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Capital Dynamics Market Environment

Summary YTD September 2009

Confidential

Environment – EU

The EU economy has emerged from a prolonged recession

Following five consecutive quarters of contraction, the European economy grew for the first time in the third quarter of 2009. Driven in part by an improvement in exports, the Eurozone's real gross domestic product (GDP) increased 0.4% – with particularly strong contributions from Germany and Italy – and broadly in line with market expectations. The return to growth was consistent with the positive trend seen since the start of the year, where the decline in economic activity had been slowing steadily since a first-quarter low. Like GDP, industrial production expanded for the first time in the third quarter after five back-to-back quarterly drops. Standing out among peers with a double-digit gain was Ireland. However, at the close of the quarter, the Eurozone's capacity utilization rate of about 70% was still well below the average of 81.5%, as per the European Commission's key indicators.

However, high unemployment and depressed lending make growth prospects uncertain

In addition to strengthened exports and production, stabilization of family spending, helped by fiscal measures like government subsidies for upgrading to new, greener cars, also boosted growth throughout the year, according to the European Central Bank (ECB). Despite growth and stability on some fronts, unemployment levels continued to rise throughout the year. Jobs dried up in all sectors, except public administration, health and education, according to Eurostat. Construction and manufacturing experienced the deepest losses, and the ECB expects overall unemployment to continue expanding in 2010.

Along with the deteriorating labor market, additional factors prompted a cautious 2010 outlook from the ECB. As the European Commission pointed out, the rebound has largely been underpinned by massive support from central banks and governments around the globe, and this support must eventually be scaled back. Much will then depend on the banks' ability to step up lending to the economy. At the close of the third quarter, for instance, loan growth to the private sector and non-financial corporations had actually contracted, and loan growth to households stood still. In response, household spending started to slow again while savings began to increase. Thus, the ECB is forecasting moderate economic growth in 2010, between 0.1% and 1.5%, and cautions the outlook is subject to high uncertainty.

The table below details the European macroeconomic and financial data.

All values in EUR billion	Q308	Q408	Q109	Q209	Q309	Dq/q
GDP in % [1]	(0.4)	(1.8)	(2.5)	(0.2)	0.4	0.8
CPI in % [1]	0.2	(0.1)	0.4	0.2	-	(0.2)
Interest rate in % [2]	4.25	2.50	1.50	1.00	1.00	(3.3)
Unemployment rate in % [2]	7.7	8.2	9.0	9.4	9.7	2.0
Consumer confidence [2]	(19.0)	(30.7)	(34.2)	(25.1)	(19.0)	-
FTSE 100 index price [3]	(13%)	(10%)	(11%)	8%	21%	n/m
CAC 40 index price [3]	(9%)	(20%)	(13%)	12%	21%	n/m
DAX index price [3]	(9%)	(18%)	(15%)	18%	18%	27%
IPO number	39	7	1	6	4	(90%)
IPO in EUR bn	1.2	0.7	0.0	0.3	0.0	(97%)
M&A in EUR bn	185	119	102	67	65	(65%)

1) Figures are for the whole period
2) Period end figures
3) Change for the relevant period
Note: Dq/q is the comparison of Q3 2009 vs. Q3 2008
n/m – comparison is not meaningful
Source: Bloomberg as of December 15, 2009

GDP returned to growth

GDP: On a sequential quarterly basis, third-quarter GDP increased to 0.4% from (0.2%) in the previous quarter. The ECB primarily attributes the return to growth to increased inventories and a slowed pace of de-stocking, and to a lesser extent net exports and government consumption. In the third quarter, household consumption and investments shrank 0.2% and 0.4% respectively from the previous quarter. Exports, meanwhile, increased 2.9%, and imports posted a 2.6% gain compared to the second quarter.

Inflation remains low but is expected to rise in the near term

Inflation: Consumer Price Inflation (CPI) was flat in the third quarter, continuing a year-long decline from 0.4% and 0.2% in the previous quarters. The contraction was primarily due to the global drop in oil prices during the start of the year, lower food costs and weakening consumer demand. However, the ECB expects inflation to rise in the near term, spurred by upward base effects in energy and food, and reiterated expectations for medium to longer term inflation to line up with the Governing Council's target inflation rate of just below 2%.

Interest rates: Compared with the second quarter, interest rates remained flat at 1.0%, and down from 1.5% in the first quarter. During its December 3 meeting, the ECB's Governing Council voted to hold key rates at 1.00%, with ECB President Jean-Claude Trichet saying "the current rates remain appropriate". In its 2010 outlook, Credit Suisse said it expects the first central bank rate hikes to come in the third quarter of 2010.

Unemployment deteriorated further

Employment: Unemployment continued to increase throughout 2009, marching from 9.0% in the first quarter, to 9.4% in the second, to 9.7% in the third. Spain and Ireland experienced the highest increases in unemployment rates (4.3% and 4.6% respectively) during the first nine months of 2009. Meanwhile Germany and Austria experienced the smallest increases in unemployment rates; 0.5% and 0.6% respectively. The United Kingdom's unemployment situation remained stable from the second quarter, but was up 1.4% from the end of 2008.

