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Capital Dynamics Market Environment

Summary Q2 2012

Confidential

Environment – US

The strong performance of public equity indices in the first quarter reversed in May, with S&P 500 prices sliding down by 9% from their recent high, on indications of slowing job creation, weaker home sales, and renewed concerns over the Eurozone sovereign debt and banking crises. The second quarter decline was trimmed to 3.3% as the month of June had the biggest rally since 1999, according to Bloomberg data. Stocks continued to rally over the summer, partly due to consumer spending and partly due to the announcement of the Federal Reserve Bank's next round of quantitative easing.

Subdued investor sentiment impacted LBO financing markets in the second quarter

High yield and leveraged markets mirrored the developments in the equity markets. Issuer volume declined for both the second quarter and for the first half of the year; USD 241 billion of leveraged loans and USD 147 billion of high yield bonds were issued, down 23% and 9%, respectively compared to first half of 2011 activity. During the first half of the year, companies backed by private equity sponsors issued USD 95.2 billion worth of loans, 39% of which were for refinancing purposes. USD 19.1 billion of the debt was raised to finance buyouts, the lowest amount since USD 5.3 billion was raised during the first six months of 2009, according to Standard and Poor's. However, demand from institutional investors, mutual funds, and CLOs for high yield and leveraged loans is expected to remained robust, driven by the low yields on investment grade fixed income securities, and the continued low level of high yield and leveraged loan defaults. The low default rates are supported by higher corporate profits, which according to the US Bureau of Economic Analysis, rose by 0.5% to USD 1.9 trillion in the second quarter to a new all-time high, although profit growth moderated in 2012 versus 2011.

Buoyant IPO activity in the first half of 2012 contrasted with slower M&A activity

IPO activity gained traction in the second quarter with 104 IPOs raising USD 26 billion, and was well on track to be the busiest IPO year since 2007. However, activity lost momentum following Facebook's faltering debut. Facebook is the largest PE-backed IPO, raising USD 16 billion. Despite record cash holdings of corporations and sizeable dry powder remaining in private equity firms, M&A activity is trailing the levels seen in 2011. Activity was slow-paced in the second quarter with the number of deals declining by 5% quarter on quarter and by 10% year on year, according to Bloomberg. However, the large deal segment registered increased activity in the second quarter with 41 USD 1 billion plus deals versus 30 in the first quarter, pushing up quarterly deal values to USD 184 billion.

Sluggish growth in the second quarter; but unprecedented monetary support continues and has the potential to improve growth dynamics

Economic activity slowed markedly in the second quarter. GDP increased by 1.3%, while job creation was the weakest since the recovery started. Real economic growth this year has benefited from gains in consumer spending, equipment investment and a mild recovery in housing. However, these gains remained below par relative to earlier economic recoveries. The recent Federal Reserve Bank initiative gives more certainty to decision makers that monetary support will remain in place until sustainable employment-driven recovery is achieved. Deal activity and confidence has picked up recently across the board. However, this momentum in growth is only likely to be sustained if structural reforms, including addressing the fiscal challenge, are implemented.

The table below details US macroeconomic and financial data.

	2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
Real GDP in % q/q ann[1]	2.4	1.8	2.5	2.0	**1.3**	(1.2)	(0.7)
CPI in % y/y[1]	1.6	3.2	3.5	2.8	**1.9**	(1.6)	(0.9)
Interest rate in %[2]	0.25	0.25	0.25	0.25	**0.25**	0.00	0.00
Unemployment rate in %[2]	9.4	8.5	9.1	8.2	**8.2**	(0.9)	0.0
Consumer confidence[2]	74.5	69.9	71.5	76.2	**73.2**	1.7	(3.0)
S&P 500 index price[3]	12.8%	(0.0%)	(0.4%)	12.0%	**(3.3%)**	n/m	n/m
NASDAQ Composite index price[3]	16.9%	(1.8%)	(0.3%)	18.7%	**(5.1%)**	n/m	n/m
IPO number	194	215	70	89	**104**	49%	17%
IPO in USD bn	48.2	44.1	15.2	6.9	**26.0**	71%	276%
M&A deal number	8,727	10,037	2,606	2,491	**2,354**	(10%)	(5%)
M&A in USD bn	775.1	888.4	210.8	143.9	**184.2**	(13%)	28%
Leveraged loan in USD bn[4]	322.2	518.3	158.3	135.1	**105.6**	(33%)	(22%)
High yield bond in USD bn[4]	240.5	220.9	81.8	96.8	**50.1**	(39%)	(48%)

1) Annual figures are annual averages and quarterly figures are period end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, Credit Suisse Leveraged Finance Market Update as of September 30, 2012.

Private equity markets

Fundraising, driven by the activity of mid-market buyout funds, continued to increase strongly in the first half of 2012. A handful of large fund closings also supported the overall increase in dollar volume. In addition, real estate, growth, and distressed debt, as well as secondary fundraising more than doubled from the first half of 2011. Buyout and Venture Capital investment activities were weaker in the sixth month of this year compared with a year ago, but investments picked up in the second quarter overall. Venture investments in social network and IT deals, in particular, drove activity in the second quarter. After a slow start to the year, exit activity gained pace but continued to trail behind the prior year's level.

Buyout

Growth momentum continued for buyout fundraising

Fundraising growth momentum continued into the second quarter, with buyout and other non-VC funds raising USD 39.6 billion, the highest volume for a quarter in nearly four years. First half fundraising volume reached USD 78 billion, up 23% from the previous period, according to Thomson One data. Despite buoyant headline figures, fundraising activity remains highly competitive with more GPs raising funds. The first half saw 221 fund closings, not much less than at the peak of the fundraising cycle in the second half of 2007 when 297 funds held closings. The modest fundraising amounts, compared with the peak in 2007, are due to the dominance of small and mid-sized buyout funds in the fundraising market. While large buyout funds supported overall dollar figures, 93% of all buyout funds closed during the first half of 2012 were either of small or medium size.

Among different investment strategies, commitments to traditional buyouts, the largest group of funds, increased by 15% to USD 34.2 billion during the first half of 2012 compared with a year ago. Among funds holding their final close, Leonard Green raised the largest fund during the first half of 2012, closing Green Equity Partners VI at USD 6.25 billion, above a target of USD 6 billion. Other investment strategies also received greater investor support, with large fund closings mainly responsible for the dollar increase. As real estate returns are improving, driven by a noticeable recovery in the housing market, real estate strategies are gaining investor support. Commitments to real estate funds doubled from the first half of 2011 to USD 21.4 billion. Blackstone raised USD 11.1 billion towards what is now the largest ever real estate fund. Corporate default rates remain at the lowest level since the peak in 2009, but investors continue to back distressed debt managers seeking higher current cashflows. Commitments to this strategy more than doubled to USD 5.2 billion, with Ares Corporates Opportunities Fund raising USD 3.2 billion in the first half of 2012, bringing the total fund size to USD 4.7 billion.

Specialist funds focusing on Real Estate, Secondaries, and Distressed Debt gain investor support

Following a slow start in 2012, buyout investment activity increased in the second quarter, with volumes and the number of deals completed increasing from both the previous quarter and a year ago. Investment volumes doubled from the previous quarter to USD 24.6 billion as a few large deals were completed, while deal flow improved modestly, according to Thomson Reuters *Buyouts* publication. Two large deals (USD 3 billion and higher), accounted for the lion's share of invested volume: Apollo Global Management and Riverstone Holdings acquired El Paso Energy for USD 7.15 billion and Advent International and Goldman Sachs Capital Partners acquired TransUnion for USD 3.2 billion.

However, investment activity still lagged the pace of the previous year. Investment volume was down by 26% in the first half of 2012 compared with the first half of 2011, driven by a contraction in the large buyout segment as the gap in price expectations for larger buyout targets widened. Leverage levels moderated to a 4.89 multiple of EBITDA in the first half of 2012, down from 5.34 for the same period a year ago, while LBO loans became more expensive in 2012. In June 2012, spreads over LIBOR for LBO loans stood at 461 basis points, up 56 basis points from June 2011. LBO prices declined during the first half, to a 7.7 multiple of EBITDA, from 8.2x a year ago. The fall in pricing was more pronounced across large LBOs, according to Standard and Poor's data.

