Why invest in private equity?

Dr Jim Strang, Head of European Buyouts, Gartmore Private Equity

November 2007

Agenda

- Gartmore Private Equity: Our background
- How does private equity work?
- Why invest in private equity?
- The challenges of private equity
- Central & Eastern Europe: A case study

Introduction to Gartmore Private Equity

- Gartmore Private Equity (GPE) is a division of Gartmore Investment Management Ltd, an asset management company with Assets under Management of €37 billion[1]
- GPE grew out of the team that managed the Royal Bank of Scotland Group Pension Fund (current assets in excess of €20 billion[2])
  - GPE has been investing in private equity on behalf of RBS since 1991
  - In January 2004 GPE won the mandate to manage the RBS Pension Fund's private equity programme on a specialist basis
- In summer 2004 GPE won the mandate to manage the private equity assets of Nationwide Mutual Insurance Company (a Fortune 100 company based in Ohio, USA, with regulated assets of ~$150 billion)
- GPE currently manages private equity assets of €3 billion and currently commits €500 - €600 million per annum to private equity funds and direct co-investments
  - In 2006 GPE made 24 commitments to private equity funds and completed 16 direct co-investments

[1] Source: Gartmore, as at 31st March 2007
[2] Source: International Pension Funds and their Advisors 2005/06, Aspire Publications Ltd

How does private equity work?

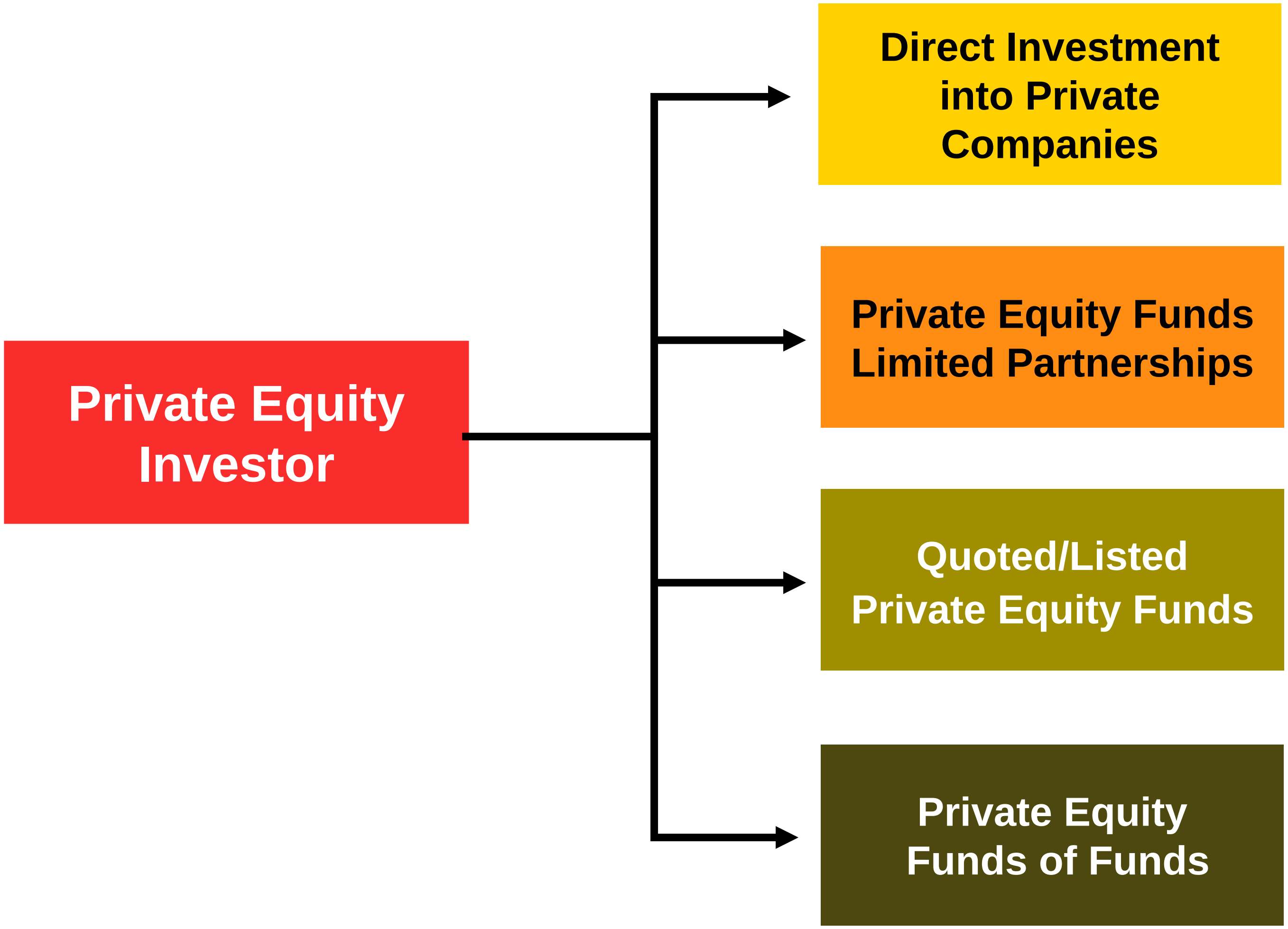
There are two main asset classes within the private equity industry

Buyouts	Venture
• Well-established companies with real profits and cashflows • Transactions structured to include a high degree of debt • Small (€100m), medium (€500m) and large (€5bn+) deal sizes	• Start-ups with minimal profits and cashflow • Transactions structured to include a high degree of equity • Small transaction sizes
↓	↓
Strategy: do ten deals, expect one or two to fail and the rest to deliver ~2x your investment over several years	Strategy: do ten deals, expect eight or nine to fail and one or two to deliver 5-10x your investment over several years

The private equity value chain has five steps

1. **Sourcing:**
   - Build a pipeline of interesting investments opportunities
     - Corporate ‘orphans’
     - Family businesses with succession issues
     - Underperforming private or public companies
2. **Evaluate the opportunity:**
   - Is this a good business? Is there value in this asset?
   - Is this a good investment opportunity? Can this asset be acquired for a reasonable price?
   - How would we build value within this business?
   - What is the right financing structure for this investment?
   - How would the exit be achieved?
3. **Execute the deal:**
   - Draw together all elements of the transaction to close the deal (debt, equity, legal agreements)
4. **Build Value:**
   - Execute the business plan to grow the EBITDA of the company to its ‘full potential’
5. **Exit:**
   - To either a trade buyer, a financial buyer or to the public equity markets

How to invest in private equity



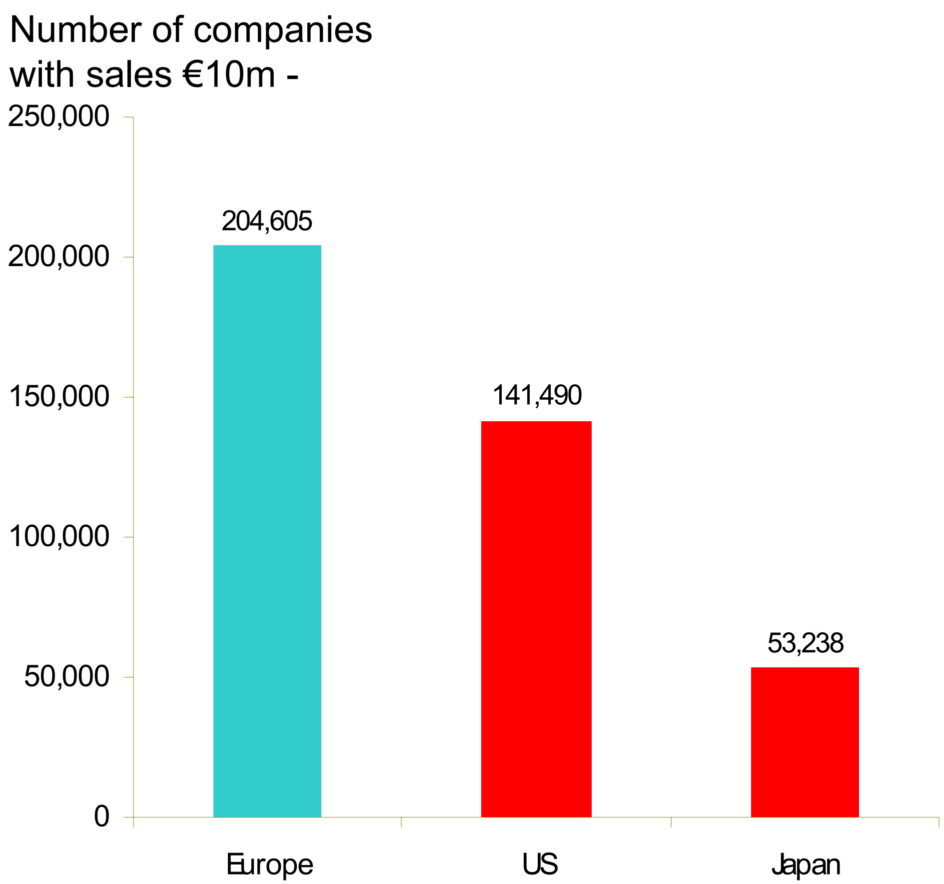
Characteristics of different private equity vehicles

	Pros	Cons
Direct Investment into Private Companies	Potential high reward	Very high risk – single company exposure Resource-intensive Dealflow
Private Equity Funds	Professional access to private equity market Relatively diversified	Relatively high entry criteria High Manager risk High vintage year risk Illiquid
Quoted/Listed Private Equity Funds	Lower barrier to entry Liquidity	Subject to stock market movements
Private Equity Funds of Funds	Lower barrier to entry Complete investor solution Diversified portfolio Professional portfolio construction Lowest risk	Additional fees

Why invest in private equity?