Public markets: The UK's FTSE 100 and France's CAC 40 each experienced approximately double-digit jumps in the third quarter. Germany's DAX gained 18% in both the second and third quarters; welcome improvements after the index posted a first-quarter loss of 15%. Indices gained on increased investor confidence and appetite for risk, spurred by positive company earning trends and improved outlooks.

Despite recovery in the public markets, IPO and M&A activity remains weak

IPOs: After a short-lived uptick in the second quarter, the number of companies to list their shares on Western European stock exchanges declined to four during the third quarter, down from six in the previous quarter. With European IPOs essentially stalled, less than EUR 0.1 billion were raised in the third quarter, and a mere EUR 0.3 billion have been raised year-to-date.

M&A: Merger and acquisition activity in the third quarter was the most subdued it has been all year. With EUR 65 billion in transactions, third-quarter M&A activity continued its year-long decline. The pharmaceutical sector boasted the biggest deal, with U.S.-based Abbott Laboratories announcing plans to acquire Belgium-based Solvay's pharmaceuticals business for EUR 4.5 billion in cash.

Private equity markets

Fundraising remained weak in 2009 as the prolonged economic downturn severely impacted the investment capacity of Limited Partners. In addition, fund managers have an ample capital overhang due to record fundraising in 2007-2008. This enables them to weather slower investment periods, as indicated by a drop in the number of funds being raised and a drastic decline in volumes compared to the previous year. In the first nine months of 2009, investors committed EUR 11.4 billion to 120 private equity funds. This represents a 69% volume drop and a 33% decline in the number of funds, compared to the same period of 2008, according to the Thomson Reuters Venture Economics database. The third quarter of 2009 was one of the weakest fundraising quarters in the past ten years and the third consecutive quarter of declining fundraising since the fourth quarter of 2008. This decline can be attributed mainly to buyout funds, while VC fundraising declined at a lesser rate.

Fundraising pace is slow because fewer GPs are in the market, and the investment capacity of LPs has decreased

Fundraising for new fund of funds vehicles has dropped in capital terms from previous years. However, funds of funds have grown in importance and popularity as investment propositions for institutional investors over the course of 2009, according to the market research firm Prequin. This is suggested by the significant increase in the size of fund of funds fundraising in 2009 relative to the rest of the market. The share of fund of funds capital raised in relation to direct funds fundraising increased 11% in 2009, up from 7% in 2008 – a 57% increase. A Preqin's survey of 180 LPs in funds of funds revealed 42% of current investors would increase their fund of funds allocations over the next three years, 28% would maintain, and 30% would decrease. The 42% of investors intending to increase activity is a relatively high proportion, and would suggest that a large proportion of investors with less capital available to invest have been attracted by the diversification they can gain through investing in a fund of funds, while the uncertainty surrounding the industry at present has led other investors to seek the expert knowledge and experience of fund of funds managers, according to Prequin. Our experience supports the results of this research.

After a sharp decline, investment levels are increasing and there are encouraging signs in exit activity

Although investment levels during the first three quarters of 2009 remain low compared to year to date figures of 2008 (EUR 17.4 billion compared to EUR 73.5 billion), a positive development can be observed during 2009. Investment levels show two consecutive quarters of increase, supported by a recent positive macroeconomic development and a recovery in public equities. According to the Incisive Media Private Equity Insight database, an upturn in investment activity was driven by buyout transactions tripling the volumes, from EUR 3.3 billion in the second quarter of 2009 to EUR 9.8 billion in the third.

Exit activity fell sharply in the first half 2009 as General Partners refrained from selling quality assets at lower prices and instead waited for a market upturn. It was further constrained by a weak overall M&A and IPO activity. Exit volumes dropped 73% in the first three quarters of 2009 compared to the same period of 2008. However, there was an encouraging sign in the third quarter as exit volumes increased four-fold and the number of transactions doubled due to an increase in the buyout trade sale activity.

With low investment and exit activity, draw downs and distributions suffered a significant drop in value, as shown by the sample of 1,344 European private equity funds monitored by Venture Economics. Draw downs declined by 86% in the first six months of 2009 (EUR 1.5 billion) compared to the first half of 2008 (EUR 10.2 billion). Similarly, distributions dried up with values dropping 97% compared to 2008.

Portfolio valuations turned positive

The trend of private equity portfolio valuations reversed over the course of 2009. After General Partners wrote down the buyout portfolio values in 2008 by 29%, the first quarter of 2009 saw a stabilization of net asset values, followed by a slight increase in the second quarter. The increases in public equity markets imply that this trend is likely to continue as General Partners typically derive valuations from market multiples of comparable public companies.

The table below details the European private equity data.

