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Capital Dynamics Private Equity Review & Outlook

Summary FY 2014

Highlights:

- Global private equity fundraising increased to its strongest level since 2008, supported by a robust exit environment[1].
- Global exit volume surged as many large PE and VC-backed companies sought liquidity in vibrant IPO and M&A markets[2].
- Private equity investment pace improved across developed markets. However, investment volume increased only modestly as small and mid size deals continued to dominate investments.
- Buyout acquisition prices climbed to a historic high in competitive M&A and low interest environments[3].
- While value creation from buying low can be limited, operational growth in an improving economy, accretive add-on acquisitions and strong generation of free cash flow due to favorable financing conditions for new investments can drive performance going forward.

[1,2] AVCJ, Dow Jones VentureSource, EMPEA, Thomson ONE, Unquote
[3] S&P Capital IQ

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US buyout

In brief

- US private equity had a robust year with a record level of exit activity boosting performance and supporting fundraising. Investment deal flow increased as well. However, as expected, investment volume continued to lag exit volume in spite of increased business valuations. Many GPs used this environment as an opportunity to realize investments by selling to resurgent trade buyers and other PE firms, or sought liquidity through buoyant stock and credit markets.

Table: US buyout market data

USD billion	2013	2014	Q413	Q314	Q414	Dy/y	Dq/q
Fundraising	202.4	**217.6**	58.9	60.0	**60.8**	8%	1%
Investments	159.4	**165.8**	62.2	41.2	**69.6**	4%	69%
Exits	171.7	**214.7**	58.3	42.0	**44.6**	25%	6%

Notes: Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013. IPO exit values include initial proceeds only.
Source: Thomson ONE, S&P Capital IQ, as of February 19, 2015.

Fundraising

- The strongest fundraising since 2008

The US experienced its fourth consecutive year of growth in fundraising. GPs made a record level of distributions to LPs in an exit-friendly environment, which investors preferred to reinvest in order to maintain allocations to private equity. Furthermore, US pension funds have made gradual changes in asset allocations since 2007, shifting exposure from both public equities and fixed income to alternatives, including private equity. Allocations to private equity almost doubled to 10% compared to 2007, according to Cliffwater and Wilshire Consulting reports. During 2014, LP commitments were highly diversified across PE strategies. While buyout fundraising remained flat, commitments to real estate, infrastructure and energy funds exhibited double-digit growth.

Investments

- Buyout add-on investments gained pace

US buyout deal flow increased significantly during 2014. Buyout firms completed 2,042 deals, 17% more than in 2013. Deal making proceeded at a brisk pace in the fourth quarter, the busiest since the fourth quarter of 2012. The fourth quarter saw the biggest buyout of 2014 - the USD 8.4 billion take-private acquisition of PetSmart by BC Partners. However, annual invested capital increased modestly by 4% to USD 166 billion in the valuation-rich environment. S&P reported the average buyout acquisition multiple in 2014 at a historic high of 9.40x multiple of EBITDA, driven by a highly competitive M&A environment and the availability of inexpensive debt. GPs increasingly pursued buy and build strategies by making add-on acquisitions of smaller targets to mitigate higher pricing of the platform company. According to Dealogic, buyout firms made more follow-on deals than platform deals in 2014. At 54.5% of all deals, add-on acquisitions had the highest share in overall deal flow since 2001.

Exits

- Active trade buyers fuelled exits

US exit activity rapidly expanded during 2014, aided by a recovery in corporate M&A, a surge in secondary buyouts and continued strength in stock and credit markets. As a result, annual exit volume increased by 25% year-on-year to USD 215 billion. Trade exit deal values grew by 38% compared to a year ago and contributed to nearly half of the total exit value. 2014 saw 87 IPOs from PE-backed companies, the highest number on record, according to Thomson Reuters. IPO proceeds amounted to USD 30 billion, nearly matching their 2013 level. Dividend proceeds declined 7% to USD 47 billion due to the softness in demand for leveraged finance in the last quarter of 2014.