The opportunity set for potential investments is massive

Potential Opportunity Set for Buyouts

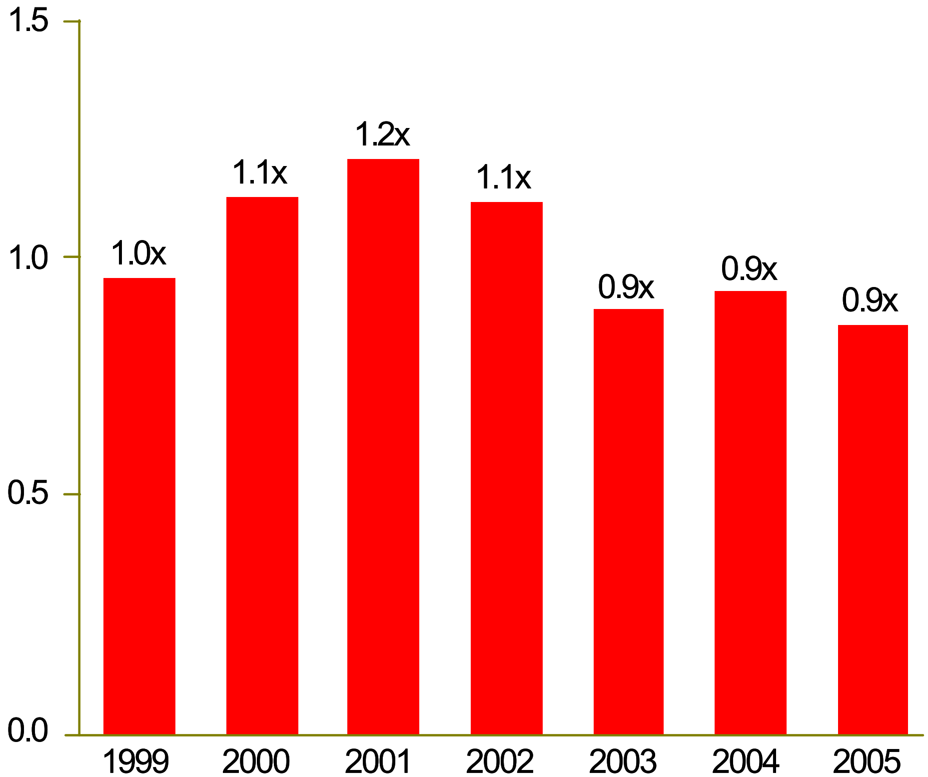


- There are over 200,000 companies across Europe that are legitimate candidates for private equity investment
- By way of comparison there are only 1,262 companies listed on the Main Market of the London Stock Exchange

Source: Bureau Van Dyke, 1st December 2006

Investments can be acquired at reasonable prices

Public Market EBIT Multiple
Premium/Discount

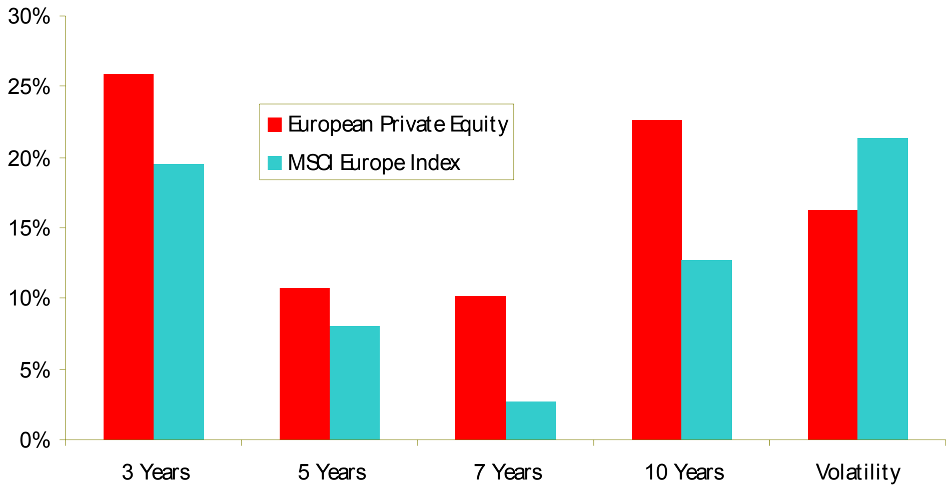


- Private equity transactions are completed at broadly similar multiples to the public markets

Source: Standard & Poor's / Thomson Financial DataStream

Private equity has historically delivered returns well above the public markets with low levels of return correlation

Private equity Horizon IRRs vs. quoted equity



Asset class return cross-correlations

	US Buyout	US Venture	Europe Buyout	Europe Venture	Europe Bonds	Europe Equity
US Buyout	1.0					
US Venture	0.6	1.0				
Europe Buyout	0.1	0.6	1.0			
Europe Venture	0.3	0.5	0.3	1.0		
Europe Bonds	-0.3	-0.4	-0.3	-0.5	1.0	
Europe Equity	0.7	0.6	0.2	0.6	-0.4	1.0

Source: Thomson Financial DataStream / Venture Economics, as at 31st December 2005

- Long-term characteristics of private equity are very attractive

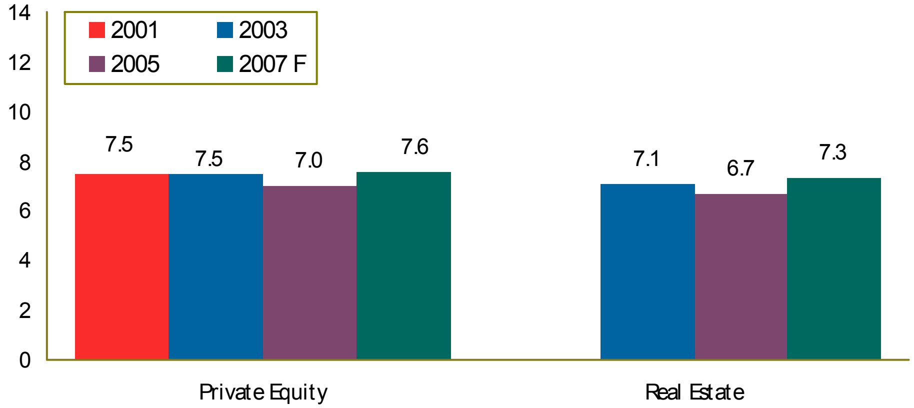
- Superior returns….