Investment activity lagged the level of the previous year but picked up in the second quarter of 2012

Growth momentum continued in the third quarter which saw five USD 3 billion plus buyout deals announced for a combined value of USD 18.3 billion. BC Partners and the CPP Investment Board agreed to acquire a unit of Cequel Communications Holdings for USD 6.6 billion in the largest deal announced in the third quarter.

Buyout exit deal activity was muted during the second quarter. The number of completed M&A exit deals fell to 101 from 126 in the previous quarter, and from 114 in the same period a year ago, according to Thomson Reuters *Buyouts*. Disclosed exit values also fell to USD 9.6 billion from USD 13.6 billion in the previous quarter. Only two exits of US-based companies exceeded the USD 1 billion mark. In the largest completed deal of the second quarter, Madison Dearborn Partners sold TransUnion, the consumer credit reporting agency, for USD 3.2 billion to Advent International and Goldman Sachs Capital Partners.

While completed deal values were down, the second quarter saw a number of large exit announcements. The combined enterprise value of the top five announced deals during the second quarter amounted to USD 17 billion. Summit Partners agreed to sell Health Care Partners to DaVita for USD 4.7 billion. Investors including General Atlantic announced the sale of the grain handler, Gavilon Group, to Marubeni for USD 5.6 billion. The IPO activity of US-based PE-backed companies remained steady in the second quarter, with nine offerings raising USD 2.7 billion, compared with 11 IPOs raising USD 2.2 billion in the first quarter.

Exit activity was muted in the first half; Deal announcements indicate positive developments in the second half of 2012

There were five more IPOs in the first half of this year compared with a year ago. However, proceeds were only one sixth of last year's as smaller offerings dominated activity. The largest IPO of the second quarter, PetroLogistics, backed by Lindsay Goldberg and York Capital Management raised USD 595 million on the NYSE, according to Thomson One data. In addition, during the second quarter of 2012, large secondary offerings were completed by private equity firms KKR and Goldman Sachs, including the USD 1.4 billion sale of Dollar General shares, a company whose market capitalization has more than doubled since its IPO, according to Bloomberg data.

Distributions of USD 12.1 billion from US buyout funds in the first quarter of 2012 were half of last year's activity. Additionally, based on activity in our portfolios, the distribution pace was below the prior year's level in the second quarter. However, private equity assets continued to appreciate in the first quarter of 2012. Valuations have now increased for all but one quarter over the past three years, according to Thomson One data, indicating a steady recovery of private equity portfolios and in marked contrast to the volatility of public equity markets during that period.

VC

Venture capital fundraising is strongly driven by the fundraising of a few experienced venture managers

Following a slow start, venture capital fundraising activity returned to an elevated level in the second quarter of 2012. Commitment volumes increased by 14% to USD 6.0 billion from the previous quarter, according to Thomson One. Two funds accounted for half this volume, with New Enterprise Associates raising USD 2.3 billion for its early stage Fund XIV and Institutional Venture Partners closing its later stage Fund XIV at USD 1.0 billion, above its target size of USD 750 million and above the size of its predecessor fund; 100 other funds raised the remainder. The first half commitment volume was running ahead of last year. Fundraising increased by 10% to USD 11.2 billion despite an almost identical number of funds closed. While venture fundraising dollar volumes look decent, activity in terms of the number of funds raised remains at the post-dotcom venture crash level of 2002-2003. Unsurprisingly, the ratio of non-venture to venture funds raised increased to a historical high level of 2.5, suggesting that investors reduced their exposure to venture capital by limiting commitments to fewer managers.

Investment deal activity and values declined over 2011 levels, but the second quarter saw growth in activity

Despite growth in the second quarter, venture capital investment activity continued to trail the prior year's level in the second quarter, with deal flow decreasing by 3% and invested capital declining by 9% to USD 8.1 billion from the same quarter a year ago, according to Dow Jones VentureSource data. Fewer attractive opportunities in healthcare and renewable energy sectors drove a decline in investment activity. After three years of strong growth, the healthcare sector lost its top VC investment sector position in 2012, as invested capital dropped by a third to USD 3.0 billion in the first half of 2012 versus 2011. The IT sector regained the top spot, although with a smaller volume. Invested capital declined slightly by 2% to USD 4.5 billion during the first half of 2012.

Investments in Consumer Information Services bounced back strongly in the second quarter, with invested capital more than doubling to USD 1.6 billion from the previous quarter, and exceeding the level in the same quarter of the prior year by 18%. Although the post IPO performance of large offerings such as Facebook, Groupon, and Zynga was disappointing, and grabbed headlines, there have been several Internet IPOs that performed well following their public debuts. The successful IPOs of Yelp, Brightcove and LinkedIn are helping fuel the continued interest and investment in this sector. The increase in investments in the second quarter was broadly based with the largest investment only reaching USD 150 million. Andreessen Horowitz and Insight Venture Partners backed Fanatics, Inc., an online retailer of officially licensed sports merchandise.

Despite a drop in activity, deal exit values stabilized, driven by the steady acquisition activity of large corporations

VC-backed M&A exit activity was mixed during the first half of 2012. Exit deal activity slowed as the number of exits declined by 20%, according to Dow Jones VentureSource data. However, exit deal value was stable at USD 26.4 billion due to larger exit deals completed in 2012. In contrast with buyouts, the top ten largest venture M&A exits demonstrated significant large corporate acquisition activity, with big biopharmaceuticals and software names such as Amgen, Covidien, Adobe Systems, and AMD, continuing to acquire innovative, venture backed businesses. However, the largest acquirer of the first quarter was Facebook, investing USD 1 billion into a mobile photo sharing app Instagram backed by a consortium of investors including Baseline Ventures, Benchmark Capital, Greylock Partners, and Sequoia. Venture firms seized the positive investor sentiment from the start of the year until May by offering shares of VC-backed companies to public investors. There were 36 IPOs of VC-backed companies in the first half, nine more than a year ago. Smaller offerings dominated in the first half of 2012 with the exception of Facebook, the largest ever IPO of a PE/VC-backed company, which raised USD 16 billion and skewed the overall results.

The largest ever PE/VC backed IPO of Facebook increased distribution volume to LPs in the second quarter

Distributions by a sample of 1,335 US venture funds tracked by Thomson Reuters declined to USD 1.7 billion in the first quarter, reflecting a decline in exit activity. According to our broad venture portfolios, distribution volume increased in the second quarter, driven by the Facebook IPO. VC portfolio assets appreciated by 1.0% during the first quarter of 2012, which is surprisingly small in light of a combined 25% gain in public equity markets over Q4 2011 and Q1 of 2012.

Fundraising is expected to increase further, although it remains highly competitive. Many LPs re-upped with successful managers on the back of increased private equity liquidity, while some LPs have increased allocations to the private equity asset class. Investment activity is expected to pick up in the second half as credit markets regain strength. The third quarter saw an increasing number of larger deals announced, while mid-market deal activity remained steady. We expect a heightened level of exit activity as the pipeline of mature portfolio companies is high. Private equity sponsors may take advantage of stronger credit markets to return money to investors via dividend recaps.

Tax considerations may accelerate exit decisions, with exit dynamics being similar to those seen in the fourth quarter of 2010.

