

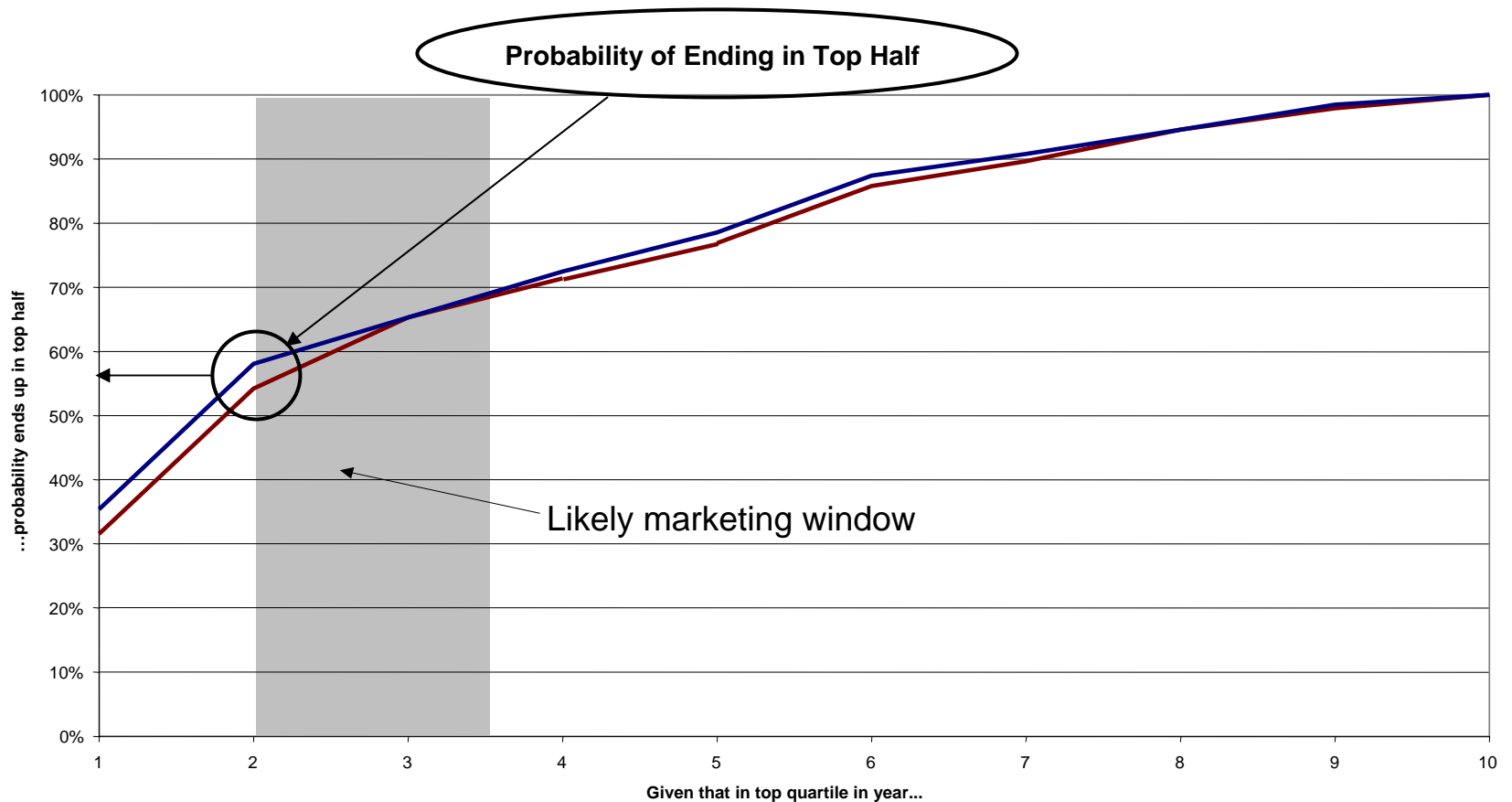
A Brief Introduction to the Quantitative Screening of Private Equity Investment Funds

Alignment Capital Group, LLC
11940 Jollyville Road, Suite 330-N
Austin, TX 78759
www.alignmentcapital.com



Manager Selection

It is not likely that a fund marketing itself today as top quartile will finish in the top quartile.
It is therefore necessary to develop a quantitative screening process to manage the uncertainty involved.

