Your bridge to the world of private assets

Capital Dynamics Private Equity Review & Outlook

Summary

Q3 2015

Highlights:

- Global private fundraising continued at robust level through the first nine months of 2015. In particular, Europe recorded a strong third quarter.[1]

- US buyout deal activity saw a rise of large buyouts in IT sector. Overall, deal flow remained steady driven by the highest levels of add-on acquisition and merger activity, as PE firms continued to focus on augmenting growth across existing portfolios[2].

- European buyout investment trends remained positive in the third quarter, with year-to-date deal volume reaching the highest level since 2007[3].

- Investments in the US, European, and Asian venture-backed companies surged driven by large funding rounds from venture capital funds and unconventional investors. Unicorns continued to emerge at a record pace[4].

- Resilient acquisition activity from trade buyers kept a high level of private equity liquidity around the globe. Private equity firms refrained from taking portfolio companies public or selling public holdings as public equity markets experienced a sharp increase in volatility and stock prices fell across the board[5].

1,2,3,4,5 AVCJ, Bloomberg,Dow Jones VentureSource, EMPEA, Thomson One, Preqin

US buyout

In brief

- During the third quarter, US buyout deal activity remained steady, driven by add-on acquisitions. Investment volume increased, lifted by large-cap buyouts in the IT sector. IPOs and post-IPO disposals decelerated in volatile public equity markets. However, exit volume advanced strongly, boosted by strategic acquirers. Fundraising so far this year matched the pace of 2014, although activity slowed in the third quarter.

Table: US buyout market data

USD billion	YTD14	YTD15	Q314	Q215	Q315	Dy/y	Dq/q
Fundraising	158.5	**159.5**	60.4	70.3	**36.4**	(40%)	(48%)
Investments	130.4	**146.3**	40.9	37.6	**43.1**	5%	14%
Exits	246.4	**232.6**	71.7	81.9	**94.6**	32%	15%

Notes: Dq/q is the comparison of Q3 2015 vs. Q2 2015. Dy/y is the comparison of Q3 2015 vs. Q3 2014. Year-to-date (YTD) data is as of September 30.
Source: Thomson ONE, Preqin, S&P Capital IQ and Bloomberg as of November 15, 2015.

Fundraising

- **Fundraising remains strong despite a quiet Q3**

Following the strongest quarter since the global financial crisis, fundraising was relatively quiet in the third quarter. Genstar Capital had the largest contribution to the quarterly volume of USD 36 billion, with Fund VII raising USD 2 billion. ArcLight Capital raised an additional USD 900 million towards the USD 5.6 billion final close of Fund VI, the largest fund closed during the period, as investors continued to back energy funds to exploit opportunities in the downturned oil sector. The year-to-date fundraising amount of USD 160 billion is expected to substantially increase in the fourth quarter of 2015. Fundraising, in terms of both the speed to final closing and the increase in amounts raised over prior funds are at a record pace. Lately, Blackstone and Warburg Pincus have closed mega funds at USD 15 billion and USD 12 billion, respectively.

Investments

- **Large IT buyouts boost deal volume**

During the third quarter, US buyout deal volume increased 5% year-on-year to USD 43.1 billion. Deal pace remained steady with the third quarter recording 461 deals. A rise in large-cap buyout deals in the IT sector was the principal contributor to the increase in deal volume. Four out of the eight billion-dollar-plus deals were concluded in the IT sector including the USD 8 billion acquisition of Veritas, a data storage unit of Symantec Corp., by Carlyle Group and co-investors in the largest buyout deal year-to-date. Buyout acquisition prices for platform deals continued to climb, reaching a 9.93 multiple of EBITDA throughout the first nine months of 2015, up from 9.34x during the same period last year. The trend of rising add-on acquisitions continued as GPs increasingly pursued buy-and-build strategies by making add-on acquisitions to average down the acquisition prices of platform deals. The share of add-on deals continued to increase, comprising nearly 60% of all deals concluded in the third quarter according to Preqin data.