…. Low volatility

Unsurprisingly, asset allocations to private equity are on a rising trend

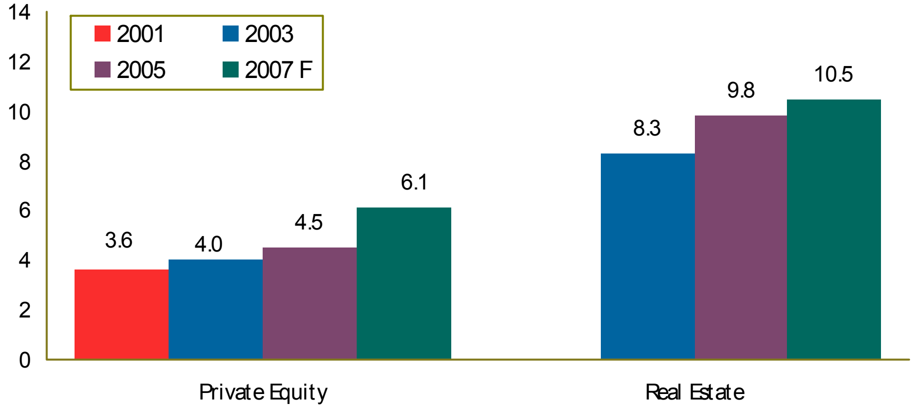
North America

% of Total Assets



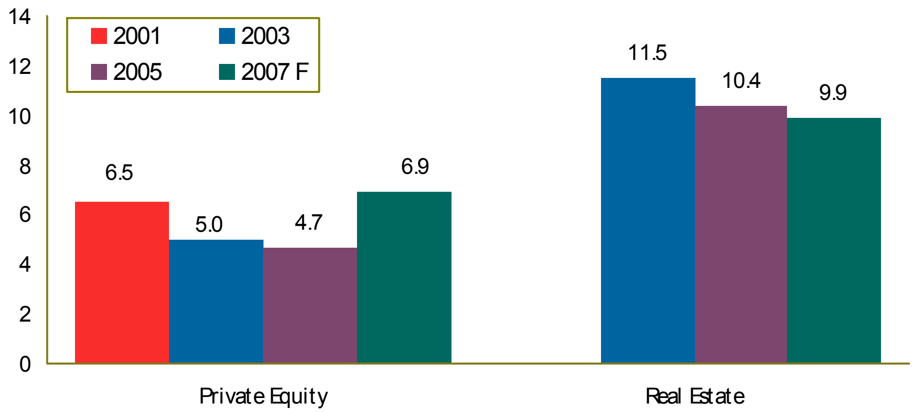
Europe

% of Total Assets



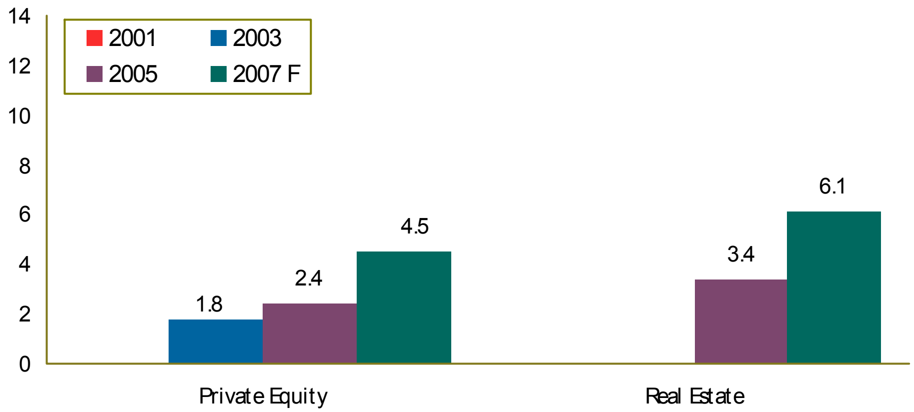
Australia

% of Total Assets



Japan

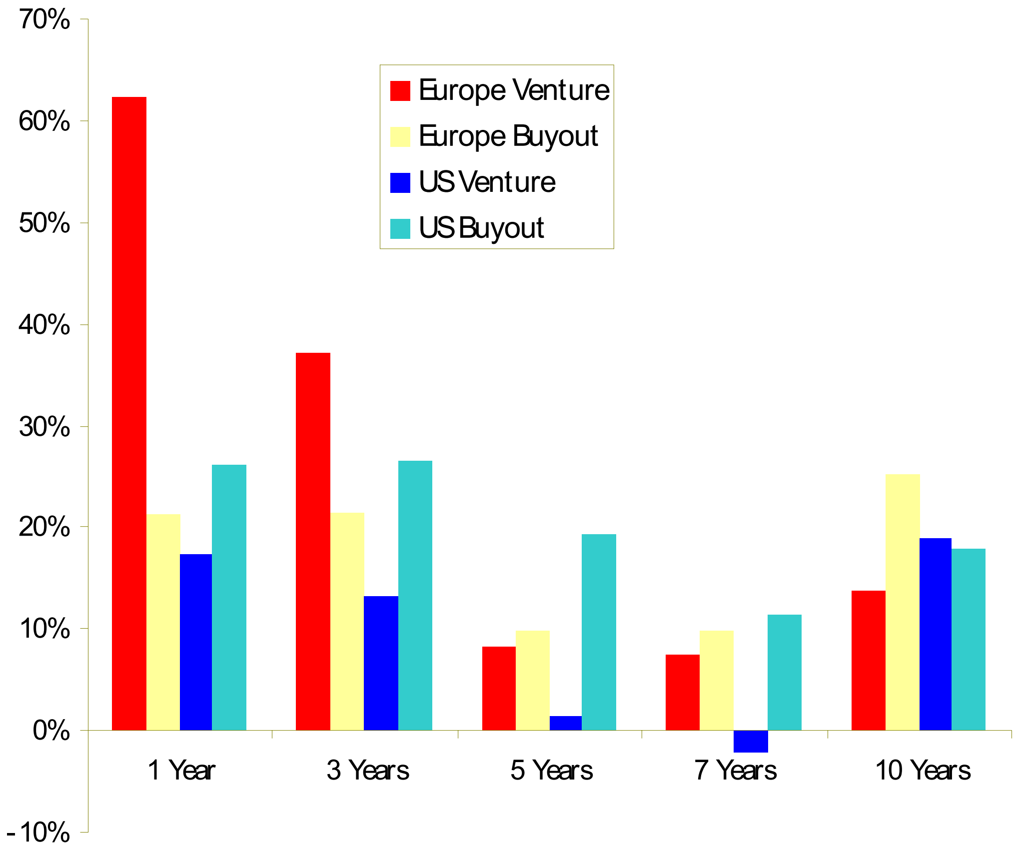
% of Total Assets



Source: 2005 – 2006 Russell Survey on Alternative Investing

But private equity returns do vary significantly by market and time period

Private equity Horizon IRRs



Source: Thomson Financial DataStream / Venture Economics, as at 31st December 2006

Early Stage

- Higher volatility due to nature of investment into unproven businesses
- Little or no revenue
- Reliance on technology optimism for exits

Buyouts

- More stable due to investment into businesses with revenues and proven business models
- Risk increased due to additional leverage, particularly in larger buyouts
- Risk mitigated due to conservative valuations and strong investment management

High alpha generation combined with low correlation to the public markets are helping to drive investor demand for private equity

Pros

- Levels of return ahead of the public markets
- Low level of correlation with public markets

Cons

- Long-term investment
- Illiquidity
- Need to back ‘the winners’ to create value

The challenges of private equity

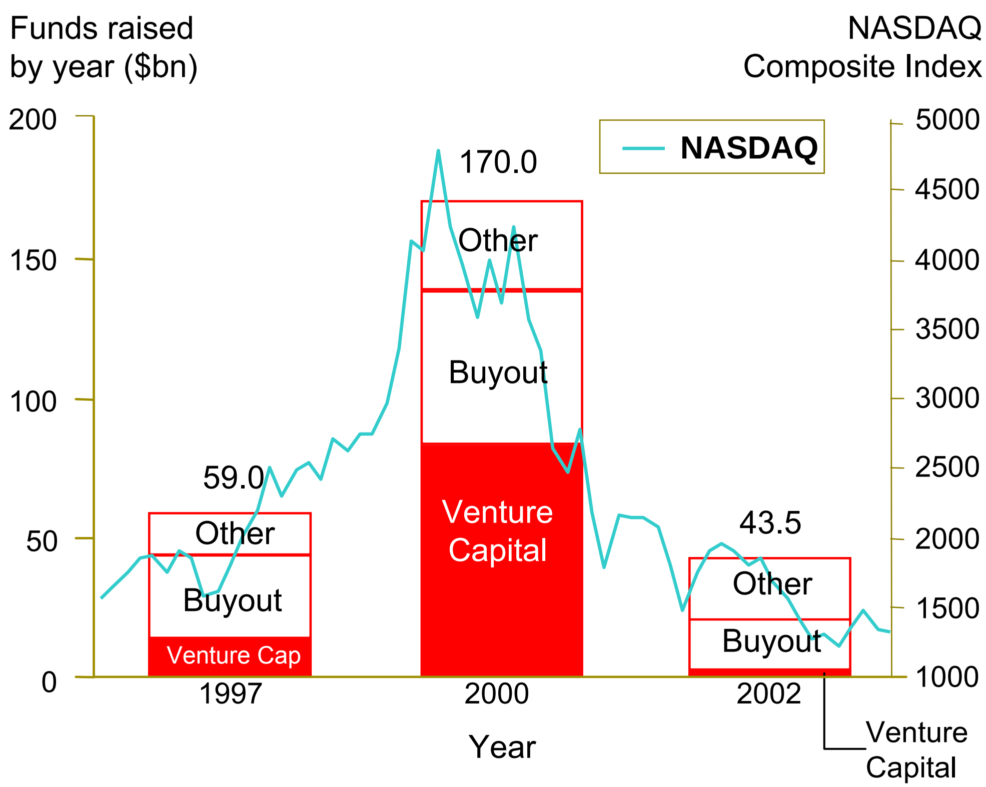
The challenges of successfully implementing a private equity strategy are significant

