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Capital Dynamics Private Equity Review & Outlook

Summary FY 2013

Confidential

US buyout

In brief

- Subdued M&A climate and PE firms' focus on refinancing and exits weighed on investment deal flow
- Exits increased as IPOs and dividend recaps rose to historic highs
- Improving private equity liquidity fueled private fundraising

Table: US buyout market data

USD billion	2012	2013	Q412	Q313	Q413	Dy/y	Dq/q
Fundraising	167.7	**196.3**	41.2	50.0	**56.9**	17%	14%
Investments	112.6	**151.8**	51.1	26.1	**59.5**	35%	128%
Exits	164.7	**170.7**	40.6	38.2	**57.6**	4%	51%
Drawdowns	62.1	**51.4**	21.1	12.2	n/a	(17%)	49%
Distributions	101.1	**113.9**	41.7	23.9	n/a	13%	(6%)
Appreciation as % of NAV	11.9%	**13.0%**	3.1%	3.3%	n/a	1%	1%
10 year pooled net IRR	10.0%	**10.6%**	10.5%	10.6%	n/a	1%	(0%)

Source: Thomson ONE, S&P Capital IQ, as of March 10, 2014. Cash flow and performance data for the last 12 months as of September 30, 2013.

Fundraising

- Private equity had the strongest fundraising year since 2008, led by buyout fundraising

Fundraising staged a third consecutive year of robust growth. In 2013, investors committed USD 196 billion to 412 primary private equity funds, the highest-ever number of fund closings during a year. Traditional buyout funds led the growth with USD 101 billion raised (a 27% increase y/y). Real estate-focused funds posted the strongest fundraising year on record, as the US real estate market continued to recover, attracting USD 36 billion. In addition, investors allocated significant amounts to energy and mezzanine funds. In contrast, distressed debt funds were less active in 203 on dwindling opportunities as buoyant credit markets fostered a record level of debt refinancing, pushing down bond and loan default rates.

Investments

- In 2013, buyout deal flow declined 15% year-over-year

The investment environment was mixed during 2013. Deal values were up 35% from the previous year due to the closing of two mega-deals – the buyouts of Dell Inc. and Heinz Co. – worth a combined USD 52.4 billion. In contrast, deal activity slowed, with the number of deals declining 15% from the previous year. The decline in deal activity reflected the subdued M&A climate, a rise in target valuations, and private equity firms' focus on exits and debt refinancing of portfolio companies and dividend recapitalizations. Average buyout acquisition multiples for deals reported by S&P Capital IQ remained relatively stable at an 8.4 multiple of EBITDA as more deals were concluded in low multiple industries such as Food & Beverage and Services & Leasing.

Exits

- Run-up in public equity markets spurred IPO exits

Exit activity remained strong in 2013. However, progress varied across channels. GPs favored IPOs and follow-on sales of previously floated companies as well as dividend recaps due to higher valuations and upside potential. Last year saw a record 70 IPOs of US buyout-backed companies. USD 32 billion was raised in initial proceeds, including the largest-ever US buyout-backed IPO of Hilton Worldwide. Credit markets continued providing liquidity for buyout fund investors, indicated by yet another record-breaking year boasting USD 50 billion in dividend recaps. Slow M&A activity weighed on trade and secondary exit volume, although large exits such as the sale of Bausch & Lomb and Neiman Marcus elevated exit deal values.

Outlook

- Market conditions continue to favor exits, with IPOs on track to surpass 2013

Our outlook remains positive for US buyouts as favorable market conditions and economic recovery continue supporting exits and operating performance of portfolio companies. GPs are expected to continue enhancing portfolios through add-on acquisitions and/or the optimization of capital structures. Demand for new LBO deals is expected to be balanced by the dry powder of recently raised funds and expectations for a shift in US monetary policy on the one hand and cautious buyout managers maintaining pricing discipline on the other.

US venture

In brief

- VC invested capital held steady in 2013. Investments shifted from IT to Business Services
- Venture firms increasingly achieved liquidity through IPOs; M&A exits picked up in H2
- Fundraising declined due to a lack of large funds

Table: US venture capital market data

USD billion	2012	2013	Q412	Q313	Q413	Dy/y	Dq/q
Fundraising	19.7	**16.9**	3.1	4.4	**4.9**	(14%)	13%
Investments	32.8	**33.1**	8.3	8.7	**8.9**	1%	2%
Exits	57.1	**46.8**	11.3	12.7	**16.0**	(18%)	27%
Drawdowns	4.7	**3.5**	1.0	0.7	n/a	(26%)	(27%)
Distributions	10.2	**7.6**	3.2	1.5	n/a	(25%)	35%
Appreciation as % of NAV	3.7%	**4.3%**	0.1%	1.3%	n/a	1%	(0%)
10 year pooled net IRR	5.0%	**6.2%**	5.7%	6.2%	n/a	1%	0%

Source: Thomson ONE, Dow Jones VentureSource, as of March 10, 2014. Cash flow and performance data for the last 12 months as of September 30, 2013.

