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Capital Dynamics Market Environment

Summary Q1 2010

Confidential

Environment – US

A manufacturing rebound drove growth, but concerns over sustainability linger

The financial unrest in Europe also impacted US market activity, with M&A and IPO activity slowing, and new debt issuance declining from the fourth quarter of 2009. Nonetheless, the recovery of US economic activity that began in the second half of 2009 has continued at a moderate pace in the first quarter of 2010. GDP increased at an annualized rate of 2.7%, slightly short of consensus expectations. First-quarter GDP numbers reflect rebounding production and slight increases in consumer spending and business investment in equipment and software, while weakness in construction continued. The net number of non-farm payroll employees grew for three consecutive months in the first quarter, for the first time since the beginning of the recession.

However, concerns linger over the recovery's persistence. During the recession, manufacturers cut production to a greater extent than demand fell, resulting in a destocking of inventories. Now, to refill inventory stocks, production levels are up and were responsible for 1.9% of overall GDP growth. Once inventories are brought back to normal levels, production will adjust to final sales, a good gauge of underlying demand, which currently remains soft. Furthermore, an increase in consumer spending was driven to a large extent by an increase in social benefits issued by the government and a decrease in personal savings, and to a lesser extent, by an increase in employee compensation. Continued high unemployment, depressed housing prices, federal and state budget deficits and expectations for higher taxes are expected to have a negative effect on consumer confidence.

The tables below detail US macroeconomic and financial data.

	2008	2009	Q109	Q110	Dy/y	Dq1/q1
GDP in % [1]	(1.9)	0.1	(6.4)	2.7	2.0	9.1
CPI in % [1]	0.1	2.7	(0.1)	0.1	2.6	0.2
Interest rate in % [2]	0.25	0.25	0.25	0.25	-	-
Unemployment rate in % [2]	7.4	10.0	8.6	9.7	2.6	1.1
Consumer confidence [2]	60.1	72.5	57.3	73.6	12.4	16.3
S&P 500 index price [3]	(38%)	23%	(12%)	5%	62%	17%
NASDAQ Composite index price [3]	(41%)	44%	(3%)	6%	84%	9%
IPO number	56	80	5	34	43%	580%
IPO in USD bn	28.6	20.2	1.1	5.4	(29%)	376%
M&A in USD bn	896.4	647.0	171.2	181.8	(28%)	6%
Leveraged loan in USD bn[4]	323.6	239.3	32.8	71.4	(26%)	118%
High yield bond in USD bn[4]	47.5	132.8	11.6	54.6	180%	371%

	Q109	Q209	Q309	Q409	Q110	Dq/q
GDP in % [1]	(6.4)	(0.7)	2.2	5.6	2.7	(2.9)
CPI in % [1]	(0.1)	0.7	0.2	0.2	0.1	(0.1)
Interest rate in % [2]	0.25	0.25	0.25	0.25	0.25	-
Unemployment rate in % [2]	8.6	9.5	9.8	10.0	9.7	(0.3)
Consumer confidence [2]	57.3	70.8	73.5	72.5	73.6	1.1
S&P 500 index price [3]	(12%)	15%	15%	5%	5%	(1%)
NASDAQ Composite index price [3]	(3%)	20%	16%	7%	6%	(1%)
IPO number	5	19	21	35	34	(3%)
IPO in USD bn	1.1	2.3	6.9	9.8	5.4	(46%)
M&A in USD bn	171.2	173.3	88.8	203.2	181.8	(11%)
Leveraged loan in USD bn [4]	32.8	71.7	50.2	84.6	71.4	69%
High yield bond in USD bn [4]	11.6	43.9	39.2	38.1	54.6	(3%)

1) Figures are for the whole period
2) Period-end figures
3) Change for the relevant period
4) New issue values
Notes: Dq1/q1 is the comparison of Q1 2010 vs. Q1 2009; Dq/q is the comparison of Q1 2010 vs. Q4 2009.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, as of June 27, 2010; Credit Suisse Leveraged Finance Market Update, June 2010

GDP growth pace has moderated

GDP: GDP increased by a 2.7% annualized rate in the first quarter of 2010, reflecting positive contributions from consumer spending, an increase in inventory investments and gains in non-residential fixed investments. According to Bloomberg's composite estimate, the US economy is expected to grow by 3.1% in 2010.

With stable inflation expectations, the target interest rate remains low

Inflation: Overall consumer prices have fluctuated in response to large swings in energy and food costs during the past year. In the first quarter of 2010, the price index increased by 0.1%. With substantial resource slack continuing to restrain cost pressures, inflation is likely to be subdued for some time, according to the FOMC. Bloomberg's composite forecast suggests a moderate 2.1% rate of inflation in 2010.

Interest rates: The Federal Reserve's target interest rate remained unchanged at 0.25% since the dramatic cut from 2.00% in the third quarter of 2008. The rate is expected to remain low, assuming the recovery continues to require support and inflation stays benign. The Federal Reserve may, however, employ other tools to tighten monetary policy.

Unemployment decreased slightly, but is expected to remain high during the year

Unemployment: Employment showed the first signs of improvement. Non-farm payroll employment figures rose for the first time since the onset of the recession with a net 261,000 jobs created. The unemployment rate fell from 10.0% at the end of 2009 to 9.7% in the first quarter of 2010. However, this level of growth is not sufficient to restore the nearly 8.5 million jobs that were lost over 2008 and 2009. High unemployment levels are expected to remain through the end of the year.

Public equities: Equity markets continued to appreciate in the first quarter of 2010, with the S&P 500 and NASDAQ gaining 5% and 6% respectively. This can be attributed to the majority of companies in these indices beating annual earnings estimates. However, market volatility has significantly increased following the quarter's end, in light of sovereign debt issues in some European countries.