All values in EUR billion		Q208	Q308	Q408	Q109	Q209	Q309	Dq/q*
LBO	Funds raised	10.9	8.7	12.6	4.4	1.3	1.4	(84%)
	Number of funds raised	21	19	18	14	9	12	(37%)
	Investments	23.5	21.3	6.9	2.1	3.3	9.8	(54%)
	Drawdowns [1]	5.1	5.6	2.4	0.4	0.8	n/a	(84%)
	Distributions	2.3	1.6	1.8	0.1	0.0	n/a	(100%)
	Appreciation as % of NAV	(3.7%)	(3.8%)	(19.0%)	(0.8%)	0.3%	n/a	4.0%
	5 year rolling IRR [2]	17.6%	16.7%	10.9%	10.1%	7.7%	n/a	(10%)
VC	Funds raised	2.1	2.3	2.7	1.3	2.8	0.3	(88%)
	Number of funds	34	31	40	21	56	8	(74%)
	Investments	1.0	1.1	1.2	0.8	0.6	0.7	(35%)
	Drawdowns [1]	0.9	0.3	0.6	0.2	0.1	n/a	(92%)
	Distributions	0.4	0.2	0.2	0.0	0.0	n/a	(92%)
	Appreciation as % of NAV	(0.3%)	(0.4%)	(6.5%)	1.0%	(0.7%)	n/a	(0.4%)
	5 year rolling IRR [2]	1.3%	1.2%	1.0%	1.5%	1.0%	n/a	(0.3%)

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

*Delta for cash flows and performance figures are calculated for Q209 vs. Q208 while remaining figures are compared for Q309 vs. Q308

Source: LBO investments – Private Equity Insight database of Incisive Media, VC investments – Dow Jones Venture Source, Fundraising, Cash flow and Performance data – Venture Economics as of November 24, 2009

LBO

LBO fundraising activity remains low, while investments are picking up for the second consecutive quarter

The rate of fundraising slowed significantly in 2009, with buyout commitments to European buyout funds declining by 77% in the first three quarters of 2009, compared to the same period in 2008. 35 funds raised EUR 7.1 billion in the first nine months of 2009, compared to 69 funds receiving EUR 30.2 billion in the same period of 2008. The volumes decline is due to fewer mega and large cap buyout funds being raised and the weakened demand of Limited Partners. This coincides with a lack of large private equity investment opportunities driven by a scarce leveraged financing. The largest buyout fund raised so far in 2009 was Clessidra Capital Partners II receiving EUR 1.3 billion of commitments.

Likewise, buyout investment activity decreased substantially in 2009 as investment volumes dropped 78%, from EUR 69.9 billion in the first nine months of 2008 to EUR 15.2 billion in the first nine months of 2009. However, investment volumes and the number of deals increased in two consecutive quarters of 2009, reaching EUR 9.8 billion in the third quarter. This suggests a shift in sentiment driven mainly by an increase in deal numbers and volumes in the mid –market sector (deals worth EUR 0.1 -1.0 billion). Moreover, the first 2009 deal in the large segment (deals over EUR 1.0 billion) is a major sign of confidence returning to the market. The merger of boiler manufacturer Baxi, backed by BC Partners, with the sector rival De Dietrich Remeha Group was valued at EUR 1.7 billion.

VC

VC fundraising and investments slowed, although to a lesser extent than LBO

In addition to buyouts, European VC fundraising also declined, although on a lesser scale than in 2008. Volumes dropped approximately a third, while the number of funds raised declined 22%. There was no clear trend in commitments made throughout the quarters in 2009. In the second quarter, there was an increase in volumes and in the third, activity was sluggish. Early stage funds attracted most of the investors' money and accounted for 71% 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 investments declined in the first three quarters of 2009 at the same rate as fundraising. According to Dow Jones VentureSource, VC managers invested EUR 2.2 billion in 603 companies, compared to EUR 3.6 billion invested in 876 companies in the same period of 2008. 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 20% of all investments. The allocation to later stage companies continued to increase in 2009, reaching 33% of all investments, a trend observed during the past five quarters, indicating that VC managers maintain their preference for investing in more mature companies. The UK remains a dominant VC country with 30% of all investments made. Investments in Germany and France declined at the highest rate, while Switzerland enjoyed a surge of VC investments, mostly in the biotech industry.

European private equity continued to be constrained by the macro economic environment, as well as a stagnant IPO market, lack of bank financing and a wide gap in pricing expectations between sellers and buyers. However, recent positive economic news and the quick upturn in buyouts investment activity may indicate that this positive development could continue in the upcoming quarters. Performance of the private equity asset class was showing signs of improvement for Q2 2009 (the latest available at time of writing in December 2009), and signs indicate that investor sentiment was beginning to improve. There is 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 M&A outlook, which, in turn, has encouraged private equity managers to prepare for more active investment and exit markets.

Environment – U.S.