Fundraising

- Small VC funds continued to fundraise steadily, while top-line figures reflect the lack of large funds

US VC firms raised USD 16.9 billion in 2013, 14% less than 2012. The drop in fundraising was attributable to the smaller average target size of funds seeking commitments during 2013, rather than a decline in enthusiasm among LPs. Greylock XIV was the only venture capital fund to close with commitments of at least USD 1 billion in 2013, compared to 2012 when three such funds collectively raised USD 5.1 billion. During the first quarter of 2014, several firms raised billion dollar funds, and this is expected to drive a sharp increase in overall fundraising for 2014. Funds raised by newer firms, most of which are smaller in size than funds raised by established firms, have formed a steady share of about 30% of all of funds closed in the past few years.

Investments

- IT deals declined; Business and Financial Services deals gained favor

VC firms made 5% fewer investments in 2013 than in 2012, although the capital invested remained stable. IT investments declined 15% year-over-year as many VC firms shifted their attention more heavily towards business services companies. Such allocations have risen from 10% in 2003 to 23% in 2013. VCs focused primarily on companies that are already profitable or generating revenue. In 2013, 75% of all venture financings involved such companies, up from 69% in 2012 and 59% in 2007. Due to the declining costs involved in building initial versions of many technology products, startups can begin to generate revenue despite modest prior investments and these companies are attracting the majority of investments from VCs.

Exits

- Venture IPOs reached dotcom-era levels while M&A exits slowed

IPOs for venture-backed companies accelerated in 2013, which saw a number of prominent public debuts, including Twitter. In total, there were 74 IPOs of venture-backed companies, 24 more than 2012 and the most since 2000. Biotech companies led the charge with 37 offerings and investor appetite for biotech stocks pushed the NASDAQ Biotechnology index price to historic highs. Investors in VC funds saw increased liquidity due to the post-IPO realizations of public holdings. Despite a pick-up in the second half of 2013, M&A exits trailed the prior year's benchmark. The number of M&A exits declined 11% to 436 and values dropped 16% to USD 38.6 billion, as the healthy IPO window encouraged more fast-growing companies to seek public listings.

Outlook

- VC firms continue seeking liquidity in public equity markets. Biotech offerings could become volatile

The IPO market has continued to strengthen in the first quarter of 2014 and is on track for another record-breaking year. However, there are signs of market overheating with respect to biotech offerings. The NASDAQ Biotechnology index price has almost doubled since the beginning of 2013 to a recent peak. Nevertheless, we are optimistic for the overall venture capital market as significant numbers of venture-backed companies are profitable and growing quickly, auguring continued solid performance for the asset class.

European buyout

In brief

- Mid-market buyout investments were up while overall buyout volume remained steady
- Favorable market conditions led to robust exit activity in 2013
- Distributions surged and outpaced drawdowns in the second half of the year
- Strongest fundraising environment in five years, though the market remains competitive

Table: European buyout market data

EUR billion	2012	2013	Q412	Q313	Q413	Dy/y	Dq/q
Fundraising	28.5	**51.8**	6.5	15.2	**8.7**	82%	(43%)
Investments	72.6	**74.9**	25.0	15.7	**22.5**	3%	43%
Exits	75.9	**81.4**	22.6	15.3	**22.3**	7%	46%

Source: Thomson ONE, unquote'' data, as of March 10, 2014.

Fundraising

- Fundraising volume expanded 82% and the number of funds closed rose 33% year-over-year

In 2013, European private equity experienced its strongest fundraising year since 2008. The number of funds raised increased by a third from the previous year, indicating a broad recovery. Commitment amounts surged to EUR 51.8 billion on the strength of both mid-market and large buyouts. Mid-market managers held interim and final closings on 49 funds with total commitments of EUR 19.5 billion. Five large buyout funds alone raised EUR 17.5 billion, including CVC Capital Partners' European buyout fund with EUR 10.9 billion. Among sub-strategies, generalist funds received more investor support during 2013 while distressed fundraising was almost absent, in stark contrast with 2012.