Exits

- **Trade buyers bolstered exits; IPOs declined**

Robust levels of M&A activity continued to support growth in exit volume. Overall quarterly exit volume increased 32% year-on-year to USD 95 billion while exit volume through M&A doubled to USD 57 billion. The largest exit of the quarter was the USD 9.1 billion sale of SunGard by a club of seven investors to FIS (Fidelity Information Services). IPOs from private equity-backed companies slowed in volatile public equity markets. There were 10 IPOs that raised USD 5 billion compared with 22 offerings worth USD 26 billion in the second quarter. Many GPs refrained from selling shares of previously floated companies as stock indices fell across the board. Proceeds from post-IPO disposal declined 40% to USD 11 billion. Subdued demand for riskier debt instruments weighed on proceeds from dividend recaps which tumbled 68% to USD 4 billion.

Outlook

- **Market conditions remain favorable for PE**

Overall, external conditions remain favorable for private equity, while oil prices - currently impairing performance of existing investments - appear to have bottomed out. Economic trends such as employment and consumption continue to improve and exit markets remain robust, despite volatility in public equity and capital markets. Savvy investors maintain a consistent investment pace, concentrating on managers with distinctive sourcing and selection ability and operational value creation skills as well as investments with substantial growth opportunities and cash generation potential.

US venture

In brief

- US venture-backed companies continued to attract large funding amounts from unconventional investors. The pace of unicorn births accelerated in the third quarter. Valuations of late-stage deals skyrocketed, while seed and first round valuations remained at a stable level. Corporations continued to actively acquire innovation-driven, venture-backed companies, particularly in the B2B sector, boosting M&A exit levels during the third quarter.

Table: US venture market data

USD billion	YTD14	YTD15	Q314	Q215	Q315	Dy/y	Dq/q
Fundraising	24.7	**23.2**	6.5	11.0	**4.6**	(29%)	(58%)
Investments	39.5	**54.6**	11.3	18.4	**19.0**	68%	3%
Exits	58.3	**49.6**	22.3	14.8	**20.0**	(10%)	35%

Notes: Dq/q is the comparison of Q3 2015 vs. Q1 2015. Dy/y is the comparison of Q3 2015 vs. Q3 2014. Year-to-date (YTD) data is as of September 30.
Source: Dow Jones VentureSource, as of November 15, 2015.

Fundraising

- **Fundraising is robust despite a dip**

As with other strategies, US venture capital fundraising was slow during the third quarter. Commitments declined 29% to USD 5 billion compared to the same quarter in the previous year. Unlike the second quarter, which saw a close of two billion-dollar venture funds, the largest fund close during the third quarter was the USD 550 million balanced stage Deerfield Healthcare Innovations Fund. Despite a quarterly dip, fundraising volume was only slightly trailing the banner 2014. Year-to-date, venture capital funds raised USD 23 billion; already exceeding annual fundraising volume from 2009-2013.

Investments

- **Unicorns remain drivers of invested capital**

Investments in US venture-backed companies had another record-breaking quarter. Invested capital increased 3% quarter-on-quarter and 68% year-on-year to USD 19 billion bringing the total invested capital through the first nine months of 2015 to USD 55 billion. Investors other than venture capital funds continued to lead the largest investment rounds. Social Finance, a provider of marketplace lending and student loan refinancing services, received a USD 1 billion investment from a consortium of investors led by SoftBank Group Corp. Uber also received USD 1 billion in funding from Microsoft and Times Internet. Unicorns continued to emerge at a record pace. The third quarter saw 17 start-ups achieving billion-dollar valuations. Unicorns drive valuations with median valuations for late-stage rounds surging to an all-time high at USD 300 million in the first nine months of 2015, which dwarfs the USD 89 million observed at the peak of the tech bubble in 2000. In contrast, valuations of seed and first rounds remain relatively low at USD 3.6 million and USD 9.7 million respectively, and trail peaks witnessed in 2000.

Exits

- **VC M&A exits from B2B companies surge**

VC firms generated strong levels of liquidity during the third quarter as market volatility did not negatively affect the acquisition pace of corporations. M&A exit values jumped 50% from the previous quarter to USD 18 billion. EMC Corporation acquired Virtustream, a provider of enterprise cloud management software, for USD 1.2 billion in the largest M&A exit of the third quarter. Year-to-date, M&A exit statistics indicate that companies in the IT sector still remain the most popular acquisition targets. However, B2B venture-backed companies are rapidly catching up and in terms of exit values, surpassed exits in the IT sector for the first time on record. Aggregate quarterly exit volume including IPO proceeds increased 35% quarter-on-quarter to USD 20 billion, as the number of IPOs halved to 12 from the previous quarter. In the largest IPO of the third quarter, SunRun, a provider of solar electricity solutions, raised USD 245 million and commanded a market capitalization of USD 1.5 billion on the offering date.

