



PrivEX

**LISTED  
PRIVATE EQUITY**

*Private Equity – the new asset class*

**Private Equity Index (PRIVEX)**



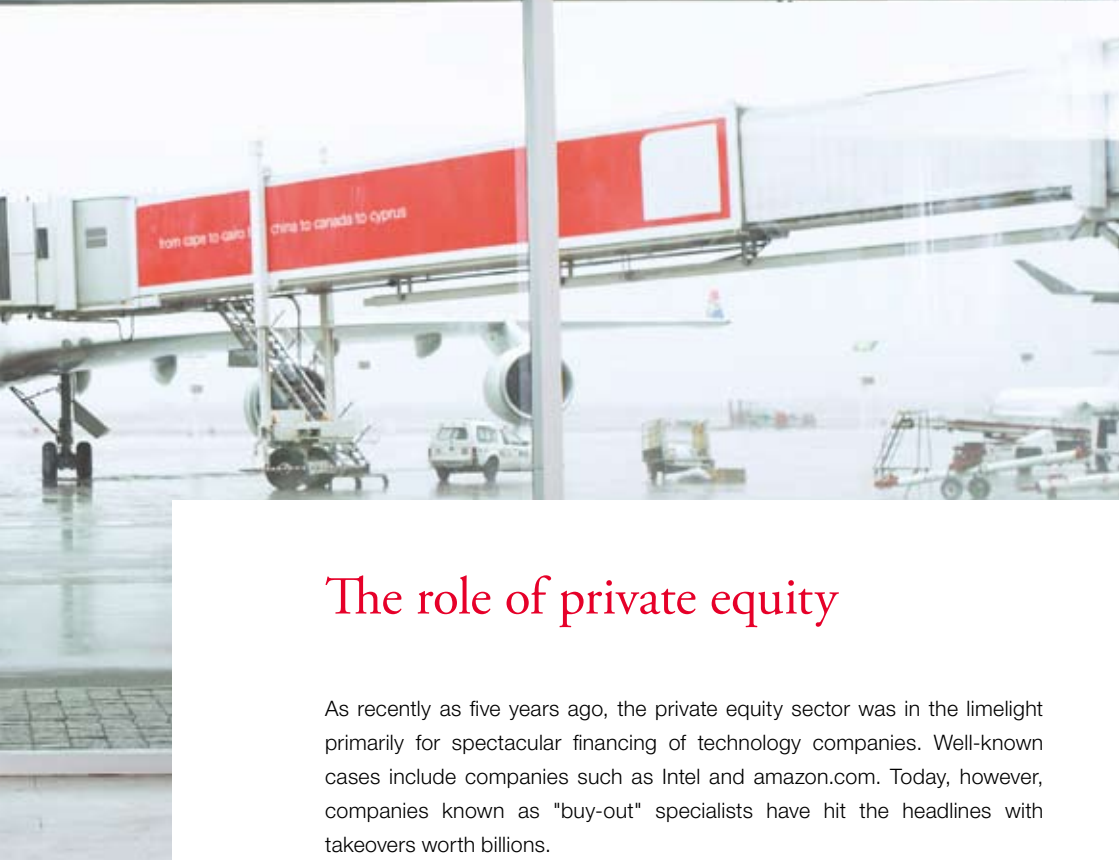
Index calculated by:

**Dow Jones Indexes**



**CONTENTS**

<b>The role of private equity .....</b>	<b>03</b>
<b>The private equity business model.....</b>	<b>04</b>
<b>Private equity versus venture capital.....</b>	<b>06</b>
<b>The markets for private equity .....</b>	<b>08</b>
<b>The private equity asset class.....</b>	<b>08</b>
<b>Our partner.....</b>	<b>10</b>
<b>Index methodology .....</b>	<b>11</b>
<b>Corporate profile.....</b>	<b>13</b>
<b>Historic Performance .....</b>	<b>19</b>



## The role of private equity

As recently as five years ago, the private equity sector was in the limelight primarily for spectacular financing of technology companies. Well-known cases include companies such as Intel and amazon.com. Today, however, companies known as "buy-out" specialists have hit the headlines with takeovers worth billions.

In the last year, private equity investment exceeded EUR 47 billion in Europe with over 10,000 deals\*. The trend is clear: rising.