Investments

- Mid-market buyout deal values increased 20% while overall activity stabilized at the four-year average

The buyout market was very active toward year-end as European economies started to emerge from recession. This led to EUR 75 billion in total deal value in 2013, in line with the annual average over the past four years. Mid-market buyout was once again a driving force, with the volume of deals increasing 7% to 302 deals and overall deal value increasing 20% to EUR 37.3 billion. Deal value in the large-cap segment also rose as credit became more available with debt/EBITDA multiples rising moderately. In further positive news, average buyout prices declined to a 7.9 multiple of EBITDA in 2013 from 8.9x in 2012, according to S&P Capital IQ. Deal sourcing from private companies and corporates, however, remained muted while secondary buyouts represented 39% of all deals – the highest share ever seen in buyout deal flow.

Exits

- Buyout acquisitions and public markets spurred exits

Exit activity increased in the final quarter of 2013. For the year as a whole, exits advanced solidly, as we expected a year ago, supported by secondary buyout exits and stronger public equity markets. Both exit channels saw an increase in volume in 2013. Notably, there were 28 IPOs in 2013, compared with just four in 2012, while secondary exits rose 20% to 148 deals. Despite the slowdown, trade sale exits continued to be important with 202 exits last year. The number of exits surpassed the number of new investments for the first time on record as more deals from the 2006-2008 investment period were realized in 2013. As a result, clients with diversified portfolios saw distributions outpacing drawdowns in 2013. Across our clients' portfolios, distribution volume was two and half times higher in the second half of 2013 than it was in the first half.

Outlook

- Strengthening economies and capital markets should drive a recovery in buyout deal making

We have a positive outlook for the European buyout market and expect continued growth in buyout deal activity in the coming quarters. A combination of dry powder in buyout funds, greater earnings visibility in target companies and economic improvements is likely to have a positive impact on deal flow. Mid-market buyouts will remain a key segment of the market. Exits should continue to increase as the pipeline of mature portfolio holdings is strong, public markets remain robust, and M&A activity strengthens. We continue to see attractive fund investment opportunities in the highly competitive European mid-market buyout segment.

European venture

In brief

- European venture capital investments experienced a solid recovery
- Exit deal values were the highest since 2000, driven by large trade sale exits
- Fundraising hit a low, though established managers continued receiving investor support

Table: European buyout market data

EUR billion	2012	2013	Q412	Q313	Q413	Dy/y	Dq/q
Fundraising	3.8	**3.1**	0.80	0.69	**1.06**	(18%)	55%
Investments	4.8	**5.6**	1.19	1.26	**1.48**	15%	18%
Exits	4.7	**10.9**	1.36	2.91	**3.98**	131%	37%

Source: Thomson ONE, Dow Jones VentureSource, as of March 10, 2014.

Fundraising

- Fundraising was the slowest since 2003

In 2013, venture funds raised nearly 20% less than in the prior year. However, the year closed on a positive note, with venture funds raising EUR 1.1 billion in the fourth quarter, the strongest showing of the last five quarters. Abingworth Management raised the largest fund of the fourth quarter, closing its Bioventures VI Fund at EUR 267 million. Fundraising remained difficult for first-time funds: the ratio of follow-on to first-time funds was four to one compared with two to one in the US. Established managers such as Accel Partners had less difficulty attracting capital, illustrated by the final close of its oversubscribed London IV Fund at EUR 368 million.

Investments

- Consumer services and healthcare deals led the turnaround in investments

Venture investments in European companies rose solidly in 2013. Invested capital increased 15% to EUR 5.6 billion and deal flow strengthened 6% from the previous year, featuring 1,395 deals. Healthcare industry deals contributed the most to the turnaround, with invested capital rising 23% to EUR 1.4 billion. The Consumer Services industry continued to dominate venture deal flow and capital allocation throughout the year, accounting for 28% of all deals and overall invested capital. Across various stages, European companies at later stages of development historically received less venture support compared with their US counterparts. In 2013, this distinction changed. Invested capital levels expanded the most in late-stage deals (+25% y-o-y), reaching 48% of all invested capital, the highest during the last decade.

