

The Global Opportunity Fund, Ltd

GRAVITAS to launch innovative global private equity solution

The Washington, DC-based firm to address key concerns in traditional private equity investments while focusing on global risk diversification. Principal Eric V. Guichard, CIO and Walter C. Jones, Senior Director - Private Equity, discuss the Global Opportunity Fund's proposition.

What is the Global Opportunity Fund?

The Global Opportunity Fund (GOF) is a geographically distributed fund-of-private equity funds structured to take advantage of structural inefficiencies in the private equity investment space.

Our view is that current global private equity offerings essentially cluster investments in three buckets: North America, Western Europe and the rest of the world. Our contention is that you can significantly enhance performance if you disaggregate the latter bucket. Combining that with a judicious allocation to key regions and to more liquid subcategories (distressed assets, special situations) provides a better risk/return profile.

Such allocations, gives us greater flexibility to tailor private equity exposure to the requirements of different institutional investors (capital guarantees, liquidity features).

What other key private equity inefficiencies is GOF also addressing?

Well, investors have been struggling with an inherent feature of private equity investment, namely the J-Curve Effect.

Most private equity investors incur sub-optimal returns on committed assets until those assets are invested and returns received. These periods of uninvested commitments can be quite long, which, in turn exacerbate the opportunity-loss faced by investors.

GOF's proposition is that investments should generate returns during that interim period. As a result, GOF is structured to generate interim yields or coupons. This interim yield generation feature, coupled with tactical allocations to more liquid sub-categories (secondaries, buy-outs) significantly attenuates the J-Curve Effect. The combination of features presents a win-win situation for institutional investors.

You spoke earlier about GOF's flexibility to tailor offerings to different institutional requirements. Can you elaborate?

Yes, the emphasis on more liquid tranches in the private equity space enables us to offer capital guarantees to institutional investors seeking capital

protection on their private equity allocations.

Moreover, we are able to offer GOF as a fixed income instrument. On this latter point, institutional investors can purchase a bond that provides interim coupon payments in addition to exposure to private equity-like returns.

The innovation, we believe, lies in the ability to provide private equity exposure to fixed income institutional investors who are required to mark-to-market and have little tolerance for negative carry (J-Curve).

How is GOF set up?

The GOF is set up as a fund-of-funds product. The fund-of-funds platform enables us to diversify risk across a number of key dimensions (investment processes, diverse regional exposure, uncorrelated sub-asset classes, varying degrees of liquidity). All this is achieved without imputing investors with the infrastructure cost associated with such a vast endeavour.

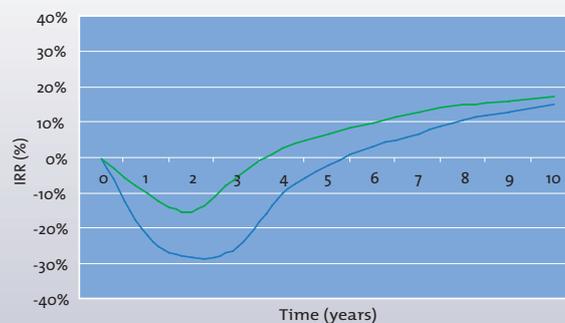
We find that investors are better served from a risk management standpoint using a fund-of-funds platform, where risks inherent to an asset class such as private equity, can be efficiently addressed without altering the underlying investment strategies. Such risks are difficult to address in each individual private equity fund.



Walter C. Jones, Senior Director Private Equity and Eric Guichard, Chief Investment Officer

Photo: Gloria Kirk

Private Equity J-Curve Effect



Typical fund-of-funds structure with primary fund exposure only

Enhanced fund-of-funds structure combining primary selections with some secondaries

Source: Portfolio Advisors

in association with
GRAVITAS

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