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Capital Dynamics Private Equity Review & Outlook

Summary Q1 2015

Highlights:

- Global private equity fundraising advanced to its strongest level since 2008, driven by a surge of investor commitments to US private equity funds[1].
- Exits markets remained robust, albeit volume trailed the record pace of 2014. Europe was a bright spot as private equity firms capitalized on an upswing in public equity valuations[2].
- Large buyouts and investments by non-traditional investors in venture-backed companies lifted private equity investment volume[3].
- Buyout acquisition prices continued to climb in competitive M&A and low interest environments[4].
- In the current investment environment, focus on managers with distinctive sourcing ability, operational value creation skills and deals with substantial growth opportunities are of paramount importance for investors.

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

US buyout

In brief

- US private equity continued with strong exits after the record distribution years of 2013 and 2014. Investment activity at the larger end of the market appeared stronger, evidenced by the emergence of mega deals. However, the overall market got off to a slow start as a high valuation environment weighed on deal flow.

Table: US buyout market data

USD billion	2013	2014	Q114	Q414	Q115	Dy/y	Dq/q
Fundraising	205.8	218.5	41.8	60.3	**53.0**	27%	(12%)
Investments	159.7	142.9	19.9	46.4	**57.5**	189%	24%
Exits	172.0	214.2	50.9	41.7	**30.5**	(40%)	(27%)

Notes: Dq/q is the comparison of Q1 2015 vs. Q4 2014. Dy/y is the comparison of Q1 2015 vs. Q1 2014.
Source: Thomson ONE, S&P Capital IQ, as of May 19, 2015.

Fundraising

- Fundraising remained robust

Strong fundraising momentum continued for US funds, with LPs reinvesting their record distributions. During the first quarter of 2015, commitments to US private equity funds surged 27% to USD 53 billion from a year ago. After flat fundraising in 2014, commitments to buyout strategies grew at the highest rate across all strategies during the first quarter. Traditional buyout funds raised USD 26 billion or 47% more capital than a year ago. TPG Partners had the largest closing during the first quarter, attracting USD 6.5 billion to its first close for Fund VII. Interest remained strong in energy funds with investors backing them to find opportunities in a sector currently experiencing major dislocation.

Investments

- Mega deals drove volume, fewer LBOs

US buyout deal activity continued to increase, driven by the emergence of mega deals and add-on acquisition activity. Invested capital volume almost tripled to USD 58 billion year-over-year as the quarter saw four deals each exceeding USD 5 billion - PetSmart, Safeway, IndCor Properties and Kraft Foods - the highest number of such deals since the fourth quarter of 2007. However, new platform buyout deal making was slow, with deal flow dominated by add-on acquisitions. High valuations appeared to weigh on buyout deal flow. According to S&P Capital IQ, buyout acquisition prices climbed in the first quarter to 9.6x EBITDA, up 0.2x from the 2014 average, while sponsors had to put more equity into deals, with the debt to EBITDA ratio declining to 5.4x.

Exits

- Trade buyers bolstered exits

Exit markets remained robust, albeit volume trailed the record pace of 2014. Vibrant M&A activity among strategic buyers raised trade exit volume by 10% year-over-year to USD 19.5 billion. Vestar Partners, KKR and Centerview Partners sold pet food producer Big Heart to J.M. Smucker for USD 5.8 billion in the largest exit of the first quarter. In contrast, the US market had a quieter opening for dividend recaps and IPOs. Dividend recap proceeds inched up to USD 6.8 billion from the soft fourth quarter of 2014. However, it paled in comparison to the same quarter of 2014, which recorded USD 16 billion in recap volume. The first quarter saw ten PE-backed IPOs, eight less than a year ago, with an aggregate total of USD 1.8 billion in IPO size versus USD 8.2 billion a year ago. While IPOs took a breather, GPs maintained the distribution pace to investors by disposing of shares of previously floated companies.

