

Invesco Private Capital

- Over 25 years of private equity investing
- More than \$4.0 billion committed to 450 funds since 1982¹
 - Over \$2.6 billion committed to 295+ emerging manager funds¹
- We manage a \$300 million emerging manager program for one of the largest pension funds in the US
- We source over 100 qualified emerging manager funds annually
- Many of our emerging manager partnerships have grown to become industry leaders:²

ACCEL



WELSH, CARSON, ANDERSON
& STOWE

Berkshire Partners



¹ As of 12/31/09. Through predecessor firms. Includes legacy accounts from Sovereign Financial Services.

² As of 12/31/09. Represents list of firms in which IPC has invested in seven or more funds. Includes legacy investments from SFS.



Defining Emerging Managers

- First, second, and third-time institutional funds
- De novo as well as spin-outs and spin-offs from established groups
- Strategies:
 - Venture Capital
 - ➔ **Buyouts**
 - Mezzanine
 - Special Situations

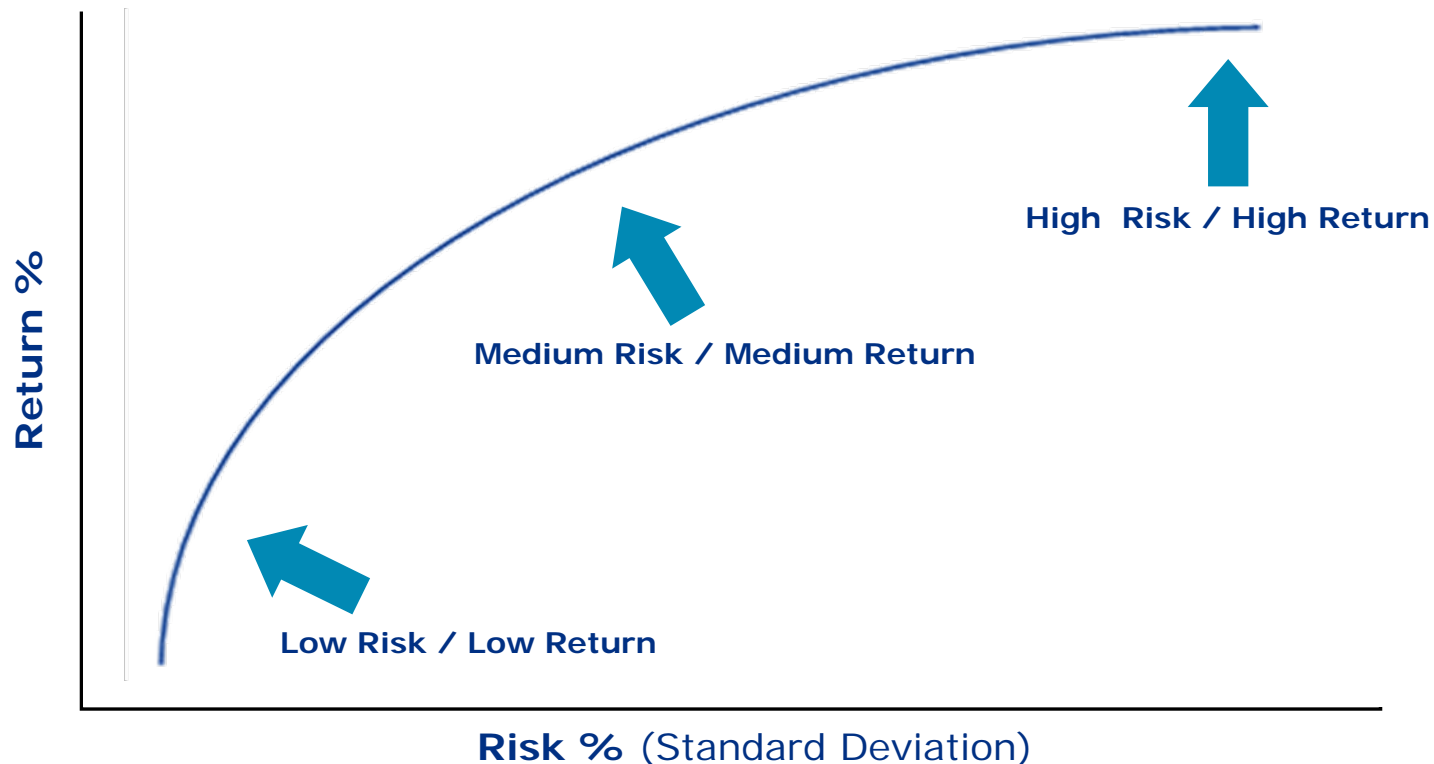


Invesco

Alternative Investments & The Efficient Frontier

Investors allocate a portion of capital to alternative investments to get closer to the efficient frontier

Institutions need to incorporate new, emerging managers with legacy groups in order to approach the efficient frontier within private equity