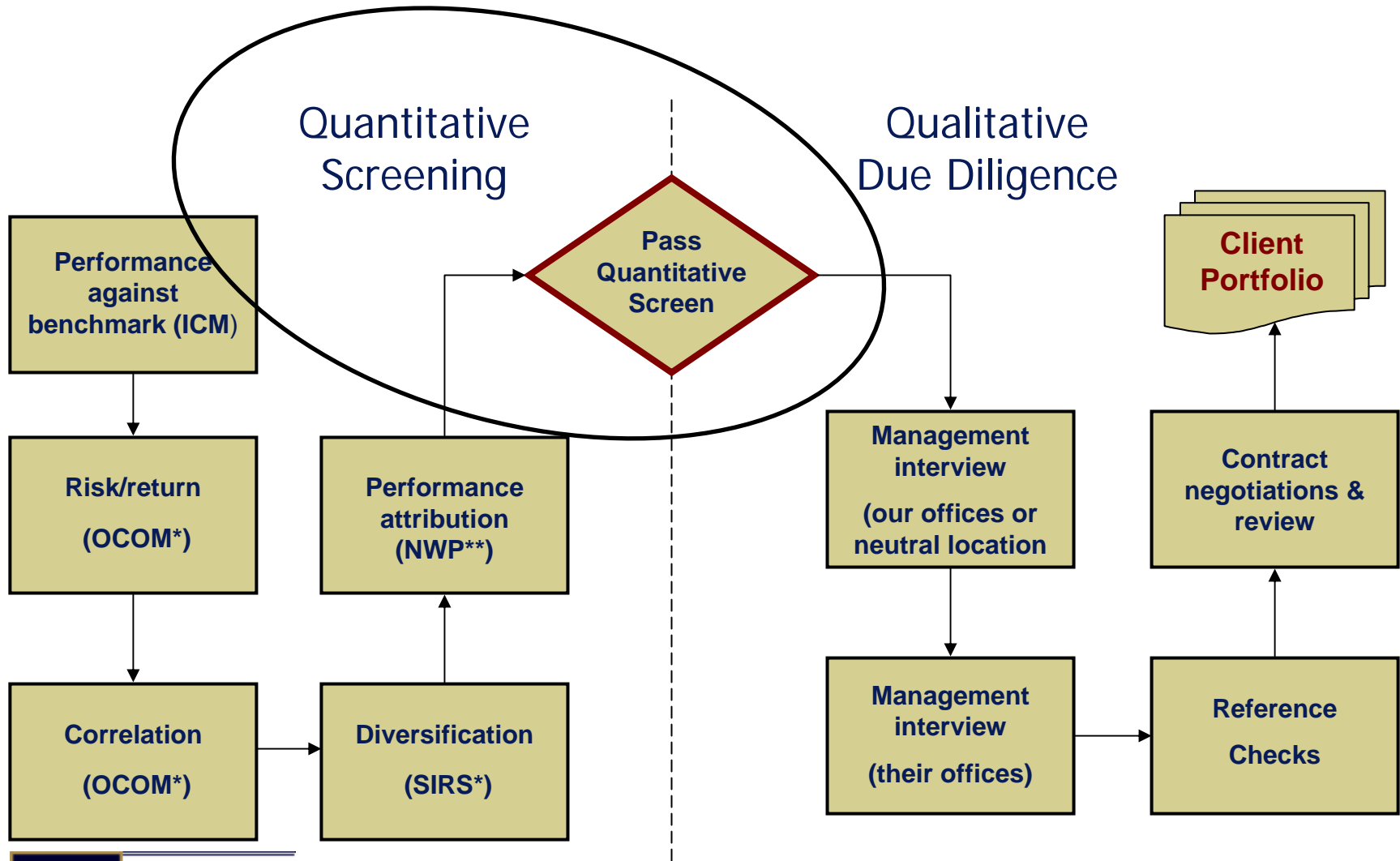


— Internal Rate of Return (IRR)