Outlook

- Market conditions remain supportive for PE

Our outlook for US private equity remains positive as M&A activity continues to be robust and IPOs are regaining pace. In the current investment environment, focus on managers with distinctive sourcing ability, operational value creation skills and deals with substantial growth opportunities are of paramount importance for investors. We are overweight in industry specific managers that have demonstrated strong portfolio company growth in a low growth environment, which warrant the high prices in the current market.

US venture capital

In brief

- Venture-backed companies continued to raise significant amounts of capital from non-traditional investors at lofty valuations. As a result, investment volume is on pace to exceed its 2014 level. The first quarter was quieter for exits as both M&A deals and IPOs slowed down, though activity subsequently rebounded.

Table: US venture capital market data

USD billion	2013	2014	Q114	Q414	Q115	Dy/y	Dq/q
Fundraising	17.7	30.2	10.0	5.8	**7.3**	(27%)	26%
Investments	35.4	53.8	12.1	15.6	**15.7**	30%	1%
Exits	52.3	95.0	21.1	36.4	**12.2**	(42%)	(67%)

Notes: Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013.
Source: Dow Jones VentureSource, as of May 29, 2015.

Fundraising

- Smaller funds dominated fundraising

Venture fundraising remained robust. Although, the first quarter was not as remarkable as last year, volume exceeded the levels seen in the second half of 2014. Venture funds raised USD 7.3 billion or 27% more capital compared to the traditionally busy fourth quarter. First quarter fundraising was split more evenly among managers, with only one fund exceeding the billion dollar mark compared with four at the start of last year. Bessemer Ventures closed its early-stage focused Fund IX at USD 1.6 billion.

Investments

- Non-traditional investors continued to drive volume and valuations

Strong momentum in VC investing continued into 2015. Invested capital in US companies increased by almost a third year-over-year to USD 15.7 billion. Non-traditional investors (mutual funds, hedge funds) continued to put sizable amounts into companies, mostly at the late stage of development. The first quarter saw a continuation of this trend as 80% of invested capital was allocated to companies either generating revenue or profitable. Late-stage deals continued to break valuation records, with first quarter pre-money valuations skyrocketing to their highest-ever level at USD 437 million, up from USD 220 million during the final quarter of last year. 16 US venture-backed companies that received venture financing during the first quarter were valued post-financing at least at USD 1 billion. In the largest deal of the first quarter, Google and Fidelity Investments invested USD 1 billion in a space-transportation company, SpaceX, valued at USD 12.5 billion, according to Dow Jones VentureSource data.

Exits

- Both IPO and M&A exits declined

After a dramatic upturn last year, exits slowed during the first quarter. In line with overall IPO market activity, fewer VC-backed companies ventured into public markets, with the first quarter recording twelve debuts compared to 38 at the start of last year. Accordingly, initial IPO proceeds declined 69% to USD 900 million. Only one offering exceeded USD 1 billion in market valuation, with cloud storage company Box raising USD 175 million at a USD 1.7 billion market capitalization. Likewise, M&A exits trailed the prior year's pace, with the number of exits declining 12% to 122 deals and exit values dropping 32% to USD 11 billion. Small companies dominated the exit landscape, with only one exit surpassing the billion dollar mark, compared with four during the same period last year. Bristol-Myers Squibb Company acquired Flexus Biosciences Inc., backed by Kleiner Perkins Caufield & Byers, for USD 1.25 billion.

Outlook

- VC liquidity is expected to remain strong

Improved IPO activity after the first quarter and a strong pipeline indicate that venture liquidity continues to be strong. Moreover, many companies have no imminent IPO plans as VC-backed companies continue to attract capital for expansion plans from non-traditional investors. Cash-rich corporations are expected to remain active acquirers as they increasingly invest in innovation.

European buyout

In brief

- European buyouts continued to advance as improving economies and capital markets supported deal activity. Buyout investments saw their best start since 2008, driven by continued growth in the middle market in the UK and Southern Europe as well as an upturn in Germany. Exit volume surged, driven by large IPOs as private equity firms capitalized on an upswing in public equity valuations.