For Illustrative purposes only.



The Emerging Manager Opportunity

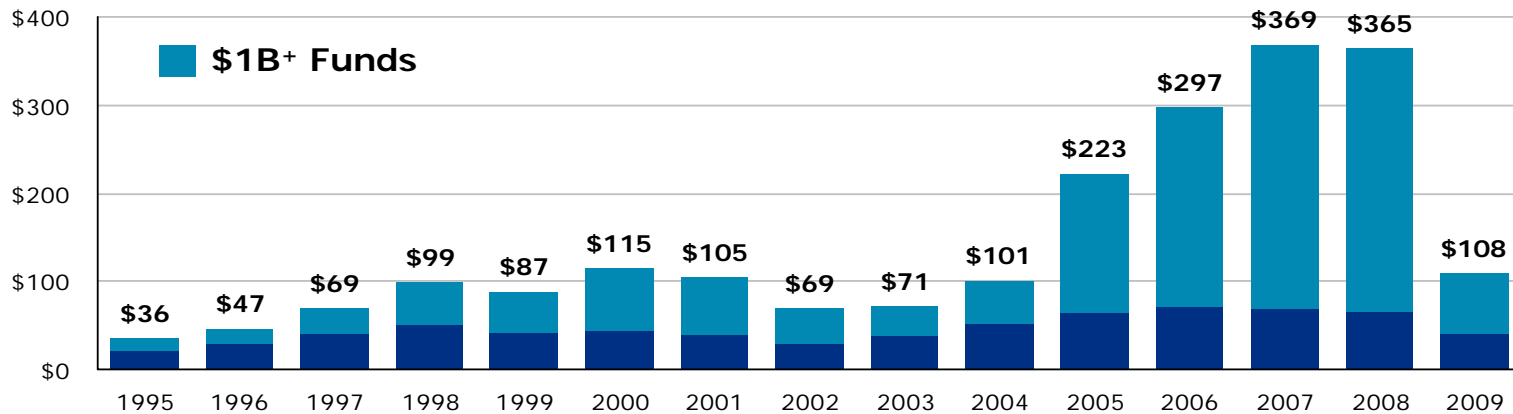
- Challenges in the current market environment have further exacerbated weaknesses of various investment models, which have struggled to generate consistent returns
- A new breed of funds with novel and unique investment models has emerged – offering limited partners innovative products with the potential to enhance private equity portfolio returns:
 - Self-liquidating investments
 - Power & energy investments providing coupon streams
- Continued market adversity will create an opportunity for talented, innovative, and experienced general partners to spin out and raise new funds



The Small & Middle Market Buyout Opportunity

The recent explosion of mega funds has led to a funding gap for small and mid-sized LBO deals

Buyout Capital Raised (\$B)¹



- Experienced investors are spinning out of their existing firm and forming new partnerships to invest in higher return arbitrage opportunities
- The days of “Strip & Flip” & dividend recaps are gone → successful teams possess true operation value-add
- The challenge for investors is to identify and build relationships with these “new & emerging” managers early – before they become names among the elite