In the past, private equity companies have been able to achieve significantly higher returns than more traditional investment vehicles such as equities and bonds. For a long time, investing in this sector was only possible for major institutional investors and very wealthy individuals due to the high minimum investment requirements.

The Private Equity Index (PRIVEX), developed by Société Générale in collaboration with Dow Jones Indexes, now offers investors a simple and transparent investment in exchange-traded private equity companies and a way to achieve exposure to an attractive asset class.

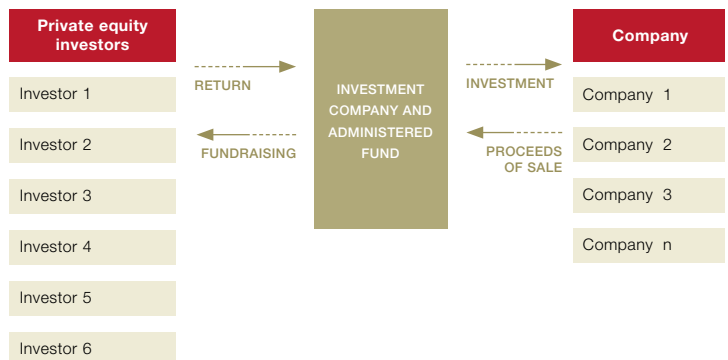
\*Source: EVCA/Thomson Financial/PricewaterhouseCoopers

## The private equity business model

In essence, private equity involves the provision of financing to existing companies by an investment company, which then also provides various advisory and other services for the company management. The goal of the investment company is to increase the value of the existing company via the investment. But the injection of private equity is only one step in what is termed the "private equity cycle". There are two other stages termed "fundraising" and "divestment".

Fundraising is the process by which the funds for the investment are collected in advance. The investment company approaches various investor groups to raise funds which are then bundled to form the investment fund. Given the generally high minimum investment required, potential investors are primarily banks, insurance companies and public-sector entities.

### PRIVATE EQUITY-CYCLE

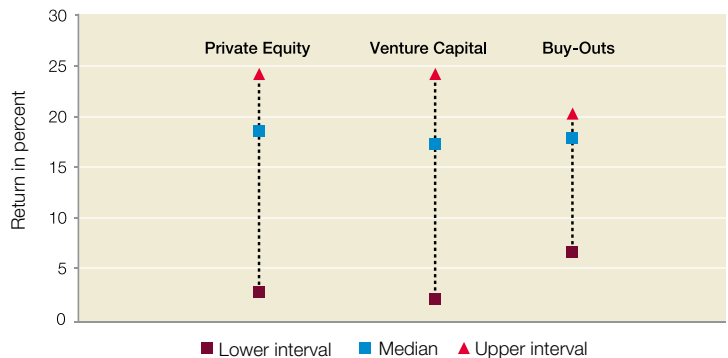


After an investment holding period that averages five to seven years, the investment company sells its stake, ideally at a profit, and then repays the original investors. The individual stages of the private equity cycle sometimes



overlap. It is often the case that investment companies will coincide the divestment phase with fundraising for a new fund, because the fundraising process will be expedited if the previous fund was successful. In this way, investment companies use their previous success as the foundation for the next phase.

### ANNUAL RETURN ON PRIVATE EQUITY INVESTMENTS



Source: Société Générale

## Private equity versus venture capital

**Venture capital** and **private equity** have become established terms internationally. In principle, they refer to the sourcing of finance for existing companies via an investment company. In the past, the term private equity was often used as a synonym for venture capital; more recently, however, it has been adopted as a general term for the entire private investment market, and includes venture capital, buy-outs and mezzanine capital financing.

**Venture capital** is capital provided to young, innovative and unlisted companies that offer a strong potential for development and growth. During their foundation period, these types of companies are unable to provide the financing necessary for their needs. As a rule, they are unable to obtain bank loans because they cannot offer collateral. Venture capital companies thus represent an alternative source of finance, especially in the case of major investments such as the creation of production facilities or a costly market launch.

### INVESTMENT CAPITAL TERMINOLOGY

PRIVATE EQUITY		
Venture Capital	Buy-outs	Mezzanine financing

By contrast, **buy-outs** and **mezzanine** finance are used by established companies which have already achieved a significant maturity. Mezzanine finance describes sources of funding that, as the name implies, lie partway between equity funding and conventional debt. In the more conventional format, companies are provided with equity funding and the investor does not receive any voting or management rights parallel to those of the effective owner. Mezzanine capital can be issued in the form of participation rights, securitised participation certificates or silent investments. This is referred to as "mezzanine equity" due to the equity nature of the funding. Mezzanine capital in the form of subordinated loans is more akin to traditional borrowed capital and is recorded by the recipient in accounting terms as a liability.