Economic activity in the U.S. grew for the first time in five quarters, with third-quarter GDP landing in positive territory, at 2.2%, for the first time since the second quarter of 2008. The Bureau of Economic Analysis (BEA) reported that personal consumption expenditures (PCE), exports, private inventory investment, federal government spending and residential fixed investments all contributed to the gain.

The U.S. economy is coming out from a severe recession

Higher consumer spending reflected rising consumer confidence. Nevertheless, November Federal Open Market Committee meeting (FOMC) minutes noted spending was still restrained by ongoing job losses, sluggish income growth, lower housing wealth and tight credit. Consumer price inflation remained subdued over the same period.

Housing market activity has begun to recover new home sales up in the third quarter and the inventory of unsold new homes declining further. The Federal Reserve announced it will purchase a total of USD 1.25 trillion of agency mortgage-backed securities and about USD 175 billion of agency debt to support mortgage lending and housing markets.

The outlook remains cautious because the economic growth was largely driven by government spending

The outlook among U.S. businesses remains cautious: businesses continued to cut back on fixed investment and staffing growth is concentrated in part time workers. Businesses have been successful in bringing inventory stocks into better alignment with sales. With orders improving, manufacturers increased production in September for the third month in a row.

A major restraint on the U.S.'s overall recovery is the deteriorating employment situation. Since the start of the year, unemployment increased each quarter, reaching 9.8%

in the third quarter and 10.2% in November. For 2010, the FOMC is forecasting an overall unemployment rate of 9.3% to 9.7%.

Morgan Stanley forecasts 2010 will be shaped by the central banks' reversal of a "super expansionary monetary policy". Rising inflation expectations, narrowing slack in the economy, and a mid-2010 change in the outlook for inflation are the three factors the bank expects to drive policy decisions. The Organization for Economic Co-operation and Development (OECD) says "the Federal Reserve and the Administration must begin to withdraw the economic support as economic growth becomes self-sustaining. Gauging the appropriate timing will not be a simple task, but prolonged stimulus risks un-anchoring inflation expectations and destabilizing asset markets."

The table below details U.S. macroeconomic and financial data.

All values in USD billion	Q308	Q408	Q109	Q209	Q309	Dq/q
GDP in % [1]	(2.7)	(5.4)	(6.4)	(0.7)	2.8	5.5
CPI in % [1]	-	(0.8)	(0.1)	0.7	0.2	0.2
Interest rate in % [2]	2.00	0.25	0.25	0.25	0.25	(1.8)
Unemployment rate in % [2]	6.2	7.2	8.5	9.5	9.7	3.5
Consumer confidence [2]	70.3	60.1	57.3	70.8	73.5	3.2
S&P 500 index price [3]	(9%)	(23%)	(12%)	15%	15%	n/m
NASDAQ Composite index price [3]	(9%)	(25%)	(3%)	20%	16%	n/m
IPO number	11	1	5	19	20	82%
IPO in USD bn	1.3	0.1	1.1	2.3	6.9	436%
M&A in USD bn	276	107	172	137	101	(64%)

1) Figures are for the whole period
2) Period end figures
3) Change for the relevant period
Note: Dq/q is the comparison of Q3 2009 vs. Q3 2008
n/m – comparison is not meaningful
Source: Bloomberg as of December 15, 2009

GDP growth was restored in the third quarter of 2009

GDP: Following four quarters of contraction, the U.S. GDP turned positive, with a 2.2% annual rate of increase in the third quarter, from (0.7%) in the second quarter, according to the latest estimate released by the BEA. The advance estimate was 3.5%, and the revision mainly reflected reductions in estimates of inventories – which should support further gains in manufacturing. Housing rose for the first time in 15 quarters, and exports rose for the first time since the second quarter of 2008. In 2010, the FOMC forecasts GDP growth between 2.5% and 3.5%, while the Bloomberg composite forecast calls for 2.6%.

Inflation: Consumer price inflation, in negative territory at (0.1%) after the first quarter, turned positive during the second and third quarters. Third-quarter increases were subdued, however, at 0.2% compared with 0.7% in the second, and were fueled primarily by energy prices but largely offset by contracting food prices. Personal consumption expenditures (PCE) inflation should be between 1.3% and 1.6% in 2010, according to the FOMC. Bloomberg's composite forecast suggests a 2% increase.

With stable inflation expectations, target interest rate remains low

Interest rates: The Federal Reserve's target interest rate, unchanged at 0.25% since the dramatic cut from 2.00% in the third quarter of 2008, shows no sign of increasing in the immediate future. Minutes from the last two FOMC meetings reveal no change in the Federal Reserve's stance on key rates, with the December meeting minutes saying: "the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0.0% to 0.25% and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

Unemployment continued to increase and is expected to peak in the first half of 2010

Unemployment: Job losses mounted steadily throughout the year. At the close of the third quarter, the unemployment rate stood at 9.8%, up from 9.5% in the second quarter and 8.5% in the first. Sectors most impacted in the third quarter were construction and manufacturing, according to the U.S. Bureau for Labor Statistics. Sectors posting notable gains at the close of the reporting period were temporary help and healthcare. The OECD expects the U.S. jobless rate to peak in the first half of 2010. According to the FOMC's forecast, unemployment will be between 9.3% and 9.7%. The Bloomberg composite forecast tracks higher, with an average unemployment rate of 10% during 2010.