Outlook

- **Non-VC investors to drive deal volume**

2015 is on course to achieve another strong year across all activity indicators. There is no sign of cooling interest from unconventional investors, as they remain keen to participate in the upside before companies achieve liquidity. However, first markdowns in valuations of unicorn investments and the likelihood of monetization of those assets raise concerns. However, many VC-backed companies continue to expand at a fast pace. VC funds that invest in market disruptive companies at fair valuations can withstand market volatility.

EU buyout

In brief

- European buyout investment trends remained positive with each quarter's deal volume exceeding the prior year's levels. Overall exit volume held up relatively well due to resilient activity from trade and financial buyers, while IPO levels declined sharply. Year-to-date investment and exit volumes were on track to reach multi-year highs. Fundraising improved during the third quarter and was on course to exceed the 2014 level.

Table: European buyout market data

EUR billion	YTD14	YTD15	Q314	Q215	Q315	Dy/y	Dq/q
Fundraising	45.0	**49.5**	14.1	17.4	**20.1**	43%	15%
Investments	47.8	**64.9**	13.2	31.1	**15.6**	19%	(50%)
Exits	99.9	**114.4**	34.0	39.9	**32.3**	(5%)	(19%)

Notes: Dq/q is the comparison of Q3 2015 vs. Q2 2015. Dy/y is the comparison of Q3 2015 vs. Q3 2014. Year-to-date (YTD) data is as of September 30.
Source: Thomson ONE, Preqin and Bloomberg as of November 15, 2015.

Fundraising

- **Large fund closings lift fundraising volume**

European fundraising recorded a strong quarter, with commitment volume increasing 43% year-on-year to EUR 20 billion. Third quarter activity helped boost the 10% increase in year-to-date fundraising volume to EUR 50 billion. The quarter saw seven funds exceeding the EUR 1 billion threshold for raised capital led by EQT, which closed Fund VII at EUR 6.75 billion - the second largest European private equity fund since 2008. Other notable large fund closings included EUR 3.76 billion from Carlyle Europe Partners IV Fund and EUR 2.75 billion from Montagu V. The quarter featured the largest buyout fund ever raised by new managers, based on Thomson One fundraising data, with Castik Capital securing EUR 1 billion for its debut buyout fund, European Private Investment Club I (Epic I).

Investments

- **Investments continued to increase**

The European buyout market continued to grow during the third quarter. Deal volume totaled EUR 16 billion, up 19% from the same quarter a year ago. Throughout the first nine months, deal volume reached EUR 65 billion, up 36%, and is on track to achieve its highest total annual value since 2007. Following an exceptional second quarter, which had 11 deals in excess of EUR 1 billion each, activity in the larger end of the market slowed in the third quarter with just two deals in excess of EUR 1 billion. In the largest European buyout so far this year, PGGM, TDR Capital and co-investors acquired the Dutch automobile leasing and fleet management company LeasePlan for EUR 3.7 billion from Volkswagen and a private seller. From a regional perspective, every geography - with the exception of the Nordics and Eastern Europe - demonstrated growth in deal volume over the first nine months. During the third quarter, activity stood out in the UK, which saw a 40% increase in deal volume to EUR 6.5 billion, both quarter-on-quarter and year-on-year. The largest deal in the UK market was the EUR 1.6 billion tertiary buyout of the UK credit management company Lowell Group by Permira Advisors from TDR Capital.

Exits

- **Resilient M&A help absorb a fall in IPOs**

European exit activity varied across exit channels. M&A exits remained robust, almost balancing out a sharp fall in IPOs. Quarterly exit volume decreased 5% year-on-year to EUR 32 billion. Despite a modest decline, Europe was on track to record the strongest-ever exit year with aggregate year-to-date exit volume at a record EUR 115 billion. Terra Firma topped the list for the largest exit of the third quarter with the EUR 3.9 billion sale of German motorway service station operator Tank & Rast to a group of financial buyers. Given the volatile public markets, only three private equity-backed companies sought public listings, compared with 24 during the second quarter. The largest private equity-backed IPO of the quarter was the EUR 600 million debut of Dutch brokerage firm Flow Traders. Similarly, post-IPO disposals dropped 44% quarter-on-quarter to EUR 2.3 billion.