The table below details US private equity data.

all values in USD billion		H111	H112	Q211	Q112	Q212	Dh/h	Dq/q
BO	Funds raised[1]	62.5	**78.4**	34.0	38.8	**39.6**	26%	2%
	Number of funds[2]	216	**221**	112	119	**102**	2%	(14%)
	Investments	49.8	**36.8**	23.0	12.2	**24.6**	(26%)	102%
	Drawdowns[3]	27.7	**n/a**	12.7	7.8	**n/a**	n/m	(39%)
	Distributions	42.7	**n/a**	18.7	12.1	**n/a**	n/m	(38%)
	Appreciation as % of NAV	7.9%	**n/a**	3.3%	3.8%	**n/a**	n/m	0%
	5 year rolling net IRR[4]	7.0%	**n/a**	7.0%	5.1%	**n/a**	n/m	(2%)
VC	Funds raised[1]	10.2	**11.2**	2.6	5.2	**6.0**	10%	14%
	Number of funds[2]	93	**92**	45	51	**41**	(1%)	(20%)
	Investments	16.5	**15.3**	8.8	7.2	**8.1**	(7%)	12%
	Drawdowns[3]	1.5	**n/a**	1.5	0.6	**n/a**	n/m	(58%)
	Distributions	3.8	**n/a**	3.8	1.7	**n/a**	n/m	(56%)
	Appreciation as % of NAV	5.9%	**n/a**	3.0%	1.0%	**n/a**	n/m	(2%)
	5 year rolling net IRR[4]	4.8%	**n/a**	4.8%	2.9%	**n/a**	n/m	(2%)

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Buyout drawdowns and investments data are not comparable as investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.
Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Dq/q is the comparison of Q2 2012 vs. Q1 2011 for fundraising and investments and Q1 2012 vs. Q4 2011 for cash flows and performance data.
Dhhy is the comparison of H1 2012 vs. H1 2011 for fundraising and investments
n/a - data not available.
Source: Thomson One, as of September 30, 2012.

Environment – EU

Political decisions and developments around European sovereign debt and the intensification of the banking crisis in Spain, which resulted in rating agencies' downgrading of both Spain's government bond ratings and of the long-term debt ratings of Spanish banks, moved capital markets in the second quarter of 2012. Public equity indices declined across the board during the second quarter, with the FTSE 100 and DAX falling by 3% and 8% respectively as investors pulled money from riskier assets. Subsequently during the third quarter, equity prices moved ahead in anticipation of quantitative support from the European Central Bank (ECB), and rallied in September on the strongest action of the ECB so far to save the Euro, with the announcement of the unlimited purchase of bonds of struggling European countries.

Higher risk aversion impacted high yield bond issuance activity; European companies obtain increasingly capital from the US

Investor demand for newly issued high yield bonds plummeted in the second quarter, with issuance volume declining by 73% from the previous quarter. Leveraged loan issuance volume declined by 42% quarter on quarter. This decline was driven further by the higher cost of borrowing and constraints on the supply side as the funding pressure on banks remains high, with some banks increasingly retrenching and shedding capital-intensive business lines and assets. In such an environment, many European companies sought capital in the US. Borrowers in Europe raised about USD 16.4 billion in U.S. leveraged loans in the first half of 2012, more than doubling the total arranged in the first six months of 2011, according to data from Standard & Poor's. A total of USD 8.8 billion of U.S. loans was borrowed by companies in Europe throughout the whole of

2011. Private equity backed companies including Misys Plc and Formula One Holdings have turned to the U.S. loan market, amongst others.

IPO activity was dominated by small issues as some companies reduced offering sizes in response to weaker investor demand. Offering proceeds fell by nearly two thirds to EUR 0.9 billion from the previous quarter, despite an increase in the number of IPOs to 63 from 45. M&A activity declined in the second quarter with the number of deals trailing behind the prior year's quarter by 13%, and deal values by 30%, according to Bloomberg data. Uncertainty and concerns over the economic growth outlook was weighing on corporation's M&A appetite in 2012 with many companies preferring to preserve liquidity.

Economic activity contracted in the second quarter; positive development in industrial production and exports in the third quarter

Choppy economic developments in the European economy continued in the second quarter, with output falling by 0.2% following some stablization in the first quarter. Economic output continued to expand in Germany, albeit at a slower pace, driven by increased exports and small gains in consumption. The Nordic region also continued to grow. In contrast, Southern European countries and the UK had declining output in the second quarter for the third consecutive quarter, driven as expected by austerity measures of their respective governments. However, economic actitivity appeared to be increasing in the European Union (EU) in the third quarter as industrial production expanded in July and August. Despite weakness in current economic activity, Europe remains a home of most competitive and innovative companies. According to recent country competitiveness ranking published by the World Economic Forum, six European countries were represented in the top ten nations. This is also refected in exports growth in the EU which advanced in July by 11% over July 2011, according to statistics provided by Eurostat. Companies with a diversified international customer base appear to be less affected by slower growth/contraction in the EU and could further capitalize on their strenth once the EU returns to stability.

The table below details European macroeconomic and financial data.

	2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
Real GDP in % q/q[1]	2.0	1.4	0.2	0.0	**(0.2)**	(0.4)	(0.2)
CPI in % y/y[1]	1.6	2.7	2.7	2.7	**2.5**	(0.3)	(0.2)
Interest rate in %[2]	1.00	1.00	1.25	1.00	**1.00**	(0.25)	0.00
Unemployment rate in %[2]	10.0	10.7	10.0	11.0	**11.3**	1.3	0.3
Consumer confidence[2]	(11.4)	(21.3)	(10.0)	(19.1)	**(19.8)**	(9.8)	(0.7)
FTSE 100 index price[3]	9.0%	(5.6%)	0.6%	3.5%	**(3.4%)**	n/m	n/m
CAC 40 index price[3]	(3.3%)	(17.0%)	(0.2%)	8.4%	**(6.6%)**	n/m	n/m
DAX index price[3]	16.1%	(14.7%)	4.5%	17.8%	**(7.6%)**	n/m	n/m
IPO number	242	340	114	45	**63**	(45%)	40%
IPO in EUR bn	27.1	25.7	16.1	2.5	**0.9**	(94%)	(64%)
M&A deal number	6,162	6,356	1,571	1,558	**1,371**	(13%)	(12%)
M&A in EUR bn	402.2	452.0	149.2	116.7	**104.8**	(30%)	(10%)
Leveraged loan in EUR bn[4]	70.1	97.8	31.2	27.6	**16.0**	(49%)	(42%)
High yield bond in EUR bn[4]	50.8	44.5	18.8	20.9	**5.7**	(70%)	(73%)

1) Annual figures are annual averages and quarterly figures are period end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, Credit Suisse Leveraged Finance Market Update as of September 30, 2012.

Private equity markets

Uncertainty surrounding political resolutions of the sovereign debt crisis continued to impact investor sentiment and European private equity activities in the second quarter. Buyout investment deal values remained flat, while the number of deals declined from the previous quarter. Commitments to European buyout funds decreased following three consecutive quarters of increased fundraising. However, despite the weakness in overall M&A activity in Europe, private equity exit activity continued to recover in the second quarter, driven by the increased acquisition activity of trade buyers.

Buyout

Buyout fundraising slowed in the second quarter; Secondaries gained investor interest

The European fundraising environment remains highly competitive with a few managers accounting for the bulk of raised capital. During the second quarter, EUR 3.9 billion was raised by 14 buyout funds, representing a 68% decline from the previous quarter, which was the strongest quarter since the subprime debt crisis in 2008. Deutsche Beteiligungs AG raised the largest buyout fund during the second quarter, with investors committing EUR 451 million to Fund VI, which targets deals in German speaking countries. While direct private equity fundraising was subdued, the secondary fund of funds strategy gained investor support, with AXA Private Equity raising EUR 6.4 billion for the largest ever European secondary fund during the second quarter, according to Thomson One data.

Secondary deals of large buyout funds reached historic high levels

Investment activity continued to be impacted by a constrained bank lending environment and relatively high acquisition multiples. According to an ECB survey, banks reported a further tightening of lending standards in the second quarter. Despite the uncertain macroeconomic outlook, buyout acquisition multiples remained relatively high in the second quarter according to Standard & Poor's, with an average 8.7 multiple of EBITDA compared with 8.4 in 2011. This dampened the investment sentiment of buyout managers. In such an environment, private equity firms completed 94 buyout deals worth EUR 11.7 billion during the second quarter, the same value as in the previous quarter, but well below the same quarter a year ago, according to Unquote data. Across different deal sizes, mid-market investment deal values increased by 9% to EUR 5.8 billion. In contrast, large deal size values decreased by 8%. There were five large deals exceeding the EUR 500 million mark, the same number as in the previous quarter. All of these deals were secondary investments, pushing up the share of secondary deal by value to unhealthy levels - 70% of overall deal values, indicating a difficult deal-making environment for large buyout funds.

