CapitalDynamics

Capital Dynamics Market Environment

Semi-annual market environment summary 2009

Environment - US

The economic downturn in the US has showed signs of troughing in the first half of 2009. Although the output of goods and services continued to decrease, the worst of the recession seems to have passed. By the end of the first half of 2009, conditions in the financial markets improved markedly, as indicated by the positive results of several government initiatives. Equity markets have rallied after hitting the bottom at the beginning of March, indicating that investor risk aversion has somewhat eased. With surging stock prices more companies took the opportunity to go public, as well as raising corporate debt, indicated by increased IPO and investment grade corporate debt volumes. However, the unemployment rate increased to 9.5% by the end of the first half, compared to 5.6 % recorded as of June 30, 2008. A further increase is expected, reaching a peak of over 10.5%. This could affect future consumer spending, which makes up approximately 70% of the U.S. GDP. Furthermore, business investments continued to decline as the outlook remains cloudy. In addition, banks keep lending tight due to capital constraints and uncertainty over the need of future write downs. According to IMF estimates, US banks may recognize additional losses from write downs of around USD 418 billion over the next one half year, representing 69% of losses recognized so far*.

The US economy is stabilizing as the crisis subsides

There is general anticipation that the US economy will grow again in the second half of 2009, reflecting the continued government fiscal and monetary support. However, given the magnitude of the recession, the longest since 1947, the growth is expected to be weak and volatile, managing 1.5 % for 2010 as a whole, according to the IMF estimate**.

Tables detailing the U.S. macroeconomic data are shown below.

	Q208	Q308	Q408	Q109	Q209
GDP in % [1]	1.5	(2.7)	(5.4)	(6.4)	(0.7)
CPI in % [1]	0.9	0	(0.8)	(0.1)	0.7
Interest rate in % [2]	2.00	2.00	0.25	0.25	0.25
Unemployment rate in % [2]	5.6	6.2	7.2	8.5	9.5
Consumer confidence [2]	56.4	70.3	60.1	57.3	70.8
S&P 500[3]	(3%)	(9%)	(23%)	(12%)	15%
Nasdaq[3]	1%	(9%)	(25%)	(3%)	20%
IPO number	23	11	1	5	19
IPO in USD bn	4.8	1.3	0.1	1.1	2.3
M&A in USD bn	375	276	107	172	137

	H108	H109	Dh/h	Dq/q
GDP in % [1]	0.2	(1.9)	(2.1)	(2.5)
CPI in % [1]	0.9	0.7	(0.2)	(0.2)
Interest rate in % [2]	2.00	0.25	(1.75)	(1.75)
Unemployment rate in % [2]	5.6	9.5	3.9	3.9
Consumer confidence [2]	56.4	70.8	14.4	14.4
S&P 500[3]	(13%)	2%	15%	18%
Nasdaq[3]	(14%)	16%	30%	19%
IPO number	51	24	(53%)	(17%)
IPO in USD bn	27.3	3.4	(88%)	(53%)
M&A in USD bn	540	309	(43%)	(64%)

Data as of September 27, 2009 from Bloomberg

[1] Figures are for the whole period

[2] Period end figures

[3] Change for the relevant period

* Source: International Monetary Fund Global Financial Stability Report October 2009

** Source: International Monetary Fund World Economic Outlook October 2009

GDP: The GDP decreased by 1.9% in the first half of 2009 since December 2008 compared with 0.2% growth over the same period of 2008. While the second part of the first half 2009 still showed declining output, it was significantly less than the first quarter's 6.4% annualized drop in GDP. This decrease in real GDP was primarily driven by lower consumption and business investments, while increase in federal government spending lifted the GDP figures.

Inflation remains low enabling the Fed to support economy with low interest rates

Inflation: The inflation rate increased slightly during the first half of 2009 after the consumer price index fell continuously over the second half of 2008. In comparison, it did not change significantly over the same period of last year. Inflation remains at a historically low level, enabling the Federal Reserve to maintain an aggressive monetary policy. Inflation risks are expected to increase in the second half of 2009 and beyond, driven primarily by higher commodity prices and higher prices of import goods due to the weakened dollar exchange rate.

Unemployment is deteriorating further

Interest rates: The Federal Reserve Bank held the target rate at 0-0.25%, with no indication of change in the near future. According to the Federal Reserve, rates are expected to remain low for an "extended period" in order to support the recovery of the economy. However, markets anticipate a gradual increase in the target rate as long as the economic activity continues to improve. The increase in the target rate would also support the strength of the dollar and hold off the inflation.

Employment: Prolonged recession accelerates the unemployment rates, which increased by 2.3 % during the first half of 2009 and by 3.9% since the end of June 2008. The number of mass layoffs doubled in the first half of 2009 compared to the same period of 2008, from 3,096 to 6,973, driven by lower business demand. There was a shift in unemployment statistics between industries in the first half of 2009. While financial institutions and construction firms had the highest share of mass layoffs in the second part of 2008, manufacturing companies gained share in the first half of 2009, according to the Bureau of Labor Statistics.