Outlook

- **PE can benefit from favorable conditions**

Our outlook for European private equity remains positive as the recovery in economic activity is stabilizing although the tragic Paris attacks are a reminder that the path is still fraught with difficulties. Investments are expected to continue to benefit from the historically low interest rate environment and the weaker Euro is supporting export-oriented businesses, while lower energy prices improve margins and boost consumer demand.

European venture

In brief

- The European VC market remained vibrant despite market volatility. In particular, venture investments in healthcare companies surged to a multi-year high, while consumer internet deals continued to dominate investment deal flow, driving the deal volume to the highest level since 2000. Resilient M&A supported exit activity, while IPOs were not immune to market volatility. The recovery in European venture fundraising has accelerated.

Table: European venture capital market data

EUR billion	YTD14	YTD15	Q314	Q215	Q315	Dy/y	Dq/q
Fundraising	2.54	**5.03**	0.65	1.18	**2.96**	359%	152%
Investments	6.37	**8.84**	2.31	3.01	**3.03**	31%	0%
Exits	7.77	**12.81**	3.71	4.00	**3.42**	(8%)	(15%)

Notes: Dq/q is the comparison of Q3 2015 vs. Q2 2015. Dy/y is the comparison of Q3 2015 vs. Q3 2014. Year-to-date (YTD) data is as of September 30.
Source: Dow Jones VentureSource, as of November 15, 2015.

Fundraising

- **Fundraising recovery accelerated**

European venture funds increasingly attract higher levels of investor commitments. During the third quarter, commitments to venture capital funds increased fourfold year-on-year and 152% quarter-on-quarter to EUR 2.8 billion, the highest quarterly volume since the fourth quarter of 2001. Consequently, with EUR 5 billion raised through the first nine months, European venture fundraising volume is at its highest since 2008. The rise in aggregate volume was mainly attributable to a single fund from Russia with a global focus – the EUR 1.6 billion DST Global Fund V. Excluding the outlier, fundraising volume still demonstrated solid growth of 19% quarter-on-quarter. Among notable fund closings with a European market focus was the Germany-based Earlybird Venture Capital that raised EUR 150 million for its early stage fund.

Investments

- **Invested capital is the highest since 2000**

During the third quarter, venture investments maintained the same strong pace as the first half. Invested capital amounted to EUR 3 billion during the third quarter pushing the year-to-date investment volume to EUR 8.8 billion, the highest level since 2000. Healthcare companies dominated the investment landscape securing EUR 929 million, which equates to almost a third of the quarterly invested capital. Mereo BioPharma obtained the EUR 109 funding from a corporate venture fund and asset management firms in the largest healthcare deal of the quarter. Year-to-date, consumer internet deals attracted the lion’s share of invested capital with EUR 3.9 billion. Achieving scale is critical for success of consumer internet companies, which require capital for expansion and for add-on acquisitions across European fragmented markets. Unsurprisingly, the largest deal of the third quarter was concluded in this sector, with a consortium of investors led by the US firm Insight Venture Partners investing EUR 180 million in BlaBlaCar, a French provider of a long-distance ride sharing platform.

Exits

- **M&A exits were resilient to market volatility**

European VC exit activity remained robust in the third quarter. Despite a slight decline in the quarterly volume to EUR 3.4 billion, the year-to-date aggregate volume stood at EUR 12.8 billion representing a 65% increase over the same period of 2014. The number of M&A exits increased to 55 from 49 in the previous quarter. However, M&A exits were smaller on average. The largest exit was the EUR 150 sale of Spanish search portal Idealista, backed by a local venture firm Bonsai Venture Capital, to Apax Partners. The IPO activity slowed, with eight VC-backed companies going public compared with 15 in the previous quarter. In the largest VC-backed IPO of the third quarter, Austrian biotech company Nabriva Therapeutics raised EUR 81 million in initial proceeds.