Exit activity gained momentum after a low in the fourth quarter of 2011, driven by corporate acquisitions

While buyout secondary investments were supportive for European private equity exit activity, they were not a major driver of the market recovery. During the second quarter, 70 European buyout-backed companies, worth EUR 23.3 billion, were fully or partially realized, representing an 88% increase in value over the previous quarter, according to Unquote data. The exit deal values increased during the consecutive two quarters, driven by increased acquisition activity of trade buyers. Trade exits comprised EUR 17.7 billion or 75% of quarterly exit deal values, while secondary exits accounted for the balance. The largest exit deal of the second quarter was the partial realization of the UK general retailer Alliance Boots, once the largest European buyout investment on record made at the height of the buyout boom in 2007. KKR and AXA Private Equity sold a portion of its interests for around EUR 5.4 billion to the US pharmaceutical retailer Walgreens Co. UK-based companies were sought after by corporations, making up 39% of deals by value. The Nordic region demonstrated a growing maturity, contributing to 20% of European private equity exit deal values.

VC

European venture fundraising remained subdued despite a pick-up in activity during the second quarter of 2012. Commitments increased by 47% to EUR 1.1 billion versus the previous quarter, and matched the pace and the amount of the same quarter in the previous year, according to Thomson One data. The first half-year fundraising figures indicate a continued weakness in European Venture with the numbers of funds declining by 13% and commitment amounts running only slightly ahead to EUR 1.8 billion of the previous year's level, the slowest since 2003. Nevertheless, experienced managers continued to receive investor support. Index Ventures raised the two largest funds during the first half: EUR 354 million for its early stage Fund VI in the second quarter and EUR 150 million for its Life Sciences fund during the first quarter.

VC managers invested larger amounts in a few attractive deals

Similarly, investment deal values lagged the 2011 level with deal flow declining by 10% and invested capital by 7% in the first half of 2012, compared with the same period a year ago, as reported by Dow Jones VentureSource. However, investment deal values increased in the second quarter from the weak first quarter, driven by investments in Consumer Information Services. This sector attracted 25% of venture invested capital, the highest share in the second quarter. The growth in investment deal values was driven by a few large investment rounds, while deal activity declined by 20% from the same quarter of last year as VC managers preferred to direct limited dry powder to support growth of the most promising companies. The UK-headquartered Spotify Ltd., a provider of online digital music services, received about EUR 80 million during the second quarter from Goldman Sachs, with the post-money valuation increasing four times to EUR 4 billion, according to Dow Jones VentureSource database. Three more companies received venture financing of EUR 50 million and higher, while none of that size were registered in the previous quarter or in the previous year's second quarter.

Exit activity trailed considerably the first half 2011 level

A decline in deal activity was more pronounced in M&A exit activity. VC funds realized 37 companies in M&A deals worth EUR 2.0 billion during the first half of 2012, representing a 57% decline in value and a 37% decline in deal numbers over the same period of 2011. However, the deal exit values nearly doubled in the second quarter to EUR 1.3 billion versus the previous quarter thanks to a single large exit, according to Dow Jones VentureSource exit data. A consortium of VC investors including Essex Woodlands Health Ventures, 3i, Advent Venture Partners, and SV Life Sciences sold EUSA Pharma to Jazz Pharmaceuticals for EUR 522 million. After it appeared to be opening in the first quarter when VC firms exited six companies, raising EUR 157 million, the IPO window shut down again in the second quarter. Only three companies were exited via IPO in the second quarter with offering proceeds amounting to EUR 27 million. Smaller offerings dominated activity in the first half of 2012 with raised proceeds falling by 70% to EUR 184 milion compared with the same period a year ago. The French communications network company INSIDE Secure, backed by Apax Partners and Soffinova Ventures, raised EUR 69 million in the largest IPO exit of the first half of 2012.

Looking ahead, overall private equity investment volume is not expected to pick up significantly in the second half of 2012 as managers are investing cautiously in light of relatively high pricing and a continued strain in the credit markets. Mid-market buyout investments may remain stable. We expect the trend of increasing buyout exit volume to continue, although activity may fluctuate depending on the development of headline risks, as the appetite of trade buyers remains elevated, and secondary exits may benefit from the investment activity of buyout firms.

The table below details European private equity data.

all values in EUR billion		H111	H112	Q211	Q112	Q212	Dh/h	Dq/q
BO	Funds raised[1]	13.1	**16.2**	6.4	12.3	**3.9**	23%	(68%)
	Number of funds[2]	49	**31**	24	17	**14**	(37%)	(18%)
	Investments	43.7	**23.0**	28.6	11.7	**11.3**	(47%)	(4%)
	Drawdowns[3]	4.0	**n/a**	4.0	n/a	**n/a**	n/m	34%
	Distributions	6.1	**n/a**	6.1	n/a	**n/a**	n/m	71%
	Appreciation as % of NAV	0.3%	**n/a**	1.4%	n/a	**n/a**	n/m	(5%)
	5 year rolling net IRR[4]	5.9%	**n/a**	5.9%	n/a	**n/a**	n/m	(5%)
VC	Funds raised[1]	1.7	**1.8**	1.1	0.7	**1.1**	5%	47%
	Number of funds[2]	32	**28**	18	10	**18**	(13%)	80%
	Investments	2.4	**2.2**	1.1	0.9	**1.3**	(7%)	37%
	Drawdowns[3]	0.9	**n/a**	0.9	n/a	**n/a**	n/m	16%
	Distributions	0.6	**n/a**	0.6	n/a	**n/a**	n/m	24%
	Appreciation as % of NAV	(2.1%)	**n/a**	0.1%	n/a	**n/a**	n/m	(6%)
	5 year rolling net IRR[4]	(0.1%)	**n/a**	(0.1%)	n/a	**n/a**	n/m	(1%)

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Buyout drawdowns and investments data are not comparable as investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.
Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Dq/q is the comparison of Q2 2012 vs. Q1 2011 for fundraising and investments and Q1 2012 vs. Q4 2011 for cash flows and performance data.
Dh/h is the comparison of H1 2012 vs. H1 2011 for fundraising and investments
n/a - data not available.
Source: Thomson One, as of September 30, 2012.

Environment – Asia-Pacific

Following a strong performance during the first quarter, equity markets weakened in the second quarter, driven mainly by diminished global investor sentiment. Equity indices in advanced countries of the region declined at a higher rate than those of emerging countries. The Nikkei 225 index had a 10.7% quarterly decline, the highest quarterly decline of five of the major regional indices. This was due to the appreciation of the yen and the weakening of overseas demand that weighed on export oriented stocks.

IPO activity is struggling to reach 2011 heights; M&A activity weakened as well

On the back of the higher public equity prices in the first quarter, IPO activity gained pace in the second quarter with both numbers and values of offerings increasing significantly from the prior quarter. Despite the up-tick, activity remained significantly below the level seen in the first half of 2011. Following robust activity in the first three quarters of 2011, deal making across the Asia-Pacific region has fallen in step with slower economic growth and global market volatility. The first half of 2012 saw 3,826 deals worth US 237 billion announced, which marks declines of 12% and 11%, in volume and value respectively. Nevertheless, activity was steady in the second quarter compared with the previous quarter, while larger transactions pushed up the deal values.

Growth continued to moderate in China; South East Asia is resilient; early indications of recovery in India

Economic fundamentals in the Asia-Pacific region remain strong, although activity continued to weaken in some countries. The Chinese economy continued to slow down, with real GDP being 7.6% higher over the year. The Chinese government has taken counter-cyclical measures since early May with a series of monetary easing actions, including two rate cuts within a month. The second half economic activity is expected to receive a boost from accelerated approval of public infrastructure projects and raised investment targets. In addition, there are some early indications that conditions in the housing market have improved a little in recent months. Nevertheless, a return to sustainable higher growth rates is expected to take some time. In contrast with China, South East Asian countries were resilient, as strong domestic demand off-set the negative impact of a slowdown in export growth. Investment appears to be accelerating on the back of infrastructure-related spending and steady FDI (foreign direct investment) inflows. In India, GDP increased in the second quarter to 5.5%, following four sequential quarters of declining output. There are signs that the slowdown is bottoming out, although a sustainable recovery is expected to be strongly influenced by a recovery in external demand, which was encouraging in the third quarter, and success in the policy measures taken to balance inflation and growth.