IPO activity slowed as market volatility increased

IPOs: IPO activity remained difficult in the first quarter, as many deals were subject to price reductions and others were delayed until the market strengthens. While dollar volumes almost halved from USD 9.8 billion in the previous quarter to USD 5.4 billion in the first quarter of 2010, the number of IPOs remained stable compared to the previous quarter. There has been significant year-over-year improvement, as IPO markets were dormant a year ago. IPO activity will remain dependent on the stability of public equity markets.

M&A activity strengthened, but deal sizes declined

M&A: M&A activity continued to strengthen, as evidenced by the increase in transactions, from 1,700 deals in the fourth quarter of 2009 to 1,905 deals in first quarter of 2010. However, the average deal size decreased during the first quarter of 2010, resulting in an 11% decline in dollar volume from the previous quarter. Compared with one year ago, M&A activity experienced a good start, with volumes increasing by 6% and the number of deals by 55%. The amount of cash available to corporations for M&A deals has significantly increased during the last five quarters due to improved earnings. Still, corporations remained cautious as general uncertainty over the macroeconomic outlook persists. The largest deal of the quarter was the USD 12.6 billion acquisition of American Life Insurance by Met Life from AIG.

Credit markets improved, yet remain sensitive to macroeconomic developments

Credit markets: US leveraged loan and high-yield issuance have continued to rebound, with volumes more than doubling and tripling from the year ago, respectively. Eight of the ten largest leveraged loan issues were used for refinancing or for LBO acquisitions. In recent weeks, though, credit markets have shown signs of retreat in response to sovereign debt concerns in Europe, as well as uncertainty surrounding the sustainability of the US recovery.

Private equity markets

The cautious attitude of private equity investors, combined with the large amount of uninvested capital and stalled exit activity during the recession continued to impact private equity fundraising. PE investments and exits could not maintain the pace of the fourth quarter; yet they substantially exceeded first-quarter 2009 levels, reflecting improved credit and exit environments. Lending multiples for US LBOs are slowly increasing, as

PE deal activity is stronger than a year ago, but remains at a relatively low level

banks return to financing buyouts and relax restrictions on leveraged loans. On the back of an improved leveraged loan market, investment activity more than doubled from the previous year, with a number of large buyout transactions announced. Similarly, VC investments increased from a low base in the first quarter of 2009, showing the industry is slowly recovering from the economic downturn. Distributions more than doubled in the last quarter of 2009, rendering it the best quarter since the beginning of 2008. The pick-up was driven by the improved IPO environment, increased secondary buyout activity, and a return of dividend recaps. Trade sales, traditionally the dominant exit channel, have not yet rebounded as strongly, reflecting a cautious level of corporate activity in the first quarter of 2010. Valuations of private equity assets have increased during three consecutive quarters, mostly in the large buyout segment, driven in part by improving fundamentals. An analysis of the ten largest US buyout-backed companies performed by Thomson Reuters showed the operational cash flow of those companies increased 16% during 2009.

The tables below detail US private equity data.

all values in USD billion		2008	2009	Q109	Q110	Dy/y	Dq1/q1
LBO	Funds raised [1]	247.0	71.2	23.8	15.2	(71%)	(36%)
	Number of funds [2]	246	159	71	43	(35%)	(39%)
	Investments	137.1	34.7	5.0	12.0	(75%)	140%
	Drawdowns [3]	54.0	11.8	3.1	n/a	n/a	n/a
	Distributions	13.1	5.0	1.3	n/a	n/a	n/a
	Appreciation as % of NAV	(14.7%)	0.1%	(3.5%)	n/a	15%	n/a
	5 year rolling IRR [4]	8%	6%	6%	n/a	(1%)	n/a
VC	Funds raised [1]	28.5	15.7	5.3	3.7	(45%)	(29%)
	Number of funds [2]	224	134	56	35	(40%)	(38%)
	Investments	31.0	21.4	4.2	4.7	(31%)	13%
	Drawdowns [3]	7.0	2.7	1.0	n/a	n/a	n/a
	Distributions	5.8	1.6	0.5	n/a	n/a	n/a
	Appreciation as % of NAV	(8.4%)	0.5%	(2%)	n/a	9%	n/a
	5 year rolling IRR [4]	6%	5%	6%	n/a	(1%)	n/a

all values in USD billion		Q109	Q209	Q309	Q409	Q110	Dq/q
LBO	Funds raised [1]	23.8	20.2	14.7	12.9	15.2	18%
	Number of funds [2]	71	35	43	54	43	(20%)
	Investments	5.0	3.0	3.2	23.6	12.0	(49%)
	Drawdowns [3]	3.1	5.6	3.1	7.9	n/a	n/a
	Distributions	1.3	1.3	2.4	5.3	n/a	n/a
	Appreciation as % of NAV	(3.5%)	3.6%	4.5%	2.8%	n/a	n/a
	5 year rolling IRR [4]	6%	6%	6%	5%	n/a	n/a
VC	Funds raised [1]	5.3	4.2	2.3	4.1	3.7	(9%)
	Number of funds [2]	56	33	28	45	35	(22%)
	Investments	4.2	5.6	5.4	6.3	4.7	(25%)
	Drawdowns [3]	1.0	1.0	1.3	1.3	n/a	n/a
	Distributions	0.5	0.5	0.8	1.9	n/a	n/a
	Appreciation as % of NAV	(2%)	(2%)	1%	1%	n/a	n/a
	5 year rolling IRR [4]	6%	6%	5%	4%	n/a	n/a

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Drawdowns and Investments data are not comparable as Investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.

Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source.
n/a Data was not yet published by Thomson One
Source: Thomson One, Buyouts for LBO investments; Dow Jones VentureSource for VC investments

LBO

LBO fundraising experienced a weaker start than last year

LBO fundraising experienced a slower start in 2010, with volumes and the number of funds trailing significantly behind those in the same quarter of 2009. Commitment values declined 36% from USD 23.8 billion in the first quarter of 2009 to USD 15.2 billion. Many US buyout funds are still not fundraising as they have not yet met the investment thresholds for current funds, which would allow them to launch successor funds. However, the first quarter saw increased fundraising activity compared to the previous quarter, with commitments increasing by 18%. During the first quarter, investors also ramped up commitments to other types of funds, such as secondary funds, resulting in closing values reaching the second-highest quarterly amount in US fundraising history. Infrastructure funds also continued to attract greater investor interest. Both types of funds are seen to offer favorable cash flow patterns to LPs due to regular income from investments in the case of infrastructure funds, and earlier distributions from more mature portfolios of secondary funds. Such attributes appear to be in higher demand among cash-strapped LPs.