Exits

- Large trade sale exits boosted overall exit totals. IPOs were rare, but more prominent in Q4

European venture saw numerous large trade sale exits, mainly due to cross-border M&A. Despite a decline in the number of exits, M&A exit deal values more than doubled from the previous year to EUR 10.9 billion across 157 exited deals. The fourth quarter in particular featured a number of high-profile exits such as that by a consortium of investors, including Accel Partners and Index Ventures, that sold Finnish gaming company Supercell Oy to Softbank Corp for EUR 1.1 billion. In southern Europe, Japanese NTT Data Corp. paid EUR 559 million for Everis Spain SLU, a Spanish provider of professional services. IPO markets continued to play a minor role in the European VC exit scene. There were 15 IPOs in 2013. However, there was an uptick in offerings during the fourth quarter, which saw eight IPOs. A potential IPO of Swedish online music streaming service Spotify, valued at about EUR 3 billion during the last financing round according to Dow Jones VentureSource data, could provide a further boost for European venture.

Outlook

- Continued macroeconomic improvements are expected to support the VC market

We expect further improvement in European VC deal developments, which could prompt fundraising to follow the trend. The macroeconomic environment, featuring both the Eurozone and the European Union's recent returns to growth, should support the progression of European venture in upcoming quarters.

Asia-Pacific private equity

In brief

- Buyout fundraising and deal flow was the strongest since 2009
- Growth capital fundraising declined, though investments are on a path to recovery
- Regulatory change sparked IPO activity of PE-backed companies in China

Table: Asia-Pacific private equity market data

USD billion	2012	2013	Q412	Q313	Q413	Dy/y	Dq/q
Buyout fundraising	14.1	**14.8**	4.1	6.0	**5.2**	6%	(13%)
Growth fundraising	34.7	**27.6**	6.6	5.6	**2.3**	(21%)	(59%)
Buyout investments	29.9	**27.5**	6.7	7.6	**4.9**	(8%)	(35%)
Growth investments	36.9	**35.4**	6.0	6.6	**11.3**	(4%)	70%
M&A exit values	43.7	**38.2**	12.3	8.5	**6.8**	(13%)	(20%)
IPO exit values	34.7	**17.7**	7.7	3.5	**9.9**	(49%)	187%

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 March 10, 2014.

Fundraising

- Fundraising was dominated by over-subscribed funds

The fundraising story diverged across stages in 2013. Buyout fundraising continued improving, with both the number of closes and amount raised at their strongest since 2008. Sought-after managers were able to raise oversubscribed funds. In particular, KKR closed its second fund at USD 6 billion – the largest ever Asia-focused fund – and CVC Capital Partners held a first close of USD 2 billion during the fourth quarter (with a final target of USD 3.3 billion). Growth fundraising faded further on the lack of local Chinese RMB fundraising. However, managers with established track records such as CDH China exceeded their targets, raising USD 1.55 billion in 2013 and another USD 1 billion so far this year.

Investments

- Buyout deal flow improved, while the shift in focus toward smaller deals weighed on deal values

Growth investment values declined only slightly during the year, following a rebound in the final quarter of 2013. Two billion-dollar deals, including the USD 1.5 billion acquisition of Shanghai Greenland Group by CDH China Investments, were recorded in the fourth quarter. Buyout deal values decreased slightly from 2012 due to fewer large-cap deals in 2013. Deal flow, however, strengthened for the second consecutive year. Buyout firms were their busiest since 2008 with 213 deals closed, up 9% over the previous year. Greater China dominated overall investments despite a 21% decline y/y in deal value, attracting USD 20.8 billion in capital. South East Asia registered the highest growth in deal value (+48%), followed by South Korea (+18%).

Exits

- M&A exits continued to expand in 2013, while IPOs tumbled

As Asia private equity matures, exits are gaining pace. Private equity exits through M&A were the highest on record with 477 deals, although the lack of large exits weighed on exit deal values. The biggest deal of the year was the USD 1.85 billion sale of 91 Wireless Websoft Limited by DT Capital China Growth Fund and IDG-Accel China Growth Fund to Baidu.com. Due to the drought of Chinese IPOs, annual IPO proceeds halved. IPOs reemerged in the final quarter of 2013, however, as Chinese companies listed outside of mainland China – primarily on the Hong Kong Stock Exchange. The fourth quarter recorded 70 offerings of PE-backed companies across the Asia-Pacific region, the most since the fourth quarter of 2011.

Outlook

- IPO recovery in China is expected to aid regional private equity

As expected, IPO reform by the Chinese securities regulator is providing a major boost for private equity throughout Asia-Pacific. Since the beginning of this year to date, 40 Chinese PE-backed companies have been listed, primarily on mainland China exchanges, five more than in all of 2013. Fundraising is also showing signs of advancement in 2014, with more funds reporting oversubscription. We expect private equity investments to perform well despite the current challenging macroeconomic environment.