Outlook

- **VC to benefit from improved deal environment**

The European venture market has made solid progress so far this year. VC-backed companies have been able to secure ample funding from various types of investors, which bodes well for further growth. We expect the globalization of VC investments, benign valuations of European targets and an emergence of venture hubs in London and Berlin to be the drivers of venture activity in Europe. We expect experienced managers to seize opportunities to invest as well as gain liquidity when opportunities arise in a volatile market environment.

Asia-Pacific private equity

In brief

- Asia-Pacific investment activity varied across strategies. Buyouts continued at a relatively steady pace and record-breaking deals continued to emerge. In contrast, growth and venture deal activity, with exception of the technology sector, slowed. While exits through public markets dropped sharply, GPs continued to generate liquidity due to robust acquisition activity from strategic buyers.

Table: Asia-Pacific private equity market data

USD billion	YTD14	YTD15	Q314	Q215	Q315	Dy/y	Dq/q
Buyout fundraising	16.0	**6.8**	5.2	0.9	**3.5**	(32%)	305%
Growth fundraising	36.0	**34.3**	14.1	12.0	**9.0**	(36%)	(25%)
Buyout investments	20.5	**36.4**	4.6	11.9	**13.5**	193%	13%
Growth investments	46.1	**51.1**	19.1	25.1	**15.6**	(18%)	(38%)
M&A exit values	44.8	**35.0**	14.2	12.9	**13.7**	(3%)	6%
IPO exit values	52.3	**29.3**	34.3	19.0	**4.1**	(88%)	(79%)

Notes: Dq/q is the comparison of Q3 2015 vs. Q2 2015. Dy/y is the comparison of Q3 2015 vs. Q3 2014. Year-to-date (YTD) data is as of September 30.
Source: AVCJ as of November 15, 2015.

Fundraising

- **Large funds lift fundraising**

Asia-Pacific had a subdued fundraising quarter compared with the same period of 2014. However, commitment volume remained stable quarter-on-quarter despite a lack of RMB funds as brand-name managers continued to raise large funds. The bulk of the quarterly volume (USD 12.5 billion) was raised by RRJ Capital, closing a third fund at USD 4.5 billion. The fund was oversubscribed by USD 1 billion, demonstrating the trend of allocating larger sums to fewer managers, which is especially evident in the Asia-Pacific market. The number of fund closings during the first nine months declined from 350 in 2013 to 250 in 2014 and 212 in 2015. Buyout fundraising inched up after absence of any notable closings during the first half of the year. The quarter's total of USD 3.5 billion was mainly attributable to the USD 1.8 billion final close of Australian Pacific Equity Partners Fund V.

Investments

- **Large buyouts and TMT venture deals rose**

The Asia-Pacific region continued to see a steady flow of buyout deals. Deal volume, however, almost tripled that of the same period last year and increased 13% quarter-on-quarter to USD 13.5 billion, lifted by MBK Partners' and a co-investor's acquisition of Tesco's supermarket business in Korea, Homeplus, for USD 6.5 billion. This deal superseded the USD 6.3 billion acquisition of GE Capital's consumer lending unit by KKR, which was completed in the previous quarter, as the largest-ever buyout in the region and helped propel the year-to-date volume to USD 36 billion – the highest deal volume since 2007. In contrast, growth capital deal-making slowed markedly, with invested capital falling 38% quarter-on-quarter to USD 16 billion. However, companies in the technology, media, communications (TMT) sector, which became the dominant sector for VC investments, continued to attract capital exemplified by a USD 3 billion funding round from a consortium of investors for the China-based taxi service start-up Didi Kuaidi.

Exits

- **M&A exits surge, while IPOs tumble**

During the third quarter, the suspension of IPOs in China and the downturn in public markets across the region affected the pace of public offerings with IPO proceeds from private equity-backed companies dropping 79% quarter-on-quarter to USD 4.1 billion. This trend with respect to preferred exit channels reversed during the third quarter, with exits through M&A exceeding IPOs both in terms of number of deals and deal volume. M&A exit volume increased 6% quarter-on-quarter to USD 13.7 billion and slightly trailed the prior year's quarterly benchmark. MBK Partners completed the largest exit deal of the third quarter by selling the Taiwanese cable TV provider China Networks Systems to Far EasTone Telecommunications for USD 2.3 billion.