Outlook

- Market conditions support PE growth

Our outlook remains positive for US private equity. With a large backlog of unrealized investments and a supportive exit environment, exit activity is likely to remain strong. Improved deal flow and fundraising should provide more investment and co-investment opportunities. While value creation from buying low can be limited, operational growth in an improving economy, accretive add-on acquisitions and strong generation of free cash flow due to favorable financing conditions of new investments can drive performance going forward.

US venture capital

In brief

- The VC market had an outstanding year with all activities surging to their highest levels since the dot-com era. Increasing interest from institutional investors for VC-backed IPOs, given their success in the prior year, and resurgent large trade buyers increasingly investing in innovation supported a vibrant exit environment. A dramatic upturn in exits fuelled fundraising but also attracted non-venture investors, who bid aggressively in late stage rounds, driving valuations and unrealized gains for VC investors.

Table: US venture capital market data

USD billion	2013	2014	Q413	Q314	Q414	Dy/y	Dq/q
Fundraising	17.7	**29.8**	5.6	6.2	**5.6**	68%	(9%)
Investments	35.4	**52.1**	9.5	11.2	**13.8**	47%	24%
Exits	52.3	**95.0**	18.9	22.4	**36.4**	82%	63%

Notes: Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013. IPO exit values include initial proceeds only.
Source: Dow Jones VentureSource, as of February 19, 2015.

Fundraising

- Improved VC liquidity bolstered fundraising

Venture firms have been busy raising funds on the back of liquidity events and faster capital deployment over the last two years. During 2014, 256 funds held closes, the strongest level of activity since 2001. Commitment volume reached USD 30 billion, which is comparable to the level last seen in 2005-2007. Renewed optimism about the asset class supported first-time funds, with 98 first-time funds closing in 2014, the most active year for new teams since 2000. However, experienced managers still received 90% of all capital, driven by seven billion-dollar fund closes. Andreessen Horowitz led the pack closing the largest fund at USD 1.7 billion.

Investments

- Non-traditional investors drove VC volume

During 2014 venture investments grew to USD 52 billion, the highest level since 2000. B2B companies led the surge in investments, receiving 26% of total capital and exceeding the traditionally dominant IT and healthcare sectors. With an improved exit environment, late stage companies close to exiting attracted capital primarily from mutual funds, hedge funds, private equity firms and strategic investors at aggressive valuations. The largest investment of 2014, Uber, exemplified this trend with investor groups, including Fidelity Investments and Blackrock Private Equity, investing USD 3.0 billion. According to Dow Jones VentureSource, median pre-money valuations for late-stage deals skyrocketed to USD 220 million, the highest on record. Late-stage investments at high valuations and attractive terms for VC investors led to significant unrealized gains for early-stage VC funds.

Exits

- Exits had the strongest year since 2000

Venture exit activity had its most successful year since the dot-com era. Corporate buyers' acquisitions of VC-backed companies proceeded at a brisk pace during 2014. Venture firms exited 541 companies through M&A worth US 86 billion. The year boasted 9 billion-dollar exits including the USD 19 billion sale of WhatsApp by Sequoia Capital to Facebook, which was finalized during the fourth quarter. Similarly, IPO exits gained momentum as demand for new offerings from public investors increased. 2014 saw 105 IPOs from US VC-backed companies, raising initial proceeds worth USD 9 billion. Small-sized biotech offerings dominated activity as the NASDAQ Biotechnology index continued to climb to record levels, albeit with some periods of volatility.

Outlook

- VC liquidity is expected to remain strong

Currently, US venture has about 80 VC-backed companies with multibillion valuations in the pipeline, which could generate strong liquidity as long as the public markets and corporations continue to absorb them. Monetization of those assets could impact VC performance. Our optimism stems from the significant number of venture-backed companies developing transformational technologies in rapidly growing markets.