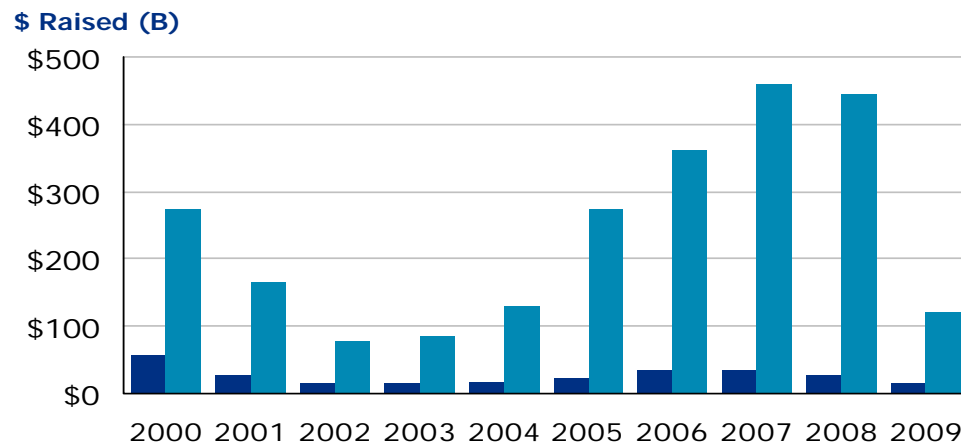
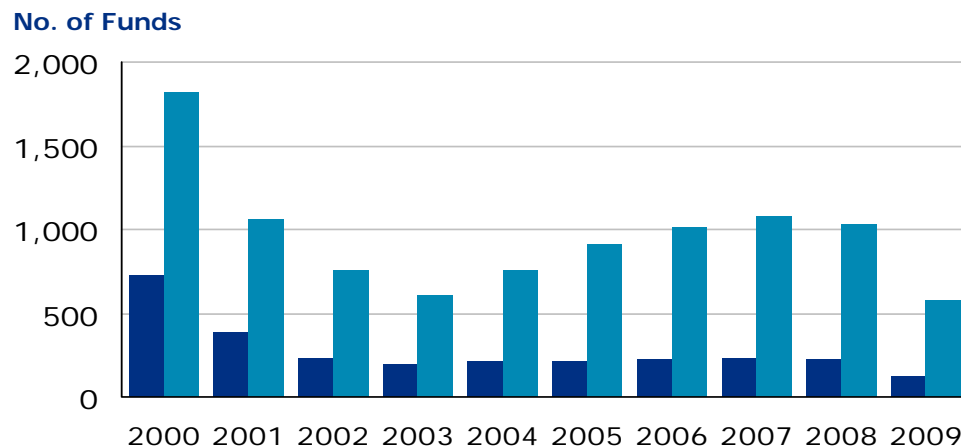
¹ Source: Thomson Venture Economics Buyout & Mezzanine Index. Includes net amount raised for each specified period as of 12/31/09.

How Large is the Emerging Manager Universe?

All Private Equity Funds

- The emerging manager universe is large
- Since 2000, new and emerging funds represent approximately 30% of all funds raised
- In 2009, new and emerging funds represented approximately 20% of all funds raised

- Since 2000, new and emerging funds have raised approximately \$264.7B
- In 2009, new and emerging funds represent 13% of all dollars raised



■ Emerging ■ All Funds

Source: Venture Economics Fund Commitments Report as of 12/31/09, excluding funds of funds. Emerging manager funds distinguished as "First Time Funds; New or Sole; no Follow On."