Japan's economic pace is decelerating after a strong first quarter; Australia is heading towards solid growth in 2012

The economic growth in Japan decelerated in the second quarter to a 0.3% unannualized rate, from 1.3% in the first quarter, as reconstruction-supported demand moderated. Meanwhile, business fixed investment has been increasing moderately as a result of an improvement in corporate profits. However, industrial production was slowing in the third quarter reflecting a high sensitivity of manufacturing industries to the global demand/production cycle. Australia was a bright spot in the region, with GDP increasing at 4.4% and 3.7 % in the first and second quarters of 2012 respectively, at significantly higher rates than in 2011 and 2010. Following a period of deleveraging, business credit picked up over the past few quarters and is now growing at its fastest pace in three and a half years.

The table below details Asia-Pacific macroeconomic and financial data.

		2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
Japan	Real GDP in % q/q[1]	4.5	(0.8)	(0.3)	1.3	**0.3**	0.6	(1.0)
	CPI in % y/y[1]	(0.7)	(0.3)	(0.4)	0.5	**(0.2)**	0.2	(0.7)
	Interest rate in %[2]	0.10	0.10	0.10	0.10	**0.10**	0.00	0.00
	Unemployment rate in %[2]	4.9	4.5	4.7	4.5	**4.3**	(0.4)	(0.2)
	Consumer confidence[2]	40.2	38.1	36.3	40.1	**40.8**	4.5	0.7
	Nikkei 225 index price[3]	(3.0%)	(17.3%)	0.6%	19.3%	**(10.7%)**	n/m	n/m
China	Real GDP in % y/y[1]	10.4	9.3	9.5	8.1	**7.6**	(1.9)	(0.5)
	CPI in % y/y[1]	9.8	8.9	5.7	3.8	**2.9**	(2.9)	(0.9)
	Interest rate in %[2]	5.81	6.56	6.31	6.56	**6.31**	0.00	(0.25)
	Shanghai Composite price[3]	(14.3%)	(21.7%)	(5.7%)	2.9%	**(1.7%)**	n/m	n/m
India	Real GDP in % y/y[1]	8.9	7.5	8.0	5.3	**5.5**	(2.5)	0.2
	CPI in % y/y[1]	12.1	8.9	8.9	7.2	**10.1**	1.2	3.0
	Interest rate in %[2]	5.25	7.50	6.50	7.50	**7.00**	0.50	(0.50)
	SENSEX index price[3]	17.4%	(24.6%)	(3.1%)	12.6%	**0.1%**	n/m	n/m
Korea	Real GDP in % y/y[1]	6.3	3.6	3.5	2.8	**2.3**	(1.2)	(0.5)
	CPI in % y/y[1]	3.0	4.0	4.2	2.6	**2.2**	(2.0)	(0.4)
	Interest rate in %[2]	2.50	3.25	3.25	3.25	**3.25**	0.00	0.00
	Unemployment rate in %[2]	3.5	3.0	3.3	3.7	**3.2**	(0.1)	(0.5)
	Kospi index price[3]	21.9%	(11.0%)	(0.3%)	10.3%	**(7.9%)**	n/m	n/m
Australia	Real GDP in % y/y[1]	2.5	2.2	2.0	4.4	**3.7**	1.7	(0.7)
	CPI in % y/y[1]	2.9	3.4	3.6	1.6	**1.2**	(2.4)	(0.4)
	Interest rate in %[2]	4.75	4.25	4.75	4.25	**3.50**	(1.25)	(0.75)
	Unemployment rate in %[2]	4.9	5.2	5.0	5.2	**5.3**	0.3	0.1
	ASX 200 index price[3]	(2.6%)	(14.5%)	(4.8%)	6.9%	**(5.6%)**	n/m	n/m
Total Asia	IPO number	914	841	225	128	**158**	(30%)	23%
	IPO in USD bn	175.4	87.8	25.0	8.6	**16.6**	(34%)	93%
	M&A deal number	8,920	8,502	2,230	1,913	**1,913**	(14%)	0%
	M&A in USD bn	512.2	514.6	142.0	102.8	**134.4**	(5%)	31%

1) Annual figures are annual averages.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, October 9, 2012.

Private equity markets

Fundraising slowed in China but experienced managers continued to attract investor interest

Fundraising activity slowed down in the Asia-Pacific region diring the first half of 2012, driven primarily by fewer China-focused growth funds being raised. According to the *Asian Private Equity Review* survey, the share of China-based LPs in the funds raised during the first half of 2012 declined from over 60% last year to 51%, which is also reflected in the fundraising statistics from the AVCJ database. The number of funds raised in Greater China dropped by 56% to 52 and the capital raised declined by 20% to USD 19.3 billion. Overall, the number of Asia-Pacific funds raised nearly halved in the first half of 2012 compared with the same period of last year. Fundraising volumes trailed 23% behind the 2011 level, with 110 funds raising USD 24.1 billion.

Growth capital fundraising took a hit in the first half of 2012. Commitments to this strategy declined by 42% to USD 17.1 billion from a year ago. In contrast with Asia-based LPs, European and North American investors continued to increase allocations to Asia-Pacific private equity. The share of those LPs in the pool of funds raised in the first half of 2012 increased to 24% in 2012 from 20% last year, according to *the Asian Private Equity Review.* The majority of these allocations were made to established buyout managers. Commitments to buyout funds increased fourfold to USD 7.0 billion in the first half, driven by two large fund closings. Hony Capital held a final close of its buyout Fund V at USD 2.4 billion during the first quarter. KKR raised USD 3.0 billion for its Fund II during the second quarter towards a final target of USD 6 billion. Another strategy that gained investor support in 2012 was fund of funds. Commitments to fund of funds reached USD 2.8 billion, twice the amount raised during the whole of 2011. The China Development Bank raised USD 1.4 billion during the second quarter of 2012, and is targeting raising the largest fund of funds in Asia-Pacific history with a fund size of RMB 40 billion, or approximately USD 6 billion.

The pace of private equity investment activity slowed in the first half of 2012. Both investment deal values and deal count declined by 20% to USD 27.6 billion across 792 deals, according to AVCJ data. The slowdown was driven by growth strategy deals, primarily in China, as uncertainty over the pace of future economic growth weighed on buyers and sellers. The second quarter was the fourth consecutive quarter of declining growth deal values. As a result, the first half figure of invested capital of USD 18.4 billion trailed the previous years' level by 28%. In contrast, buyout deal activity had the strongest quarter since the beginning of 2011. 42 deals were completed with disclosed invested deal values of USD 7.2 billion during the second quarter of 2012. First half activity was on a par with the previous year's level.

Investment activity slowed, driven by growth deals; buyout deals matched the pace of the previous year as activity bounced back in Q2

Australia and Japan accounted for the majority of buyout deals in the region. USD 4.5 billion was invested in 11 targets in Australia. Hastings Funds Management and Ontario Teachers' Pension Plan Board acquired Sydney Desalination Plant for USD 2.5 billion in the largest buyout deal of the first half of 2012. Japan boasted 12 deals worth 1.9 billion as Bain Capital Asia acquired Jupiter Shop Channel for USD 1.1 billion in the second largest buyout deal. Relatively weaker public equity markets presented attractive PIPE investment opportunities for private equity firms. In the first half of 2012, investments in publicly traded securities increased by a quarter to USD 9.3 billion compared with the same period of 2011.

Larger PIPE deals typically involve the private equity arms of Chinese banks or Temasek. The China Investment Corporation acquired shares in Bank of Communications for USD 2.6 billion in the largest PIPE deal of the first half of 2012. Temasek completed the second largest deal with its USD 2.3 billion acquisition of a minority interest in The Industrial & Commercial Bank of China. Established western GPs also saw value in such deals but preferred to invest in small and mid size companies. Between April and June, KKR invested USD 65 million in China Cord Blood, TPG invested USD 60 million in China Ruifeng Galaxy Renewable Energy, and CVC Asia Pacific led a US 94.4 million investment in C.Banner International, a Hong Kong-listed women's footwear retailer.