Public markets boosted positive returns

Public markets: The equity markets changed direction in March of 2009, resulting in the S&P 500 gaining 2%, with NASDAQ appreciating strongly by 15%. In contrast, markets fell in the previous year as fear of the credit crunch and recession spread over the markets. The price increases were driven by positive first quarter corporate results announcements of financial institutions that were able to benefit from the low interest environment.

IPO activity increased, while M&A deal flow is still stagnant

IPOs: The IPO volumes declined by 88% during the first half of 2009 compared to the same period of 2008, reflecting the state of the equity markets in the respective periods. The downward trend that started in the second quarter of 2008 hit its lowest point in the fourth quarter of 2008. During the first half of 2009, the volumes continuously increased from USD 1.1 billion in the first quarter to USD 2.3 billion in the second quarter. The largest IPO of the first half was Mead Johnson Nutrition, a spinoff from Bristol-Myers Squibb, raising USD 828 million. The positive trend continued into the third quarter, with announcements of a number of big IPOs.

M&A: Semi-annual disclosed M&A deal values declined in 2009 by 43%, from USD 540.0 billion half year ago to USD 309.0 billion. The decrease was driven by liquidity squeeze and unwillingness of sellers to sell assets at lower valuations. The largest M&A deals in the first half of 2009, with a combined value of USD 111.0 billion, were announced by the pharmaceutical giants Pfizer Inc. and Merck & Co, acquiring WYETH and Schering Plough, correspondingly.

Private equity markets

The U.S. fundraising activity declined sharply in the first half of 2009, with USD 48 billion raised by 169 funds, a volume drop of 71% compared to the first half of 2008. Commitments to buyout funds dropped the most, while investors' attention was seemingly caught by special situation funds exploiting pricing dislocations in real estate and pursuing distressed debt opportunities. One of the notable funds in this area includes Oaktree Capital Management, which so far raised USD 1.5 billion in the first half, with a target of USD 5.0 billion, to take control of companies through debt positions.

Investment activity remained low in the first half of 2009; however, the results across different strategies are mixed. LBO investments continued to decline as large and mega deal markets were halted by the credit squeeze. In such an environment, private equity funds focus on smaller transactions often driven by corporations selling non-core subsidiaries, requiring capital to make strategic acquisitions or seeking growth capital. Such transactions generally require less leverage and lower purchase multiples can be negotiated. On the other hand, the venture capital investment activity showed signs of recovery, with the volumes and number of companies invested in increasing in the second quarter. However, a comparison with the same period of 2008 underlines that venture capital has also been affected by the crisis although the decline is less pronounced in comparison with buyouts.

Private equity fundraising dropped, while investment activity for VC picked up

The private equity exit channels were largely dormant during the first half of 2009, although the second quarter showed an increase in activity as six private equity backed IPOs returned USD 833 million of initial proceeds to the funds. The decline in exit activity correlates well with the overall M&A and IPO activity, as private equity managers hold off selling quality assets and wait for an increase in valuations. With a markets upturn, exit activity is expected to increase.

Tables detailing the U.S. private equity data are shown below.

all values in USD billion		Q208	Q308	Q408	Q109	Q209
LBO	Funds raised	64.6	61.1	18.9	22.2	19.0
	Number of funds	90	65	47	60	32
	Investments	12	55	7	5.00	2.00
	Drawdowns[1]	12.4	12.7	6.9	n/a	n/a
	Distributions	3.8	4.0	2.1	n/a	n/a
	Appreciation as % of NAV	(0.6%)	(3.8%)	(9.4%)	(1.6%)	n/a
	5 year rolling IRR [2]	14%	12%	8%	7%	n/a
VC	Funds raised	9.3	8.5	3.6	4.8	2.0
	Number of funds	82	63	49	50	27
	Investments	8.3	7.9	6.1	4.0	5.3
	Drawdowns[1]	1.6	1.8	0.9	0.7	n/a
	Distributions	1.3	1.1	1.2	0.3	n/a
	Appreciation as % of NAV	0%	(2%)	(5%)	(1%)	n/a
	5 year rolling IRR [2]	9%	9%	6%	6%	n/a

all values in USD billion		H108	H109	Dh/h	Dq/q
LBO	Funds raised	151.2	41.2	(73%)	(71%)
	Number of funds	187	92	(51%)	(64%)
	Investments	75	7	(91%)	(83%)
	Drawdowns[1]	n/a	n/a	n/a	n/a
	Distributions	n/a	n/a	n/a	n/a
	Appreciation as % of NAV	n/a	n/a	n/a	n/a
	5 year rolling IRR [2]	n/a	n/a	n/a	n/a
VC	Funds raised	16.5	6.8	(59%)	(79%)
	Number of funds	155	77	(50%)	(67%)
	Investments	16.5	9.3	(44%)	(37%)
	Drawdowns[1]	n/a	n/a	n/a	n/a
	Distributions	n/a	n/a	n/a	n/a
	Appreciation as % of NAV	n/a	n/a	n/a	n/a
	5 year rolling IRR [2]	n/a	n/a	n/a	n/a

Source: Venture Economics, Buyouts and Thomson Reuters for LBO investments, Dow Jones VentureSource for VC investments

n/a - Data is not available as Venture Economics discontinued the reporting of preliminary figures.