Mezzanine capital is generally associated with higher transaction costs than conventional loans due to a more extensive assessment process for the borrower (often requiring an external rating). In the light of these costs, the minimum capital issue will generally be EUR 500,000. The stringent assessment process for mezzanine issues also means that companies with low equity capital ratios will generally not qualify for mezzanine capital. The objective for mezzanine financing is not to replace a lack of equity funding but rather to augment existing equity capital.

At present, mezzanine financing is growing in popularity for SMEs due to the increasingly cautious lending policies adopted by banks in terms of Basel II.

Buy-outs can be differentiated as leveraged buy-outs (LBOs) and management buy-outs (MBO). In both cases, the buy-out will involve the purchase of existing companies or units of companies, but a leveraged buy-out will be effected by a private equity company whereas management buy-outs will be effected by the existing management. The purchase is generally financed via debt. A common motivation for buy-out transactions is the externalisation of company divisions with the objective of concentrating on core competences or the solution of succession issues for SME companies.

In the SME sector, private equity is generally deployed for long-term asset accumulation but a leveraged buy-out will normally see the purchased company listed (entirely or in parts) after a process of debt restructuring.



## The markets for private equity

The markets for private equity have developed in different ways in Europe and the USA. In Europe in the 1980s, it was more common for investors to invest in established companies whereas the private equity market in the USA was dominated by venture capital investments. From the end of the 1980s, the markets in Europe increasingly followed the US model and concentrated on venture capital transactions. Meanwhile, buy-outs in the USA became established as a separate market.

Today, the USA and the UK are the leading private equity markets in terms of their development and volumes. The venture capital market in the USA alone currently has assets under management of USD 206 billion\*.

In Europe, the private equity market is dominated by the UK. In the last year, UK companies were able to source EUR 10 billion in funding and invested as much as EUR 19.1 billion. Like the US market, private equity in the UK has not achieved this volume through steady growth. The development of these two markets has been characterised instead by alternating phases of high growth interspersed by years of consolidation.

In the European context, Germany is one of the leading private equity markets. By the end of the 1990s, Germany had developed into the second largest private equity market in Europe, but has since been overtaken by France and Italy. These two countries now represent a greater volume of investment than Germany.

## The private equity asset class

Private equity is a separate asset class alongside the established asset classes such as equities, bonds and commodities. In principle, there are various forms of investment in the private equity segment. For example, wealthy individuals can act as private equity investors and invest directly in selected companies.

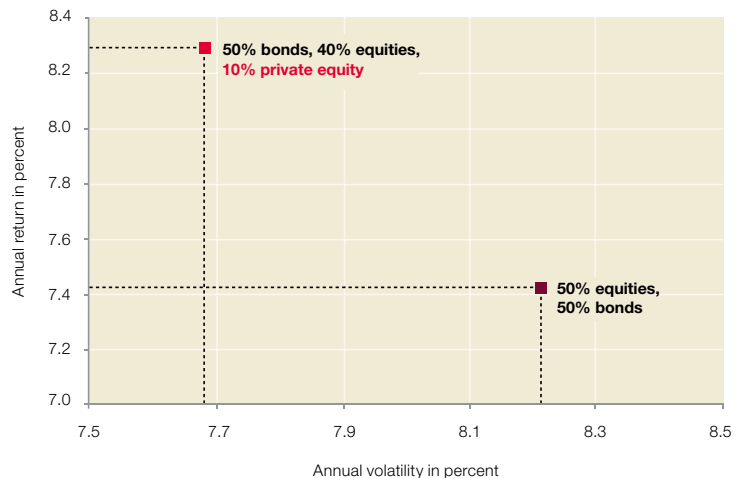
\* German Venture Capital Association e.V. (BVK): "The role of private equity and venture capital in the economy".

This approach requires a high minimum capital investment, as well as significant skill and knowledge when it comes to the selection of investment opportunities and the later sale of acquisitions. For this reason, the private equity market has previously been the domain mainly of institutional investors.