Deal activity intensified slightly on the back of the improved credit environment

Buyout sponsors gradually shifted their focus away from the operational management of existing portfolio companies to making acquisitions and preparing selective companies for exit as credit market conditions started to improve. A sign of the improved LBO financing environment was the re-opening of the collateralized loan obligation (CLO) market, one of the important buyers of repackaged LBO loans during the recent boom, exemplified by the USD 500 million pricing of a CLO fund managed by Fraser Sullivan, the first in over a year. Furthermore, lending multiples for US LBOs are slowly increasing as banks return to financing buyouts and relax restrictions on leveraged loans. Standard & Poor's reported that lending multiples for PE acquisitions averaged 4.1 through March 2010, up from 3.7 in 2009, with some banks recently lending up to five times EBITDA, a level last seen in 2006. On the back of an improved leveraged loan market, the number of closed US buyout deals picked up in the first quarter to 147 deals, from 121. A total of 147 deals worth USD 12.0 billion were completed, according to Thomson Reuters *Buyouts* journal. While the volume was down to USD 12.0 billion from USD 23.6 billion in the fourth quarter of 2009 (which saw a single USD 11.0 billion deal), it was 140% ahead of the year-ago volume, when USD 5.0 billion in deals were completed. The largest deal of the quarter, valued at USD 5.1 billion, was the acquisition of IMS Health by TPG and the Canada Pension Plan Investment Board. This deal was financed by the issuance of a high-yield bond, an instrument that has become popular during the weak CLO market.

Exit activity showed signs of modest strength

Despite high acquisition price multiples, private equity deal activity is expected to increase in 2010, as buyers and sellers narrow the pricing expectation gap. The number of exits through M&As by US LBO firms totaled 69 during the first quarter of 2010, accounting for 22 more deals than in the comparable period last year. Exit values were down, as last year's first quarter saw a single large exit by Alltel, worth USD 28.1 billion. In contrast, no exit exceeded the USD 1 billion mark. The sale of Sturm Foods Inc. by HM Capital to Three Foods Inc. was the largest exit of the quarter, worth USD 660 million. Five buyout-backed US companies were floated, raising USD 1.5 billion of initial proceeds, while a year ago, there were no IPO exits. The health of buyout-backed companies has improved, with default rates declining and fewer LBO companies in the "Weakest Links" list – a list of potential default candidates published by Standard & Poor's.

VC

VC fundraising remained challenging

Like buyouts, US venture capital fundraising experienced a weak start in 2010. According to the Thomson One database, venture firms raised USD 3.7 billion for 35 funds during the first three months of the year, a 29% decline by dollar commitments and a 38% drop in number of funds compared with the first quarter of 2009. Fewer and smaller VC funds were launched, with the VC industry adjusting its fundraising plans to curtailed investor demand; hence the weak fundraising result. Venture managers launched 18 funds during the quarter, compared with 31 during the final quarter of 2009 and 19 during the first quarter of 2009. The largest amounts raised during the first quarter of 2010 were by Battery Ventures IX and Oak Investment Partners XIII, each receiving USD 750 million in commitments.

VC investment activity remained steady

Quarterly VC investment activity remained steady and increased slightly in value from a low base in the first quarter of 2009, showing the industry is slowly recovering from the economic downturn. During the first quarter of 2010, VC investments totaled USD 4.7 billion made in 597 deals, compared with USD 4.2 billion made in 522 deals a year ago. Later-stage deals continued to dominate deal activity, taking a 38% overall share in number of deals. IT investments reclaimed their dominance from healthcare deals, as the overall business investment environment in hardware and software technology has improved. The IT industry also boasted the largest deal of the quarter, involving a consortium of VC investors led by Soros Fund Management that invested USD 128 million in ExteNet Systems Inc.

IPO exits picked up, but M&A exits remain subdued

The M&A exit environment for VC in the first quarter showed signs of weakness, but improved slightly over the same period in the previous year. M&A exits increased 15% to USD 3.7 billion from a year ago, but dropped 53% from the final quarter of 2009. A healthcare company backed by NEA, Acclarent Inc., was acquired by Johnson & Johnson in the largest deal of the quarter, worth USD 785 million. While M&A activity remained subdued, IPO exits improved noticeably. Eight companies were floated during the first quarter of 2010, matching the total number of IPOs during all of 2009. IPO proceeds totaled USD 826 million, with the post-offer value of all outstanding shares reaching USD 3.7 billion. Polaris Ventures-backed Ironwood Pharmaceuticals was the largest IPO, raising USD 186 million on the NASDAQ. The strong IPO activity of VC-backed companies continued into the next quarter.

In summary, private equity and VC started out in 2010 significantly better than in 2009, with increased divestment opportunities thanks to strengthening IPO and M&A activity.

We continue to expect increasing investment activity in 2010, as US buyout funds still need to deploy a large amount of uncalled capital and buyer and seller expectations align. However, managers are still cautious as the economy continues to face significant challenges and uncertainties relating to financial reform, healthcare and tax reform coupled with a still-weak consumer appetite and overall volatility driven by sovereign debt problems.

Environment – EU

During the first quarter of 2010, concerns over sovereign debt and the fiscal issues of several European countries sparked market nervousness, with credit default swap spreads for several European countries' bonds increasing to unprecedented levels. Fears of country defaults, uncertainty over government reactions, and questions about the stability of the Eurozone have escalated subsequent to the quarter's end, weighing on investor sentiment in Europe and globally. This urged EU governments to establish a EUR 750 billion European Financial Stability rescue mechanism to prevent the debt crisis from spreading and to rebuild confidence in the financial markets.