Table: European buyout market data

EUR billion	2013	2014	Q114	Q414	Q115	Dy/y	Dq/q
Fundraising	56.7	56.1	15.3	12.0	**12.0**	(22%)	0%
Investments	79.2	81.1	15.5	22.9	**17.4**	12%	(24%)
Exits	87.3	110.5	29.5	17.6	**34.9**	19%	98%

Notes: Dq/q is the comparison of Q1 2015 vs. Q4 2014. Dy/y is the comparison of Q1 2015 vs. Q1 2014.
Source: Thomson ONE, unquote data, as of May 19, 2015.

Fundraising

- A lack of large funds weighed on volume

European fundraising had a slower start than the previous year, although it maintained the pace of the preceding quarter. During the first quarter, commitments declined 22% to EUR 12 billion across 26 funds (compared to 29 last year) from a year ago due to a lack of large fund closings. Only two managers held multi-billion Euro fund closings; Bridgepoint Capital closed its fifth European buyout fund at EUR 4 billion, while PAI Europe VI raised EUR 1.9 billion during the first quarter and held a final close at EUR 3.3 billion. These were the first vehicles raised by both managers since the buyout crisis in 2008. Both managers exceeded their targets, although the fund sizes were scaled down from predecessor funds.

Investments

- Buyouts continued to strengthen

Buyout deal activity continued to increase during the first quarter. With the highest first quarter volume since 2008, buyout funds invested EUR 17.4 billion, 12% more than a year ago. Growth was more pronounced in the middle market where the volume of transactions worth between EUR 25 and 500 million increased 23% to EUR 10 billion. UK-based companies attracted EUR 4.7 billion or 58% more capital than a year ago. Following a subdued second half in 2014, activity rebounded strongly in Germany, with deal flow doubling to 19 deals worth EUR 3.1 billion. North American buyout funds were active acquirers in the European market, supported by an improving regional economic outlook and favorable exchange rates. The largest deals in the UK and Germany were both concluded by US sponsors: KKR agreed to acquire UK train ticketing website Trainline for EUR 641 million, while Centerbridge Partners has acquired German wind turbine maker Senvion for EUR 1 billion.

Exits

- Buoyant IPO activity lifted exit volume

The European exit market maintained growth momentum with a total of EUR 31.7 billion of exits completed during the first quarter of 2015. In particular, PE firms took opportunities to exit holdings through flotations as public valuations rose to new heights. Valuations of STOXX Europe 600 index companies increased from an average 8.9 multiple of EBITDA during 2014 to 10.1 during the first quarter of 2015. The first quarter saw 12 public offerings with a total market value of EUR 12.7 billion. Apax Partners listed Auto Trader, commanding a market capitalization of EUR 3.2 billion in the largest exit deal of the first quarter. Although secondary exits were the most prevalent at 46 exits, EUR 9.6 billion in trade sale exit value was double the secondary transaction exit value due to a number of large exits as well-funded corporations continued to be active buyers.

Outlook

- Improving macro conditions aid PE

Developments so far this year reaffirmed our expectation of continued improvement in private equity markets, absent adverse market conditions due to the situation in Greece. Recent business surveys indicate improving confidence, while the Eurozone is expected to continue to show modest growth as businesses and consumers benefit from low oil prices, low interest rates and a weaker Euro.

European venture capital

In brief

- Investment volume in venture-backed European companies continued to expand further, powered by consumer internet deals. A friendly IPO and M&A environment resulted in an elevated level of exit activity driven by large M&A exits in the biotech sector.

Table: European venture capital market data

EUR billion	2013	2014	Q114	Q414	Q115	Dy/y	Dq/q
Fundraising	3.13	3.00	0.71	0.54	**0.90**	27%	65%
Investments	6.29	8.08	1.61	1.86	**2.62**	63%	41%
Exits	11.68	12.39	2.34	4.69	**3.99**	70%	(15%)

Notes: Dq/q is the comparison of Q4 2014 vs. Q3 2014. Dy/y is the comparison of 2014 vs. 2013.
Source: Dow Jones VentureSource, as of May 29, 2015.

