Exclusivity Clause on GP
- No double remuneration
- No Cross-Over Investments
- All GP interest channelled through the fund
- Full transparency of all agreements

Best-Practice Corporate Governance

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*Downside
Protection*

- Segregate roles and obligations of LPs, Sponsors and GP.
- Transparent and timely reporting.

Pack your parachute...

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*Downside
Protection*

Protective Clauses

- Key-man Clauses
- Defaulting Investor Clauses
- Removal Clauses

Virtues for Successful Investing...

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