[1] Drawdowns and Investments data are based on different sample databases, therefore the figures are not comparable.

[2]IRR is calculated based on pooled rolling five year cash flows and the end period NAV.

n/a Data was not yet published by Venture Economics

LBO

Commitments to the U.S. buyout funds declined by 73% in the first half of 2009, compared to the same period in 2008. Similarly, the quarterly development was disappointing, with only 32 funds and USD 19 billion raised (compared to 60 and USD 22.2 billion respectively in the first quarter). The share of the number of large funds with commitments exceeding USD 1 billion decreased in the first half of 2009, from a third in the first half of 2008 to a quarter of all funds. Likewise, the share in total commitment amounts declined from 87% to 75%. The shift from large funds to smaller funds was driven by a fewer number of large funds in the fundraising, as well as a lower demand from investors. Hellman & Friedman VII and First Reserve Fund XII received the largest proportion of first half commitments from investors, raising USD 6.0 and USD 4.4 billion respectively.

US LBO activity remains slow with fewer funds raised and smaller investments made.

The LBO investment activity was hit even harder as, according to Buyouts and Thomson Reuters, only USD 7 billion was invested in the first half of 2009. This represents a 91% drop in comparison to the first half of 2008. The largest LBO deal of the first half of 2009 was the KKR purchase of Oriental Brewery, a Korean company, for USD 1.8 billion. With the challenging state of the economy remaining unchanged, one might understandably expect a moderation in LBO pricing. However, the huge private equity capital overhang has prevented pricing from falling to more appropriate levels. Furthermore, loan pricing is significantly high due to the near-absence of institutional investors and is increasing further as a result of the current credit turmoil. During the first half of 2009, the average spread of all LBO loans jumped to LIBOR +633, up from LIBOR +422 for 2008, according to the Standard and Poor's report.

VC

VC showed first signs of recovery with higher investments but fundraising remains challenging

As with buyouts, venture capital fundraising was challenging in the first half of 2009, impacted by the ongoing weakness of the economy. Commitments plummeted by 59%, from USD 16.5 billion raised in the first six months of 2008 to USD 6.8 billion. Nearly half of the funds were committed to the balanced stage funds, while the early stage commitments continued to fall below the long term average of 40%. This trend may be due to the acceptance of LPs that it takes longer for early stage investments to generate returns. Nevertheless, despite the difficult environment, top tier VC funds were still able to close their funds. The largest commitment during the first half of 2009 was received by August Capital Management raising USD 650 million, above its target size of USD 450 million.

The half year investments were 44% lower than in the same period of 2008, illustrating that venture capital will need a considerable amount of time to make a full recovery. However, investment activity regained in the second quarter of 2009 compared to the previous quarter, with volume increasing by 32.5% from USD 4.0 billion to USD 5.3 billion, according to Dow Jones VentureSource data. 595 companies received venture backed financing compared with only 483 in the previous quarter, driven by an increase in the VC allocation to healthcare companies. Later stage rounds continued to receive most of the dollars in the first half of 2009, with its share increasing from 50% to 54% in the overall allocation. The median size of the deals declined across all round classes as managers showed a preference for investing in small to mid size companies. The most active manager was NEA, making 16 investments during the first half of 2009. In line with expectations, the median valuation of VC investments declined for later stage and second round investments, while first rounds valuations slightly increased in the first half of 2009 compared to 2008.

Private equity exit activity will be delayed, as fundamentals of portfolio companies' severely impacted by the prolonged recession

After four quarters of drought, IPO exit activity resumed in the first half of 2009 with five companies going public and a number completing IPO filings for the second half of 2009. The M&A exit activity remained low in the first half of 2009. USD 5.9 billion was received by VC funds from 137 transactions, compared to USD 15.3 billion and 194 exits in the first half of 2008. The age of the exited investments decreased to 4.6 years in 2009, while during 2005- 2008 it was steadily increasing to 6.4. This could be explained by the fact that most of the exits were accelerated by financial difficulties faced by younger, more vulnerable companies.

Mid 2009, there are further signs of economic recovery and we see the first positive impact of such a development on the private equity industry, with VC investment levels increasing and a revival of the IPO market. If the economic environment continues to improve, reasonable upticks should be expected in fundraising and investment activity. However, it is clear that the constrained capital capacity of financial institutions affects the investment activity of private equity funds, despite

USD 665 billion of capital overhang accumulated by the industry. Furthermore, severely impacted portfolio companies, and their fundamentals, at least with respect to their revenues, are expected to remain weak for a long time. This would further delay the private equity exits unless the public markets make a strong recovery, with trading multiples returning quickly to 2007 levels. Nevertheless, in the past, experienced managers have demonstrated their ability to find investment opportunities in a challenging environment and to produce an attractive performance over different economic cycles.