Fundraising

- Commitment volume increased; more funds are in fundraising

European VC funds raised EUR 896 million across 12 funds during the first quarter. The 27% increase in volume year-over-year was attributable to two managers raising significant amounts of capital. HV Holtzbrinck Ventures raised EUR 285 million for its early-stage venture Fund VI, while Partech Partners held a first closing on its late-stage focused Growth Fund at EUR 200 million. Data on funds in the market indicates that investors considering European venture funds have plentiful opportunities with about 165 venture funds targeting EUR 6 billion, twice as much capital as was raised in the past year.

Investments

- VC investments increased, driven by late stage deals in the consumer internet sector

During the first quarter, invested capital in European start-ups surged 63% year-over-year to EUR 2.6 billion, the highest level since Q3 2001. Similar to the US, investors are increasingly allocating more capital towards companies at a later stage of development, while providing financing to fewer companies. Consumer internet companies received half of the overall quarterly volume, replacing B2B companies as the top target sector as investors injected significant amounts to support scaling up of e-businesses. Furthermore, an increasingly supportive exit environment for VC-backed companies encourages investors to provide additional resources to high potential later-stage companies, exemplified by the largest quarterly investment, with Delivery Hero receiving EUR 288 million from a publicly traded venture investor, Rocket Internet AG.

Exits

- Biotech companies drove exits

Exit activity had a bright start in 2015. The European market matched the US for number of VC-backed IPOs, while exit volume driven by 55 M&A deals increased sharply to EUR 4 billion. Despite the absence of mega cap offerings, IPOs remained robust as small-sized biotech companies led IPO activity, with eight out of 12 offerings raising the bulk of EUR 410 million in initial proceeds. Biotechnology companies were also in demand by well-funded and increasingly confident strategic acquirers. The first quarter saw 12 biotech M&A exits totaling EUR 1.5 billion in exit value. Unsurprisingly, the largest exit completed was in this sector as Roche acquired the French developer of innovative therapeutics, Trophos, for EUR 470 million.

Outlook

- VC portfolios could benefit from a friendly financing and exit environment

European venture continued its upward trend in 2015 and we expect experienced managers to seize opportunities to invest as well as gain liquidity in the buoyant IPO and M&A environment. VC-backed companies continue to attract capital from various investor sources at favorable terms, supporting growth in the recovering macroeconomic environment.

Asia-Pacific private equity

In brief

- Asia-Pacific private equity had a mixed start. Investments continued to rise, with the region boasting the largest-ever buyout deal. Asia is also attracting large VC investments in e-commerce. Exit activity lost momentum as corporate buyers retreated while IPOs remained robust.

Table: Asia-Pacific private equity market data

USD billion	2013	2014	Q114	Q414	Q115	Dy/y	Dq/q
Buyout fundraising	17.5	18.7	3.0	2.9	**1.2**	(60%)	(59%)
Growth fundraising	33.6	44.8	8.7	13.0	**11.8**	37%	(9%)
Buyout investments	30.4	30.4	7.9	10.1	**10.0**	26%	(1%)
Growth investments	37.9	58.7	14.5	13.8	**9.3**	(36%)	(33%)
M&A exit values	40.1	56.2	12.5	16.7	**5.9**	(53%)	(65%)
IPO exit values	18.1	70.1	9.7	17.8	**6.3**	(35%)	(65%)

Notes: Dq/q is the comparison of Q1 2015 vs.Q4 2014. Dy/y is the comparison of Q1 2015 vs. Q1 2014
Source: Asian Venture Capital Journal database, as of May 19, 2015.

Fundraising

- Infrastructure funds dominate fundraising

Commitments to Asia-Pacific funds increased 12% to USD 13 billion from a year ago. The uptick was primarily driven by a few large energy and infrastructure focused funds. Asia-focused Equis Funds Group closed its second fund at USD 1 billion, while RMB-denominated fund Green Silk Road raised USD 4.8 billion. Buyout fund raising was muted, with only Malaysia-based private equity firm Navis Capital reporting a notable closing at USD 1.5 billion. Fundraising remains bifurcated, with a handful of teams quickly raising large funds. PRJ Capital had a USD 762 million first close towards its USD 4 billion target, after raising nearly USD 6 billion for two funds within the past four years.