European buyout

In brief

- European private equity demonstrated improvement in investment deal flow in 2014, despite market volatility associated with political tensions and deflation fears in the Eurozone. Positive economic developments in the UK, Nordic countries and Southern Europe spurred investment deal activity. Exit volumes increased as larger companies benefited from recovery in M&A and IPO activities.

Table: European buyout market data

EUR billion	2013	2014	Q413	Q314	Q414	Dy/y	Dq/q
Fundraising	56.7	**55.3**	10.9	14.2	**11.3**	(2%)	(20%)
Investments	78.8	**81.3**	23.3	19.9	**23.1**	3%	16%
Exits	87.0	**107.0**	26.0	29.2	**17.3**	23%	(41%)

Notes: Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013.
Source: Thomson ONE, unquote data, as of February 19, 2015.

Fundraising

- Stable volume despite a lack of mega funds

European fundraising remained relatively stable over the past two years. The number of funds raised increased slightly to 120, while annual volume remained above the 10-year average despite a marginal decline to EUR 55 billion. A breakdown of commitments by investment stage suggests there are more conservative investors that prefer yield-generating investments such as real estate, mezzanine and distressed debt funds. Commitments to such funds increased from 2013, while traditional buyout and growth capital fundraising volume declined by 6% to EUR 36 billion. In 2014, Bain Capital raised the largest amount collecting EUR 4 billion for its fourth European buyout fund.

Investments

- Mid-market buyout deal flow improved

Europe saw an increase in deal flow in the small and mid-market buyout segments during 2014. The region recorded 549 deals worth EUR 81 billion, representing 11% and 3% increases from 2013, respectively. Buyouts were particularly robust in the fourth quarter. The quarterly volume included the largest buyout of 2014 with Canadian PE firm Onex acquiring SIG Combibloc Group for EUR 3.8 billion. Investment activity was varied across fragmented European markets. The UK, accounting for a third of overall deal flow, saw a 12% increase in the number of deals during 2014. France and Germany, the next largest markets, experienced a slow down in activity while buyouts picked up in the Nordic region and in Southern Europe. Deal making was buoyant in Spain, with the country reporting the first full year of growth since 2008. The Spanish market saw a 126% growth rate in deal value, totaling EUR 4.2 billion.

Exits

- Large M&A and IPO exits lifted exit volume

Buyout firms used increasingly robust exit markets to generate liquidity. In 2014, European buyouts witnessed their strongest level of exit activity since 2007. Buyout exit deal values increased by 23% to EUR 107 billion. Large-sized PE-backed companies particularly benefited from higher demand for IPOs from large, established businesses. 2014 saw 36 offerings worth EUR 27 billion, the highest value on record according to Unquote. Trade buyers were also active in the large cap segment. The largest exits of the fourth quarter and of 2014 were trade exits. Waterland Private Equity Investments exited Omega Pharma for EUR 3.6 billion in the fourth quarter, while KKR sold its remaining stake in Alliance Boots for EUR 11 billion.

Outlook

- Economic recovery should aid PE activities

We expect continued recovery in the European buyout market, despite persistent volatility. 2014 demonstrated that private equity was able to benefit from recovery in economic activity across divergent European markets. Economic growth is expected to improve in core Eurozone countries over 2015, driven by the positive impact of currency depreciation and a decline in energy prices, while quantitative easing and historically low interest rates provide further support for deal making and exits.

European venture capital

In brief

- VC Investments in European companies increased during 2014. With a rise of public equity prices and investor confidence, IPOs accelerated to the strongest pace since 2000 and boasted four offerings with multi-billion market valuations. In contrast, fundraising remained subdued, although a few established managers closed oversubscribed funds.

Table: European venture capital market data

EUR billion	2013	2014	Q413	Q314	Q414	Dy/y	Dq/q
Fundraising	3.13	**3.00**	1.06	0.68	**0.50**	(4%)	(27%)
Investments	6.29	**7.88**	1.76	2.32	**1.77**	25%	(24%)
Exits	11.68	**12.05**	4.49	3.72	**4.33**	3%	16%

Notes: Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013. IPO exit values include initial proceeds only.
Source: Dow Jones VentureSource, as of February 19, 2015.