- Private equity may have superior risk and reward characteristics relative to other asset classes, however it also has many pitfalls, which need to be managed:
  1. Risk and returns vary significantly between markets
  2. There is significant variation between manager returns
  3. Gaining access to top tier managers is difficult, particularly for new entrants
  4. Private equity fee structures can eliminate the return premium

Implementation of private equity exposure is critical

1. Risk and return vary significantly between markets

Late 1990s investment bubble



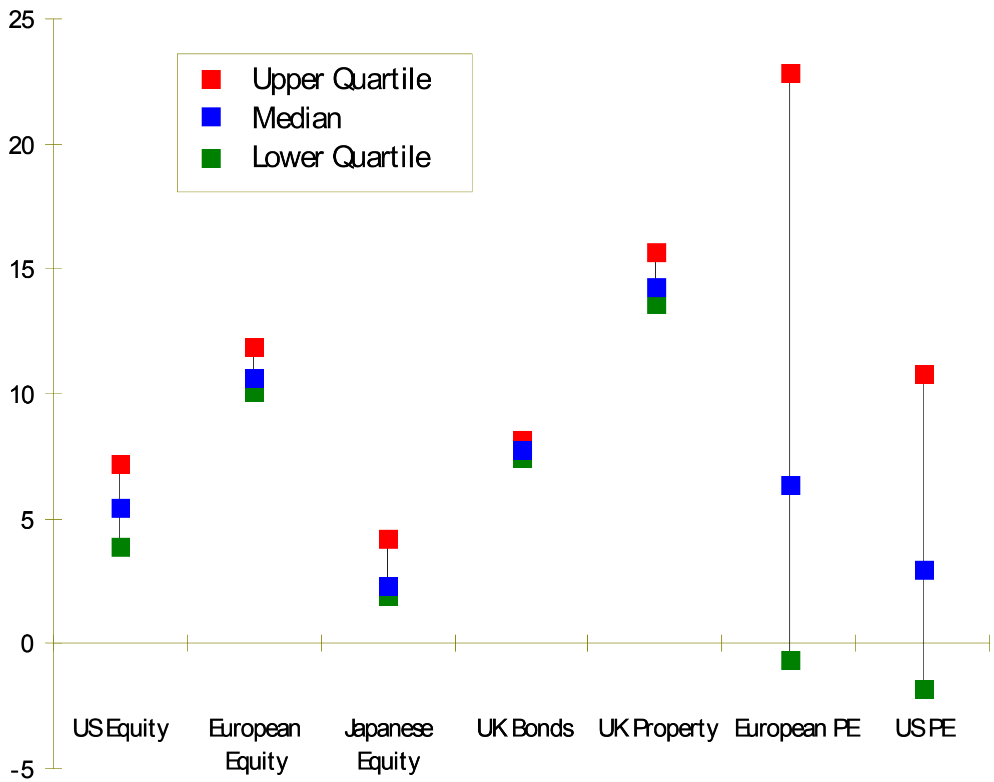
Source: Venture Economics / Gartmore

- Fundamental risk and reward characteristics of markets can vary significantly
- Capital is often misallocated to markets that have performed well historically
- Investment experience and judgement is needed to allocate to markets which have strong future return potentia

Solution: Research the investment fundamentals of each type of private equity and focus on markets that will return strong risk-adjusted returns

2. There is significant variation between manager returns

Dispersion of returns from 1997 to 2006 (%)



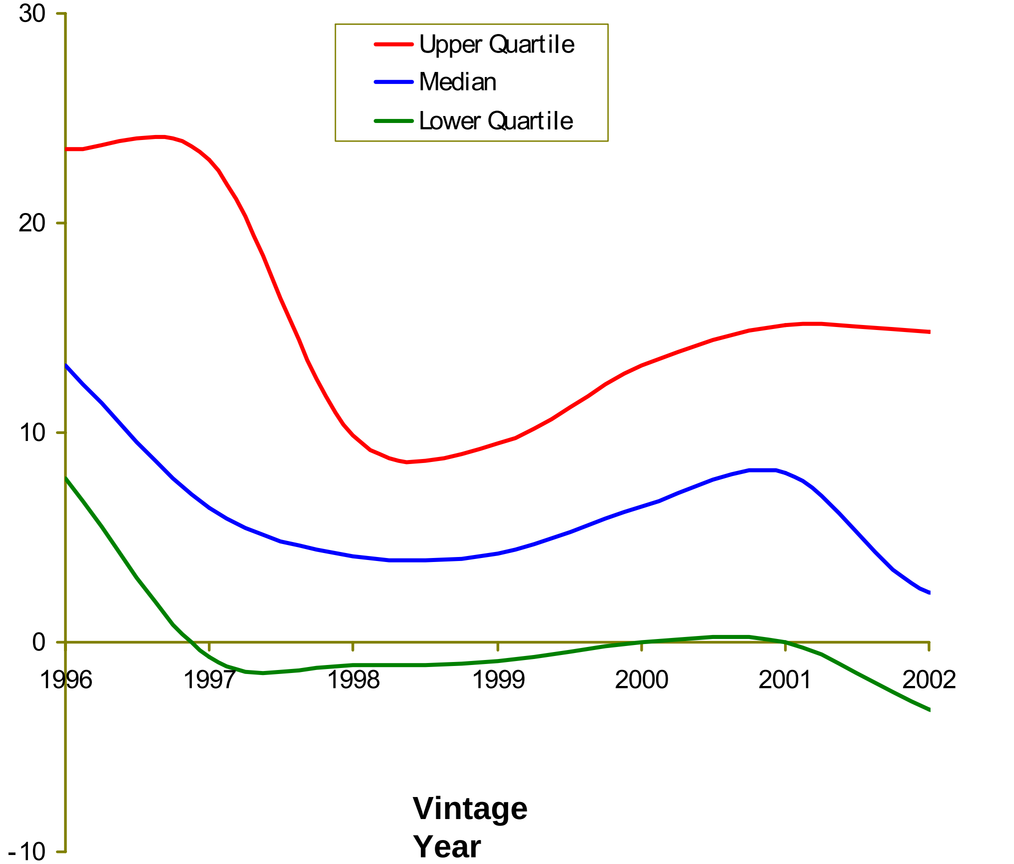
Source: CAPS / Venture Economics, as at 31st December 2006
Basis: Equity, Bonds and Property returns from 1st January 1996 to 31st December 2006. Private equity returns are 1997 vintage year.

- Selection of managers is significantly more important in private equity than in other asset classes
- Studies show top quartile performance can be repeated therefore strong relationships are important
- Significant resource is needed to research the private equity universe to select the top performing managers

Solution - Focus on backing the right funds

3. Gaining access to top tier managers is difficult, particularly for new entrants

European buyouts: quartile IRRs by vintage year (%)