However, listed private equity companies now make it possible for individual investors to gain exposure to the private equity market. In this regard, listed private equity companies have a decisive advantage: they combine the tradability of equities with the opportunities for returns offered by the private equity sector.

They also make it possible to achieve a strong diversification effect. A private equity investment of as little as 10 percent of a securities portfolio can significantly reduce the risk from equities and bonds in the portfolio while significantly increasing the opportunities for returns.

### THE RISK/RETURN RATIOS FOR VARIOUS ASSET CLASSES



## The PRIVEX

In collaboration with Dow Jones Indexes, Société Générale has developed the Private Equity Index (PRIVEX) which represents the global private equity sector.

## Our partner

Dow Jones Indexes is the name behind "the Dow", the most quoted and well-known index internationally. In addition to this legendary flagship, Dow Jones Indexes also provides another 5,000 market indices. These include, for example, the Dow Jones Wilshire indices, the broadest global benchmark indices, as well as the Dow Jones STOXX indices, which are Europe's leading equity indices. These are developed, maintained and marketed by STOXX Limited, a joint venture between Deutsche Börse AG, Dow Jones & Company and SWX Group. Other well-known indices include the global family of Dow Jones Titans Indices, the Dow Jones and Dow Jones STOXX Select Dividend Indices, the Dow Jones and Dow Jones STOXX Sustainability Indices and the Dow Jones Islamic Market Indices, which are utilised internationally. In addition, Dow Jones Indexes has specialised in creating indices together with clients which meet their individual requirements. During the development process, Dow Jones Indexes provides its clients with support via in-house skills and the necessary infrastructure. Dow Jones Indexes is responsible for the up-to-date calculation of the PRIVEX and provides all the applicable data for adjustments to the index. The index is calculated according to the Dow Jones Indexes Standard, which has been established as the market norm.

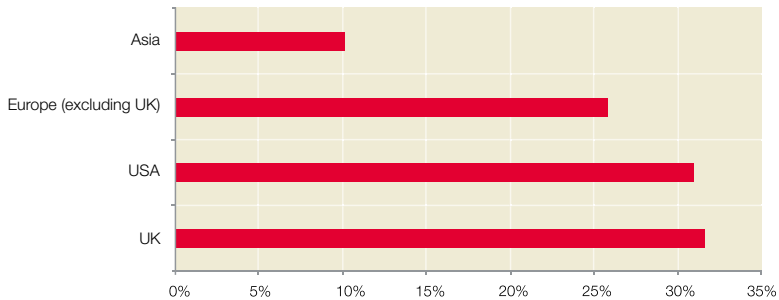
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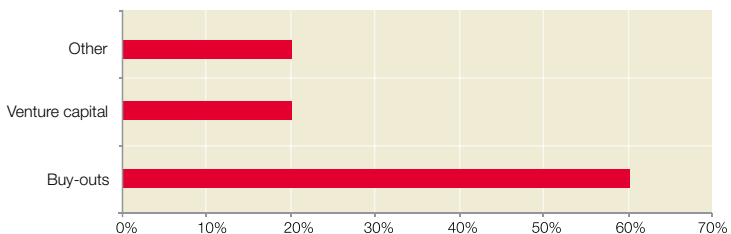
## Index methodology

The PRIVEX includes the 25 largest and most liquid listed private equity companies. It covers the various regions where private equity companies are active (Asia, Europe and the USA) as well as the various activities of the sector. In addition, the weighting of any single component company of the PRIVEX is restricted to 15 percent to ensure that there is sufficient diversification between the index members. The composition of the PRIVEX is reassessed every six months by Dow Jones Indexes. To be admitted to the index, companies must have a minimum market capitalisation of USD 200 million. In addition, there must be sufficient liquidity in the trading of shares of member companies. The capping factors for the individual index members are adjusted on a quarterly basis.