Outlook

- **PE recovery to re-start after turmoil ends**

A start in the recovery across public equity markets as well as the recent announcement of lifting the IPO ban by China's securities regulator should boost deal activity. However, market uncertainty still remains and investors are cautiously pursuing fund and deal opportunities.

Emerging Markets (excl. Emerging Asia)

In brief

- Polarized fundraising activities in Emerging Markets; MENA and Turkey/Russia/CEE/CIS saw a pick-up in fundraising, while Latin America and SSA slowed down.
- Investment activities declined across markets excluding the CEE & CIS region. Generally, the growth in investment activities across Emerging Markets was not sufficient enough to catch up to the faster growth in fundraising.
- Despite lingering concerns, both a recent private equity investor survey and fundraising figures indicate improved overall investor confidence in Emerging Markets, although outlook varies across sub-regions.

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

USD million		YTD14	YTD15	Q314	Q215	Q315	Dy/y	Dq/q
MENA	Fundraising	270	**994**	124	114	**529**	268%	364%
	Investments	567	**774**	154	400	**134**	37%	(66%)
	Number of deals	52	**35**	17	14	**7**	(33%)	(50%)
SSA	Fundraising	3,043	**3,297**	892	839	**564**	8%	(33%)
	Investments	1,672	**742**	208	303	**117**	(56%)	(61%)
	Number of deals	86	**69**	26	24	**24**	(20%)	0%
CEE & CIS	Fundraising	1,785	**379**	305	54	**202**	(79%)	273%
	Investments	1,411	**1,346**	789	545	**627**	(5%)	15%
	Number of deals	118	**68**	29	28	**16**	(42%)	(43%)
Latin America & Caribbean	Fundraising	3,850	**3,863**	2,829	1,406	**1,108**	0%	(21%)
	Investments	4,289	**1,999**	1,769	1,035	**518**	(53%)	(50%)
	Number of deals	110	**86**	41	37	**22**	(22%)	(41%)
Emerging Markets (Excl. E. Asia)	**Fundraising**	8,948	**8,533**	4,150	2,413	**2,402**	(5%)	(0%)
	Investments	7,938	**4,860**	2,920	2,283	**1,397**	(39%)	(39%)
	Number of deals	366	**258**	113	103	**69**	(30%)	(33%)

Notes: Dq/q is the comparison of Q3 2015 vs. Q2 2015. Dy/y is the comparison of YTD 2015 vs. YTD 2014. Year-to-date (YTD) data is as of September 30.
Source: EMPEA, as of November 15, 2015.

Latin America

- **Fundraising and investment activities slowed down in the third quarter of 2015**

Strong momentum in Latin America during the first half of 2015 slowed down in Q3 2015, with the fundraising amount declining by 21% compared to the second quarter of 2015. However, thanks to the strong fundraising records achieved in the first half of 2015, the YTD amount is almost even at USD 3.9 billion compared to the same period last year. The positive sentiment in Latin America continued to be seen despite numerous macroeconomic challenges and political uncertainty. In Q3 2015, Axxon Group, a private equity firm that focuses on small and mid-cap companies in Brazil, reached a final close for its Axxon Brazil Private Equity Fund III with USD 400 million in capital commitments, exceeding its USD 350 million target.

Investment activities also slowed down during the third quarter, with the total amount being almost half of the prior quarter. International investors continue to make large-sized deals in the region. The most notable investment made during Q3 2015 was Advent International's USD 344 million commitment to LifeMiles, which dominated about two-thirds of the total amount invested in the region during the quarter. LifeMiles is a standalone subsidiary of Avianca Holdings S.A., the company that integrates several Latin American airlines under the Avianca brand, and is one of the largest and fastest-growing loyalty coalition programs in Latin America.

Middle East and North Africa (MENA)

- **Private equity fundraising picked up, while investments slowed down**

Fundraising activities picked up in the MENA region during the third quarter of 2015. A total of USD 529 million was raised in this quarter alone, which surpasses the sum of the first and second quarters' amounts as well as last year's total amount. The Abraaj Group's final close of its Abraaj North Africa Fund II with total capital commitments of USD 375 million and Mediterrania

Capital Partners's final close of its second fund with approximately USD 132 million in capital commitments were the main contributors.