Emerging Markets (Ex. Emerging Asia)

In brief

- In 2013, private equity investments in Emerging Markets declined by nearly a quarter from 2012.Investment deal values declined across all sub-regions except Sub-Saharan Africa
- Fundraising almost halved as uncertainties stemming from difficult macroeconomic and political environments weighed on investor sentiment

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

USD million		2012	2013	Q412	Q313	Q413	Dy/y	Dq/q
MENA	Fundraising	548	**568**	1	195	**154**	4%	(21%)
	Investments	1,593	**209**	1,068	2	**39**	(87%)	2212%
	Number of deals	48	**38**	17	8	**13**	(21%)	63%
SSA	Fundraising	1,448	**922**	800	679	**143**	(36%)	(79%)
	Investments	1,125	**1,610**	427	403	**357**	43%	(12%)
	Number of deals	77	**74**	34	17	**21**	(4%)	24%
CEE & CIS	Fundraising	5,224	**1,382**	1,069	433	**396**	(74%)	(8%)
	Investments	2,290	**1,955**	677	449	**1,288**	(15%)	187%
	Number of deals	132	**97**	53	20	**42**	(27%)	110%
Russia	Fundraising	357	**601**	275	275	**200**	68%	(27%)
	Investments	1,291	**296**	287	67	**165**	(77%)	147%
	Number of deals	49	**33**	20	4	**15**	(33%)	275%
Latin America & Caribbean	Fundraising	4,211	**3,212**	1,265	257	**464**	(24%)	80%
	Investments	5,486	**4,288**	1,773	2,051	**1,019**	(22%)	(50%)
	Number of deals	144	**101**	60	28	**25**	(30%)	(11%)
Brazil	Fundraising	2,617	**1,024**	888	79	**187**	(61%)	135%
	Investments	4,589	**2,784**	1,148	1,922	**173**	(39%)	(91%)
	Number of deals	80	**55**	31	16	**9**	(31%)	(44%)
Emerging Markets (Ex. Em. Asia)	**Fundraising**	11,431	**6,084**	3,135	1,564	**1,157**	(47%)	(26%)
	Investments	10,494	**8,062**	3,945	2,905	**2,703**	(23%)	(7%)
	Number of deals	401	**310**	164	73	**101**	(23%)	38%

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 March 10, 2014. Dq/q is the comparison of Q4 2013 vs. Q3 2013. Dy/y is the comparison of the full-year 2013 vs. the full-year 2012.

Brazil

- Private equity activities slowed in 2013 but stabilization and improvement is underway

Currency woes related to the tapering of the US Federal Reserve's QE program affected investor sentiment. As a result, the pace of fundraising slowed markedly in 2013. BTG Pactual raised USD 630 million during 2013 and held a final close for its Brazil Infrastructure Fund II at USD 1.38 billion. Infrastructure funds were in demand during 2013, with three out of six funds raised targeting infrastructure investments as the country prepares to host the Summer Olympic Games in 2016.

Unsurprisingly, investments in infrastructure expanded during 2013. Two infrastructure deals were the primary contributors to USD 2.78 billion in invested capital. BTG Pactual acquired Brasil Telecom Cabos Submarinos, Ltda., a fiber optic submarine cable company, for USD 768 million, and EIG Global Energy Partners invested USD 461 million to become a controlling shareholder in LLX Logistica SA, a provider of logistics and infrastructure services for port terminals. Excluding large infrastructure deals, 2013 saw the lowest investment deal value since 2009, reflecting current uncertainties about the economy.

We remain optimistic about Brazil as private equity firms continue to find attractive opportunities in spite of the challenging current environment. Recently, Bain Capital agreed to acquire Grupo Notre Dame Intermedica, a provider of health and dental plans to more than 7,000 companies and over three million people in Brazil. Furthermore, Microsoft has teamed up with Qualcomm and Portugal's Espírito Santo Investment Bank to launch a venture capital fund for financing technology start-ups in Brazil, while Advent International is expected to launch its six private equity fund focusing on investments in Brazil and other countries in South America.

Middle East North Africa (MENA)

- Private equity suffered from the political turbulence that affected investor sentiment and economic development

Despite signs of stabilization, private equity has gained limited traction in the MENA region. Ongoing uncertainty stemming from the Arab Spring continued to weigh on sentiment in the private equity community. Fundraising ticked up marginally in 2013, with USD 568 million raised, compared to USD 548 million raised in 2012.