### PRIVEX COUNTRY WEIGHTING AT LAUNCH



### PRIVATE EQUITY WEIGHTING IN PRIVEX





## INDEX COMPOSITION

Company	Country	Currency	Market capitalisation in PRIVEX in USD	Weighting
3i Group PLC	UK	GBP	5.89 billion	14.64%
American Capital Strategies Ltd.	USA	USD	5.89 billion	14.63%
Allied Capital Corp.	USA	USD	4.16 billion	10.35%
Wendel Investissement	France	EUR	3.76 billion	9.36%
Eurazeo	France	EUR	3.16 billion	7.86%
SVG Capital PLC	UK	GBP	2.08 billion	5.16%
Ratos AB Series B	Sweden	SEK	1.99 billion	4.95%
Intermediate Capital Group PLC	UK	GBP	1.86 billion	4.63%
Apollo Investment Corp.	USA	USD	1.71 billion	4.25%
JAFCO Co. Ltd.	Japan	JPY	1.56 billion	3.88%
Electra Private Equity PLC	UK	GBP	1.04 billion	2.59%
MCG Capital Corp.	USA	USD	0.87 billion	2.16%
GIMV N.V.	Belgium	EUR	0.81 billion	2.01%
Ares Capital Corp.	USA	USD	0.77 billion	1.90%
Candover Investments PLC	UK	GBP	0.75 billion	1.87%
IP Group PLC	UK	GBP	0.68 billion	1.70%
Absolute Private Equity AG	Switzerland	CHF	0.66 billion	1.64%
Japan Asia Investment Co. Ltd.	Japan	JPY	0.57 billion	1.41%
Pantheon International Participatio	UK	GBP	0.40 billion	1.00%
Dinamia Capital Privado SCR S.A.	Spain	EUR	0.36 billion	0.90%
Technology Investment Capital Corp.	USA	USD	0.29 billion	0.73%
ARQUES Industries AG	Germany	EUR	0.27 billion	0.69%
Deutsche Beteiligungs AG	Germany	EUR	0.25 billion	0.62%
KTBNetwork Co. Ltd.	South Korea	KRW	0.22 billion	0.56%
NIF SMBC Ventures Co. Ltd.	Japan	JPY	0.20 billion	0.51%

## Corporate profile

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### 3i Group PLC

**Website:** [www.3igroup.com](http://www.3igroup.com) 3i Group PLC is an international investment company which is active in Europe, Asia and the USA. The company offers a range of services from financing for start-ups to buy-outs and buy-ins. 3i Group focuses on companies with high growth potential and solid management.

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### Absolute Private Equity AG

**Website:** [www.absoluteinvestments.com](http://www.absoluteinvestments.com) The Swiss fund company Absolute Private Equity AG invests primarily in the US and European private equity markets.

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### Allied Capital Corp.

**Website:** [www.alliedcapital.com](http://www.alliedcapital.com) Allied Capital Corporation is a private equity company which provides long-term financing and investment capital to SMEs with growth prospects. The company also offers mezzanine capital and private equity. Allied Capital is also engaged in the mortgage backed securities real estate market.

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### American Capital Strategies Ltd.

**Website:** [www.americancapital.com](http://www.americancapital.com) American Capital Strategies Ltd. offers financial advice to companies and also provides equity for acquisitions, takeovers, growth and restructuring. The company has specialised in SMEs in the North American market.

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## Apollo Investment Corp.

**Website:** Apollo Investment Corporation invests primarily in SMEs and offers mezzanine capital and loans.  
[www.apolloic.com](http://www.apolloic.com)

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## Ares Capital Corp.

**Website:** Ares Capital Corporation is a closed-ended investment company. It provides financing for medium-sized listed companies in the USA.  
[www.aresmgmt.com](http://www.aresmgmt.com)

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## Dinamia Capital Privado Sociedad de Capital Riesgo, S.A.

**Website:** Dinamia Capital Privado, Sociedad de Capital Riesgo, S.A. is an investment company with shares in various Spanish companies and is managed by AB Asesores and Electra Fleming Holdings Ltd.  
[www.dinamia.es](http://www.dinamia.es)

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## Candover Investments PLC

**Website:** The investment trust Candover Investments PLC follows a takeover strategy and invests mainly in major MBOs and buy-ins.  
[www.candover.com](http://www.candover.com)

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## Eurazeo S.A.

**Website:** Eurazeo S.A. is an investment company that invests primarily in banks and companies in the insurance, biotechnology and real estate sectors, with a regional focus on companies in Europe, the USA, Israel and Asia.  
[www.eurazeo.com](http://www.eurazeo.com)

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## Deutsche Beteiligungs AG

**Website:** Deutsche Beteiligungs AG invests mainly in medium-range German and international companies. The company also provide support for companies accessing the capital markets. Deutsche Beteiligungs AG has investments in a wide range of sectors throughout the world.