Environment - EU

Europe is coming out of recession but uncertainty remains high

Following serious deterioration of economic conditions in 2008, the first half of 2009 has seen increased stability across Europe. A positive development was observed with the decline of economic activity slowing significantly and even recovering in some countries. The output of goods and services decreased by 2.7 % in the first half of 2009, due mainly to the weak activity in the first quarter, while the second quarter saw unexpected growth in Germany and France. The improved world trade and resilient private consumption slowed the free fall of the European economy. As with global stock markets, Europe saw a return of investor confidence as reflected in increased indices prices, lower volatility and declining spreads of the investment grade bonds. However, the increasing unemployment and the continued deleveraging may restrain the recovery of the economy. Rapid credit growth is unlikely, as banks are continuing to struggle with balance sheet issues and the deleveraging process will continue for the foreseeable future. The largely frozen credit markets prompted companies to raise debt in public markets. According to Credit Suisse, 17 new issues raised EUR 6.7 billion in debt by the end of July of 2009, while only five issues were completed throughout the whole of 2008 with EUR 1.2 billion of proceeds*. This could ease the credit squeeze and support the growth of the corporate sector.

Despite the late encouraging data, the sustainability of the development remains a major concern, mainly due to the reliance of the current recovery on temporary factors, such as government investments. According to the European Commission, risks to the EU growth outlook for 2009 appear broadly balanced, with the forecast for the average annual GDP growth remaining unchanged at (4%)**.

Tables detailing the Eurozone macroeconomic data are shown below.

	Q208	Q308	Q408	Q109	Q209
GDP in % [1]	(0.3)	(0.4)	(1.8)	(2.5)	(0.2)
CPI in % [1]	0.4	0.2	(0.1)	0.4	0.2
Interest rate in % [2]	4.00	4.25	2.50	1.50	1.00
Unemployment rate in % [2]	7.4	7.7	8.2	9.0	9.4
Consumer confidence [2]	(15.9)	(19.0)	(31.0)	(34.0)	(25.0)
FTSE 100 [3]	(1%)	(13%)	(10%)	(11%)	8%
CAC 40 [3]	(6%)	(9%)	(20%)	(13%)	12%
DAX [3]	(2%)	(9%)	(18%)	(15%)	18%
IPO number	66	39	7	1	6
IPO in EUR bn	5.5	1.2	0.7	0.0	0.3
M&A in EUR bn	136	185	119	102	67

	H108	H109	Dh/h	Dq/q
GDP in % [1]	0.4	(2.7)	(3.1)	0.1
CPI in % [1]	0.4	0.2	(0.2)	(0.2)
Interest rate in % [2]	4.00	1.00	(3.00)	(3.00)
Unemployment rate in % [2]	7.4	9.4	2.0	2.0
Consumer confidence [2]	(15.9)	(25.0)	(9.1)	(9.1)
FTSE 100 [3]	(13%)	(4%)	9%	10%
CAC 40 [3]	(21%)	(2%)	19%	18%
DAX [3]	(20%)	(0%)	20%	20%
IPO number	104	7	(93%)	(91%)
IPO in EUR bn	6.9	0.3	(95%)	(94%)
M&A in EUR bn	255	169	(34%)	(51%)

Data as of October 9, 2009 from Bloomberg

[1] Figures are for the whole period

[2] Period end figures

[3] Change for the relevant period

* Source: Credit Suisse Leveraged Finance Market Update October 2009

** Source: European Commission Interim Forecast September 2009

GDP: European economic activity continued to decline in the first half of 2009 as GDP decreased by 2.7%, compared to the growth of 0.4% in the first half of 2008. However, the rate of the GDP decline slowed markedly in the second quarter to 0.2%, from 2.5% in the quarter of 2009, driven by a relatively robust consumer and public spending. Corporate investments in equipments declined significantly and remain a major weakness in this recession.

Low inflation supports private consumption

Inflation: Consumer price inflation did not change significantly from the previous year and remain level with the widespread deflation fears easing in the first half of 2009. The historically low levels provide noticeable support to consumer consumption as household real disposable income increased. This was due to reduced prices for food, services, and energy.

Interest rates: With inflation remaining at a low level, the ECB further decreased the target interest rate to 1.0%. The lowest historical interest level contrasts with 4% that was maintained by ECB by the end of the first half of 2008. Since then, monetary policy targeted an increase of the liquidity in the market and provided some relief to banks, corporate and private sector. Banks have passed these lower rates to businesses, as indicated by the decline of the weighted average interest rate on loans to non-financial corporations.

Labor market lags economic development and is expected to deteriorate

Employment: The labor market situation deteriorated further in the first half of 2009, with the unemployment rate increasing by 1.2% to 9.4%

during the six months to June 2009 and up 2.0 % over the year. The unemployment rate is expected to rise further due to the lagging nature of the labor market compared to the cyclical development of economic activity.

Public markets bottomed out

Public markets: Equity markets declined slightly in the first half of 2009 compared to the year end of 2008, as strong gains posted across all major indices in the second quarter could not offset losses from the first quarter. However, the decline compares favorably against the first half of 2008 when markets showed two digits drops. During the first six months, the FTSE 100 declined by 4%, CAC 40 lost 2%, while DAX remained even.

IPOs: During the first half, IPO activity remained slow with only EUR 320 million raised by seven companies on the Western European stock exchanges. The weakness of the IPO market becomes evident when compared to the first half of 2008 when 104 IPOs raised EUR 6.9 billion. Investors continued to prioritize the limited financial resources to secondary public offerings of established public companies, as opposed to the privately owned IPO candidates. The largest IPO of the first half raising EUR 226 million, was Max Property Group, a Jersey incorporated Real Estate Investment Company.