Fundraising

- Fundraising remained subdued

European VC fundraising was subdued in the second half, with 2014 annual investor commitments to venture funds remaining at the lowest level since 2003. VC firms collected EUR 3 billion across 50 funds, registering a 4% and 10% decline in volume and the number of funds, respectively. Despite underwhelming volume, small VC funds continued to raise money, while a few funds were oversubscribed, indicating demand for attractive opportunities. Index Ventures raised the largest venture fund in 2014, with investors committing EUR 400 million to its seventh early stage fund.

Investments

- VC investments increased, driven by late stage deals in B2B companies

Invested capital in European start-ups increased by 25% to EUR 8 billion lifted by the EUR 666 million pre-IPO corporate round of German start up, Rocket Internet. Venture-only investments were also up by 13% despite fewer deals as venture firms put more money into late stage deals. Historically, European companies at later stages of development received less venture support compared with their US counterparts. This distinction has changed since 2013. Another development that continued into 2014 was an increase in investment activity of US-based managers seeking deals at attractive valuations. The largest deal of 2014 exemplified these trends as Insight Ventures led the EUR 258 million investment round in German food-delivery company Delivery Hero. Similar to the US, companies within the B2B sector attracted the highest share of VC capital for the first time on record, overtaking consumer services deals.

Exits

- 2014 was the strongest year for VC-backed IPOs since 2000

IPOs from VC-backed companies surged during 2014. The number of offerings increased threefold to 55, raising EUR 3.7 billion in initial proceeds. 2014 was a milestone year for European venture, with four companies achieving billion euro market capitalizations. During the fourth quarter, the Rocket Internet IPO valued the company at EUR 6.5 billion and, together with Zalando, King Digital and Just Eat, demanded a staggering market capitalization of EUR 19 billion. Exits through M&A accelerated. 2014 saw 201 M&A exits, 21 % more than a year ago, although exit deal values declined due to a lack of large exits. Fidelity National Information Services acquired Clear2Pay for EUR 375 million in the largest M&A exit of 2014.

Outlook

- Existing VC portfolios benefit from a company-friendly financing environment

We expect European venture to continue seizing opportunities to gain liquidity as long as the IPO and M&A environments remain supportive. Existing VC portfolios are expected to benefit from a company-friendly financing environment, while the state of public markets will be critical for performance and distributions on the back of strong IPOs during 2014.

Asia-Pacific private equity

In brief

- The Asia-Pacific private equity market demonstrated progress in 2014. Growth capital investments expanded markedly, while the region continued to offer a steady flow of buyout opportunities. Robust M&A and IPO environments resulted in an elevated level of exits and generated significant liquidity for investors.

Table: Asia-Pacific private equity market data

USD billion	2013	2014	Q413	Q314	Q414	Dy/y	Dq/q
Buyout fundraising	16.8	**17.6**	6.3	4.5	**2.7**	5%	(39%)
Growth fundraising	32.8	**37.4**	4.6	13.0	**7.3**	14%	(44%)
Buyout investments	30.3	**29.5**	7.3	4.0	**9.7**	(3%)	142%
Growth investments	37.8	**57.5**	12.3	17.9	**13.3**	52%	(26%)
M&A exit values	40.0	**55.2**	8.5	12.5	**16.1**	38%	29%
IPO exit values	18.1	**66.8**	10.0	31.0	**17.8**	268%	(42%)

Notes: Investment & exit values are enterprise values. IPO exit values are total proceeds raised by all shareholders including non-PE investors.
Source: Asian Venture Capital Journal database, as of February 19, 2015. Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013.

Fundraising

- Growth fundraising is recovering

Commitments to Asia-Pacific funds picked up after two weak years. Annual fundraising volume increased by 11% to USD 55 billion, driven by a fifth consecutive year of growth in buyout fundraising and recovery in growth capital and venture fundraising. Despite improvement, there were fewer but larger fund closes. 2014 saw 11 billion-dollar fund closes. Experienced managers closed funds above their predecessor fund sizes. The final quarter punctuated this trend, with Baring Asia collecting USD 3.3 billion and closing the largest-ever fund raised by Asia-based GP at nearly USD 4 billion.