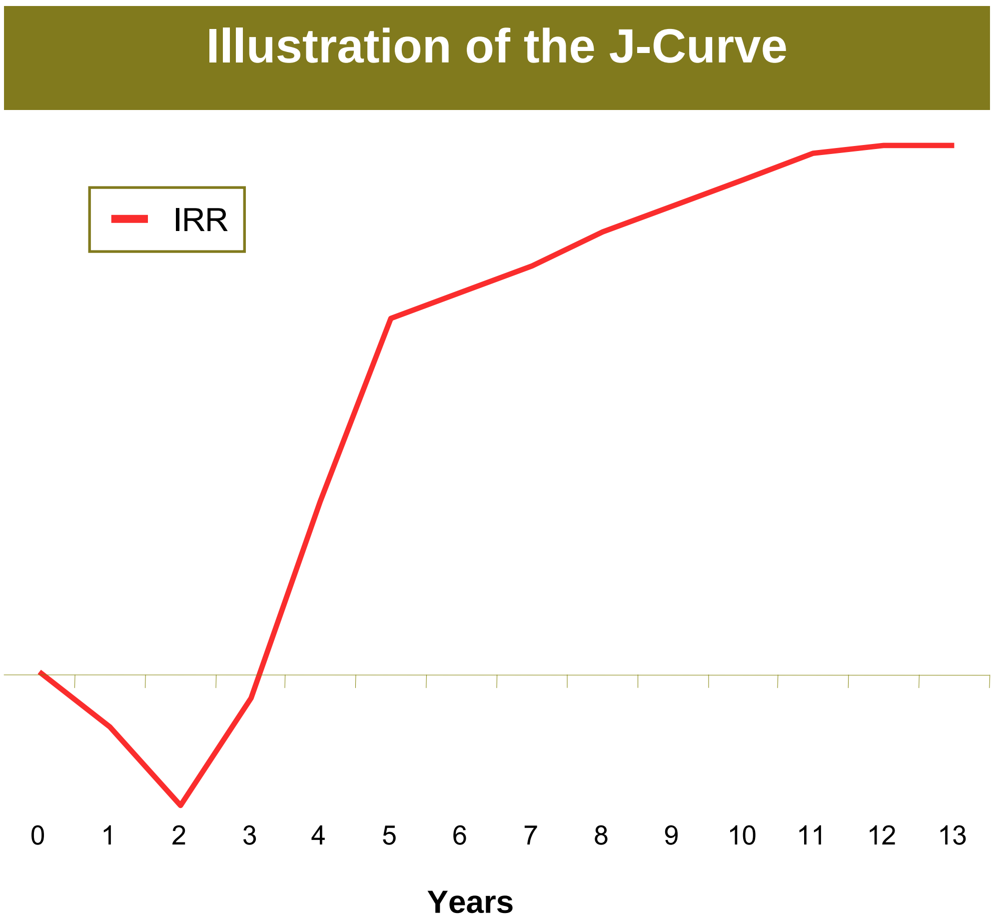


Source: Venture Economics, as at 31st December 2006

- Given the attractions of private equity and the need to back top quality managers, successful managers are typically oversubscribed
- Preference is given to existing fund investors and managers who have developed strong relationships over time

Solution: Develop strong relationships with top tier managers in target areas

4. Private equity fee structures can eliminate the return premium



Source: Gartmore, for illustrative purposes only

- Fees are high
- Fees are typically charged on commitments, not Net Asset Value
- Managers charge performance fees on top of significant management fees
- Investors can experience a J-Curve

Solution: Use direct co-investments or secondaries to accelerate investment and to reduce the impact of fees

Central & Eastern Europe: A case study

Saki Georgiadis, Gartmore Private Equity

GPE assesses five key factors when evaluating a private equity market

Economic Cycle

- Does the economic environment allow the mangers to increase the revenues and profits of portfolio companies?

Structural Drivers

- Does the market have strong structural drivers that will enable managers to buy quality businesses and increase their value?

Valuation

- Are valuations attractive relative to the economic background and investment opportunity?

Culture

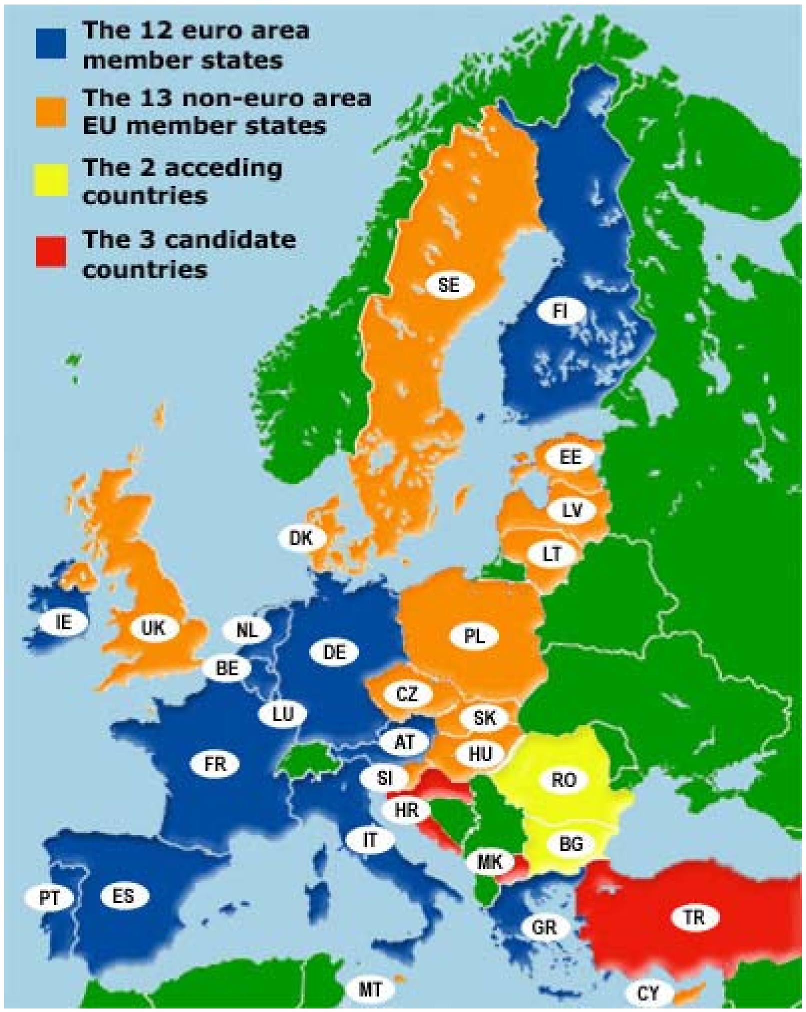
- Does the market have an equity culture that allows and encourages companies to be run for profit and for the benefit of shareholders?

Governance

- Does the market have adequate protection for shareholder rights and value?

What is the resulting risk/return trade-off for this market?

The accession states are significantly altering the European landscape and its importance in the global economy

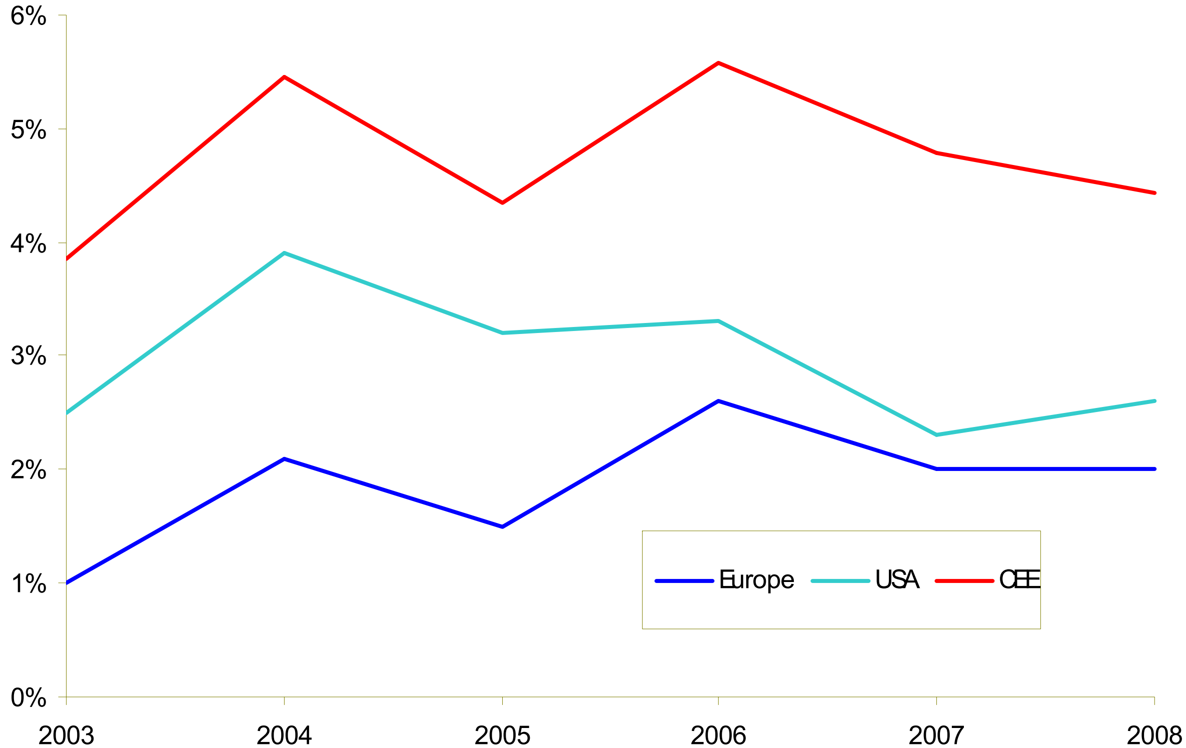


Source: Danmarks Nationalbank

	Population (m)	GDP ($bn)
EU 15	385	12,754
Enlargement States (2004/2007)	107	817
Candidate Countries (incl. Turkey)	80	405
EU Potential Size	**572**	**13,976**
US	300	11,712
EU times US	**1.9x**	**1.2x**
Russia & Ukraine	190	848
Region Potential Size	**761**	**14,824**