In contrast, investment activity continued to slow down during the period. The invested capital declined by 66% to USD 134 million from USD 400 million in the prior quarter. Amid slowdown in investment activities, the consumer sector continued to be viewed as one of the most attractive sectors given the rapidly growing middle class population and their income level. In Q3 2015, TPG/Satya, the Africa-focused partnership between TPG Growth and Africa-focused, independent investment firm Satya Capital, has agreed to invest a reported MAD 250 million (approximately USD 26 million) for a minority stake in Morocco-based private school network Ecoles Yassamine.

Sub-Saharan Africa (SSA)

- **SSA fundraising slowed down after a rapid growth in prior periods. Private equity managers need to be more active to deploy the capital they have rapidly raised in recent periods**

SSA fundraising activities slowed down in the third quarter of 2015 after the remarkable growth during the first half of the year. Despite the downshift in growth, private equity fundraising in the region remained at a record high of USD 3.3 billion year-to-date in 2015, only slightly below that of Latin America & the Caribbean. The most notable fundraising activities during the period include Investec Asset Management's final close on Investec Africa Credit Opportunities Fund 1 with USD 227 million in commitments and Convergence Partners's final close of Convergence Partners Communication Infrastructure Fund with more than USD 200 million in capital commitments. LP sentiment towards Sub-Saharan Africa remains positive as demonstrated by the EMPEA 2015 Global Limited Partners Survey. The region was ranked as the third most attractive emerging market destination for PE fund investments and the highest for increased exposure to the region by LPs participating in the survey.

Investment activities also slowed down during the period, recording a total amount of invested capital at only USD 117 million, less than half of the amount compared to the prior quarter. However, the number of deals made during the quarter remained the same, implying that the average deal size has become smaller than in the past. The most prominent investment is Helios Investment Partners and The Vitol Group's acquisition of the downstream business in Nigeria-based oil and gas company Oando.

Looking ahead, the recent large fund closes within the region will likely add more activity and greater diversity to Sub-Saharan Africa's investments, which has historically been dominated by small deals below USD 25 million in size, with median deal size remaining below USD 10 million in the past few years.

Turkey and Russia/CEE/CIS

- **CEE/CIS and Turkey fundraising picked up and the managers remained active in deploying capital despite the region's political risks and macroeconomic vulnerability**

The third quarter of 2015 has been a good period for the Turkey and Russia/CEE/CIS region as both fundraising and investments picked up, overcoming the region's various challenges such as international sanctions and currency fluctuations that resulted in a significant decline in activities during the first half of 2015. Livonia Partners, a private equity firm focused on the Baltics, has reached a first close for its maiden fund with USD 77 million. Czech Republic and Slovakia-focused private equity firm Genesis Capital has reached a first close for Genesis Private Equity Fund III with USD 49 million in capital commitments. 21 Concordia, the Poland-focused arm of private equity firm 21 Partners, held a final close for its debut fund with USD 113 million in capital commitments during the period.

Investment activities increased by 15% compared to the prior quarter, as the private equity managers continued to find opportunities despite numerous challenges in the region. Although financial details have not been disclosed, one of the notable investments was made by CVC Capital Partners, which agreed to acquire PKP Energetyka (PKPE). PKPE is the energy unit of the Polish National Railways and was valued at PLN 2 billion (approximately USD 520 million) in a transaction. Other major activities include J.C. Flowers's acquisition of a 25 percent stake in Romania-based lender Banca Comercială Carpatica from existing shareholders and Horizon Capital's investment in Ukraine-based e-commerce company Rozetka.

Private equity secondary

In brief

- The secondary market deal flow remained robust and is on course to have another strong year. We expect to see increased deal flow in 2016 and continue to discover attractive opportunities in the smaller segment of the market.

Secondary deal volume remained robust during the third quarter. According to Credit Suisse, deal volume totaled USD 25 billion through October and is on course to reach an annual volume of USD 38 billion. In July, Greenhill Cogent forecasted USD 40 billion in annual deal volume for the whole year. As the secondary market matures and buyers and sellers become more experienced, transactions are being completed faster than ever. Increased liquidity, ongoing active portfolio management by sophisticated LPs and GP-led fund restructurings are the drivers of a robust deal flow.