European growth remained weak in light of the sovereign debt crisis

The impact of the crisis was not yet fully visible in first-quarter economic activity figures, as recovery continued, albeit sluggishly and unevenly. Core countries such as Germany, the UK and France benefited from an increased demand for goods and services, mainly from outside of the EU, as well as the weak Euro, while the economies of periphery countries continued to contract. Furthermore, at a time of weak growth, European countries have been required to make substantial cuts in their budgets in order to maintain creditworthiness. Germany has announced it will cut welfare benefits, introduce new taxes and shed government jobs to save approximately EUR 80 billion through 2014. The UK followed suit, with the announcement of an austerity budget, and foresees a VAT increase and cuts in spending.

Fiscal austerity may dampen economic recovery

It can be argued that while these proposed recovery measures may restore confidence to the markets, they may also increase unemployment, depress incomes and curtail consumer spending, making fiscal consolidation more difficult. Even if budget targets can be met, at question is how European countries can return to growth, when Euro depreciation effects are limited. Consequently, the consensus forecast sees weak economic growth in 2010, with GDP increasing by 1.2%.

The tables below detail European macroeconomic and financial data.

	2008	2009	Q109	Q110	Dy/y	Dq1/q1
GDP in % [1]	(2.0)	(2.1)	(2.5)	0.2	(0.1)	2.7
CPI in % [1]	1.6	0.9	0.4	0.9	(0.7)	0.5
Interest rate in % [2]	2.50	1.00	1.50	1.00	(1.50)	(0.5)
Unemployment rate in % [2]	8.2	9.9	9.1	10.0	1.7	0.9
Consumer confidence [2]	(30.8)	(16.1)	(34.2)	(17.3)	14.7	16.9
FTSE 100 index price [3]	(31%)	22%	(11%)	5%	53%	17%
CAC 40 index price [3]	(43%)	22%	(13%)	1%	65%	14%
DAX index price [3]	(40%)	24%	(15%)	3%	64%	18%
IPO number	277	71	6	46	(74%)	667%
IPO in EUR bn	15.3	5.5	0.1	4.6	(64%)	9080%
M&A in EUR bn	561.3	285.8	128.6	51.6	(49%)	(60%)
Leveraged loan in EUR bn[4]	77.5	30.4	5.7	8.9	(61%)	56%
High yield bond in EUR bn[4]	1.2	29.3	0.8	13.5	2342%	1588%

	Q109	Q209	Q309	Q409	Q110	Dq/q
GDP in % [1]	(2.5)	(0.1)	0.4	0.1	0.2	0.1
CPI in % [1]	0.4	0.2	-	0.3	0.9	0.6
Interest rate in % [2]	1.50	1.00	1.00	1.00	1.00	-
Unemployment rate in % [2]	9.1	9.4	9.8	9.9	10.0	0.1
Consumer confidence [2]	(34.2)	(25.1)	(19.1)	(16.1)	(17.3)	(1.2)
FTSE 100 index price [3]	(11%)	8%	21%	5%	5%	0%
CAC 40 index price [3]	(13%)	12%	21%	4%	1%	(3%)
DAX index price [3]	(15%)	18%	18%	5%	3%	(2%)
IPO number	6	15	14	35	46	31%
IPO in EUR bn	0.1	0.5	0.4	4.6	4.6	(1%)
M&A in EUR bn	128.6	68.2	73.1	92.9	51.6	(44%)
Leveraged loan in EUR bn[4]	5.7	13.7	8.8	2.2	8.9	305%
High yield bond in EUR bn[4]	0.8	3.4	8.2	16.9	13.5	(20%)

1) Figures are for the whole period
2) Period-end figures
3) Change for the relevant period
4) New issue values
Notes: Dq1/q1 is the comparison of Q1 2010 vs. Q1 2009; Dq/q is the comparison of Q1 2010 vs. Q4 2009.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is defined by the location of the target.
Period of IPO relates to the pricing date. Prior-period IPO figures have been revised to include all Western and Eastern European countries, as newly introduced by Bloomberg.
Source: Bloomberg, as of July 8, 2010; Credit Suisse Leveraged Finance Market Update, June 2010

Export-driven growth halted by weak consumption

GDP: An increase in exports and a slower pace of decline in business investments contributed to 0.2% growth, while household consumption continued to fall, despite a continued rise in CPI. Manufacturing orders and the leading EU manufacturing PMI indicator increased steadily from a low of 34 points in February 2009 to 57 points by the end of March 2010. However, the indicator reversed direction in May.

Moderate inflation and a weak economy warrant low interest rates

Inflation: Inflation remained moderate, reflecting the restrained nature of the recovery. Low private demand and a muted wage outlook offset higher energy prices and price increases resulting from the weakened Euro. The ECB expects low inflationary pressure over the medium term.

Interest rates: Interest rates remained unchanged from 2009. Due to moderate inflation expectations and uncertainty about further economic growth, the ECB is expected to maintain a low interest rate environment for an extended period.

Unemployment continues to rise, but at a slower rate

Employment: Labor market conditions have continued to weaken since 2009, with the unemployment rate increasing by 0.1%, to 10.0% in the first quarter of 2010. However, the pace of deterioration eased during the quarter, and signs of stabilization emerged. Nonetheless, an implementation of recent government action plans may weigh on unemployment figures in upcoming quarters.

Public equities: In line with other global equity indices, European equity indices continued a moderate increase during the quarter. The FTSE index advanced 5%, the highest increase of three major country indices, as companies beat analyst expectations by announcing positive quarterly results.

IPO activity was strong, but increased volatility may delay future offerings

IPOs: The positive momentum of the last quarter of 2009 continued into 2010, with the number of IPOs on Western and Eastern European Exchanges reaching 46. This compares with 35 in the final quarter of 2009 and only six during the same period last year. The largest floatation of the quarter was the private equity-backed Kabel Deutschland offering, which raised EUR 660 million. However, renewed market volatility may dampen demand or prompt companies to decrease offering sizes or prices, and possibly result in IPO withdrawals.