Public markets: S&P 500 gains held steady from the second to third quarter, coming in at 15% in each and reflecting a dramatic turnaround since the index posted a 12% loss at the close of the first quarter. Initial third-quarter earnings reports beat analyst expectations with 10.6% quarterly rate gains, according to BEA statistics. Investor sentiment toward the banking sector deteriorated during the quarter, the FOMC pointed out. Bank share prices fell, and big bank prices got hit harder than those for regional and smaller banks. The NASDAQ index continued to post gains in the third quarter, with a 16% increase, although it was unable to keep pace with the 20% gained during the second quarter

With a surge of public prices, IPO activity is recovering, although at low levels

IPOs: The number of companies going public increased by one, to 20, in the third quarter versus 19 in the second. The amount of funds raised increased significantly over the same time periods, to USD 6.9 billion from USD 2.3 billion. The overall picture indicates continued thawing in financial markets since the first quarter, with just five companies listing their shares and raising a combined USD 1.1 billion. The largest IPO of 2009 was the offering of Shanda Games, a Chinese video game company, raising USD 1.0 billion on the NASDAQ exchange.

M&A: Merger and acquisition activity has steadily declined throughout the year, with USD 101 billion in transactions during the third quarter compared to USD 137 billion in the prior quarter, and USD 172 billion in the first. The most noteworthy transaction in the third quarter was the Xerox Corporation's acquisition of Affiliated Computer Services for USD 7.8 billion in cash and stock.

Private equity markets

Fundraising showed a declining trend throughout 2009

U.S. fundraising has declined for three consecutive quarters in 2009. The USD 63.7 billion raised by 232 funds represents a drop of 73% and 51%, respectively over the first three quarters of 2008, according to the Thomson Reuters Venture Economics database. Commitments to buyout funds dropped the most as only six buyout funds received commitments in excess of USD 1.0 billion. Special situation funds focusing on the energy sector and pursuing distressed debt opportunities were in favor among investors. Twenty-four such funds received USD 16.3 billion of commitments; well above historic averages as reported by Venture Economics. Funds with the largest commitments in these areas were Oaktree Capital Management, which so far raised USD 1.5 billion with a target of USD 5.0 billion to take control of companies through debt positions, and Carlyle Renewable Energy Infrastructure II, raising USD 3.4 billion.

Investment volumes declined substantially for LBO

Investment activity also continued to trail prior-year levels with values plummeting 83% to USD 25.7 billion in the first three quarters of 2009, from the same period of 2008. However, activity in 2008 was inflated by closings on commitments made in 2007 but awaiting regulatory approvals. Investment volumes showed a declining trend over the past three quarters, due mainly to weaker buyout activity. Buyout managers continue to focus on add-on strategic acquisitions rather than investing in new large deals. Such transactions generally require less leverage, and lower purchase multiples can be negotiated. By doing so, General Partners built up existing portfolios in preparation for an exit when the market returns to sustained recovery. On the other hand, venture capital investment activity showed more resistance to the economic downturn with investment volumes declining only by a third.

Exits through IPOs have picked up

With rising public equity prices, General Partners are taking opportunities to exit portfolio companies through IPOs. There were 11 private equity backed IPOs in the U.S. during the first nine months of 2009, which returned initial offerings of USD 2.4 billion to the funds, according to Venture Economics. The largest IPO, Avago Technologies, a portfolio company of KKR and Silver Lake, listed on the NASDAQ exchange and raised USD 648 million. This positive trend continued with a number of large IPOs taking place after the third quarter ended.

Private equity funds' cash flows decreased significantly during 2009. However, the second quarter showed increasing draw down values. Following significant write downs in 2008, the net asset values started to appreciate in the second quarter of 2009 for buyout funds, in line with the development of public equity markets.

The table below details the U.S. private equity data.