IPO and M&A activities are still stagnant

M&A: The M&A activity declined in the first half of 2009 but on a lower scale compared to IPOs. Disclosed deal values declined in 2009 by 34%, from EUR 255 billion to EUR 169 billion. The number of announced deals declined substantially. According to Bloomberg, 2,295 deals were announced during the first half of 2009, 1,798 deals or 44% fewer than in the first half of 2008. Government investments dominated the transaction volumes in the first half of 2009, with the largest deals being British Treasury's $22.3 billion bailout of Lloyds Banking Group and a four-tranche deal for Royal Bank of Scotland, worth a combined $47.8 billion. The largest announced transaction in the private sector was the acquisition of Barclay Global Investors by Blackrock Inc for EUR 8.9 billion.

Private equity markets

The challenging economic environment continued to impact private equity fundraising, with investor commitments to European private equity funds declining from EUR 26.7 billion in the first half of 2008 to EUR 9.3 billion in the first half 2009. The cumulative half year commitments represent a 65% drop from the same period last year, as investor allocations to private equity are impacted by a denominator effect when private equity portfolio allocations exceed desired levels, due to the decline of public assets. Furthermore, fewer large funds were raised, while some managers extended the raising period having been confronted with investors increasingly cautious in commitment and liquidity management in times of a distribution drought.

Likewise, investments dropped on the same scale during the first half of 2009, compared with the previous half year, driven by substantial decline in buyout deals. However, with some positive news on the macroeconomic development and the recent rally in equity markets, a number of General Partners seemed to seize the opportunity to buy assets before prices rose further. Investment activity showed a positive development as volumes increased by a third, from EUR 3.0 billion in the first quarter of 2008 to EUR 4.0 billion in the second quarter of 2009, mainly due to increased deal activity in the mid-market segment of buyouts.

Private equity fundraising declined further while investment activity picked up

With the stalled M&A and closed IPO markets, exit activity fell sharply during the first half of 2009 compared to the same period of 2008, with exits dropping across all strategies. The development in the second quarter showed further declines in exits for VC as the IPO activity did not improve, as opposed to in the US. Likewise, the buyout exit activity remained very weak, although the volumes and the number of transactions stabilized at a very low level. According to Private Equity Insight Database, buyout exits declined by 84% in the first half of 2009 compared to the last year half, while the second quarter of 2009 showed upticks in the investment activity with both volumes and number of exits increasing by 52% and 47%, respectively. In line with exit activity, distributions can be estimated to decline as well.

The net asset values are expected to appreciate slightly in the first half of 2009, with the surge of public equity markets and the increase in multiples of comparable public companies seen since March 2009.

Tables detailing the European private equity data are shown below.

all values in EUR billion		Q208	Q308	Q408	Q109	Q209
LBO	Funds raised	10.3	8.7	11.5	4.1	1.3
	Number of funds raised	20	19	17	13	10
	Investments	23.5	21.3	6.9	2.1	3.3
	Drawdowns[1]	4.9	4.7	2.4	n/a	n/a
	Distributions	2.4	1.4	2.1	n/a	n/a
	Appreciation as % of NAV	(3.4%)	(3.9%)	(16.2%)	n/a	n/a
	5 year rolling IRR [2]	16.8%	15.9%	11.1%	10.8%	n/a
VC	Funds raised	2.7	2.3	2.7	1.3	2.7
	Number of funds	35	31	40	21	54
	Investments	1.1	1.4	1.3	0.9	0.6
	Drawdowns[1]	0.5	0.2	0.3	n/a	n/a
	Distributions	0.3	0.2	0.1	n/a	n/a
	Appreciation as % of NAV	1.2%	(0.3%)	(6.2%)	n/a	n/a
	5 year rolling IRR [2]	1.8%	1.8%	1.5%	2.0%	n/a

all values in EUR billion		H108	H109	Dh/h	Dq/q
LBO	Funds raised	20.9	5.3	(74%)	(87%)
	Number of funds raised	49	23	(53%)	(50%)
	Investments	48.6	5.4	(89%)	(86%)
	Drawdowns[1]	9.0	n/a	n/a	n/a
	Distributions	4.9	n/a	n/a	n/a
	Appreciation as % of NAV	(6.2%)	n/a	n/a	n/a
	5 year rolling IRR [2]	16.8%	n/a	n/a	n/a
VC	Funds raised	5.8	4.0	(31%)	0%
	Number of funds	92	75.0	(18%)	54%
	Investments	2.5	1.5	(38%)	(42%)
	Drawdowns[1]	0.9	n/a	n/a	n/a
	Distributions	0.5	n/a	n/a	n/a
	Appreciation as % of NAV	1.2%	n/a	n/a	n/a
	5 year rolling IRR [2]	1.8%	n/a	n/a	n/a

Source: Venture Economics, Private Equity Insight for LBO investments, Dow Jones VentureSource for VC investments

n/a - Data is not available as Venture Economics discontinued the reporting of preliminary figures.

[1] Drawdowns and Investments data are based on different sample databases, therefore the figures are not comparable.