Investment activity remained muted. USD 209 million was invested in 2013, compared to USD 1.6 billion in 2012. Today, more deals are transacted in the relatively stable Gulf Cooperation Council (GCC) countries, of which the United Arab Emirates has emerged as a favored spot for investment. However, in 2013, most equity was directed toward Egypt. The crisis-shaken country attracted USD 112 million; Actis, with its USD 102 million investment in Edita Food Industries, was the primary contributor.

Sub-Saharan Africa (SSA)

- SSA continued as a “two-speed” region with respect to economic development and private equity

The two-speed theme continued with middle-income economies such as South Africa offering relative stability, and low-income yet resource-rich economies outpacing their middle-income peers in terms of economic growth. Overall fundraising in SSA in 2013 was relatively weak, with USD 922 million raised – a 36% decrease compared to 2012.

Despite a decrease in fundraising, investment activity was brisk in 2013 and reached a five-year high. USD 1.61billion was invested in 2013, versus USD 1.13 billion in 2012. South Africa retained the lead in deal making, though other SSA regions also attracted substantial capital, such as the USD 600 million acquisition of Kenyan Oil & Gas company Delonex by Warburg Pincus. Other investments were in industries in which growth is driven by increasing population and consumption, such as food & beverage, retail and telecommunications.

Turkey and Russia/CEE/CIS

- Fundraising was weak compared to 2012, which featured several sizeable final closes

Both fundraising and investment activity were hampered by macroeconomic and political factors, such as slow GDP growth in Russia and political unrest in Ukraine and Turkey. A total of USD 1.38 billion was raised in CEE/CIS and Russia in 2013, compared to USD 5.22 billion in 2012.

Investments followed a similar pattern. A total of USD 1.96 billion was invested in 2013, versus USD 2.29 billion in 2012. Large transactions were notably absent. More than half of the investments made in the region were in Poland and Russia. Despite relatively unremarkable fundraising and investment developments, exits have been the bright side of the story, with Montagu Private Equity, Innova Capital and Value4Capital’s secondary exit of Polish telecom company Emitel, Mid Europa Partners’ exit of Serbian telecom company SBB/Telemach Group and Baring Vostok’s sale of Russian internet company Yandex to name a few.

Private equity secondary

- Secondary market deal activity was record-breaking in 2013

After a slow start, secondary market volume increased significantly in the second half of 2013, driving annual deal values to a record high of USD 27.5 billion, according to the Cogent Secondary Market Trends & Outlook report. While traditional sales of portfolio interests accounted for the majority of the volume, there was a significant rise in demand for non-traditional deals, including General Partner (GP) fund restructurings and spinouts. Seller diversity expanded further, with investors of all types looking to reduce their non-core holdings and a return of financial institutions and public pensions to the market.

- Pricing remained attractive, despite an increase in 2013

Pricing rose in 2013, driven by record fundraising, higher distribution activity and strong public market performance. During the fourth quarter, the S&P 500 Total Return and the MSCI World Total Return indices were up 10.5% and 8.1%, respectively. GP fund valuation increases were significant, but continued to trail the rise in public markets, which reached record levels by the end of 2013. S&P 500 Total Return and MSCI World Total Return indices gained 32.3% and 22.5% during 2013, respectively. Average bids for all private equity funds increased to 89% in the second half 2013, led by buyout fund pricing. Bids for buyout fund interests advanced to 92% in the second half, up from 89% in the first half. Pricing for venture funds rose to 80% in the second half 2013, up from 77% in the first half 2013, driven by increased liquidity in venture funds due to the strong IPO market. To put the second-half rise in pricing into context: compared with the pricing in the second half of 2010, it was two percentage points higher for buyouts and five percentage points higher for overall private equity.

- Deal flow is expected to increase further

We expect to see heightened deal flow in 2014 at all ends of the market. We anticipate financial institutions will resume portfolio sales, due to clarity brought by the finalization of the Volker Rule that occurred in December 2013 (the “Final Rule”). Further non-traditional sales will comprise a greater share of the overall market. While competition from large secondary funds is expected to cause upward pressure on prices at the larger end of the market, we see continued opportunities at the lower end. We remain confident that investing in smaller deals, with a focus on quality assets – especially in non-traditional transactions with more complex structures – will generate attractive returns.

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