Following a slow start to the year, private equity exit activity gained pace in the second quarter, with both M&A and IPO exit values increasing versus the previous quarter. However, a comparison with the first half of 2011 reveals a more challenging environment, especially for IPOs, which dropped substantially, while trade exit deal activity declined slightly. Despite a decline in exit deal flow in the second quarter, and

Large trade sale exits in Q2 drove results but activity weakened a little

overall in the first half, M&A deal values increased to USD 21.1 billion in the first half, an increase of 13% versus the same period a year ago, thanks to a number of large exit deals in the second quarter of 2012, according to AVCJ data. In fact, the second quarter saw the largest M&A exit in Asia-Pacific history as Temasek agreed to sell its controlling interest in Indonesian PT Bank Danamon to Singapore-based DBS Group Holdings for USD 7.6 billion.There were four deals exceeding the USD 1 billion mark in 2012, totaling USD 12.0 billion compared with two worth USD 2.8 billion last year. The other three M&A exit deals were disposals of minority holdings by private equity firms. Goldman Sachs Capital Partners reduced its stake in The Industrial & Commercial Bank of China by selling shares in private placement worth USD 2.3 billion, in the second largest M&A exit of the first half of 2012.

IPO exits increased in Q2 but trailed significantly below the prior year's level

In an environment of volatile public equity prices and generally lower valuations, many IPOs were put on hold, or exits were concluded via the M&A channel. Consequently, IPO exit deal numbers and values declined by about 44% versus the same period in 2011, according to AVCJ. China remained a dominant IPO force accounting for 70% of all floated companies in the first half of 2012. However, the largest IPO exit was concluded in Malaysia. Employees Provident Fund of Malaysia and other investors offered shares worth USD 3.1 billion of the agricultural and agro-commodities company, Felda Global Ventures, on the Bursa Malaysia Stock Exchange. The main index of this Exchange the FTSE Bursa Malaysia KLCI, has been strong in 2012 and reached an all-time high in early October. Across various countries, Japan dominated exit activity with 58 exits or a third of all regional exit volume during the first half of 2012. The heightened level of exit activity in Japan was driven by strong corporate M&A activity and a large pipeline of portfolio companies becoming ripe for divestments.

In summary, the major driver of regional private equity fundraising over the past two years, domestic investors in China, is waning. However, experienced managers continue to attract investor interest locally and from global investors. Deal flow for growth and buyout deals remains solid but private equity managers are more selective and opportunistic as private deal pricing is perceived to be high in a volatile environment. Private equity firms continue to seize opportunities in such market conditions: they complete more PIPE and take-private deals in downturned public equity markets and more mezzanine pre-IPO deals in bullish markets. Recovery of public equity prices may drive IPOs. However, activity may fluctuate depending on market conditions. M&A exit activity is more stable as many local cash-rich and low-leveraged corporations seek consolidation opportunities in the region.

The table below details Asia-Pacific private equity data.

all values in USD billion		H111	H112	Q211	Q112	Q212	Dh/h	Dq/q
BO	Funds raised[1]	1.8	**7.0**	1.0	2.6	**4.4**	290%	70%
	Number of funds[2]	10	**10**	2	5	**5**	0%	0%
	Investments	9.1	**9.2**	4.9	1.9	**7.2**	0%	275%
	Number of deals	83	**68**	36	26	**42**	(18%)	62%
VC	Funds raised[1]	29.4	**17.1**	17.1	10.5	**6.6**	(42%)	(37%)
	Number of funds[2]	192	**100**	112	51	**49**	(48%)	(4%)
	Investments	25.5	**18.4**	16.5	9.5	**9.0**	(28%)	(5%)
	Number of deals	908	**724**	481	392	**332**	(20%)	(15%)
PE	M&A exit values	18.7	**21.1**	8.2	5.3	**15.8**	13%	198%
	Number of M&A exits	207	**192**	103	109	**83**	(7%)	(24%)
	IPO exit values	20.7	**11.8**	11.6	2.9	**8.9**	(43%)	204%
	Number of IPO exits	149	**84**	72	38	**46**	(44%)	21%
	Total number of exits	356	**276**	175	147	**129**	(28%)	(17%)
	Total exit values	39.4	**32.9**	19.7	8.2	**24.7**	(19%)	228%

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source. Performance and cash flow .information is not reported by the source.
Dq /q is the comparison of Q2 2012 vs. Q1 2012; Dh/h is the comparison of the first half of 2012 vs. first half of 2011.
Source: Asian Venture Capital Journal database, as of October 9, 2012.

Environment – Brazil

Brazil's economy is facing domestic and international pressure

Brazil's GDP only increased by 2.8% in 2011 compared with 7.6% in 2010. This subdued growth continued in 2012 as GDP increased by 0.5% in the second quarter. For 2013 the IMF has reduced its GDP growth expectation from 4.6% to 4.1% due to ongoing economic headwinds. Key factors contributing to the current economic slowdown can be attributed to decreased international competitiveness, weak domestic and international demand and the ongoing debt crisis in Europe, Brazil's biggest trading partner. Based on these developments there must be some doubt as to whether the 2013 expected levels will be achieved, however there is some optimism on the market according to industrialists in the region.

The situation with respect to inflation, always a concern for Brazil, improved in Q2 2012. The CPI currently stands at 4.9%, down from 5.2% in Q1 2012. The rate of inflation continues to be higher than the target rate of 4.5%; well below the upper 6.5% target imposed by the Banco Central do Brasil, the Brazilian Central Bank.

After a record fundraising year in 2011 (USD 7.1 billion, largely as a result of a number of very big funds being raised), H1 2012 was weak with only USD 675 million of private equity funds raised, according to statistics from the EMPEA. BTG Pactual was the major contributor with USD 450 million of equity raised in the first half of the year. Brazil, however, is expected to receive further investments from multi-country focused managers such as Victoria Capital Partners who have raised USD 850 million for their Victoria South American Partners Fund II, targeting investments across South America; in Brazil, Colombia, Peru, Chile, and Argentina. Investment volume in H1 2012 is in line with 2011 activity. So far, 29 investments adding up to approximately USD 1.3 billion of deal size have been completed.

The table below details Brazilian macroeconomic and financial data.

	2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
Real GDP in % y/y[1]	7.6	2.8	3.3	0.8	**0.5**	(2.8)	(0.3)
CPI in % y/y[1]	5.0	6.6	6.7	5.2	**4.9**	(1.8)	(0.3)
Interest rate in %[2]	10.75	11.00	12.25	9.75	**8.50**	(3.75)	(1.25)
Unemployment in %[2]	5.7	5.2	6.2	5.7	**5.9**	(0.3)	0.2
Consumer confidence[2]	119.1	113.4	111.8	112.8	**112.6**	0.8	(0.2)
IBOVESPA total return index[3]	1.0%	(18.1%)	(9.0%)	13.7%	**(15.7%)**	n/m	n/m
IPO number	11	11	5	0	**0**	(100%)	n/m
IPO in USD bn	5.9	4.0	1.9	0.0	**0.0**	(100%)	n/m
M&A deal number	493	670	171	155	**193**	13%	25%
M&A in USD bn	150.1	94.5	39.5	16.0	**13.7**	(65%)	(14%)
Country bonds in USD bn[4]	58.7	70.2	28.4	32.7	**17.4**	(39%)	(47%)

1) Annual figures are annual averages.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, September 21, 2012

Environment – Middle East & North Africa (MENA)

Regional and international uncertainty remain a drag on development of the MENA region

The "Arab Spring" continues to be the major driver affecting the region. While the movement represents significant opportunities in terms of societal, political and economic transformation, stabilisation remains a key challenge; and radicalisation remains a major risk. Additionally, the slowing economic growth of emerging economies such as China and India, as well as the ongoing European debt crisis, are a drag on regional development. After the sharp decline in GDP growth from 5.0% in 2010 to 3.5% in 2011, the IMF forecasts a rebound to 5.5% for 2012. Non-oil GDP in particular is expected to contribute significantly to the economic growth of some regional oil exporters.