M&A: M&A values halved from the previous quarter, although the number of transactions compared well. The decline in values was due to the absence of large government-led deals which dominated in 2009. Pharmaceuticals led the quarterly M&A activity, with the largest deal of the quarter being Teva Pharmaceutical Industries agreeing to buy German's Ratiopharm for EUR 3.6 billion.

Credit markets improved slightly

Credit markets: Leveraged loan volumes increased in Europe, although from a very low base in 2009. In contrast with the US, new issues were focused primarily on refinancing, amending to extend and term-outs to mitigate the "maturity wall". Similar to the US, European companies are increasingly using high-yield bonds as a tool to refinance corporate debt.

Private equity markets

European private equity had a better start in 2010 than a year ago, although investment and exit activity lost momentum following the strong finish of 2009. Nevertheless, it

PE got off to a better start than last year, although momentum has slowed

was the second best quarter since the collapse of Lehman Brothers. Market conditions, more favorable compared to the beginning of last year, continued to drive exit activity, as a substantial backlog of disposals was built up during the economic downturn. Large secondary exits and four buyout-backed IPOs reflected growing investor and bank appetite for private equity transactions. Investment activity failed to continue the positive development from the second half of 2009, with the number of deals falling for both buyout and VC. However, buyout deal values in the first quarter of 2010 were fourfold compared to the same period last year, reinforcing the progress made since the beginning of 2009. In contrast, European fundraising struggled to recover from the record low set in the second half of 2009. Weak economic recovery and market turbulence during the quarter significantly affected appetite for new commitments.

The tables below detail European private equity data.

all values in EUR billion		2008	2009	Q109	Q110	Dy/y	Dq1/q1
LBO	Funds raised [1]	51.6	9.9	5.3	0.3	(81%)	(95%)
	Number of funds [2]	85	48	15	2	(43%)	(87%)
	Investments	76.8	26.8	2.1	9.0	(65%)	337%
	Drawdowns [3]	16.9	4.2	1.6	n/a	(75%)	n/a
	Distributions	8.4	1.3	0.4	n/a	(84%)	n/a
	Appreciation as % of NAV	(28.4%)	2.4%	(4.0%)	n/a	31%	n/a
	5 year rolling IRR [4]	11.1%	7.9%	9.5%	n/a	(3%)	n/a
VC	Funds raised [1]	9.4	4.4	1.3	0.9	(53%)	(25%)
	Number of funds [2]	135	98	19	16	(27%)	(16%)
	Investments	4.8	3.3	0.9	0.8	(32%)	(10%)
	Drawdowns [3]	2.5	0.6	0.2	n/a	(75%)	n/a
	Distributions	1.1	0.1	0.0	n/a	(91%)	n/a
	Appreciation as % of NAV	(10.1%)	(0.5%)	1.0%	n/a	10%	n/a
	5 year rolling IRR [4]	1.1%	0.7%	1.6%	n/a	(0%)	n/a

all values in EUR billion		Q109	Q209	Q309	Q409	Q110	Dq/q
LBO	Funds raised [1]	5.3	5.2	1.2	-1.8	0.3	n/m
	Number of funds [2]	15	12	11	15	2	(87%)
	Investments	2.1	3.5	9.6	11.7	9.0	(23%)
	Drawdowns [3]	1.6	0.6	1.0	1.0	n/a	n/a
	Distributions	0.4	0.0	0.5	0.4	n/a	n/a
	Appreciation as % of NAV	(4.0%)	1.3%	2.3%	2.8%	n/a	n/a
	5 year rolling IRR [4]	9.5%	7.3%	8.8%	7.9%	n/a	n/a
VC	Funds raised [1]	1.3	2.3	0.3	0.5	0.9	76%
	Number of funds [2]	19	56	9	17	16	(6%)
	Investments	0.9	0.7	0.8	1.0	0.8	(21%)
	Drawdowns [3]	0.2	0.1	0.1	0.1	n/a	n/a
	Distributions	0.0	0.0	0.0	0.1	n/a	n/a
	Appreciation as % of NAV	1.0%	(1.0%)	(1.1%)	0.5%	n/a	n/a
	5 year rolling IRR [4]	1.6%	1.1%	0.9%	0.7%	n/a	n/a

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Drawdowns and Investments data are not comparable as Investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.

Notes: LBO fundraising figures are negative for Q409 due to the downsizing of the PAI V fund.
Prior-period figures may be revised due to ongoing database updates conducted by the source.
Source: LBO investments – Private Equity Insight database from Incisive Media; VC investments – Dow Jones Venture Source, Fundraising, Cash flow and Performance data – Thomson One, formerly known as Venture Economics, as of June 15, 2010

LBO

LBO fundraising was almost nonexistent

Buyout fundraising continued to fall, reaching a new low during the first quarter of 2010, with only two buyout funds raising a mere EUR 0.3 billion. The liquidity constraints of investors, compounded by bruised investor sentiment in light of European sovereign debt issues and large amounts of un-invested capital, explain the poor results. At the same time, buyout managers put launching new funds on hold, as no new buyout fund was launched during the first quarter of 2010. Fundraising activity was significantly stronger a year ago, when 15 buyout and mezzanine funds were launched, and the same number of funds raised EUR 5.3 billion.

In contrast, buyout investment activity stabilized at a higher level in the second half of 2009, although did not continue to grow. This is due to the fact that deal values were driven by small and mid market segment deals; with only one deal exceeding the EUR 1.0 billion mark: a secondary buyout by KKR of British retailer Pets at Home from Bridgepoint Capital. Purchase prices/EBITDA multiples of LBO deals increased during the quarter as well, as only quality assets which performed well during the recession and consequently commanded higher multiples, were acquired by private equity firms, mostly in secondary buyout deals. The banking environment has somewhat stabilized, with new leveraged loan issue volumes increasing from the previous quarter and from the same quarter of 2009. Banks provided financing very selectively, predominately by syndicated loans. Leverage levels increased marginally from the debt/EBITDA multiple of 4.0x to 4.2x but remained far below 6.0x seen in 2007.