All values in USD billion		Q208	Q308	Q408	Q109	Q209	Q309	Dq/q*
LBO	Funds raised	66.3	61.1	19.0	22.5	20.1	12.2	(80%)
	Number of funds	92	65	48	62	34	38	(42%)
	Investments	12.0	55.0	7.0	5.0	3.0	3.2	(94%)
	Drawdowns [1]	14.1	15.9	7.9	3.2	4.8	n/a	(66%)
	Distributions	3.9	4.3	2.8	1.3	1.3	n/a	(66%)
	Appreciation as % of NAV	(0.4%)	(4.2%)	(9.2%)	(3.4%)	3.8%	n/a	4.1%
	5 year rolling IRR [2]	14%	12%	8%	6%	6%	n/a	(8%)
VC	Funds raised	9.3	8.5	3.6	4.8	2.0	2.1	(76%)
	Number of funds	82	63	49	50	21	27	(57%)
	Investments	8.3	7.9	6.1	4.1	5.4	5.1	(36%)
	Drawdowns [1]	1.8	2.0	1.3	0.8	0.7	n/a	(64%)
	Distributions	1.3	1.1	1.2	0.5	0.6	n/a	(59%)
	Appreciation as % of NAV	0%	(2%)	(6%)	(1%)	(1%)	n/a	(1.6%)
	5 year rolling IRR [2]	9%	8%	6%	6%	6%	n/a	(3.1%)

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.

*Delta for cash flows and performance figures are calculated for Q209 vs. Q208 while remaining figures are compared for Q309 vs. Q308

n/a Data was not yet published by Venture Economics

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

LBO

LBO fundraising declined sharply, with commitments to large funds the most affected

Commitments to U.S. buyout and mezzanine funds declined 74% to USD 54.9 billion in the first three quarters of 2009 compared to the same period in 2008. Quarterly fund-raising was trending down over the course of 2009, with only USD 12.2 billion raised in the third quarter compared to USD 20.1 billion in the previous quarter. The average size of the funds decreased in 2009. Commitments raised by large funds remained at low levels, prompting managers to scale down the target size or extend the fundraising period. First Reserve Fund XII received the largest proportion of year-to-date commitments from investors, raising USD 4.4 billion. The final size of the fund was USD 3.0 billion short of its initial target size of USD 12.0 billion.

LBO managers continue to focus on add-on investments

LBO investment activity remained slow through September 2009, with a drop of 91% in deal volumes compared to the first nine months of 2008. According to Buyouts Journal and Thomson Reuters, 2009 year-to-date investments accounted for USD 11.2 billion, while the third quarter saw a slight uptick in volumes. Half of LBO transactions were add-on acquisitions since plenty of companies need capital and are willing to become part of a larger entity. Also, such add-on acquisitions are easy to finance through the balance sheet of the platform portfolio company. The low number of large new platform deals is due to the significant disconnect in pricing expectations between sellers and buyers on the one hand, and higher spreads on LBO loans that made the deals too expensive on the other hand. The largest year-to-date LBO deal was announced in September 2009, and was the Silver Lake acquisition of Skype Technologies for USD 2.0 billion.

VC

As with buyout firms, venture capitalists are suffering from declined investor demand and ongoing weakness in the economy. Year-to-date fundraising declined to USD 8.8 billion, down 65% compared to the first nine months of 2008. Most of the funds were committed to balanced stage funds as investors seek earlier returns from venture funds. Nevertheless, the early stage commitments continued to be the second largest sub-strategy as investors seeking higher absolute returns continue to commit selectively to early stage managers despite the challenging state of economy. Khosla Ventures raised the largest fund in 2009, receiving USD 750 million for its early-stage focused Fund III.

VC commitments dropped substantially, while investments declined at a lower rate

Following an uptick in the second quarter, investments in U.S. venture-backed companies stalled in the third quarter, putting 2009 on track to be the worst investment year since 2003, according to data from Dow Jones' VentureSource. Venture capitalists invested USD 5.1 billion in 616 deals in the third quarter of 2009, down 6% from the USD 5.4 billion put into 595 deals during the second quarter of this year. This quarter's total is down 38% from the USD 8.2 billion invested in 663 deals during the third quarter of 2008. Year-to-date investment volumes declined 40% to USD 14.6 billion. By investment, later stage deals continue to receive the most dollars, increasing from 50% to 59% in 2009. The IT industry continues to attract the largest investment, followed by healthcare. The current investment pace is likely to persist through 2010, because limited partners, pension funds, university endowments and other suppliers of capital to venture firms continue to scale back their venture funds commitment levels. With fewer dollars to put to work, venture firms will only invest in the most promising and capital-efficient companies. In line with expectations, the median valuation of VC investments declined for later stage and second round investments, while first round valuations slightly increased in the first three quarters of 2009 compared to 2008.

Later stage deals and the IT industry, which typically provide sooner returns, dominated investments in 2009

After four quarters, IPO exit activity resumed with eight companies going public in the first three quarters of 2009, and five more completing IPO filings in the last quarter of 2009. M&A exit activity remained low in 2009. USD 9.1 billion was received by VC funds from 224 transactions, compared to USD 25.3 billion and 374 exits in 2008. The age of the exited investments decreased to 4.5 years in 2009, compared to the increase to 6.4 experienced during 2005-2008. This could be attributed to the fact that most of the exits were accelerated by financial difficulties faced by younger, more vulnerable companies.