Inflation is expected to remain an issue across the region. From 2010 to 2011, inflation increased significantly from 6.9% to 9.6%. For 2012, the IMF anticipates that inflation will reach the 10% mark. FDI flows continue to be affected by regional developments and global uncertainty. In 2011, the region witnessed a drop in FDI of nearly 40%. According to the World Bank, a rebound of FDI into MENA is not expected before 2013.

Investment pace in the region rebounded and the volume reached USD 437 million across 17 deals in H1 2012, according to EMPEA data. In comparison, USD 385 million representing 22 deals was invested into MENA in 2011. Fundraising reached USD 96 million in H1 2012. Of note, ATLAMED and Abraaj Capital raised USD 47 million and USD 36 million in H1 2012 respectively.

The table below details MENA macroeconomic and financial data.

		2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
Egypt	Real GDP in % q/q ann[1]	5.2	1.8	8.5	(4.1)	**n/a**	n/m	n/m
	CPI in % y/y[1]	11.7	11.1	11.8	9.0	**7.3**	(4.5)	(1.7)
	Interest rate in %[2]	8.25	9.25	8.25	9.25	**9.25**	1.00	0.00
	Unemployment in %[2]	8.9	12.4	11.8	12.6	**12.6**	0.8	0.0
Israel	Real GDP in % y/y[1]	5.0	4.6	3.7	3.1	**3.4**	(0.3)	0.3
	CPI in % y/y[1]	2.7	3.5	4.2	1.9	**1.0**	(3.2)	(0.9)
	Interest rate in %[2]	2.00	2.75	3.25	2.50	**2.25**	(1.00)	(0.25)
	Unemployment in %[2]	6.4	5.4	5.6	n/a	**n/a**	n/m	n/m
	TA-25 index price[3]	15.8%	(18.2%)	(7.4%)	3.6%	**(6.0%)**	n/m	n/m
Saudi Arabia	Real GDP in % y/y[1]	4.6	6.8	n/a	n/a	**n/a**	n/m	n/m
	CPI in % y/y[1]	5.4	5.0	4.7	5.4	**4.9**	0.2	(0.5)
	Interest rate in %[2]	2.00	2.00	2.00	2.00	**2.00**	0.00	0.00
	Unemployment in %[2]	10.0	n/a	n/a	n/a	**n/a**	n/m	n/m
	SASEIDX index price[3]	8.2%	(3.1%)	0.2%	22.1%	**(14.4%)**	n/m	n/m
All MENA	Real GDP in % y/y[1,5]	5.0	3.5	n/a	n/a	**n/a**	n/m	n/m
	CPI in % y/y[1,5]	6.9	9.6	n/a	n/a	**n/a**	n/m	n/m
	MSCI Arabian ex SA price[3]	18.0%	(22.6%)	(3.1%)	7.3%	**(7.0%)**	n/m	n/m
	IPO number	35	19	6	5	**4**	(33%)	(20%)
	IPO in USD bn	3.2	1.0	0.3	0.1	**0.9**	197%	630%
	M&A deal number	187	180	44	46	**38**	(14%)	(17%)
	M&A in USD bn	23.9	13.1	1.8	8.8	**7.6**	325%	(13%)
	Region bonds in USD bn[4]	53.8	48.4	9.1	19.2	**11.6**	27%	(40%)

1) Annual figures are annual averages and quarterly figures are period-end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
5) Estimates of the International Monetary Fund.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, September21, 2012. The International Monetary Fund World Economic Outlook July 2012 report.

Environment – Sub-Saharan Africa

Macro-economic conditions remain resilient in Sub-Saharan Africa

The performance of Sub-Saharan Africa has continued to be strong throughout the crisis. Overall, regional GDP grew by 5.2% in 2011 and is expected to grow by 5.4% in 2012, according to the IMF July's World Economic Output report. Major drivers of regional growth are natural resource rich countries as well as the low-income countries. Economic expansion in low-income countries continues to be robust and amounts to 5.9%. Middle-income countries, however, show some early signs of economic slowdown with lower growth rates in 2012. GDP growth is estimated at 3.4% compared with the 4.3% achieved in 2011. South Africa, a middle-income country and one of the key economic actors in the region, is anticipated to achieve a GDP growth of only 2.7% in the current year and is demonstrating some less than helpful political rhetoric.

Resilience in terms of the macro-economic environment and sustainable economic growth over a decade support the region's buoyant development. These aspects helped to attract 25% more FDI in 2011 than 2010. Inflation, political instability as well as ongoing climatic changes, however, can pose challenges to the region's long-term economic development.

Across Sub-Saharan Africa, fundraising reached USD 489 million in H1 2012. This is equal to 37% of the sum raised in 2011 for private equity, which was distorted by the ca. USD 1 billion Helios fund raise. 8 Miles and Vantage Capital together raised USD 371 million in H1 2012, with the former contributing USD 200 million. Furthermore, I&P Management raised USD 70 million for the I&P Capital III fund. Investment activity across the region continues to be strong with an investment volume of USD 605 million across 28 deals in H1 2012. This represents approximately 57% of the 2011 investment volume, which was dispersed across 45 deals.

The table below details Sub-Saharan Africa macroeconomic and financial data.

		2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
South Africa	Real GDP in % y/y[1]	3.0	2.9	3.3	2.1	**3.0**	(0.3)	0.9
	CPI in % y/y[1]	3.5	6.1	5.0	6.0	**5.5**	0.5	(0.5)
	Interest rate in %	5.50	5.50	5.50	5.50	**5.50**	0.00	0.00
	Unemployment in %	24.0	23.9	25.7	25.2	**24.9**	(0.8)	(0.3)
	ZADOW (SA) index price[3]	17.6%	0.6%	(2.1%)	5.2%	**(0.1%)**	n/m	n/m
Nigeria	Real GDP in % y/y[1]	7.9	7.5	7.6	6.2	**6.3**	(1.3)	0.1
	CPI in % y/y[1]	13.7	10.8	10.2	12.1	**12.9**	2.7	0.8
	Interest rate in %	6.25	12.00	8.00	12.00	**12.00**	4.00	0.00
	Unemployment in %	n/a	n/a	n/a	n/a	**n/a**	n/m	n/m
Kenya	Real GDP in % y/y[1]	5.8	4.4	3.6	3.3	**n/a**	n/m	n/m
	CPI in % y/y[1]	4.5	18.9	14.5	15.6	**10.0**	(4.4)	(5.6)
	Interest rate in %	6.00	18.00	6.25	18.00	**18.00**	11.75	0.00
All SSA	Real GDP in % y/y[1,5]	5.3	5.2	n/a	n/a	**n/a**	n/m	n/m
	CPI in % y/y[1,5]	7.4	8.2	n/a	n/a	**n/a**	n/m	n/m
	MSCI EFM Africa price[3]	28.7%	(19.0%)	(2.5%)	10.6%	**(5.9%)**	n/m	n/m
	SSAXSA50 index price[3]	5.6%	(21.0%)	(1.5%)	5.0%	**1.7%**	n/m	n/m
	IPO number	12	12	2	1	**2**	0%	100%
	IPO in USD bn	1.7	0.8	0.2	0.0	**0.3**	87%	4908%
	M&A deal number	352	386	78	84	**69**	(12%)	(18%)
	M&A in USD bn	30.6	23.5	5.0	4.0	**3.1**	(38%)	(24%)
	Region bonds in USD bn[4]	21.6	24.3	5.9	8.0	**6.2**	5%	(22%)

1) Annual figures are annual averages and quarterly figures are period-end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
5) Estimates of the International Monetary Fund.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, September 21, 2012. The International Monetary Fund World Economic Outlook July 2012 report.