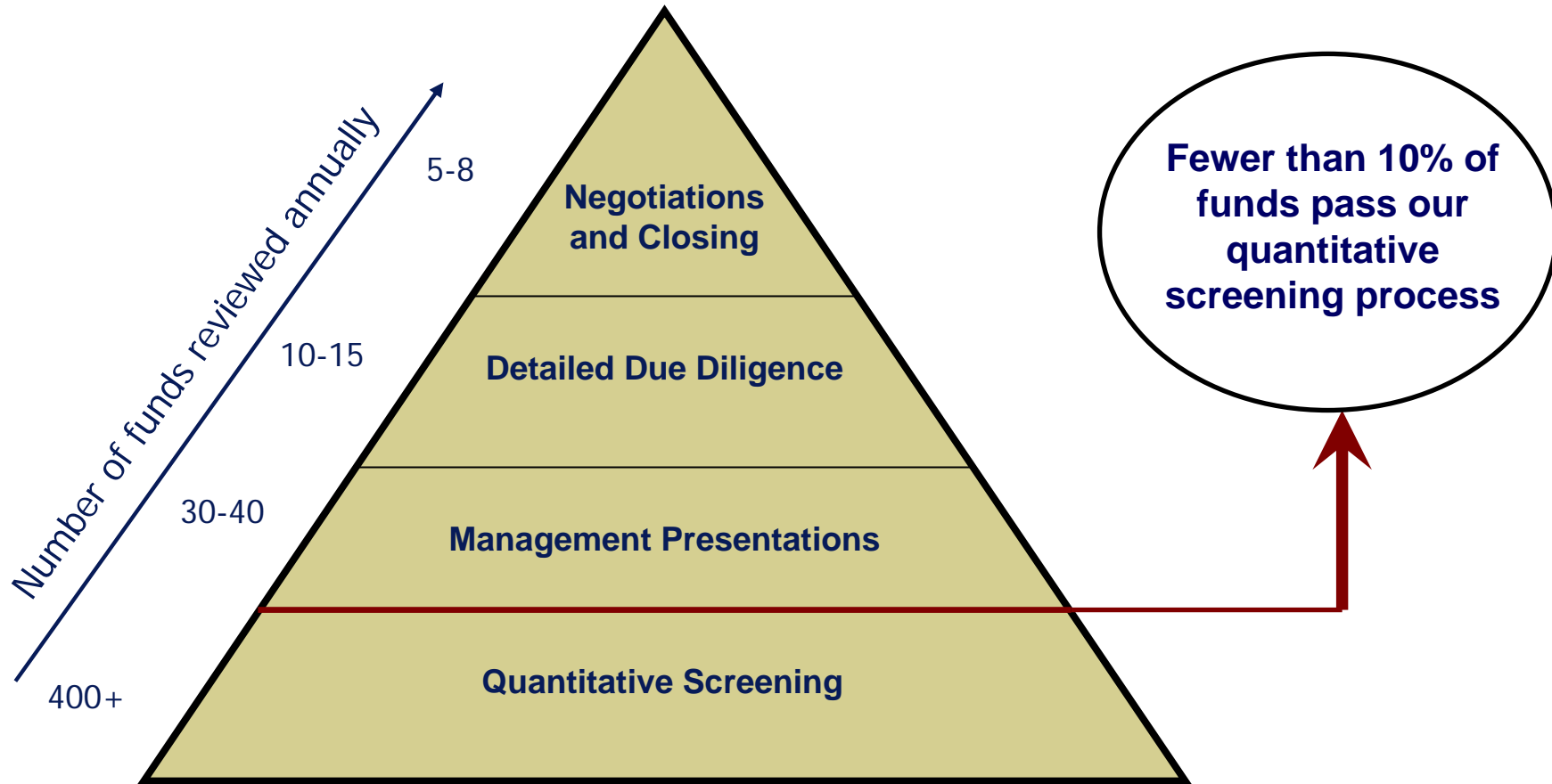
— Times-Money-Earned (TME) Ratio

From "What's in a Quartile?", an ACG research brief by Andrew W. Conner, CFA (October 2005)