LBO investments and exit activity did not grow but remained at higher level than a year ago

Being a secondary transaction, the Pets at Home deal was also the largest exit of the first quarter in Europe. After a strong finish in 2009, buyout exit activity slowed in the first quarter of 2010, with 39 exits, worth EUR 6.5 billion, compared with 47 deals and EUR 11.8 billion in the previous quarter, according to the Private Equity Insight database. However, buyouts had a better start this year compared with last year, when exit values amounted to just EUR 0.5 billion. With the strong IPO market, buyout IPO exits picked up with four IPO exits during the first quarter compared with three during 2009. The IPO of Providence Capital-backed Kabel Deutschland raised EUR 660 million, the largest IPO in Germany in more than two years.

VC

Compared with buyout, VC fundraising activity contracted less in the first quarter. Commitment values shrank by a quarter, from EUR 1.3 billion in the first quarter of 2009 to EUR 0.9 billion, exceeding funds raised for LBOs. However, fundraising values increased 76% from a low base in the previous quarter. Slightly more than a third of all commitments were made to a German balanced-stage fund, L-EA Mittelstandsfonds. It appears that European governments are starting to recognize the importance of venture investments to stimulate growth and support certain industries, such as renewable energy. During the quarter, the Italian government announced the launch of a EUR 1.0 billion fund to lend to small- and medium-sized enterprises, with the aim of reaching

European governments are starting to back commitments to VC

EUR 3.0 billion in the future. The UK government is planning to commit GBP 220 million to the European Investment Fund and launched the Innovation Investment Fund, investing GBP 125 million in cutting-edge environmental technologies.

European VC investment activity tracked below 2009 levels, the weakest year in a decade of European VC investments. During the first quarter, EUR 0.8 billion was invested in 212 deals, down 10% in value and 7% in the number of deals from the same period last year, and 21% and 27%, respectively, from the previous quarter. Unlike in the US, where the number of later-stage deals dominates VC investment activity, European VC funds appear to favor first-round investments; as they represent 47% of all deals. Healthcare investments continued to dominate overall investments, making up 39% of all VC investments during the quarter. The largest deal of the quarter was in the IT industry and featured a EUR 110 million investment in Norwegian Stepstone by a consortium of VC funds, led by Northzone Ventures.

Investment and exit activity has weakened from 2009

VC exit activity returned to the low level of 2009, with EUR 520 million of M&A exit values, according to Dow Jones VentureSource data. Compared to the fourth quarter of 2009, M&A exit values declined by nearly a third. The sale of French Novexel, backed by Sofinnova Partners and a consortium of VC investors, to Astra Zeneca, comprised half of the quarterly exit values. IPOs of European VC-backed companies remained rare in the first quarter with just one successful transaction despite a pick-up in wider buyout-owned floatations.

An uneven and fragile recovery of European country economies and short-term volatility continue to affect private equity activity. In contrast with US private equity, where investment and exit activity appears to be recovering more strongly on the back of more stable economic growth and favorable credit market conditions, European portfolio companies continue to struggle with restructuring issues and need time to build the earnings growth and track records that would support the exit process.

Environment – Asia

The robust economic development of the second half of 2009 continued into 2010 in all major Asian and Pacific countries. The Japanese recovery has been driven by strong growth in exports, spurred by resilient demand from China. China's GDP increased to 11.9% in the first quarter of 2010, accelerating from 10.7% in the last quarter of 2009. Corporate profits in both countries continued to rise, boosted by growing internal and external demand. Growth in industrial production and retail sales in other larger economies – India, South Korea and Australia – points to a stable recovery in the whole region. The quick V-shaped turnaround generated inflationary pressures in India, China and other emerging countries, while deflation in Japan continues to be a concern. On the back of buoyant growth and inflation expectations, the central banks of India and China have begun withdrawing crisis support measures by increasing target interest rates and capital reserve requirements for banks.

Economic recovery is firming, driven by growing internal and external demand

While the outlook for economic growth remains strong, increased global investor risk aversion may weigh on growth prospects for some Asian economies.

The tables below detail Asian macroeconomic and financial data.

		2008	2009	Q109	Q110	Dy/y	Dq1/q1
Japan	GDP in % [1]	(4.1)	(1.0)	(3.6)	1.2	3.1	4.8
	CPI in % [1]	0.4	(1.7)	(0.3)	(1.1)	(2.1)	(0.8)
	Interest rate in % [2]	0.10	0.10	0.10	0.10	-	-
	Unemployment rate in % [2]	4.4	5.2	4.8	5	0.8	0.2
	Consumer confidence [2]	26.7	37.9	29.6	41	11.2	11.4
	Nikkei 225 index price [3]	(42%)	19%	(8%)	5%	61%	14%
China	GDP in % [1]	6.8	10.7	6.20	11.9	3.9	5.7
	CPI in % [1]	1.2	1.9	-1.2	2.4	0.7	3.6
	Interest rate in % [2]	5.31	5.31	5.31	5.31	-	-
	Shanghai Composite price [3]	(65%)	80%	30%	(5%)	145%	(36%)
India	GDP in % [1]	6.2	6	5.8	8.6	(0.2)	2.8
	CPI in % [1]	9.7	15.0	8.0	14.9	5.3	6.8
	Interest rate in % [2]	6	3.25	3.5	3.5	(2.8)	-
	Bombay index price [3]	(52%)	81%	1%	0%	133%	0%
Korea	GDP in % [1]	(3.3)	6.0	0.2	1.8	9.3	1.6
	CPI in % [1]	4.1	2.8	3.9	2.3	(1.3)	(1.6)
	Interest rate in % [2]	3	2	2	2	(1.0)	-
	Unemployment rate in % [2]	3.3	3.5	4	4.1	0.2	0.1
	Kospi index price [3]	(41%)	50%	7%	1%	90%	(7%)
Australia	GDP in % [1]	1.0	2.7	0.8	0.5	1.7	(0.3)
	CPI in % [1]	(0.3)	0.5	0.1	0.9	0.8	0.8
	Interest rate in % [2]	4.25	3.75	3.25	4.00	(0.5)	0.8
	Unemployment rate in % [2]	4.6	5.5	5.7	5.4	0.9	(0.3)
	ASX 200 index price [3]	(41%)	31%	(4%)	0%	72%	4%
Total Asia	IPO number	456	496	62	183	9%	195%
	IPO in USD bn	36.6	77.1	0.5	36.2	110%	7358%
	M&A in USD bn	441.2	472.7	72.1	116.5	7%	62%