CEE economies are continuing to grow faster than EU 15 & US, underpinned by strong consumer spending growth and manufacturing relocation

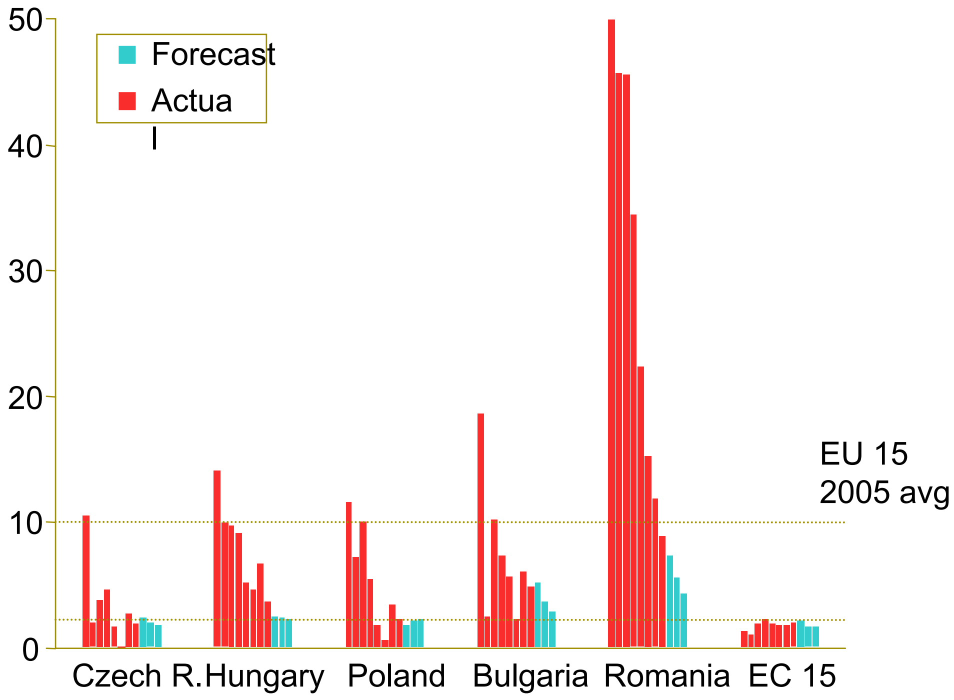
Real GDP Growth (%)



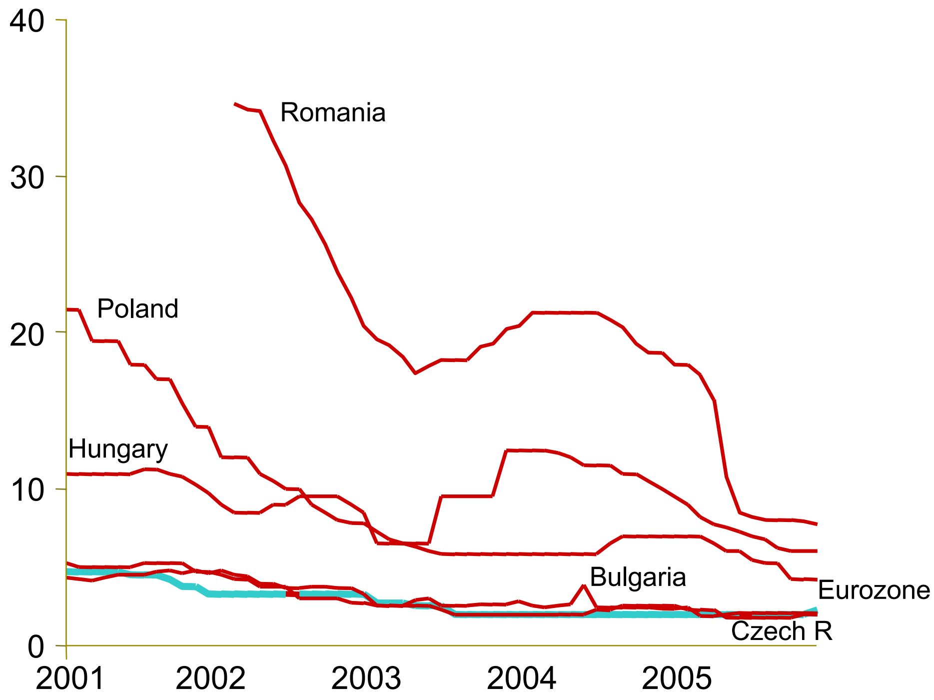
Source: Bank of Austria, Economist Intelligence Unit

Monetary convergence to EU levels has been a key enabler of the development of a buyout market in the region

Inflation 1998 – 2008 (%)



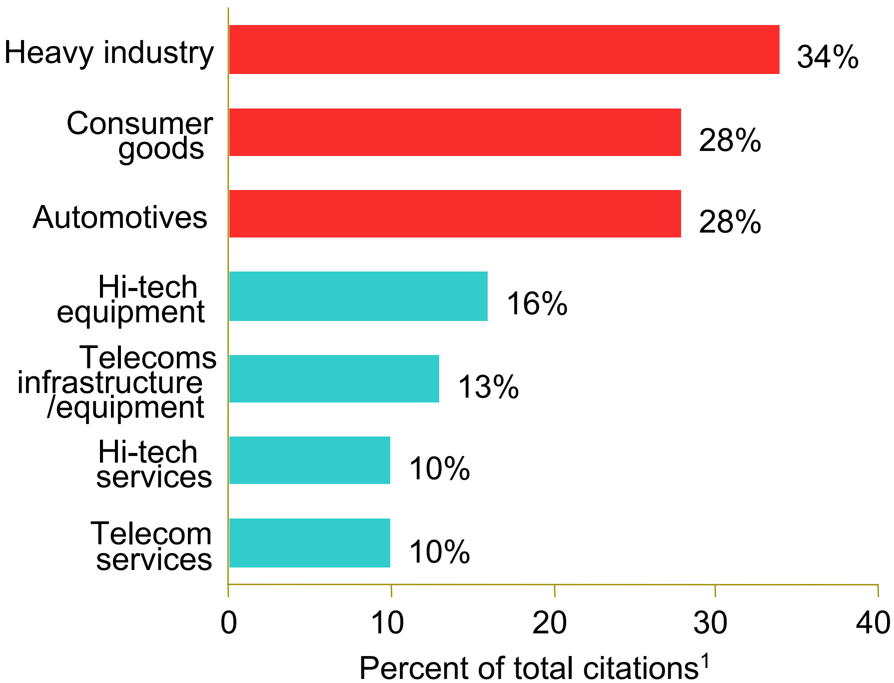
Central Bank base rates (%)



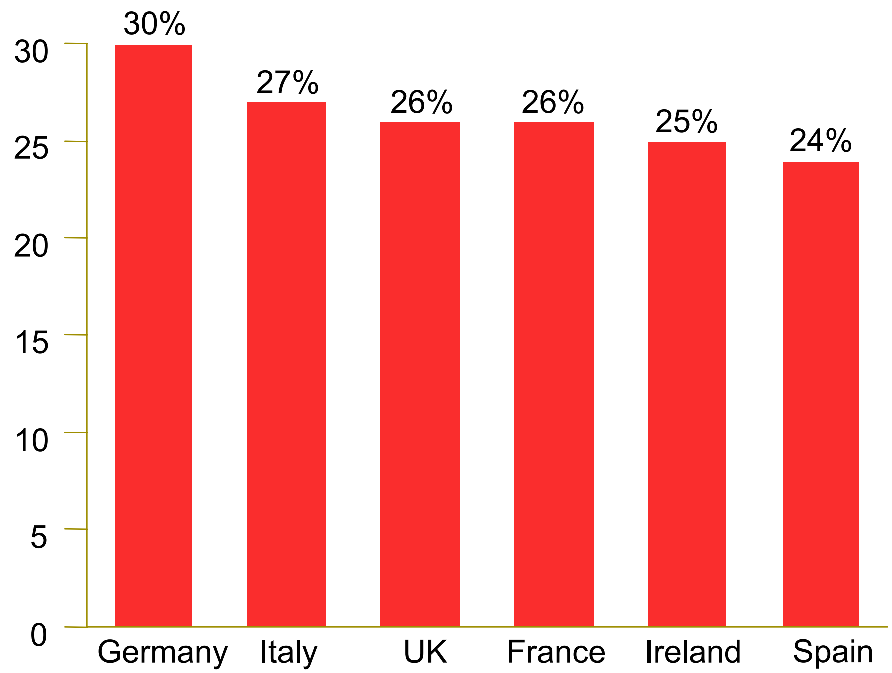
Source: Economist Intelligence Unit, DataStream, Central Bank of Romania