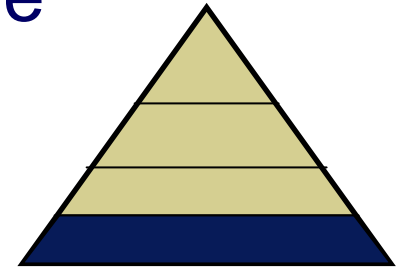
ACG's Fully Integrated Due Diligence Process



Due Diligence Overview



Quantitative Screening Example

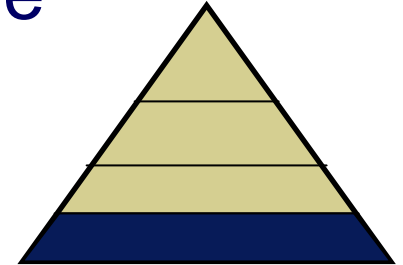


- Brand X versus Brand Y

	<u>IRR</u>	<u>Track Record</u>
Brand X	31.2%	10
Brand Y	31.8%	10

- Which is the better choice?

Quantitative Screening Example



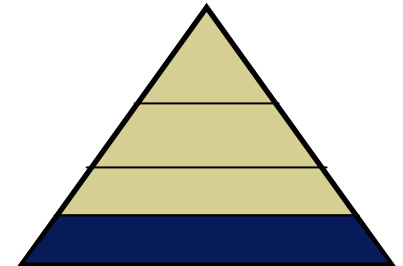
- Brand X

Investment Dates			Net		Remaining Valuation	Multiple Earned				IRR			Duration		Value >
Beginning	Ending	Years Held	Invested	Realized		Realized	Valuation	Total	SP_500	Fund	SP_500	Fund>Index	Fund	SP_500	SP_500
2/12/92	12/31/01	9.9	\$88.7	\$228.1	\$68.1	2.57 X	0.77 X	3.34 X	1.53 X	31.16%	20.57%	10.59%	4.446	2.260	\$129.7

- Brand Y

Investment Dates			Net		Remaining Valuation	Multiple Earned				IRR			Duration		Value >
Beginning	Ending	Years Held	Invested	Realized		Realized	Valuation	Total	SP_500	Fund	SP_500	Fund>Index	Fund	SP_500	SP_500
6/1/91	12/31/01	10.6	\$549.4	\$680.5	\$182.7	1.24 X	0.33 X	1.57 X	1.27 X	31.82%	21.98%	9.85%	1.635	1.204	\$170.5

Quantitative Screening Example



- Brand X

	Money	Time	Fund by Name	Total
I	Neutral Weight	Zero-based	Portfolio index, common start date	37.57%
II	Actual	Zero-based	Actual weights, common start date	30.70%
III	Neutral Weight	Actual	Neutral-weight portfolio, actual start dates (timing)	42.56%
IV	Actual	Actual	Actual weights, actual timing	31.16%

I	Portfolio index	37.57%
II-I	Selection (relative weighting) against portfolio index	-6.86%
IV-II	Timing	0.46%
IV	Manager's return	31.16%
IV-I	Manager's contribution	<u>-6.41%</u>