[2]IRR is calculated based on pooled rolling five year cash flows and the end period NAV.

n/a Data was not yet published by Venture Economics

LBO

Commitments to European buyout funds declined by 74% in the first half of 2009, compared to the same period in 2008. 23 funds raised EUR 5.3 billion in the first half of 2009, compared to 49 funds receiving EUR 20.9 billion in the first half of 2008. As a result of investors' over-commitments to buyout funds during the boom years of 2005-2007, managers find it hard to raise new funds, especially those focused on large-cap investments. Only four funds out of 23 raised during the first half of 2009 had a target commitment size above EUR 1.0 billion. Investors also seem to have shifted their allocation towards secondary and venture funds in an attempt to diversify portfolios, with a view to obtaining earlier liquidity or to have less exposure to the debt market. The share of buyout commitments in total raised funds was at 47% during the first half of 2009, significantly less than the historical average of 60%.

LBO fundraising fell sharply but there are positive signs of turnaround in investment activity

Likewise, the buyout investment activity dropped sharply by 89% from 2008 half year, with EUR 5.4 billion invested in 111 deals in the first half of 2009 compared to EUR 48.6 billion allocated towards 351 companies. However, the second quarter saw an upward shift, with an increase in both the value and number of transactions. According to Private Equity Insight, the number of transactions increased by 18% in the second quarter of 2009 compared to the first, from 51 deals to 60. Investment volumes grew by 63% from EUR 2.1 billion to EUR 3.3 billion. However, these figures are still significantly below the weak numbers recorded in the fourth quarter of 2008. A major contributing factor to this increase in activity was a sharp rise in stressed and distressed opportunities coming to the market, as well as an increase of strategic divestments. No transactions have been completed in the large cap segment, while deals in the mid market have picked up. The largest deal, valued at EUR 637.2 million, was the acquisition of Wood Mackenzie by Charterhouse Capital Partners from Candover Investments, marking the increase in secondary buyouts.

VC

Unlike the buyouts commitments, European VC fundraising activity declined less in the first half of 2009 compared to the first half of 2008, with the value and number of funds decreasing by only 31% and 18% respectively. This is due to the marked recovery in the second quarter of 2009. Commitment amounts doubled from the first quarter to EUR 2.7 billion, with the number of raised funds increasing from 21 to 54. Early stage funds attracted the majority of investors' money, accounting for 80% of total commitments. The largest commitment of EUR 549 million was made to BP Development, an early stage fund managed by French Naxicap Partners.

VC fundraising increased while investments continued to decline

VC funds invested EUR 1 billion less during the first six months of 2009, compared to the first half of 2008, representing a 38% drop in values, according to Dow Jones VentureSource. The downward trend was visible across quarters as well, with second quarter values decreasing by 42% compared to the first quarter. Fewer deals were completed in all industry sectors, with the exception of biopharmaceuticals. This is the largest sector in VC allocations, with a share of 31% of all investments. The allocation to later stage companies increased in the second quarter from 28% to 33% of all investments, a trend observed during the past four quarters, indicating that VC managers continue to prefer investing in more mature companies. VC investments in Germany, the second largest VC country in the last two years after the UK, dropped by 75% in the first half of 2009, compared with the same period in 2008. Notably, VC investments in Switzerland skyrocketed almost ten times, driven by biotech later stage investments such as NovImmune, a spinout of Geneva University, which received the largest allocation in Switzerland during the first half of 2009.

Private Equity exit activity is expected to increase should public markets continue to recover

Europe's IPO market remained stagnant despite signs of life, particularly in Asia, and the US. However, the recent market rally and increase in the secondary offerings from quoted biotech companies, which typically precedes the opening of a VC IPO window, indicate that the VC exit activity through IPOs may resume in the near future. There is clearly much debate amongst economists as to whether the trend of improved sentiment will be sustained. However, it is noticeable that this gradual change in outlook has been matched in the middle market by a modest improvement in the M&A outlook, which, in turn, has encouraged private equity managers to prepare for more active exit markets.

Environment – Asia Pacific

Asian economies were severely impacted by the sharp decline in global trading activity, capital outflow from the region, and constrained trade finance late last year. However, at the beginning of the year, the Chinese and Indian economies showed initial signs of recovery, with public equity markets boosting solid returns. This encouraging development continued into the second quarter with Japan making a quick and surprise emergence from the recession and China and India making a strong recovery. Leading indicators, such as public markets and business and consumer confidence, signify an increasingly positive recovery, led by a rapid rebound in China. Growth in China increased to an annual rate of 7.9% in the first half of the year, driven entirely by domestic demand. In Japan, the turnaround was more gradual, driven by an increase in industrial production followed by an upturn in retail sales. This ensured Japan's growth in the second quarter. The quick recovery in Asia owed to expansionary fiscal and monetary policy and a rebound in financial markets and capital inflows easing financing conditions for smaller export enterprises.