One of the most significant trends of 2015 is the upturn in the number of GPs initiating the secondary sale of fund interests in their funds. The main driver behind this is the large inventory of unrealized assets in mature funds coming to the end of their fund lives. GPs of such funds are incentivized to restructure their own funds through a secondary sale in order to secure income stream and potential carry from a continued management of the portfolio companies. Credit Suisse estimates that the share of such deals will increase over the next few years and forecasts USD 10 billion in deal value for the full year 2015 - the highest level on record.

Another trend is the rise of real estate deals exemplified by the CalPERS USD 3 billion sale of its real estate portfolio. Diversification of sellers' profile away from U.S. financial institutions is another theme of 2015. While deal flow from US banks has been reduced this year, following the extension of the Volcker rule, large pension funds, non-US banks, insurance firms, and multi-asset management firms continue to drive supply exemplified by the recent BlackRock announcement of the USD 200 million sale of its private equity portfolio.

The third quarter saw a spike in volatility across public markets. VIX, the index that tracks volatility of the S&P 500 index options, reached the highest value since October 2011, while S&P 500 price index lost 6.9% during the third quarter. As GPs typically value private equity portfolios "mark-to-market", NAVs of PE funds were affected but remained relatively resilient compared to public markets. Discounts for secondary private equity stakes widened in this environment, but only slightly. As usual, there is a dispersion in pricing due to the quality of the underlying assets and strategies offered in the market. According to market observations from a secondary intermediary, Triago, the average pricing declined 94% of NAV during the second and third quarter from 96% in the first quarter.

In our view, pricing will remain elevated throughout the next few quarters as we expect GP valuations and exits to remain strong, in both the buyout and venture spaces, given the robust exit markets. Looking forward, we expect to see high levels of deal activity as main drivers behind the surge in deal flow over the past few years remain in place. While competition from large secondary funds is expected to cause upward pressure on prices within the larger end of the market, we expect continued opportunities in the small and medium sectors.

For further information, please contact:

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

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

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

London
New York
Zug
Tokyo
Hong Kong
Silicon Valley
Munich
Birmingham
Seoul
Scottsdale

www.capdyn.com

Disclaimer

This document is provided for informational and/or educational purposes. The opinions expressed are as of November 2015 and may change as subsequent conditions vary. The information herein is not to be considered investment advice and is not intended to substitute for the exercise of professional judgment. Recipients are responsible for determining whether any investment, security or strategy is appropriate or suitable and acknowledge by receipt hereof that neither Capital Dynamics AG nor its affiliates (collectively, "Capital Dynamics") has made any determination that any recommendation, investment, or strategy is suitable or appropriate for the Recipient's investment objectives and financial situation. A reference to a particular investment or security by Capital Dynamics is not a recommendation to buy, sell or hold such investment or security, nor is it an offer to sell or a solicitation of an offer to buy such investment or security. Capital Dynamics may have a financial interest in investments or securities discussed herein or similar investments or securities sponsored by an asset management firm discussed herein. Certain information and opinions herein have been provided by a number of sources that Capital Dynamics considers to be reliable, but Capital Dynamics has not separately verified such information. Nothing contained herein shall constitute any representation or warranty and no responsibility or liability is accepted by Capital Dynamics as to the accuracy or completeness of any information supplied herein. Before relying on this information, Capital Dynamics advises the Recipient to perform independent verification of the data and conduct his own analysis hereto with appropriate advisors. Analyses contained herein are based on assumptions which if altered can change the conclusions reached herein. Capital Dynamics reserves the right to change its opinions or assumptions without notice. This document has been prepared and issued by Capital Dynamics and/or one of its affiliates. In the United Kingdom, this document is issued by Capital Dynamics Ltd., which is authorized and regulated by the Financial Services Authority. For residents of the UK, this report is only directed at persons who have professional experience in matters relating to investments or who are high net worth persons, as those terms are defined in the Financial Services and Markets Act 2000. In the EU, this document is issued to investors qualifying as professional investors (as that term is defined in the Alternative Investment Fund Managers Directive) by Capital Dynamics Limited (authorised and regulated by the Financial Conduct Authority). Registered office: 9th Floor, 9 Colmore Row, Birmingham, West Midlands, B3 2BJ, Company No. 02215798. In the United States, this document has been issued by Capital Dynamics Inc., an SEC-registered investment advisor. Redistribution or reproduction of this document is prohibited without written permission.