Investments

- A large LBO lifts volume; VC deals surge

Investment activity was mixed across investment stages. Despite a slowdown in deal activity, large buyout deals continued to make headlines. During the first quarter, the Asia-Pacific market boasted its largest-ever buyout deal on record as a consortium of investors, including KKR, agreed to acquire the Australia and New Zealand consumer lending business of GE Capital for USD 6.3 billion. This deal pushed up quarterly buyout volume across 37 transactions to USD 10 billion, up 26% from a year ago. In contrast, growth capital deal-making slowed down, with invested capital declining 36% to USD 9.3 billion y-o-y. Expansion capital deals tumbled after a strong 2014 while venture investments continued to expand. VC investments, primarily in the e-commerce sector, more than doubled to USD 4.9 billion from a year ago and exceeded expansion capital investment volume for the first time since the fourth quarter of 2004. China's version of Uber, KuaiDi Dache, attracted USD 600 million from a consortium of VC and corporate investors in the largest venture deal of the first quarter.

Exits

- IPOs remained vibrant; trade exits faded

Asia-Pacific M&A exit volume fell 53% y-o-y to USD 6 billion, the lowest quarterly level in the past five years. A lack of large exits combined with a slow down in activity weighed on volume. Weak in-bound M&A activity from trade buyers in Japan was a notable driver of the drop-off. IPOs continued to accelerate for the strong pipeline of Chinese PE-backed companies. The first quarter saw 64 IPOs, eight more than a year ago. However, IPO volume declined 35% y-o-y to USD 6.3 billion as small offerings dominated activity. The largest PE-backed IPO was below the billion dollar mark as CVC Asia-backed internet provider HKBN Ltd raised USD 708 million on the Hong Kong Stock Exchange.

Outlook

- Deal activity is expected to grow

We expect steady deal flow for buyouts and increased venture capital investments, particularly in China where the venture ecosystem is expected to receive a further boost from support by the government, which sees venture capital as the country's next growth engine.

Emerging Markets (Ex. Emerging Asia)

In brief

- Private equity fundraising continued to be strong across the Emerging Markets in Q1 2015, with the exception of the Turkey/Russia/CEE/CIS region where the market remained relatively muted.
- Invested capital and number of deals declined across markets with the exception of Brazil. Despite the increased number and value of deals in Brazil, growth in investment activities was not sufficient to catch up to the faster growth in fundraising.
- Despite lingering concerns, both a recent private equity investor survey and fundraising indicate improved overall investor confidence in Emerging Markets, although outlook varies across sub-regions.

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

USD million		2013	2014	Q114	Q414	Q115	Dy/y	Dq/q
MENA	Fundraising	568	1,076	46	806	**351**	663%	(56%)
	Investments	503	637	146	70	**160**	10%	128%
	Number of deals	61	63	20	12	**11**	(45%)	(8%)
SSA	Fundraising	1,336	4,086	522	1,043	**1,895**	263%	82%
	Investments	1,746	2,028	851	379	**308**	(64%)	(19%)
	Number of deals	93	108	28	43	**17**	(39%)	(60%)
CEE & CIS	Fundraising	1,442	1,958	1,456	173	**123**	(92%)	(29%)
	Investments	2,061	968	317	340	**172**	(46%)	(50%)
	Number of deals	114	139	48	24	**22**	(54%)	(8%)
Russia	Fundraising	601	317	250	54	**0**	(100%)	(100%)
	Investments	283	80	20	27	**5**	(74%)	(82%)
	Number of deals	32	33	10	11	**5**	(50%)	(55%)
Latin America & Caribbean	Fundraising	4,179	8,644	415	4,794	**1,349**	225%	(72%)
	Investments	4,759	4,281	1,557	394	**454**	(71%)	15%
	Number of deals	138	119	28	23	**21**	(25%)	(9%)
Brazil	Fundraising	1,681	4,294	206	1,690	**899**	337%	(47%)
	Investments	3,255	2,769	135	403	**450**	233%	12%
	Number of deals	73	55	7	18	**17**	143%	(6%)
Emerging Markets (Ex. Em. Asia)	**Fundraising**	7,525	15,764	2,439	6,816	**3,718**	52%	(45%)
	Investments	9,068	7,913	2,871	1,183	**1,094**	(62%)	(8%)
	Number of deals	406	429	124	102	**71**	(43%)	(30%)