Growth of Asian economies is restored

Despite these positive signs, a sustainable recovery is not assured. Increasing unemployment is likely to dampen consumption, while significant excess capacity in industry will slow down investment demand. Furthermore, developed countries of the region still depend on the return of demand for durable goods from Europe and the US, which could be delayed for a longer time. However, the Asian region is recovering at a faster rate than the U.S. and Europe and seems to be a driver of the global recovery. According to the IMF outlook, the growth momentum in Asia will be maintained in the second half of 2009 with the Chinese and Indian economies expanding by 8.5%* and 5.4%* respectively. Japan's economy will decline for the year by 5.4%* due to a large drop in output in the first quarter of 2009.

Tables detailing the Asian macroeconomic data are shown below.

		Q208	Q308	Q408	Q109	Q209
Japan	GDP in % [1]	(0.7)	(1.3)	(3.4)	(3.3)	0.6
	CPI in % [1]	2.0	2.1	0.4	(0.3)	(1.8)
	Interest rate in % [2]	0.50	0.50	0.10	0.10	0.10
	Unemployment rate in % [2]	4.1	4	4.3	4.8	5.4
	Consumer confidence [2]	32.9	31.8	26.7	29.6	38.1
	Nikkei 225 index[3]	8%	(16%)	(21%)	(8%)	23%
China	GDP in % [1]	10.1	9	6.8	6.1	7.9
	CPI in % [1]	7.1	4.6	1.2	(1.2)	(1.7)
	Interest rate in % [2]	7.47	7.2	5.31	5.31	5.31
	Shanghai Composite index[3]	(21%)	(16%)	(21%)	30%	25%
India	GDP in % [1]	7.8	7.7	5.8	5.8	6.1
	CPI in % [1]	7.7	9.8	9.7	8.0	9.3
	Interest rate in % [2]	6	6	6	3.5	3.5
	Bombay equity index[3]	(14%)	(4%)	(25%)	1%	49%
Korea	GDP in % [1]	0.4	0.2	(5.1)	0.1	2.6
	CPI in % [1]	5.5	5.1	4.1	3.9	2.0
	Interest rate in % [2]	5	5.25	3	2	2
	Unemployment rate in % [2]	3.1	3	3.3	4	3.9
	Kospi index[3]	(2%)	(14%)	(22%)	7%	15%
Australia	GDP in % [1]	0.3	0.3	(0.7)	0.4	0.6
	CPI in % [1]	1.5	1.2	(0.3)	0.1	0.5
	Interest rate in % [2]	7.25	7.00	4.25	3.25	3.00
	Unemployment rate in % [2]	4.2	4.3	4.6	5.7	5.8
	ASX 200 index[3]	(3%)	(12%)	(19%)	(4%)	10%
Total Asia	IPO number	108	72	44	42	41
	IPO in USD bn	10.4	5.0	4.5	0.4	2.3
	M&A in USD bn	171.8	89.6	110.5	58.3	89.9

		H108	H109	Dh/h	Dq/q
Japan	GDP in % [1]	0.1	(1.4)	(1.5)	1.3
	CPI in % [1]	2	(1.8)	(3.8)	(3.8)
	Interest rate in % [2]	0.50	0.10	(0.4)	(0.4)
	Unemployment rate in % [2]	4.1	5.4	1.3	1.3
	Consumer confidence [2]	32.9	38.1	5.2	5.2
	Nikkei 225 index[3]	(12%)	12%	24%	15%
China	GDP in % [1]	10.35	7	(3.4)	(2.2)
	CPI in % [1]	7.1	(1.7)	(8.8)	(8.8)
	Interest rate in % [2]	7.47	5.31	(2.2)	(2.2)
	Shanghai Composite index[3]	(48%)	63%	111%	46%
India	GDP in % [1]	7.8	6.0	(1.9)	(1.7)
	CPI in % [1]	7.7	9.3	1.6	1.6
	Interest rate in % [2]	6	3.5	(2.5)	(2.5)
	Bombay equity index[3]	(34%)	50%	84%	63%
Korea	GDP in % [1]	0.8	1.4	0.6	2.2
	CPI in % [1]	5.5	2.0	(3.6)	(3.6)
	Interest rate in % [2]	5	2	(3.0)	(3.0)
	Unemployment rate in % [2]	3.1	3.9	0.8	0.8
	Kospi index[3]	(12%)	24%	35%	17%
Australia	GDP in % [1]	0.5	0.5	-	0.3
	CPI in % [1]	1.5	0.5	(1.0)	(1.0)
	Interest rate in % [2]	7.25	3.00	(4.3)	(4.3)
	Unemployment rate in % [2]	4.2	5.8	1.6	1.6
	ASX 200 index[3]	(18%)	6%	24%	13%
Total Asia	IPO number	180	83	(54%)	(62%)
	IPO in USD bn	15	3	(82%)	(77%)
	M&A in USD bn	280.3	148.3	(47%)	(48%)

[1] Figures are for the whole period

[2] Period end figures

[3] Change for the relevant period

* Source: International Monetary Fund World Economic Outlook October 2009

GDP: The quarter-on-quarter GDP increased across all major economies. Japan emerged from the recession following the growth of its economy by 0.6%. The GDP increases in China and India were driven mainly by an increase in domestic demand, while Japan and Korea benefited from government programs bolstering durable goods consumption.