1) Figures are for the whole period
2) Period-end figures
3) Change for the relevant period
Notes: Dq1/q1 is the comparison of Q1 2010 vs. Q1 2009; Dq/q is the comparison of Q1 2010 vs. Q4 2009.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is defined by the location of the target.
Period of IPO relates to the pricing date. Prior-period IPO figures have been revised to include all countries in the Asia Pacific region, as newly introduced by Bloomberg.
Source: Bloomberg, as of July 8, 2010

Growth continued to be resilient

GDP: All major economies in the region continued to expand. The Japanese economy emerged from the 2009 recession at a moderate pace, and capital expenditures by Japanese companies picked up again for the first time since the onset of the recession. Other economies also showed resilient growth, driven by a surge in global trading activity.

Inflation in India is acute, while inflation in other countries remains moderate

Inflation: The strong economic turnaround and rising food costs generated inflationary pressures in India and some of the region's smaller countries like Vietnam, Thailand and the Philippines. Nevertheless, inflation rates in China, Australia and South Korea remain manageable and far below pre-crisis levels.

Interest rates: Following buoyant growth and rising inflation, the Reserve Bank of India has increased the target rate, while the Central Bank of China has tightened reserve requirements for banks in its first exit steps away from expansive monetary policies.

		Q109	Q209	Q309	Q409	Q110	Dq/q
Japan	GDP in % [1]	(3.6)	1.5	-0.1	0.9	1.2	0.2
	CPI in % [1]	(0.3)	(1.8)	-2.2	-1.7	-1.1	0.6
	Interest rate in % [2]	0.10	0.10	0.10	0.10	0.10	-
	Unemployment rate in % [2]	4.8	5.3	5.3	5.2	5	(0.2)
	Consumer confidence [2]	29.6	38.1	40.7	37.9	41	3.1
	Nikkei 225 index price [3]	(8%)	23%	2%	4%	5%	1%
China	GDP in % [1]	6.20	7.90	9.1	10.7	11.9	1.2
	CPI in % [1]	-1.2	(1.7)	-0.8	1.9	2.4	0.5
	Interest rate in % [2]	5.31	5.31	5.31	5.31	5.31	-
	Shanghai Composite price [3]	30%	25%	(6%)	15%	(5%)	(21%)
India	GDP in % [1]	5.8	6.1	7.9	6	8.6	2.1
	CPI in % [1]	8.0	9.3	11.6	15.0	14.9	(0.1)
	Interest rate in % [2]	3.5	3.25	3.25	3.25	3.5	0.3
	Bombay index price [3]	1%	49%	18%	2%	0%	(2%)
Korea	GDP in % [1]	0.2	2.4	3.2	0.2	1.8	1.6
	CPI in % [1]	3.9	2.0	2.2	2.8	2.3	(0.5)
	Interest rate in % [2]	2	2	2	2	2	-
	Unemployment rate in % [2]	4	3.9	3.4	3.5	4.1	0.6
	Kospi index price [3]	7%	15%	20%	1%	1%	0%
Australia	GDP in % [1]	0.8	0.7	0.3	0.9	0.5	(0.6)
	CPI in % [1]	0.1	0.5	1	0.5	0.9	0.4
	Interest rate in % [2]	3.25	3.00	3.00	3.75	4.00	0.3
	Unemployment rate in % [2]	5.7	5.8	5.7	5.5	5.4	(0.1)
	ASX 200 index price [3]	(4%)	10%	20%	3%	0%	(3%)
Total Asia	IPO number	62	65	136	231	155	(21%)
	IPO in USD bn	0.5	3.2	29.6	43.8	36.2	(17%)
	M&A in USD bn	72.1	98.6	113.4	144.1	116.5	(19%)

Unemployment eased in Japan and Australia

Employment: Unemployment rates declined further in Japan and Australia, as economic expansion continued. In South Korea, however, unemployment rates increased as the construction industry continued making layoffs amid concerns over the strength of the economic recovery.

Public equities: The strong rally in Asian stock markets during 2009 stalled in the first quarter of 2010, as fiscal problems in Europe resulted in caution among investors. Indian and Australian stock indices remained at the same levels they had been at the end of 2009. The Shanghai Composite lost 5% and the Nikkei gained 5% during the first quarter of 2010.

IPO and M&A activity slowed, yet remained at a high level

IPOs: Asia continues to be a main driver of global IPO activity, with surging public prices spurring more companies to go public. Although IPO values and numbers declined from the strong fourth quarter, they remained at elevated levels. The region also produced the globe's largest IPO during the quarter: Dai-ichi Life Insurance, which was listed on the Tokyo Stock Exchange for USD 11.0 billion. Its offering is the biggest IPO globally since the USD 19.7 billion Visa IPO in March 2008.

M&A: M&A activity experienced a better start in 2010 than in 2009, with quarterly volumes increasing 62%. Activity did, however, slow from the fourth quarter of 2009, which was the third strongest quarter in Asian M&A history. The largest announced deal during the quarter was a transaction between National Australian Bank (NAB), Australia's largest lender, and French AXA SA. Under the deal, NAB agreed to pay USD 6.6 billion for the Australian and New Zealand businesses of AXA Asia Pacific and AXA SA agreed to pay USD 8.6 billion for the Asian businesses. The deal is pending due to regulatory issues.