Notes: Dq/q is the comparison of Q1 2015 vs. Q4 2014. Dy/y is the comparison of Q1 2015 vs. Q1 2014.
Data for Russia and Brazil is also included in CEE & CIS and Latin America & Caribbean, respectively.
Source: Emerging Markets Private Equity Association, as of May 15, 2015.

Latin America

- Strong fundraising and investment activities continued in the first quarter of 2015 despite the region's macroeconomic challenges

The positive sentiment in Latin America in 2014 continued in the first quarter of 2015. Private equity funds in the region raised USD 8.6 billion in 2014 and more than USD 1.3 billion in Q1 2015, showing strong signs of recovery in the region despite numerous macroeconomic challenges and political uncertainty. Brazil continues to experience turmoil in 2015 resulting from currency volatility and declining growth as well as a massive corruption scandal centered on Brazil's national oil company, Petrobras. Despite the challenges, Brazil dominated the majority of fundraising and investment activities in the region, raising nearly USD 900 million and deploying USD 450 million, approximately 67% and 99% of the total amount in the region respectively. If fund managers can effectively deploy this large amount of capital, the resulting positive perception of private equity market prospects in Latin America as a whole will continue to translate into both fundraising and investment success for regional managers.

The most notable fund closing was in Brazil, with Patria Investimentos' closing of its P2Brasil Private Infrastructure Fund III in March 2015 at USD 1.6 billion. On the investment side, most closed deals in the first quarter of 2015 were in Brazil, representing 99% of completed deals in the region. The largest investment was Advent International's acquisition of Allied S.A., the leading independent marketer and provider of technology products in Brazil, from One

Equity Partners (OEP) and other minority shareholders.

Middle East and North Africa (MENA)

- Private equity fundraising and investment remained strong in the region

Strong fundraising activity in MENA continued in the first quarter of 2015, with managers raising a total of USD 351 million across two funds. Duet Group closed its Duet-CIC Egypt Opportunities Fund at USD 300 million and the remaining USD 51 million came from Berytech's venture capital fund focusing on deals in Lebanon.

The total amount invested in the region was USD 160 million. As in other emerging markets, investors in the region see the consumer sector as attractive, and it is no surprise that five out of the 11 deals completed were in the consumer goods and services sectors. Healthcare is also thought to be attractive, as it can be a good hedge against political risks to some extent. The largest investment in the region in Q1 2015 was made in the healthcare sector, with the Abraaj Group's investment of USD 145 million in North Africa Hospital Holdings Group. While political instability has created challenges for many MENA private equity managers, there is some positive news such as the opening of the Tawadul, Saudi Arabia's stock exchange, to qualified foreign institutional investors in June 2015.

Sub-Saharan Africa (SSA)

- SSA became a fast growing market with larger funds raised and positive LP sentiments in the region

SSA fundraising figures showed remarkable growth in investor interest. Private equity fundraising reached a record high of USD 1.9 billion, the highest in emerging markets (ex. Emerging Asia) in the first quarter of 2015. Most notably, the quarter saw the two largest funds ever raised in the region; Helios Investment Partners' Helios Investors III at USD 1.1 billion and the Abraaj Group's Abraaj Africa Fund III at USD 990 million. As seen in EMPEA's 2015 Global Limited Partners Survey, LP sentiment towards the Sub-Saharan Africa region remains positive; it was ranked as the third most attractive emerging market destination for PE fund investments and highest for indication of increased exposure to the region by LPs participating in the survey.