Inflation remained low; however some countries saw an upturn

Inflation: Inflation rates have varied substantially across countries. While price indices in China, Japan, and Korea declined further in the second quarter of 2009, inflation increased in India and Australia. With expansionary monetary politics, inflation is expected to increase slightly in the near future.

Interest rates: Governments responded to the crisis by continuing to reduce interest rates since the third quarter of 2008. Interest rates remained at the previous quarter levels for all reported countries, with the exception of Australia which decreased the target rate from 3.25% to 3.0%.

Unemployment has increased in Japan and Australia

Employment: The unemployment situation continued to deteriorate in Japan. The delayed consequences of the recession accounted for the increase in the rate from 4.7% in the previous quarter to 5.4%. Australia reported a slight increase in unemployment figures and there was a slight improvement in the Korean labor market.

Public markets had a bull rally

Public markets: All major Asian equity indices appreciated during the second quarter with the Indian equity market skyrocketing by 49%, the Shanghai Composite rising by 25% and the Nikkei 225 by 23%. The increase in prices was driven by external investors returning to the region and supportive macroeconomic news.

IPO and M&A activity gained momentum

IPOs: The region's soaring stock prices have revived investors' interest in new stocks. IPO volumes increased from USD 0.4 billion in the first quarter to USD 2.3 billion in the second. Subsequent to the second quarter, IPO activity continued to pick up, as many IPO candidates postponed offerings during the last two quarters. China Zhongwang Holdings Ltd. raised US$1.26 billion in the world's biggest initial public offering in the first half of 2009.

M&A: In line with the IPO markets, M&A activity gained momentum during the second quarter, with disclosed volumes rising by 54% and the number of transactions increasing by 6% over the previous quarter. However, deal volumes in the first half of 2009 were 47% lower than in the first quarter of 2008. The largest announced transaction was the private sale of China Construction Bank shares, worth USD 7.3 billion, by Bank of America to a group of investors including Hopu Investment Management, Temasek Holdings, and China Life Insurance.

Private equity markets

Fundraising is down from the previous year, although second quarter showed a slight uptick

The private equity fundraising activity in Asia, as in other regions, has been severely impacted by the global recession and slowed growth in emerging countries. According to the AVCJ database, 46 private equity funds raised USD 7.2 billion in the first half of 2009 compared to USD 30.1 billion raised by 164 funds in the first half of 2008. This represents a 77% drop in value and a 72% decrease in the number of funds. The decline in buyout volumes was the most marked of all fund types as the proportion of buyouts in total commitments declined from 40% in the first half of 2008 to 9% in the first half of 2009. The decline of activity of venture capital and growth funds was less marked in comparison with USD 4.2 billion of commitments in the first half of 2009 (USD 14.5 billion in the first half of 2008). In contrast, infrastructure focused funds matched amounts raised in the first half of

2008, with USD 2.0 billion of commitments. The largest fund was the USD 1.0 billion Macquarie SBI Infrastructure Fund targeting India. From a regional perspective, China, India and Hong Kong dominated the fundraising activity in the first half of 2009 with 76% of all funds raised. However, despite the slowdown in fundraising activity, the second quarter commitments increased over the first quarter by 21%, indicating that it may soon regain strength. In addition, a number of funds were able to raise more than USD 1 billion, including Shanghai Financial Industrial Investment Fund, MBK Partners II, Carlyle Asia Growth Partners IV.

Investments did not fall much lower than they were in the first half of 2008 and increased slightly in the second quarter

Another encouraging sign of a private equity upturn was an increase in investment activity in the second quarter of 2009 by 5%, from USD 10.9 billion in the first quarter to USD 11.5 billion. This compares well to the USD 15.4 billion in the second quarter of 2008. The market is recovering noticeably from hitting rock bottom in the fourth quarter of 2008 when only USD 7.4 billion was invested. The breakdown of investments by stage shows that PIPE transactions gained in popularity, accounting for over 50% of all transaction values in the second quarter. The largest deal was USD 4.6 billion, the acquisition of China Construction Bank by Hopu Investment Management and Temasek Holdings, accounting for 40% of the total quarterly investments. It is clear that investors used the downturn in the public market to build positions in public equities and completed PIPEs as markets started to turn around. Buyout deals accounted for 21% of all investments and turnaround funds for 6%.

Both types of exits, IPOs and M&A are gaining momentum

Due to the strong recovery of the public market, Asia Pacific was able to produce relatively strong exits compared to the US and Europe. China led the exit market with all top five Asian IPOs coming from China during the first half of 2009. Olympus Capital Holdings delivered the largest exit with the IPO of China Zhongwang Holdings on the Hong Kong Stock Exchange, raising USD 1.26 billion. Trade sale exit activity made a strong recovery in the second quarter, achieving an equal number of transactions in the first half of 2009, compared to the same period of 2008. The volumes increased nearly three times, from USD 1.9 billion in the first quarter to USD 5.4 billion in the second. However, they were 65% lower in the first half of 2009 compared to the first half of 2008. The two largest exits were completed by Goldman Sachs Asia Ltd selling shares of the Industrial and Construction Bank of China for USD 1.9 billion, and TPG Capital Ltd realizing USD 1.675 billion from the sale of a 17% stake in Shenzhen Development Bank to Ping An Insurance Company of China.

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