[www.deutsche-beteiligung.de](http://www.deutsche-beteiligung.de)

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## Arques Industries AG

**Website:** Arques Industries AG has specialised in the acquisition of medium-sized companies in Germany, Switzwerland and Austria. This company is primarily involved in restructuring situations, corporate divestments and succession planning. Arques also offers a range of advisory services.

[www.arques.de](http://www.arques.de)

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## Electra Private Equity PLC

**Website:** Electra Private Equity PLC is a closed-ended investment fund with the objective of growing the capital of its unitholders. To achieve this, Electra invests in a wide range of opportunities in the UK, continental Europe and the USA.

[www.electratrust.com](http://www.electratrust.com)

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## Wendel Investissement

**Website:** Wendel Investissement's philosophy is to invest for the long term in industrial and service companies to accelerate their growth and help them become market leaders.

[www.wendel-investissement.com](http://www.wendel-investissement.com)

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## GIMV N.V.

**Website:** [www.gimv.be](http://www.gimv.be) The Belgian investment company GIMV N.V. (Investeringsmaatschappij voor Vlaanderen) facilitates access to venture and growth capital for SMEs. GIMV is also known as Société d'Investissement des Flandres or the Investment Company for Flanders.

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## Intermediate Capital Group PLC

**Website:** [www.icgplc.co.uk](http://www.icgplc.co.uk) Intermediate Capital Group PLC is a consultancy in the areas of buy-outs, corporate restructuring, expansions and acquisitions. Intermediate Capital Group also offers management services throughout Europe as well as mezzanine capital.

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## IP Group PLC

**Website:** [www.ip2ipo.com](http://www.ip2ipo.com) The core business of IP Group PLC is generating capital on the basis of its partnerships with renowned research institutions (Oxford's Chemistry Department, University of Southampton, King's College London) and their intellectual property by providing capital and resources to companies as well as through direct investments.

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## JAFCO Co. Ltd.

**Website:** [www.jafco.com](http://www.jafco.com) The Japanese investment company JAFCO Co., Ltd. invests via its funds primarily in unlisted Japanese companies with high growth potential. In addition, JAFCO also offers loans and advisory and management services.

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## Japan Asia Investment Company Ltd.

**Website:** [www.jaic-vc.co.jp](http://www.jaic-vc.co.jp) Japan Asia Investment Company, Ltd. invests (directly or indirectly) in unlisted companies in Japan and South East Asia with a strong growth potential. In addition, the company also offers loans and advisory and management services.

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## KTBNetwork Co. Ltd.

**Website:** [www.ktbnetwork.com](http://www.ktbnetwork.com) KTBNetwork Co., Ltd. is an investment company that provides support for SMEs in obtaining financing and investments in new technologies. The range of services extends to loan financing, leasing and factoring. KTBNetwork also offers advisory services, corporate consulting and legal and tax services.

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## MCG Capital Corp.

**Website:** [www.mcgcapital.com](http://www.mcgcapital.com) MCG Capital Corporation is a financial services provider for SMEs in the USA. Its investment is focused on growing companies in the media, communications, technology and IT sectors. MCG Capital offers support services in the area of financing for acquisitions, re-capitalisation and management buy-outs.

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## Technology Investment Capital Corp.

**Website:** [www.ticc.com](http://www.ticc.com) Technology Investment Capital Corp. is a US company which offers financial services to companies based in the technology sector.

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## **NIF SMBC Ventures Co. Ltd.**

**Website:** [www.nifsmbc.co.jp](http://www.nifsmbc.co.jp) NIF SMBC Ventures Co., Ltd. is an investment company which invests mainly in shares and warrant bonds/notes issued by unlisted domestic and international companies. Its range of services includes HR and advisory services, management and debt recovery.

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## **Pantheon International Participations PLC**

**Website:** [www.pantheonventures.com](http://www.pantheonventures.com) Pantheon International Participations PLC is a closed-ended fund with an investment focus in the area of unlisted companies. Pantheon International Participations bases its business on direct investments via the purchase of unlisted business units and companies.

