As our markets continue to slowly thaw we present a mix of long-term “big” issues and some interesting smaller ones as well. We begin with one of the most important topics of all, and that is the viability of the public company format. From there we move to another powerful idea of the moment, maximizing returns from energy investing. We tour the world to discern which of the BRIC countries is doing the best, the uses of a PE Fund Index, and the functioning of the private equity secondary market during the financial crisis. We finish with three articles of technical interest: legal aspects of private equity partnership agreements; the effects of informal networks in Chinese investing; and, valuation techniques for firms in cyclical industries.

Bartlett has been a frequent contributor to these pages on matters of import where the legal and financial communities meet. His offering for this issue explores the intriguing idea that the private company platform may in fact outperform the public company structure—an insight which, if true, is nothing short of a revolution. As data, he shows the arbitrage gains afforded those firms taking public companies private as well as the desire of some high profile private companies to remain private— even in the face of surging demand for new public companies. This is one of those big changes we all note but rarely think much about. Take the time to review this piece and you’ll have plenty of food for thought.

Energy investing is all the rage and for good reasons: no matter what happens, the demand for energy at the lowest possible prices will continue. It’s every private equity partner’s dream: endlessly growing demand, continually diminishing supply. A vision from everyone’s Econ 101 class right here in the flesh. Ken Roberts and Amanda Schermer call a law firm their home, but are involved in a highly unusual practice. Their goal is keeping energy producers out of court, on schedule, and under budget for their massive—and massively risky—construction projects. This paper posits the idea of contractual risk transfer, while sounding good in theory, simply doesn’t work in the high stakes game of building and refurbishing large capital investment projects. They argue for active management of risks, and anyone investing in this space needs to reflect on their merits of their approach.

We turn now to thinking about investments outside of the U.S.— as we do regularly. The general media blasts a continual story about endless growth in the “BRIC” countries (i.e., Brazil, Russia, India and China). Many of us with international ambitions realize that big growth in a country is wonderful, as a rising tide tends to lift all boats. But which of these countries is the most natural and welcome place for private equity investments? This means more than just a quick look at growth num-
bers, but encompasses cultural and regulatory issues as well. Derek Klonowski assesses these issues and presents a picture of the best countries to invest in among these “fast four.”

We always need to be aware of how we, in Private Equity, do in comparison to a broader index, such as the Standard & Poor’s 500. Sharma, Gupta, and Sidhu take us on a quick tour of the PE Index in comparison to the S&P 500 for the most recent five year period of mid-year 2006 to early 2011. How well do you think the PE Index did? How about after adjusting for risk? Could we all do better by investing in the S&P? Our limiteds will be asking these questions—publicly or privately. We should know the answers.

One of the defining aspects of all private equity investments is that they are illiquid. We all understand this, but what happens in a crisis when some limited partners simply must sell their illiquid holdings? Hege and Nuti examine this question by reviewing the workings of the secondary market for private equity investments during the depths of the financial crisis. Their data show raw deal volumes, bid/ask spreads, nature of the selling entity, nature of the buyer’s entity, and number of days on the market. If you’ve ever wondered what type of deals got done at the bottom of the cycle, this is a must read.

We all deal with private equity partnership agreements and the Institutional Limited Partners Association (ILPA) has recently released the latest version of its view of best practices for general partners and limiteds. Muller, Farman, Chertok, and Thomas take us through these new proclamations noting three general principles: alignment of economic interests between generals and limiteds, governance, and, transparency. All key topics and sure to be of interest as new partnership agreements are drafted.

The first of our final two pieces is an exploratory study looking at the effects of informal networks in the developing private equity industry in China. Xiao and Ritchie investigate the way deals get done and compare the functioning of informal networks against the more structured financial systems emerging. Which system do you think dominates today? You might be surprised. Our final article is a valuation note that proposes a better way to evaluate cash flows in an industry with cyclical cash flows. Arnold and North present a technique to alleviate the error caused by the constant growth factor in a terminal value calculation. If you’ve ever been bothered by the logical error made in valuing businesses “in perpetuity,” this technique will make you feel a bit better.

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