Selection returns are replicable; timing returns are not

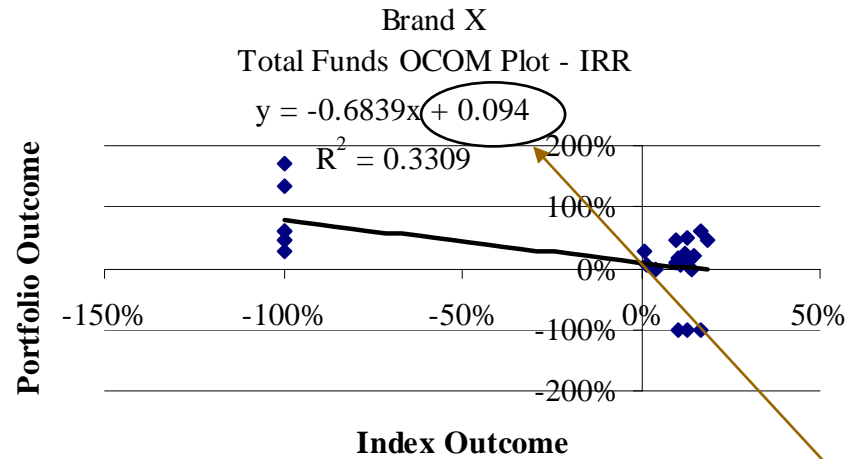
- Brand Y

	Money	Time	Fund by Name	Total
I	Neutral Weight	Zero-based	Portfolio index, common start date	8.57%
II	Actual	Zero-based	Actual weights, common start date	30.49%
III	Neutral Weight	Actual	Neutral-weight portfolio, actual start dates (timing)	8.32%
IV	Actual	Actual	Actual weights, actual timing	31.82%

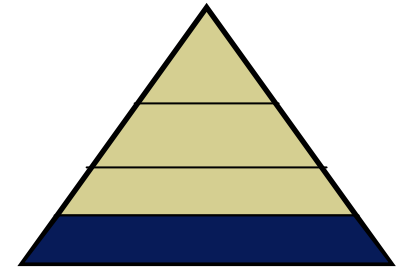
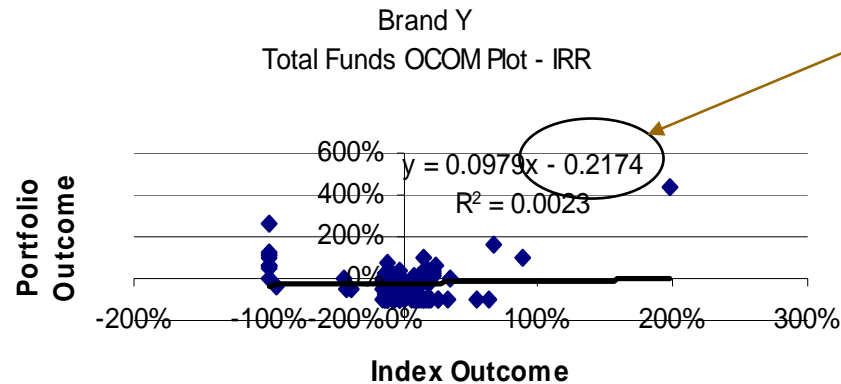
I	Portfolio index	8.57%
II-I	Selection (relative weighting) against portfolio index	21.92%
IV-II	Timing	1.33%
IV	Manager's return	31.82%
IV-I	Manager's contribution	<u>23.25%</u>

Quantitative Screening Example

- Brand X



- Brand Y



Higher is better

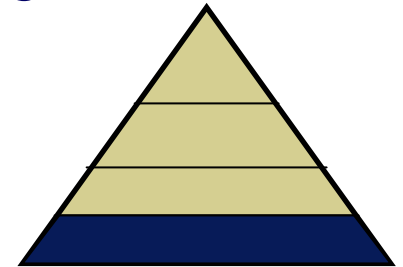
Quantitative Screening Example

- Brand X

				**	
				1926-1987	
		S&P 500 arithmetic mean		0.1200	
		S&P 500 sigma		0.2110	
		Sharpe ratio			0.5687
	beta	alpha	R squared	σ	Sharpe
Brand X total portfolio	(0.6839)	0.0940	0.3309	0.2509	0.0476

- Brand Y

				**	
				1926-1987	
		S&P 500 arithmetic mean		0.1200	
		S&P 500 sigma		0.2110	
		Sharpe ratio			0.5687
	beta	alpha	R squared	σ	Sharpe
Brand Y Total Funds	0.0979	(0.2174)	0.0023	0.4307	(0.4775)