The region is well placed to take advantage of the structural shift that will take place in heavy industry, automotives and consumer goods in coming years

Sectors under relocation threat (%)



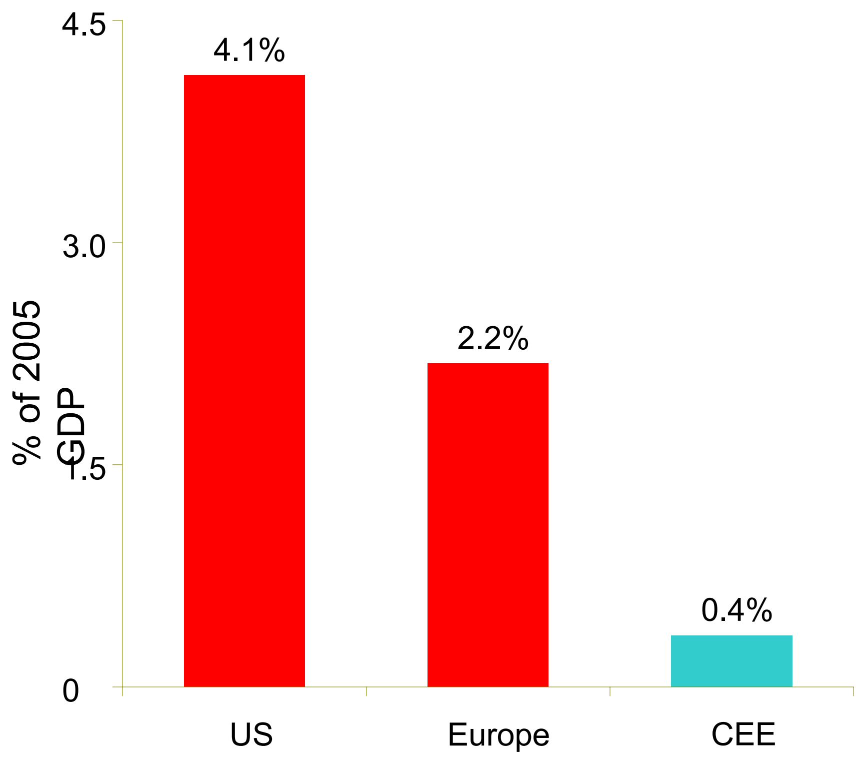
Cost savings from sourcing production in Poland[2] (%) (Steel, Automotives, FMCG, White



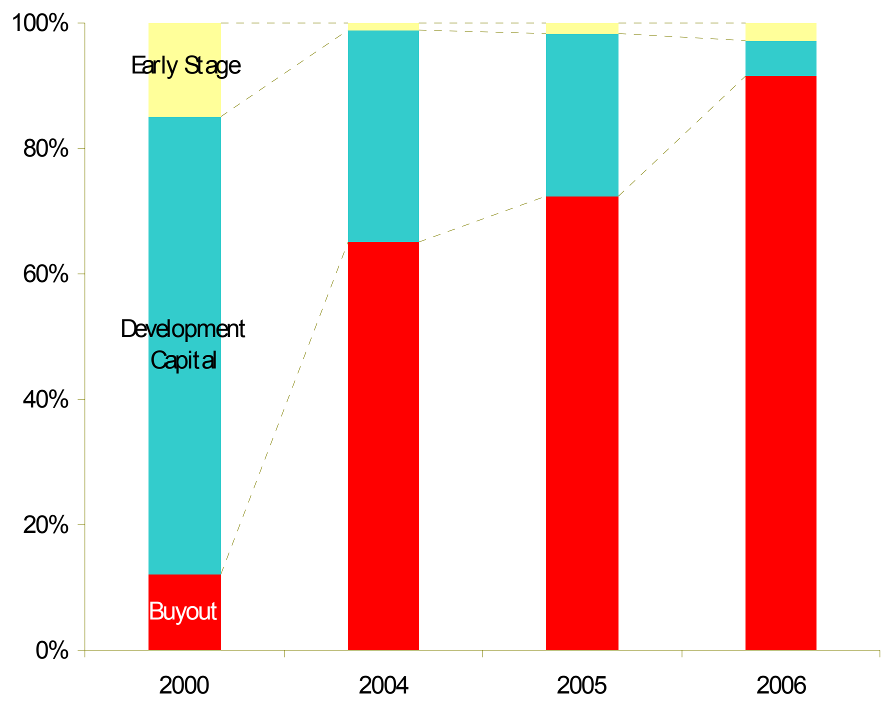
Source: E&Y CSA Survey 2005, Boston Consulting Group
[1] Total superior to 100% - multiple Choice
[2] Average Savings estimated for white goods, steel, FMCG and auto industries

As the market matures, with an increased focus on buyouts, there is scope for greater private equity penetration

Cumulative penetration of private equity



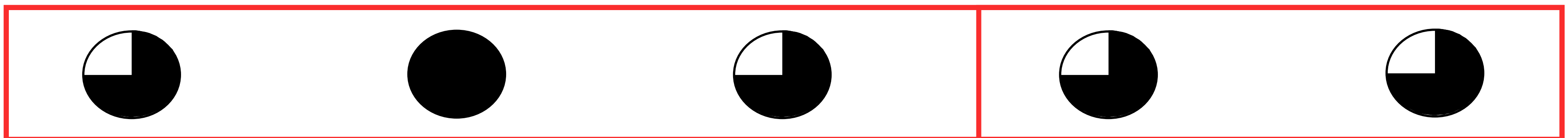
Composition of deal flow (%)



Source: PricewaterhouseCoopers, European Venture Capital Association, GPE Analysis

Culture and governance are key enablers of private equity for an emerging or converging economy

Economic Cycle	Structural Drivers	Valuation	Culture	Governance



Culture

- Strong entrepreneurial culture
- More focus on wealth creation versus empire building
- Governments supportive of free market principles

Governance

- Ongoing legal harmonisation to EU standards. Improved:
  - Property rights
  - Quality of accounting standards
  - Corporate governance system

Appendix

GPE: led by experienced private equity investors

David Gamble, Non-Executive Chairman,
GPE Investment Strategy Committee

- Former Chief Investment Officer, British Airways Pension Fund (€14 billion)
- Investment experience: 39 years
- Private equity experience: 15 years

Peter Gale, Managing Director

- Former Investment Manager of the RBS Pension Fund
- Investment experience: 24 years
- Private equity experience: 16 years

Jim Strang, Head of European Buyouts

- Former Strategy Consultant (Bain and Company) and Investment Manager (incl. Bank of Scotland Pension Fund)
- Investment experience: 13 years
- Private equity experience: 7 years

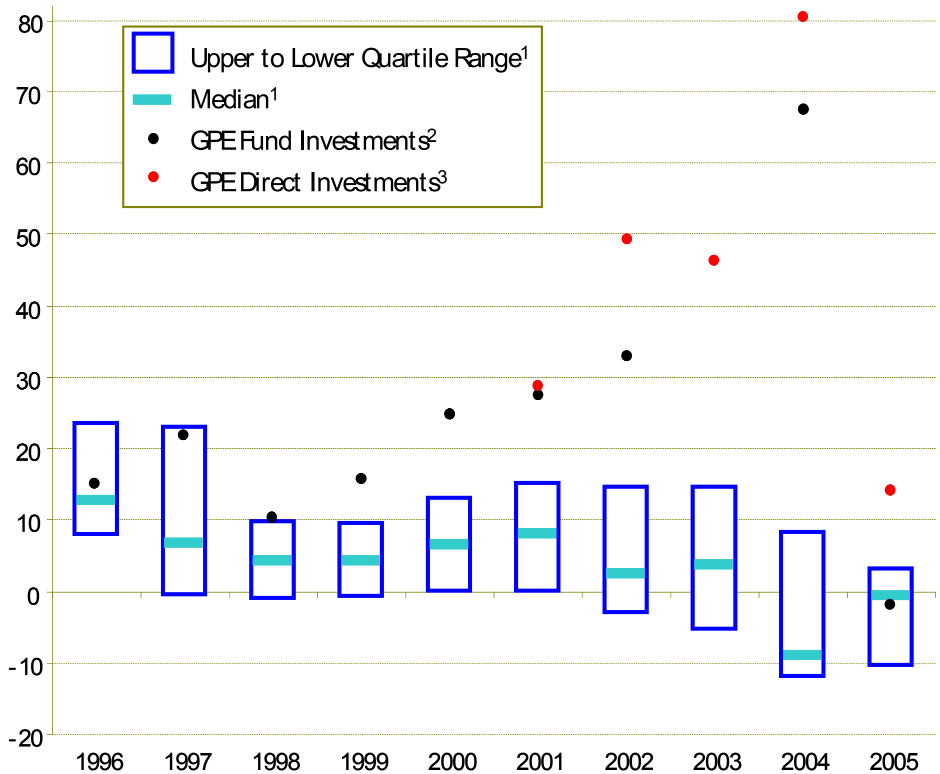
Source: Gartmore, as at 31st December 2006