Investments

- Growth investments fuel activity

In 2014, buyout investments maintained a steady volume at around USD 30 billion. The fourth quarter recorded deal volume at USD 9.2 billion due to the largest transaction of the year with Hahn & Company acquiring Halla Visteon Climate Control, a South Korea-based air-conditioning and heating systems manufacturer, for USD 2.5 billion. In contrast, growth capital investments surged to USD 58 billion, the highest investment volume on record, supported by the activity of direct investors such as the investment arms of sovereign wealth funds. The volume of growth investments in the fourth quarter increased with a few large technology deals in the venture space, such as the USD 1.1 billion funding of Chinese mobile phone maker Xiaomi. The start up was valued at USD 45 billion and followed the US trend of frothy valuations of late stage venture deals.

Exits

- IPOs came roaring back; trade exits surged

Consistent with global trends, PE exit activity experienced a significant increase in 2014. The year saw three of the four largest M&A exits in history in the region, helping propel the annual deal exit value to USD 55 billion, the highest on record in the maturing Asia-Pacific market. Permira scored the largest M&A exit deal of the fourth quarter with the USD 3.7 billion sale of Arysta Life Science, while KKR Asia and Affinity Equity Partners sold Oriental Brewery for USD 5.8 billion in the largest exit of 2014. IPO exits gained traction as stock markets rallied and China lifted the moratorium on listings. During 2014, 238 Asia-Pacific PE-backed companies were listed, 101 more offerings than in 2013. IPO deal values more than tripled to USD 66 billion from a year ago as the floatation of Alibaba raised USD 21.8 billion, claiming the status of the world's largest-ever IPO.

Outlook

- Deal activity is expected to improve

We expect the expansion of growth capital deals to continue into 2015 as economies return to a solid growth path, exemplified by India, or take measures to combat the deceleration in economic growth. A steady increase in buyout fundraising provides an adequate war chest for making deals within the divergent Asia-Pacific region. Vibrant M&A and IPO markets should continue supporting exits.

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Emerging Markets (Ex. Emerging Asia)

In brief

- Private equity fundraising has more than doubled within Emerging Markets in 2014, boosted by greater investor interest in Sub-Saharan Africa, Central & Eastern Europe and Latin America.
- Invested capital declined across markets with the exception of Sub-Saharan Africa where investors were attracted by natural resource discoveries and fast growth.
- Despite lingering concerns, both a recent private equity investor survey and fundraising indicate improved overall investor confidence in Emerging Markets, although outlook varies across sub-regions.

Table: Emerging Markets (ex. Emerging Asia) private equity market data

USD million		2013	2014	Q413	Q314	Q414	Dy/y	Dq/q
MENA	Fundraising	568	**1,076**	154	124	**806**	89%	550%
	Investments	409	**381**	187	65	**15**	(7%)	(77%)
	Number of deals	54	**43**	18	11	**13**	(20%)	18%
SSA	Fundraising	1,246	**4,030**	467	892	**987**	223%	11%
	Investments	1,724	**1,950**	368	181	**374**	13%	107%
	Number of deals	89	**94**	26	20	**29**	6%	45%
CEE & CIS	Fundraising	1,442	**1,958**	456	305	**173**	36%	(43%)
	Investments	2,034	**973**	1,253	131	**346**	(52%)	164%
	Number of deals	112	**138**	31	29	**23**	23%	(21%)
Russia	Fundraising	601	**313**	200	13	**50**	(48%)	282%
	Investments	272	**80**	141	18	**27**	(70%)	52%
	Number of deals	32	**31**	14	8	**9**	(3%)	13%
Latin America & Caribbean	Fundraising	3,780	**7,844**	1,032	2,829	**3,994**	108%	41%
	Investments	4,709	**4,196**	1,231	1,525	**1,261**	(11%)	(17%)
	Number of deals	135	**114**	43	30	**39**	(16%)	30%
Brazil	Fundraising	1,598	**4,146**	761	2,124	**1,542**	159%	(27%)
	Investments	3,229	**2,724**	618	1,507	**358**	(16%)	(76%)
	Number of deals	70	**54**	10	18	**17**	(23%)	(6%)
Emerging Markets (Ex. Em. Asia)	**Fundraising**	7,036	**14,907**	2,109	4,150	**5,959**	112%	44%
	Investments	8,875	**7,501**	3,516	1,903	**1,996**	(15%)	5%
	Number of deals	390	**389**	118	90	**104**	(0%)	16%