However, investment activities have yet to follow the same upward trend as fundraising. Capital invested in Q1 2015 was USD 308 million, in line with previous quarters but only one-third of the amount of same quarter in 2014. The largest investment was UK-listed Actis's launch of a pan-African renewable energy generation platform, Lekela Power, alongside Mainstream Renewable Power, the global wind and solar developer.

Looking ahead, the recent closes of large funds will likely add more activity and greater diversity to the region's investments, historically dominated by small deals below USD 25 million in size.

Turkey and Russia/CEE/CIS

- CEE and Turkey demonstrated a decrease in both fundraising and investment as investors continued to be concerned about the region's political risks and macroeconomic vulnerability

Various political and economic challenges, including international sanctions and currency fluctuations, resulted in declines in both fundraising and investment activities in the region compared to the prior year. Only USD 123 million was raised in the region in the first quarter of 2015, the lowest first quarter total since 2011. LP perceptions remained negative and, in fact, many investors have seen the region's political risk as a factor likely to deter their allocation to the region.

The largest investment in the quarter at USD 100 million was in Turkey, the Abraaj Group's investment in Hepsiburada, a Turkish market leader in the online retail sector. Amid numerous challenges and negative LP sentiment, some GPs continued to find opportunities in the region. During the quarter, five deals closed in Russia, more than in any other country in the region. The Russian ruble was among the world's best-performing currencies against the US dollar in the period after losing about half of its value toward the end of 2014.

Private equity secondary

In brief

- The secondary market remains robust after a record-breaking year that was driven by a surge of billion dollar portfolio sales. We continue to see attractive opportunities in the smaller segment of the market.

2014 was another record year for the secondary market, as deal volume increased to a record USD 42 billion, a 50% increase over the prior year, according to Cogent Partners' Secondary Market Trends & Outlook report. Record volumes were driven primarily by an increase in the number of USD billion dollar deals, which tripled from the prior year to 12. Traditional LP sales accounted for the majority of the transactions by volume, while the balance was filled by non-traditional sales, including secondary directs, fund restructurings and spin-outs. Seller diversity continued to increase, with investors of all types looking to reduce their non-core holdings, including traditional secondary buyers, such as fund of funds and secondary funds. The composition of sellers remained consistent from 2013, with financial institutions being the most active sellers by NAV, incorporating over 34% of supply in 2014.

During the first quarter of 2015, opportunistic selling continued and transaction sizes remained diverse. As we expected, and confirmed by the recent Greenhill Cogent report, the extension of the Volcker rule appears to be having an impact on supply from financial institutions, which typically sell large portfolios, as they have until July 2017 to implement the regulation requirements.

Pricing rose in 2014 over the prior year, stabilizing in the second half of the year. This was mainly driven by record fundraising for secondaries, higher distribution activity from private equity portfolios, strong public market performance and improving GP fund valuations. The S&P 500 Total Return Index gained 13.7% and ended the year at record levels. Average bids for all private equity funds increased to 91% during 2014 (vs. 89% in H2-2013), although this represented a decrease compared to H1 2014 levels where pricing peaked at 93%. Bids for buyout fund interests advanced to 95% in the second half, up from 92% in H2 2013, but down from 100% in H1 2014. Pricing for venture funds remained constant at 80% in the second half of 2014 compared to H2 2013, a slight decrease from the 82% average bid H1 2014.

In the first quarter of 2015, pricing remained stable for buyout funds. According to Greenhill Cogent's market observations, bids for energy-focused funds were less than 70% of NAV as buyers were pricing in changed market conditions for energy-related portfolios.

In 2015, we expect deal volumes will grow slightly, albeit not at the same pace as 2014. We expect pricing to stabilize, although we anticipate greater pricing variability, with a greater disparity between high and low quality assets. We continue to see attractive opportunities in the smaller end of the market and anticipate high quality and quantity of that deal flow. We aim to find value in this market due by focusing on small deals and quality assets, especially in non-traditional transactions with more complex structures. We remain cautious and disciplined in our underwriting, and prudent in the deployment of the capital entrusted to us by our investors.

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