Environment – Turkey and Russia/CEE/CIS

Turkey has weathered the 2008 - 2009 financial crisis relatively well and is continuing to transition from a fast growing economy with China and India-like growth rates, to an economy with more sustainable economic expansion. For 2012, the IMF predicts an economic growth rate of 2.3% for the country. Turkey has had an average GDP growth rate of nearly 8.9% over the past two years, and a significant current account deficit which was financed with short-term capital. This high growth phase has left Turkey with some vulnerabilities from potential changes in investors' risk appetite. In order to weather this transitory phase and create a sustainable economic enviornment, the IMF has proposed certain structural reforms in the labour market and education system.

The region entered into a phase of moderate growth which is accompanied by some downside risk

Russia managed to ride out the economic crisis between 2008 and 2009. The country entered into a moderate growth phase with expansion rates of 4.3% in 2010 and 2011. For Q2 2012, GDP growth showed a moderate deceleration to 4.0%. According to the IMF, Russia’s GDP growth is expected to be around 4% for the year. Russia’s heavy reliance on the oil and commodity industry however, exposes the country to price volatility. This is particularly marked when one takes into account the likely impact on Gazprom (a significant contributor to state coffers) of shale gas opportunities around the world. CIS economies are expected to grow at a rate of 4.0% in 2012. However, there are downside risks with weak financial sectors and a heavy reliance on external financing, these are still key weaknesses in the region.

Fundraising for Turkey and Russia as well as CEE and CIS countries picked up significantly and reached USD 2.6 billion in H1 2012. This represents a major uptick compared with 2009, 2010 and 2011, when fundraising reached USD 1.6 billion, USD 1.2 billion and 1.8 billion respectively. Of note, in H1 2012 Actera Partners raised USD 962 million for its Fund II. Furthermore, Turkven Private Equity and Enterprise Investors had closings at USD 840 million and USD 327 million respectively. Investment activity in 2012, however, is relatively weak and only reached USD 973 million across 53 deals in the first half of the year. This represents only about 28% of the investment volume seen in the full year 2011. Turkey, in particular, is sitting on a reasonable amount of dry powder relative to its current private equity opportunity.

The table below details macroeconomic and financial data for the major emerging countries of Eastern Europe and the CIS.

		2010	2011	Q211	Q112	Q212	Dy/y	Dq/q
Turkey	Real GDP in % y/y[1]	9.2	8.5	9.1	3.3	**2.9**	(6.2)	(0.4)
	CPI in % y/y[1]	8.6	6.5	6.2	10.4	**8.9**	2.6	(1.6)
	Interest rate in %[2]	6.50	5.75	6.25	5.75	**5.75**	(0.50)	0.00
	Unemployment in %[2]	11.0	9.1	9.2	10.4	**8.0**	(1.2)	(2.4)
	Consumer confidence[2]	91.3	91.0	96.4	93.2	**91.8**	(4.7)	(1.5)
	XU100 index price[3]	24.9%	(22.3%)	(1.8%)	21.8%	**0.2%**	n/m	n/m
	IPO number	22	26	10	3	**9**	(10%)	200%
	IPO in USD bn	1.9	1.2	0.3	0.1	**0.1**	(63%)	103%
	M&A deal number	79	107	30	32	**27**	(10%)	(16%)
	M&A in USD bn	13.1	9.3	2.0	1.2	**5.5**	177%	373%
	Country bonds in USD bn[4]	8.7	20.2	5.1	8.2	**8.4**	65%	2%
Russia	Real GDP in % y/y[1]	4.3	4.3	3.4	4.9	**4.0**	0.6	(0.9)
	CPI in % y/y[1]	6.9	8.5	9.4	3.7	**4.3**	(5.1)	0.6
	Interest rate in %[2]	7.75	8.00	8.25	8.00	**8.00**	(0.25)	0.00
	Unemployment in %[2]	6.7	6.3	6.1	6.5	**5.4**	(0.7)	(1.1)
	RTS index[3]	22.5%	(21.9%)	(6.7%)	18.5%	**(17.5%)**	n/m	n/m
	IPO number	5	4	1	0	**0**	(100%)	n/m
	IPO in USD bn	0.5	0.2	0.0	0.0	**0.0**	(100%)	n/m
	M&A deal number	235	273	61	74	**63**	3%	(15%)
	M&A in USD bn	49.5	47.9	11.7	7.4	**6.4**	(45%)	(12%)
	Country bonds in USD bn[4]	61.6	50.4	20.3	22.9	**13.3**	(34%)	(42%)
Ukraine	Real GDP in % y/y[1]	n/a	n/a	3.9	2.0	**3.0**	(0.9)	1.0
	CPI in % y/y[1]	9.4	8.0	11.9	1.9	**(1.2)**	(13.1)	(3.1)
	Interest rate in %[2]	7.75	7.75	7.75	7.50	**7.50**	(0.25)	0.00
	Unemployment in %[2]	8.4	8.2	7.7	8.4	**n/a**	n/m	n/m
	PFTS index[3]	70.2%	(45.2%)	(18.6%)	(0.5%)	**(31.9%)**	n/m	n/m
	IPO number	0	0	0	0	**0**	n/m	n/m
	IPO in USD bn	0.0	0.0	0.0	0.0	**0.0**	n/m	n/m
	M&A deal number	40	20	3	4	**8**	167%	100%
	M&A in USD bn	0.8	1.3	0.5	0.2	**0.2**	(50%)	15%
	Country bonds in USD bn[4]	5.0	6.8	2.4	0.2	**0.0**	(99%)	(87%)

1) Annual figures are annual averages and quarterly figures are period-end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dy/y is the comparison of Q2 2012 vs. Q2 2011.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
n/a - data not available, n/m - not meaningful.
Source: Bloomberg, September 21, 2012.

The table below details private equity data for Emerging Markets.

all values in USD million		H111	H112	Q211	Q112	Q212	Dh/h	Dq/q
MENA	Funds raised	91	**96**	31	83	**13**	5%	(84%)
	Investments	75	**437**	0	437	0	483%	(100%)
	Number of deals	8	**17**	2	11	**6**	113%	(45%)
SSA	Funds raised	1,056	**489**	900	293	**196**	(54%)	(33%)
	Investments	256	**605**	83	442	**163**	136%	(63%)
	Number of deals	18	**28**	8	15	**13**	56%	(13%)
CEE & CIS	Funds raised	631	**2,592**	580	2,061	**531**	311%	(74%)
	Investments	1,765	**973**	556	110	**863**	(45%)	685%
	Number of deals	60	**53**	36	22	**31**	(12%)	41%
Russia[2]	Funds raised	60	**82**	60	0	**82**	37%	n/m
	Investments	383	**639**	77	50	**589**	67%	1078%
	Number of deals	16	**20**	10	5	**15**	25%	200%
Latin America & Caribbean	Funds raised	4,148	**1,651**	3,751	1,025	**626**	(60%)	(39%)
	Investments	1,253	**1,408**	737	759	**649**	12%	(14%)
	Number of deals	32	**48**	18	27	**21**	50%	(22%)
Brazil[3]	Funds raised	3,000	**675**	2,850	125	**550**	(78%)	340%
	Investments	977	**1,271**	481	682	**589**	30%	(14%)
	Number of deals	15	**29**	8	16	**13**	93%	(19%)
Emerging Asia	Funds raised	16,361	**9,232**	6,904	4,353	**4,879**	(44%)	12%
	Investments	10,785	**6,368**	6,835	3,013	**3,355**	(41%)	11%
	Number of deals	313	**265**	168	123	**142**	(15%)	15%
Multiregion	Funds raised	350	**3,149**	318	0	**3,149**	800%	n/m
Global Emerging Markets	**Funds raised**	22,637	**17,209**	12,484	7,815	**9,394**	(24%)	20%
	Investments	14,134	**9,791**	8,211	4,761	**5,030**	(31%)	6%
	Number of deals	431	**411**	232	198	**213**	(5%)	8%

1) Private equity penetration is a ratio of private equity annual investments to nominal gross domestic product (GDP).
2) Data is also included in CEE & CIS.
3) Data is also included in Latin America & the Caribbean.
Note: Dq/q is the comparison of Q2 2012 vs. Q1 2012. Dh/h is the comparison of H1 2012 vs. H1 2011.
Source: Emerging Markets Private Equity Association, as of August 27, 2012.

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