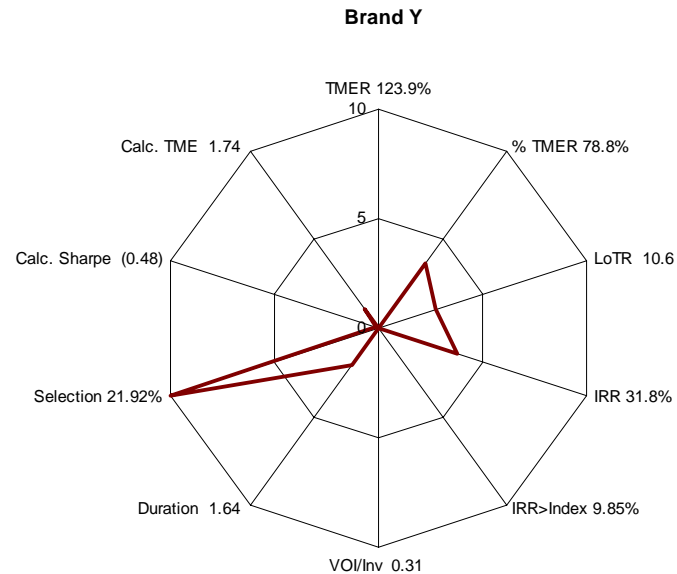
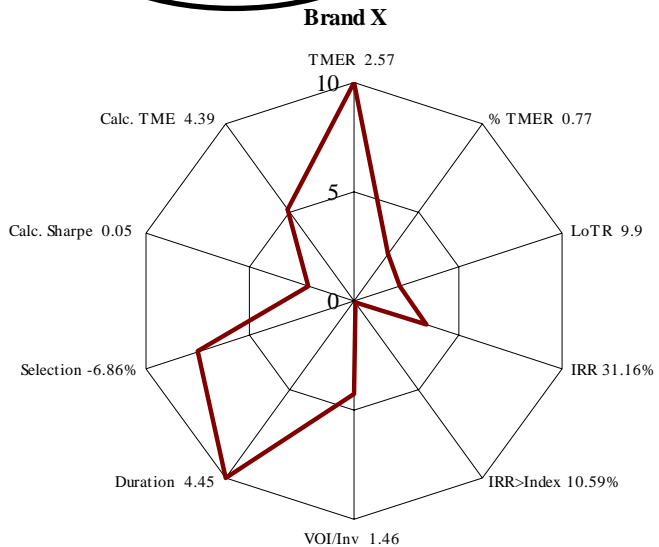
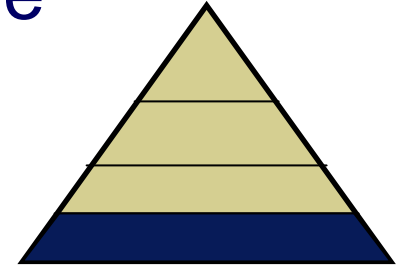


Higher return per degree of risk is better

Quantitative Screening Example

• Brand X ✓

• Brand Y



TMER - times money earned realized
 TMER% - TMER as a percentage of total TME
 LoTR - length of track record
 IRR - internal rate of return
 IRR>Index - IRR over the S&P 500
 VOI>Index - Value returned in excess of the S&P 500 index
 Duration - zero coupon bond equivalent duration
 Selection - performance attribution (see Performance tab)
 Calc Sharpe - Result of OCOM plot (see Risk tab)
 Calc. TME - result of TME OCOM plot (see OCOM All Funds tab)



Summary

- ACG employs unique and proven processes for identifying outstanding private equity funds, including:
 - Proprietary, patented/patent-pending quantitative analytical systems and
 - an extensive private equity fund database
- The result is an accurate assessment of the risk/return profile of potential investment managers, thus maximizing the likelihood of maintaining portfolio efficiency.