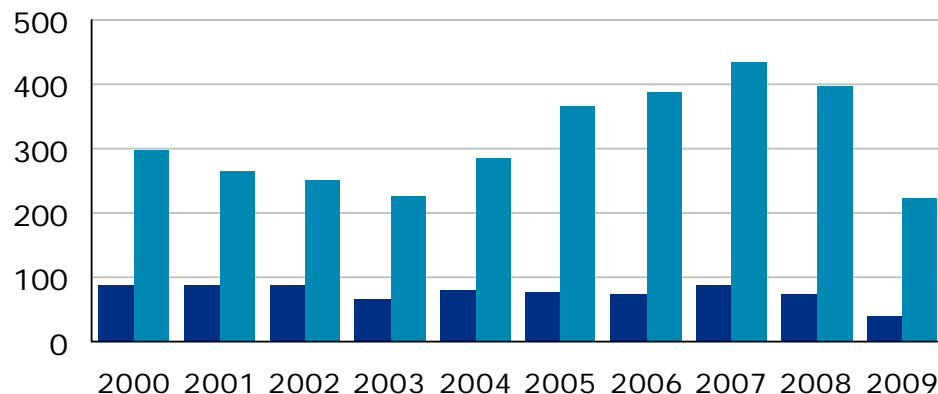


How Large is the Emerging Manager Universe?

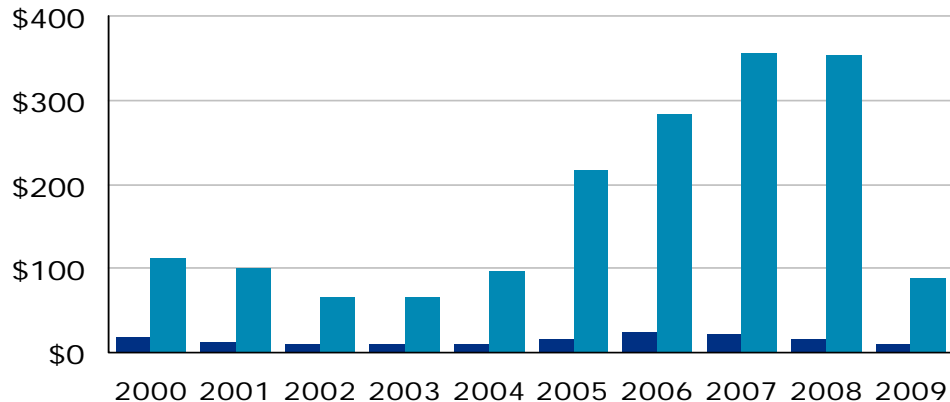
Buyout & Mezzanine Funds

- Since 2000, approximately 25% of all buyout and mezzanine funds raised were by new and emerging teams
- In 2009, approximately 18% of all buyout and mezzanine funds raised were by new and emerging teams
- Since 2000, approximately 9% of all buyout and mezzanine dollars raised were by new and emerging teams
- In 2009, approximately 12% of all buyout and mezzanine dollars raised were by new and emerging teams

No. of Funds



\$ Raised (B)



■ Emerging ■ All Funds

Source: Venture Economics Fund Commitments Report as of 12/31/09, excluding funds of funds. Emerging manager funds distinguished as "First Time Funds; New or Sole; no Follow On."



IPC Perspective on Emerging Managers

Opportunities:

- Innovation
- Diversity
- Motivation
- Fund Size
- Access to the new franchise groups
- Terms and conditions