Notes: Data for Russia and Brazil is also included in CEE & CIS and Latin America & Caribbean, respectively.
Source: Emerging Markets Private Equity Association, as of February 6, 2015. Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of full-year 2014 vs. full-year 2013.

Latin America

- Fundraising saw its best year since 2011. Investments declined due to subdued activity in the first half, but showed signs of improvement in the second half

Fundraising showed signs of recovery in Latin America and Brazil despite numerous macroeconomic challenges and political uncertainty. Brazil and Latin America have attracted their highest level of private equity capital since 2011, raising about USD 7.8 billion in new capital. This volume was the result of two large funds; Advent International's Latin American Private Equity Fund VI, the USD 2.1 billion buyout fund focusing on Brazil, Colombia and Mexico, and Pátria Investimentos' fifth Brazilian fund that raised USD 1.8 billion.

Investment activity continued to trail the prior year's pace due to subdued activity in Brazil during the first half of 2014. However, a rebound in deal-making confidence in the country boosted activity in the second half. Global private equity firms Bain Capital and KKR boosted total capital invested in the year by acquiring the insurer Grupo Notre Dame de Intermedica for USD 861 million and data center specialist Aceco TI for USD 572 million, respectively.

There were also a couple of significant deals made outside Brazil; Riverstone Holdings and EnCap Investments' USD 450 million investment in Mexico-based Sierra Oil & Gas and Darby Private Equity's USD 385 million investment in Colombia-based Ocensa were the largest investments completed in each market during 2014.

Middle East and North Africa (MENA)

- Private equity fundraising picked up toward the end of the year, reaching a five-year high

Private equity fundraising activity in MENA picked up towards the end of 2014 after a slow start to the year. Remarkable fundraising successes in the last quarter included NBK's closing of its second MENA fund at USD 310 million. With Abu-Dhabi-based Gulf Capital raising USD 750 million for its third fund, GC Equity Partners Fund III, to invest in countries such as Bahrain, Kuwait, Oman and others, the total amount of capital raised in MENA during 2014 was approximately USD 1.1 billion, the higest level in the past five years.

Investment volume decreased slightly by 7% to USD 381 million from the prior year. Two large investments made up about 42% of the total figure; a USD 100 million deal in the oil & gas industry in Iraq by Kerogen Capital and a USD 60 million investment in the hospitals & clinics sector in the United Arab Emirates by Olympus Capital Asia and India Value Fund Advisors.

Buoyant public equity markets also enabled private equity managers to exit deals through IPOs on regional stock exchanges. In the Gulf region, MSCI reclassified its Qatar and United Arab Emirates indices into the MSCI Emerging Markets Index. This move could potentially improve liquidity in the region and have a positive impact on the IPO activity of private equity-backed companies going forward.

Sub-Saharan Africa (SSA)

- SSA became a fast growing market with robust fundraising and investment activities

SSA fundraising figures demonstrated remarkable growth in investor interest. Private equity fundraising reached a record-high of USD 4 billion, the highest level since EMPEA started to track this data in 2006. The biggest contribution to fundraising was the USD 698 million final close of The Carlyle Group's maiden private equity fund targeting SSA, which was approximately USD 200 million above its initial target.