For the first nine months of 2009, there were further signals that economic activity is stabilizing, including the forecast for low to moderate growth in 2010. A very weak economy will continue due to expectations unemployment will remain at historically high levels, and only slightly down from the current 10% level. Managers will continue to focus on improving efficiencies of portfolio companies and on strengthening balance sheets of existing portfolio companies to weather long-term anemic economic activity. The investment pace is expected to be slow through the first half of 2010, with limited debt availability resulting in higher than normal equity contribution. However, pricing levels are adjusting to more normalized levels as sellers adjust to lower price expectations, and this should positively impact investment levels. As the economic environment continues to improve, a reasonable uptick should be expected in investment activity. For severely impacted portfolio companies, fundamentals, at least with respect to their revenues, are expected to remain weak. This would further delay the private equity exits unless the public markets continue their strong recovery. 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 – Asia

Vigorous growth has resumed in China and India, while Japan's economy is recovering well

Asian economies continued to show resilient signs of recovery according to third-quarter GDP releases for the region. We expect the regions' GDP to grow at an accelerated pace in the coming year as the economies in the region look well-placed to benefit from a rising momentum in global trade. Consumption and consumer confidence are already picking up with the labor market stabilizing and production rising across the region. These combined factors have led to a slight pickup in final demand. For example, strong manufacturing and services helped India's economy and raised the prospect of an early rise in interest rates. It is expected that rates will rise on balance in 2010, with India likely the first to hike.

On the other hand, Asian exchanges are under pressure to appreciate. Historically, this has almost always met with resistance from central banks. This time is no different. The central banks in Asia are buying US dollars once again, leading to rising foreign reserves and an upward pressure on domestic liquidity conditions. We believe this will continue to persist due to sizeable trade surpluses in the region and a robust economic growth story relative to the rest of world that should attract capital flows over the next few years.

The table below details the Asian macroeconomic and financial data.

All values in USD billion		Q308	Q408	Q109	Q209	Q309	Dq/q
Japan	GDP in % [1]	(1.7)	(3.0)	(3.2)	0.7	1.2	2.9
	CPI in % [1]	2.1	0.4	(0.3)	(1.8)	-2.2	(4.3)
	Interest rate in % [2]	0.50	0.10	0.10	0.10	0.10	(0.4)
	Unemployment rate in % [2]	4	4.3	4.8	5.4	5.3	1.3
	Consumer confidence [2]	31.8	26.7	29.6	38.1	40.7	8.9
	Nikkei 225 index price [3]	(16%)	(21%)	(8%)	23%	2%	n/m
China	GDP in % [1]	9	6.8	6.10	7.90	8.9	(0.1)
	CPI in % [1]	4.6	1.2	-1.2	(1.7)	-0.8	(5.4)
	Interest rate in % [2]	7.2	5.31	5.31	5.31	5.31	(1.9)
	Shanghai Composite price [3]	(16%)	(21%)	30%	25%	(6%)	n/m
India	GDP in % [1]	7.7	5.8	5.8	6.1	7.9	0.2
	CPI in % [1]	9.8	9.7	8.0	9.3	11.6	1.9
	Interest rate in % [2]	6	6	3.5	3.5	3.5	(2.5)
	Bombay index price [3]	(4%)	(25%)	1%	49%	18%	n/m
Korea	GDP in % [1]	0.2	(5.1)	0.1	2.6	2.9	2.7
	CPI in % [1]	5.1	4.1	3.9	2.0	2.2	(2.9)
	Interest rate in % [2]	5.25	3	2	2	2	(3.3)
	Unemployment rate in % [2]	3	3.3	4	3.9	3.4	0.4
	Kospi index price [3]	(14%)	(22%)	7%	15%	20%	n/m
Australia	GDP in % [1]	0.3	(0.7)	0.4	0.6	0.2	(0.1)
	CPI in % [1]	1.2	(0.3)	0.1	0.5	1	(0.2)
	Interest rate in % [2]	7.00	4.25	3.25	3.00	3.00	(4.0)
	Unemployment rate in % [2]	4.3	4.6	5.7	5.8	5.7	1.4
	ASX 200 index price [3]	(12%)	(19%)	(4%)	10%	20%	n/m
Total Asia	IPO number	72	44	42	41	82	14%
	IPO in USD bn	5.0	4.5	0.4	2.5	20.4	307%
	M&A in USD bn	89.6	110.5	58.3	89.9	119.2	33%

1) Figures are for the whole period
2) Period end figures
3) Change for the relevant period
Note: Dq/q is the comparison of Q3 2009 vs. Q3 2008
n/m – comparison is not meaningful
Source: Bloomberg as of December 15, 2009

GDP: The quarter-on-quarter GDP for the first three consecutive quarters increased at all major economies in Asia, except for Japan. Concerns about the sustainability of Japan's recovery were fueled by a sharp downward revision in the official estimate of quarter-on-quarter GDP growth. However, it is believed that the three consecutive strong quarterly GDP expansions in China and India have become the primary driver of Asia's recovery for 2009 and 2010. Japan is expected to see a larger contribution from business investment spending to lift final demand.