Private equity markets

Fundraising rebounded, driven by increased commitments from sovereign wealth funds

After a dismal 2009, Asian private equity fundraising is showing signs of recovery. Commitments to private equity funds increased by 27% from the last quarter of 2009 to USD 4.8 billion during the first quarter of 2010, up 36% from the same quarter of 2009. Fundraising was spurred by increased commitment activity from Asian sovereign wealth and public funds and interest from investors outside of Asia seeking diversification and higher absolute returns. The fundraising picture across different strategies is mixed. While commitments to VC funds more than doubled from the last quarter of 2009, commitments to buyout, mezzanine and other types of funds halved. Chinese-based, mostly RMB-denominated funds raised about two thirds of Asian quarterly commitments. This development warrants careful observation as most local teams raising RMB funds are relatively inexperienced. A quarter of all commitments – USD 1.3 billion – were made to a Chinese VC fund, Mianyang High Technology Industrial Investment, managed by CITICS Private Equity Funds Management, which closed its RMB 9 billion (USD 1.3 billion) fund well above the original target of RMB 6 billion (USD 0.9 billion).

Buyout investments have declined, while VC deals have picked up

Investment activity slowed in Asia, with the number of deals declining 20% to 198 deals and values dropping 36% to USD 7.1 billion from the year-ago period. The decline was primarily due to the lack of large buyout deals. Further, some large deals stalled, such as the USD 1.1 billion buyout of Malaysia's KNM Group by a consortium led by Goldman Sachs' private equity arm, on price disagreements. In contrast, VC investments picked up, as a number of large growth capital-stage deals were completed during the quarter. Indeed, the largest deal of the quarter was a VC deal: BCI Direct Investment Management invested USD 878 million in Beijing-Shanghai Express Railway Co. After

China, India experienced the strongest deal activity, with USD 2.2 billion in quarterly investments, representing half of all investments made in India in 2009. Almost one half of Indian investment volumes were allocated to four infrastructure deals: Goldman Sachs invested USD 425 million in Asian Genco and Quadrangle Group put USD 300 million in Tower Vision, to name two. Despite a slower start in 2010, we expect a busy deal-making year in Asia, especially in emerging Asia, as burgeoning Asian consumer demands, rising healthcare needs and national plans to develop infrastructure present an increasing number of investment opportunities for private equity firms.

M&A and IPO exits were, in the first quarter of 2010, stronger than a year ago

Private equity exit deal values nearly halved during the first quarter of 2010 from the buoyant fourth quarter of 2009, although they remained much stronger than in the beginning of 2009. USD 12.6 billion was realized during the first quarter of 2010 compared with a mere USD 1.0 billion during the same quarter of 2009. With equity prices leveling off during the first quarter, the number and value of IPO exits have declined from the fourth quarter of 2009, which was the third strongest IPO quarter in Asian private equity history. However, IPO activity was still stronger than a year ago, with the largest IPO exit, Chinese investment bank Huatai Securities, which was backed by local VC funds, raising USD 2.3 billion. M&A exit activity increased from the previous quarter, with the number of deals surging 61%, although exit values declined by 7%. Even more significant is the comparison with the first quarter of last year, as strategic buyers are increasingly looking for domestic and regional consolidation opportunities. Illustrating this trend is the acquisition of Singapore-based healthcare services provider, Parkway Holdings, by India-listed Fortis Healthcare from TPG-Axon Capital for USD 685 million.

The relatively strong exit activity of Asian funds in 2009, coupled with rebounding economic activity have, in part, prompted revived investor interest in private equity funds. Growth- and expansion-stage deal activity is increasing, reflecting the continued strengthening of macroeconomic conditions. IPO exit activity continues to be relatively strong, although it was clearly affected by the returned volatility in public equity markets.

The tables below detail Asian private equity data.

all values in USD billion		2008	2009	Q109	Q110	Dy/y	Dq1/q1
LBO	Funds raised [1]	25.0	9.0	1.4	1.1	(64%)	(20%)
	Number of funds [2]	115	63	17	7	(45%)	(59%)
	Investments	24.8	22.7	8.1	1.4	(8%)	(83%)
	Number of deals	183	116	27	22	(37%)	(19%)
VC	Funds raised	23.8	9.8	2.2	3.7	(59%)	73%
	Number of funds	211	143	32	27	(32%)	(16%)
	Investments	32.7	23.2	3.1	5.7	(29%)	84%
	Number of deals	1488	852	222	176	(43%)	(21%)
PE	M&A exit values	31.5	17.0	0.7	3.3	(46%)	371%
	Number of exits	204	236	51	66	16%	29%
	IPO exit values	15.6	30.4	0.3	9.3	95%	2673%
	Number of IPO exits	166	170	25	66	2%	164%
	Total exit values	47.0	47.4	1.0	12.6	1%	1118%

all values in USD billion		Q109	Q209	Q309	Q409	Q110	Dq/q
LBO	Funds raised [1]	1.4	2.1	3.2	2.2	1.1	(49%)
	Number of funds [2]	17	15	12	19	7	(63%)
	Investments	8.1	2.5	5.4	6.8	1.4	(80%)
	Number of deals	27	27	27	35	22	(37%)
VC	Funds raised	2.2	2.8	3.2	1.6	3.7	130%
	Number of funds	32.0	36.0	32.0	43.0	27.0	(37%)
	Investments	3.1	9.1	4.1	6.8	5.7	(16%)
	Number of deals	222	205	199	226	176	(22%)
PE	M&A exit values	0.7	6.3	6.5	3.5	3.3	(7%)
	Number of exits	51	85	59	41	66	61%
	IPO exit values	0.3	1.9	4.1	24.0	9.3	(61%)
	Number of IPO exits	25	22	31	92	66	(28%)
	Total exit values	1.0	8.3	10.5	27.5	12.6	(54%)

1) Fundraising represents closed amounts during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.

Note: Prior-period figures may be revised due to ongoing database updates conducted by the source.

Source: Asian Venture Capital Journal database, as of June 27, 2010

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