Strong fundraising spurred investment activity. The Carlyle Group has already made two investments. It backed Tanzanian agriculture trading company Export Trading Group and, soon after, invested in a logistics company in Mozambique. Warburg Pincus completed the largest deal in the region with a USD 600 million investment in Delonex Energy, an Africa-focused oil & gas explorer. The region has become an investment hotspot after gas discoveries in Tanzania and Mozambique and other resource finds in Uganda and Kenya.

Africa's fast economic growth attracted investors to the consumer sector; KKR made its debut investment in Afriflora, injecting USD 200 million into Ethiopia's leading rose grower and exporter.

Turkey and Russia/CEE/CIS

- CEE and Turkey demonstrated growth in fundraising, while investors became cautious in Russia and the CIS due to political risks

While fundraising remained robust in Turkey and CEE, the ongoing unrest in Ukraine has had a strong impact on markets directly linked to the conflict, particularly Russia in 2014. The largest amount of capital raised in 2014 was Mid Europa Fund IV, a CEE-focused fund, which closed at EUR 800 million (approximately USD 1 billion). Before the conflict in Ukraine unfolded, Elbrus Capital closed the second largest fund in the region, collecting USD 550 million for its Fund II, targeting investments in Russia. Fundraising plans are being made in Turkey as well, despite its small market size and less interest from global investors. The Abraaj Group is raising a USD 500 million fund to invest in Turkey.

Investment volume in CEE/CIS and Russia decreased by 50% and 70% respectively in 2014 compared to the prior year. EMPEA's 2014 Global Limited Partners Survey indicates that investors view political risks as the main deterrent to investing in Russia/CIS. Furthermore, dependence on oil market and severe currency depreciation may have a significant bearing on future private equity activities.

Private equity secondary

In brief

- Secondary market deal volume had another record-breaking year, driven by a surge of billion dollar portfolio sales. We expect growth in deal flow in 2015 and continue to see attractive opportunities in the lower end of the market.

The private equity secondaries market experienced continued growth in 2014 and had another record-breaking year of transaction volume. According to the latest Cogent Secondary Market Trends & Outlook report, secondary deal volume increased sharply to USD 42 billion, driven by a surge of mega deals. Mega secondary funds were keen to deploy dry powder. The report recorded 12 deals above USD 1 billion, making up 39% of the total volume compared with only 19% during 2013.

Secondary sales became an integral part of active portfolio management beyond regulatory and liquidity drivers. Many LPs looked to reduce the number of GP relationships or actively manage their diversification and exposure to certain strategies or managers. Seller diversity became broader and more balanced, with investors of all types looking to reduce their non-core holdings. This is a positive development as it increases deal flow and creates a more efficient market for all participants.

Pricing declined slightly during the second half of 2014 to 91% of NAV for all strategies from 93% of NAV during the first half of the year. Buyout fund prices declined at higher rates from par to 95%. Market volatility and increased supply were likely drivers of increased discounts. The decline also illustrates that the secondary market is now more efficient and quickly adjusts to changing market conditions.

We expect to see increased deal flow in 2015. The stable pricing environment could have a favourable impact on deal flow from opportunistic sellers. Deal volume may vary as financial institutions have more time to dispose of assets due to the extension of the implementation of the Volcker rule until July 2017. While competition from large secondary funds is expected to cause upward pressure on prices in the larger end of the market, we see continued opportunities in the lower end.

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For further information, please contact:

Kairat Perembetov, Vice President, Research
Capital Dynamics AG
Bahnhofstrasse 22
CH-6301 Zug
Switzerland

Phone +41 41 748 8444
Email kperembetov@capdyn.com

John Gripton, Managing Director, Investment Management
Capital Dynamics Ltd.
9 Colmore Row
Birmingham
B3 2BJ
United Kingdom
Phone +44 121 200 8800
Email jgripton@capdyn.com

London
New York
Zug
Beijing*
Tokyo
Hong Kong
Silicon Valley
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