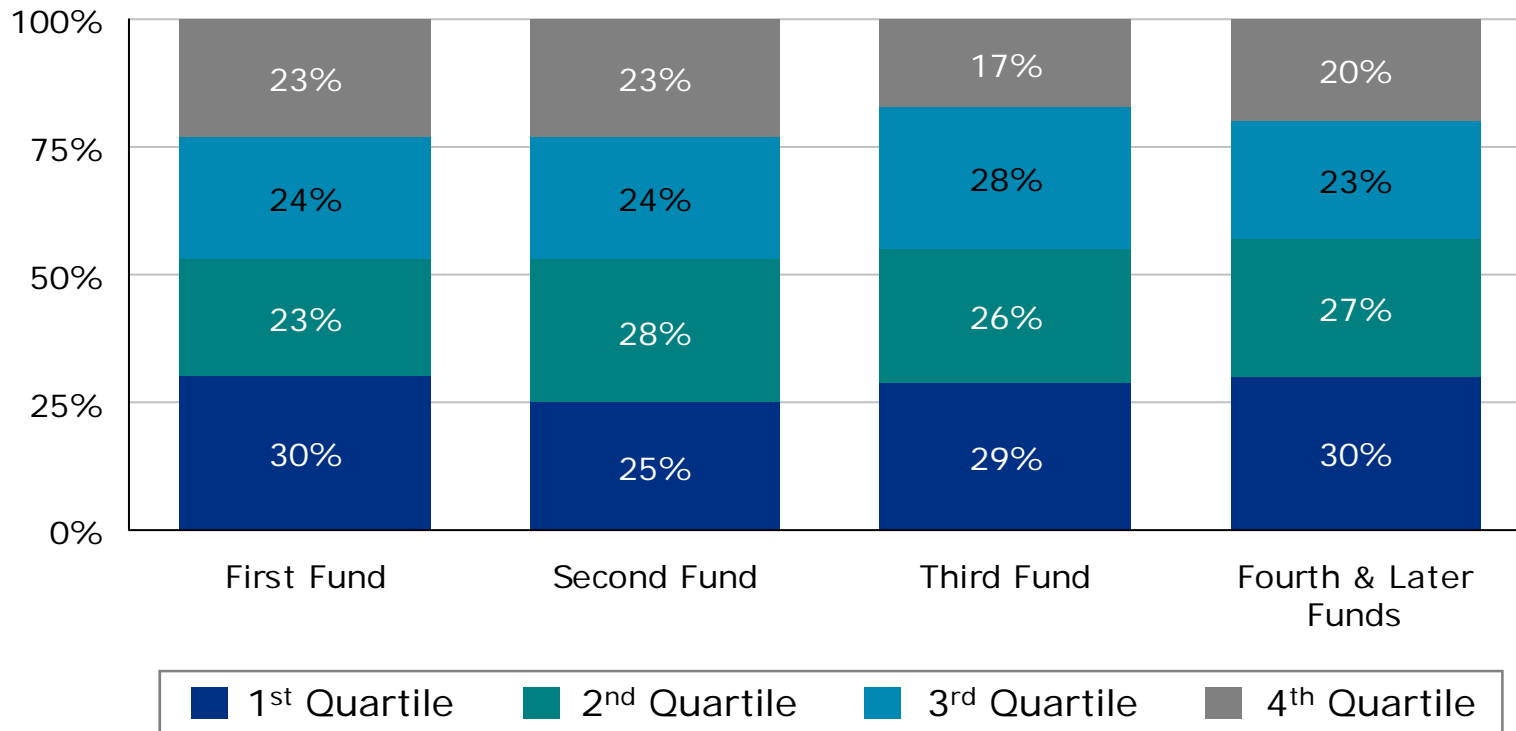
Obstacles:

- Misperception of performance
- Team risk
- Limited quantitative data
- Realization history
- Limited sources of capital dedicated to emerging managers

Are Emerging Managers Riskier?

Over 50% of first, second and third-time funds beat the median benchmark, appearing in the top or second quartiles.

All Private Equity – Quartile Rank by Fund Number



Source: Preqin, "A Challenging Year for Private Equity Performance", Private Equity Spotlight, July 2009 / Vol. 5 – Issue 7. Illustrates the proportions of funds ranked in first, second, third and fourth quartiles for first-time funds, second-time funds, third-time funds and fourth-time funds and onwards. Preqin Performance Monitor net annualized performance as of 12/31/08. The Preqin Performance Monitor contains metrics for 4,500+ funds from 1,600+ managers, accounting for 70% of all private equity funds raised historically by value.



Additional Observations

- Limited partners have increasingly begun to recognize the value of new and next generation funds as part of an enhanced private equity portfolio
- We are optimistic regarding new capital allocated to emerging manager opportunities
- Given the current fundraising environment, it is likely that emerging managers will, in the short term, face significantly stronger headwinds than their more established counterparts
- Now more than ever, it remains highly critical for emerging funds to differentiate their offerings and value proposition
- Limited partners are extremely cognizant of fundraising risk with any emerging manager opportunity



Important Information

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