GPE's successful private equity investing has produced returns far above the industry average

- GPE is one of the longest established private equity investors operating in Europe, with history tracing back to 1991
  - This historical presence in the market has allowed strong relationships to be developed with the leading European private equity groups

- GPE's considerable investment experience, combined with a structured, forward-looking investment process, has enabled us to produce superior returns

GPE European Fund & Direct Investment Returns vs. Market Quartile Returns -



[1] Source: Venture Economics, Lower, Median and Upper Quartile IRR of European Buyouts for relevant vintages, as at 31st December 2006
[2] Pooled IRR of GPE's fund investments by vintage year
[3] Pooled IRR of GPE's direct co-investments by vintage year
Source: Gartmore as at 31st December 2006. Basis: Gross of GPE's fees and expenses, in Euros; net of managers' fees and expenses. Past performance does not guarantee future performance

Example: Typical Buyout

Direct Co-Investment: Avio

Deal Size: €2.6bn	Industry: Aerospace	Location: Italy	GPE III Investment: €5m

Company Information:
Avio is a leading player involved in the design, development and production of sub-systems and components for aerospace applications. These include both military and civilian aeroengines and space systems. The company has significant interests in supplying engine components to the European Space Agency. In addition, Avio has an aircraft maintenance operation that focuses on civilian aerospace. The business was founded almost 100 years ago and is headquartered in Italy, with 16 overseas locations and over 4,800 employees. It serves a global customer base and has grown into a major force in the global aerospace market, generating €275m of EBITDA in 2006. Cinven invited GPE to participate in the acquisition of Avio.

Investment Rationale:
The investment rationale is supported by two key factors: the potential for revenue growth and the capacity to increase operational efficiency. Avio's role in key civil aircraft engine programmes, such as the development of the GE90 and the GEnx jet engines, offers the main opportunity for revenue growth. Given the current level of order books from the major aircraft manufacturers (Airbus and Boeing) these programmes should deliver considerable revenue upside for Avio for the foreseeable future. The second key driver of value creation within Avio is the capacity to improve the operational efficiency of the business. Cinven aims to maintain Avio's reputation for technical excellence, while striving to drive the efficiency of the business to similar world-class levels.

Update:
The transaction closed in January 2007.

Example: Typical Buyout

Fund: CVC IV

Fund Size: €6bn	Focus: Pan European Large Buyout	GPE III Commitment: €7.5m

Company Information:
CVC is an independent buyout group founded in 1981, which has raised over $18bn in Europe and Asia. CVC has acquired over 220 companies in Europe for a total consideration of more than €61.9bn. CVC operates an integrated European network of 12 offices: the most extensive and longest established team of any private equity group in Europe. CVC's European operations are built around an experienced team of 53 investment professionals led by 15 partners who are responsible for evaluating investments, providing strategic input to portfolio companies and maintaining a regular dialogue with investors.

Fund Strategy:
CVC invests across a broad range of deal sizes, committing between €75m and €500m to deals valued between €150m and €3bn. CVC targets an enterprise value of at least €150m per transaction. Historically, the firm's largest deals have exceeded €3bn. The Fund will invest primarily in Western Europe, across a broad range of sectors. CVC seeks to build businesses of sufficient size to be attractive IPO or trade sale candidates. The Fund will invest in a broad cross-section of European industrial and service businesses. The investment team will seek businesses with market-leading positions, strong motivated management teams, opportunities for growth by acquisition, stable cash flows and above-average returns on internally invested capital.

Update:
The Fund closed in July 2005. Since that time it has made seven investments across Western Europe, drawing approximately 50% of the Fund's capital. The Fund has also had its first realisation event with the successful IPO of the Dutch plastic pipes manufacturer, Wavin. Further liquidity events within the portfolio have returned over 25% of total commitments.

Gartmore Private Equity III – Portfolio

Fund Commitments: 70%

Europe: 85% - 90% | **Asia: 10% - 15%**

Large Buyout	Mid-Market	Small Buyout	Asia
BC Partners VIII Apr-05 € 13,000,000	Bridgepoint III Apr-05 € 15,000,000	Rutland II Dec-06 € 3,000,000	India Value Fund III Jan-07 € 3,800,000
CVC IV Aug-05 € 7,500,000	Cognetas II Jul-05 € 7,500,000	Arcadia II Dec-06 € 5,000,000	Advantage IV Feb-07 € 8,500,000
Cinven IV Apr-06 € 10,000,000	TDR II Jun-06 € 3,200,000	Aksia III Feb-07 € 7,000,000	Affinity III Dec-06 € 8,000,000
Permira IV Jul-06 € 10,000,000	Carlyle Europe III Jan-07 € 11,000,000	Activa II May-07 € 5,000,000	
Terra Firma III Nov-06 € 5,000,000	Doughty Hanson V Mar-07 € 8,000,000	Realza Oct-07 € 3,000,000	

Directs: 30%

Deutsche Annington Terra Firma May-06 € 4,000,000	Thomson Learning Apax Jun-07 € 4,750,000	
AWAS Terra Firma Aug-06 € 4,000,000	CS Bank AIF Capital Jul-07 € 4,400,000	
Orizonia Carlyle Europe Dec-06 € 4,000,000	Alliance Boots KKR Aug-07 € 3,000,000	
Avio Cinven Jan-07 € 5,000,000	Gambro Bridgepoint Sep-07 € 3,100,000	
Biofarma CVCI Mar-07 € 3,500,000	Tokyo Star Bank Advantage Partners Oct-07 € 3,000,000	
AZ Carlyle Europe May-07 € 4,500,000		

Approved by Investment Committee; awaiting completion

Total commitments to date: € 193,625,000

Total committed to date: € 176,750,000
Funds: € 130,500,000
Directs: € 40,250,000
Pending: € 6,000,000

Important Information

Investing in alternative investments is speculative, not suitable for all types of investors, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of such investment, which can include: (i) a lack of liquidity in that there may be no secondary market for the investment and none expected to develop; (ii) restrictions on transferring interests; (iii) a potential lack of diversification due to concentration of trading authority with a single adviser; (iv) an absence of information regarding valuations and pricing; (v) delays in tax reporting; and (vi) less regulation than that governing retail mutual funds.

In achieving the investment's objectives, the Investment Manager will invest in smaller companies, speculative instruments and privately issued securities. As a result of investing in overseas securities, exchange rate movements can cause the value of investments to decrease or increase. The strategies employed may result in the net asset value of the portfolio exhibiting a high level of volatility and higher expenses than other investments. Past performance is no guarantee of future results. The value of investments may go down as well as up and investors may not get back their original investment.

All data in this material is provided as of 31st December 2006 and its source is Gartmore unless stated otherwise. Although third party data has been obtained from and is based on sources Gartmore reasonably believes to be reliable, Gartmore does not guarantee the accuracy of the information, and it may be incomplete or condensed. Additional information is available upon request.

Telephone calls may be recorded for training and monitoring purposes.

Gartmore Group consists of the following affiliates of Gartmore Investment Management Limited: Gartmore Fund Managers Ltd, Gartmore Investment Ltd, Gartmore Investment Japan Ltd, Gartmore Global Partners*.

* SEC registered.

These asset management affiliates of Gartmore Investment Management Limited do business under the trade name of 'Gartmore Group'.

The investment professionals listed in this document are employed by one or more of the investment advisors that comprise the Gartmore Group. Sharing the same investment strategy and philosophy, the investment professionals provide their services to the affiliated advisors as needed.

Issued by Gartmore Investment Limited (GIL), Gartmore House, 8 Fenchurch Place, London EC3M 4PB. GIL is authorised and regulated by the Financial Services Authority.