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## **Ratos AB**

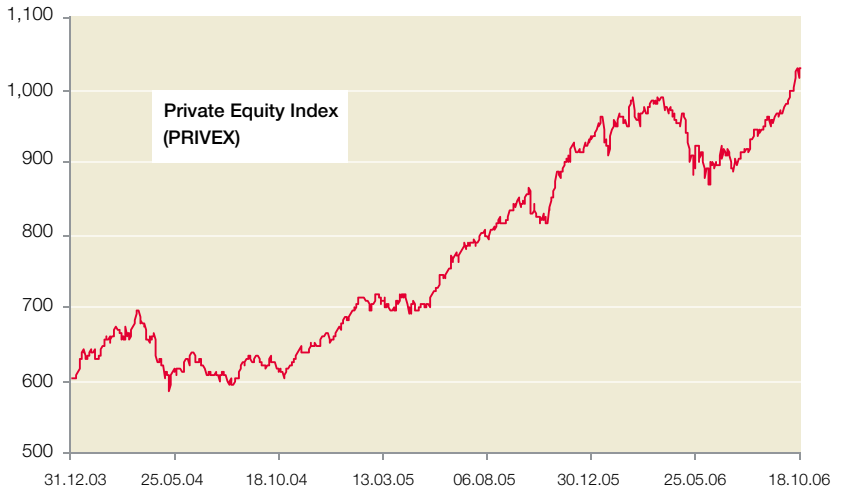
**Website:** [www.ratos.se](http://www.ratos.se) Ratos AB is a Swedish private fund company with a portfolio of unlisted companies. It is active in a range of fields, ranging from management services for its portfolio to the acquisition and sale of companies.

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## **SVG Capital PLC**

**Website:** [www.svgcapital.com](http://www.svgcapital.com) SVG Capital PLC is a private equity fund company which invests in the international portfolio of the private equity fund Permira, one of the leading European private equity companies. SVG Capital also invests in private equity funds with exposure to the USA and Asia.

**PRIVEX HISTORY**



The PRIVEX history\* has been calculated retrospectively (back-tested). Information and legal exclusions related to the back-testing are provided on the following page.

Live prices for the Private Equity Index can be found on:

<b>Reuters Bloomberg</b>	<b>Total Return</b>	<b>Price Index</b>
	.PRIVEX PRIVEX INDEX	.PRIVEXP PRIVEXP INDEX

The PRIVEX is calculated by Dow Jones Indexes, a business unit of Dow Jones & Company, Inc. ("Dow Jones"). "Dow Jones" and "Dow Jones Indexes" are trademarks of Dow Jones & Company, Inc. Investment products based on the PRIVEX are not sponsored, endorsed, sold or promoted by Dow Jones Indexes, and Dow Jones Indexes makes no representation regarding the advisability of investing in such product(s). Dow Jones, its affiliates, sources and distribution agents (collectively, the "Index Calculation Agent") shall not be liable to Société Générale, any customer or any third party for any loss or damage, direct, indirect or consequential, arising from (i) any inaccuracy or incompleteness in, or delays, interruptions, errors or omissions in the delivery of the PRIVEX or any data related thereto (the "Index Data") or (ii) any decision made or action taken by Société Générale, any customer or third party in reliance upon the Index Data. The Index Calculation Agent does not make any warranties, express or implied, to Société Générale, any of its customers or any one else regarding the Index Data, including, without limitation, any warranties with respect to the timeliness, sequence, accuracy, completeness, currentness, merchantability, quality or fitness for a particular purpose or any warranties as to the results to be obtained by Société Générale, any of its customers or other person in connection with the use of the Index Data. The Index Calculation Agent shall not be liable to Société Générale, its customers or other third parties for loss of business revenues, lost profits or any indirect, consequential, special or similar damages whatsoever, whether in contract, tort or otherwise, even if advised of the possibility of such damages. There shall be no contractual relationship between Dow Jones and any customers of Société Générale based on or related to the PRIVEX.

\*The PRIVEX Index was launched on October 9, 2006. This document contains index performance data based on back-testing, i.e., calculations of how the index might have performed prior to launch if it had existed using the same index methodology employed by SocGen today and based on the initial constituents of the Index. Back-tested performance information is purely hypothetical and is provided in this document solely for informational purposes. Back-tested performance does not represent actual performance and should not be interpreted as an indication of actual performance.

Dow Jones Indexes prepared the back-tested index performance history with respect to the time period December 31, 2003 through October 9, 2006. Index performance is for illustrative purposes only and does not represent actual investment performance.

Index performance returns do not reflect management fees, transaction costs or expenses.

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