Inflation remains low; however it is expected to increase in the near term

Inflation: Inflation is falling across the region and is either below trend or contracting in some economies. One of the main risks facing the Asia economy, particularly in China and India, is a surge in inflation as a result of the massive monetary and fiscal stimulus measures introduced this year. It is expected that consumer prices will start rising toward the end of 2009 despite the low CPI figures for the last three quarters. The shift back to inflation is likely caused specifically by rising food costs, as well as by the rise in energy prices.

Interest rate: In the advanced economies, we expect the removal of accommodative monetary policies to be gradual. However, low inflation in the first three quarters gave central banks latitude to remove accommodation at a measured pace. In the medium term, the central banks in Asia are expected to remain accommodative well into 2010; however, the interest rate may also begin to rise by the middle of next year, which is in line with the expectation that the Federal Reserve may begin to unwind its policy of quantitative easing by mid-2010.

Unlike the US and the EU, Asian employment showed signs of improvement.

Employment: Employment indicators in Asia are beginning to show signs of a regional recovery, and it is expected that the unemployment rate in developed Asian economies such as Japan and Australia is close to cyclical highs.

Public markets: All major Asian equity indices continued to strengthen during the third quarter but at a slower momentum compared with the previous two quarters' growth. In fact, the Shanghai Composite index contracted 6% in this quarter after a 25% and a 30% surge in the second and the first quarters, respectively. Indian, Korean, and Australian stock exchanges delivered high double-digit increases in the third quarter, which showed a resilient rise in public market activities. However, some correction is foreseen in the coming quarter, on expectations of the withdrawal of some stimulating fiscal policies at the end of this year.

Continued appreciation of public equities has spurred IPO activity

IPOs: The regions' IPOs continued to surge in the third quarter after the valuation uplift driven by the previous two quarters' market momentum. IPO volumes increased significantly from USD 0.4 billion in the first quarter and USD 2.5 billion in the second quarter to USD 20.4 billion in the third. Subsequent to the previous three quarters' strong market rebound, IPO activity continued to accelerate as the region's stock valuation reached its peak level prior to the financial crisis. The number of IPOs this quarter has doubled compared to the previous two quarters, and it is expected that the momentum will continue until the end of this year.

Private equity markets

The private equity fundraising activity in Asia has been severely impacted by the global recession. According to the AVCJ database, private equity funds raised USD 12.8 billion in the first three quarters of 2009, compared to USD 45.5 billion raised in the first

Fundraising fell sharply; however the volumes have increased for two consecutive quarters

three quarters of 2008. This represents only 28% of the amount raised during the same timeframe in 2008.

From a regional perspective, China, India and Hong Kong dominated the fundraising activity in the first three quarters of 2009, accounting for 66% of all funds raised. Despite the overall slowdown in fundraising activities, certain regions saw an uptick in funds raised. Korea and Malaysia were among the few. The Korean economy is increasingly expected to make a fast recovery, and Malaysia has been experiencing a period of political and economic stability. In addition, a number of funds raised over USD 1 billion in capital, including MBK Partners II, Carlyle Asia Growth Partners IV and Unison Capital Partners III.

Investments declined at a lower rate with buyout investments picking up significantly in the third quarter

Like fundraising activity, investment activity has also dropped to USD 31.6 billion invested in 391 deals in the first three quarters of 2009, compared to USD 55.2 billion invested in 1,376 deals in 2008. However, the market's recovery is noticeable. Investment activity increased in the third quarter of 2009 with USD 9.1 billion invested, from a rock bottom in the fourth quarter of 2008 when only USD 7.4 billion was invested. China remains the most popular investment destination with USD 9.5 billion invested in the first three quarters of 2009, accounting for 30% of the capital invested in the region. The breakdown of investments by stage shows buyout transactions regained popularity, accounting for over 60% of all transaction values in the third quarter, compared to 21% in the second quarter. Growth capital deals accounted for 18% of all investments, and PIPE funds accounted for 11%.

Exit activity increased significantly in the third quarter, driven by a surge of public equity prices

Due to the strong rebound of the public market, Asia Pacific was able to produce relatively strong exits compared to the US and Europe. By the end of September, 63 private equity-backed IPOs raised about USD 6 billion in the region, and 64% of the capital was raised in the third quarter. Trade sales exit activity also made a strong recovery in the third quarter, achieving 44 transactions amounting to USD 6 billion, compared to USD 1.9 billion in the first quarter. 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.

For further information please contact

Katharina Lichtner, Managing Director
Bahnhofstrasse 22
CH-6301 Zug
Switzerland

Phone +41 41 748 8402
Mobile +41 76 314 8402
Fax +41 41 748 8444
Email research@capdyn.com

Zug
Birmingham
London
New York
Menlo Park
Hong Kong
Munich

www.capdyn.com

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