Capital Dynamics

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Capital Dynamics Market Environment

Summary Q3 2011

Confidential

Environment – US

The sovereign debt concerns on both sides of the Atlantic led to one of the most unstable periods since the global financial crisis. During the quarter, a prolonged US debt ceiling debate led Standard & Poor's to downgrade the US sovereign credit rating. Congress eventually reached a compromise and raised the ceiling to USD 16.4 billion, but coupled with the banking crisis in Europe, equity markets crashed in August. The markets managed to largely recover by year end as encouraging economic data emerged. S&P 500 and NASDAQ price indices declined by 14.3% and 12.9% respectively during the third quarter.

High levels of risk aversion depressed leveraged debt issuance and IPO activity

A flight from riskier assets weighed on high yield and leveraged debt issuance activity. High yield origination volumes dropped by 70% from the previous quarter to USD 24.2 billion, the lowest amount issued since the first quarter of 2009. Leveraged loan issuance declined by 35% to USD 92.4 billion. Unsurprisingly, IPO activity declined sharply. IPO proceeds declined by two thirds from the prior quarter as the number of offerings dropped by 43% to 40. Private equity remained an important source of IPO activity despite the slowdown, with 15 companies going public during the third quarter.

In contrast, M&A activity held up relatively well. The number of deals increased by 4%, while M&A dollar volume almost matched the prior quarter's value. The third quarter statistics included the USD 34.3 billion pending acquisition of Medco Health Solutions by Express Scripts. However, M&A activity slowed subsequently as market uncertainty overshadowed strong corporate earnings.

Strong corporate health supported M&A activity

During the third quarter, the Bureau of Economic Analysis estimated that profits of non-financial US companies from current production increased by 1.7% from the second quarter, to a historical high of USD 1.97 trillion. A rising trend in corporate earnings for 11 consecutive quarters contributed to a net increase in employment in the third and fourth quarters of 2011, with the addition of 441,000 and 412,000 jobs respectively. An increase in disposable incomes and consumption increases contributed to a 1.8% rate of real GDP growth in the third quarter, up from 1.0% in the previous quarter. Notably, the US real gross domestic output in the third quarter exceeded its pre-crisis level for the first time since recovery started.

Economic growth accelerated on improvements in labor markets

Manufacturing activity began to expand after reaching a low point in August. The most recent release of the ISM index indicated that new orders, production and employment were growing in the final quarter of 2011. Estimates for 2012 were revised up slightly by the Bloomberg contributor composite, from 2.2% to 2.3%, reflecting improvement in some economic indicators. However, continued strain on global financial markets could destabilize a fragile US economic recovery. To support growth, the US Federal Reserve maintains ongoing policy initiatives, including the ongoing portfolio maturity lengthening program (Operation Twist) and maintenance of the Mortgage Backed Securities (MBS) portfolio via reinvestment of runoff. Recently, the central bank lowered its 2012 growth estimate and announced that the short term interest rates could be expected to stay close to zero at least through late 2014.

The table below details the US macroeconomic and financial data.

	2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
Real GDP in % q/q ann[1]	(3.5)	3.0	2.5	1.3	**1.8**	(0.7)	0.5
CPI in % y/y[1]	(0.4)	1.6	1.1	3.5	**3.8**	2.6	0.3
Interest rate in %[2]	0.25	0.25	0.25	0.25	**0.25**	0.00	0.0
Unemployment rate in %[2]	9.9	9.4	9.5	9.1	**9.0**	(0.5)	(0.1)
Consumer confidence[2]	72.5	74.5	68.2	71.5	**59.4**	(8.8)	(12.1)
S&P 500 index price[3]	23.5%	12.8%	10.7%	(0.4%)	**(14.3%)**	n/m	n/m
NASDAQ Composite index price[3]	43.9%	16.9%	12.3%	(0.3%)	**(12.9%)**	n/m	n/m
IPO number	80	194	38	70	**40**	5%	(43%)
IPO in USD bn	20.2	48.2	8.1	15.2	**5.0**	(38%)	(67%)
M&A deal number	6,838	8,387	1,986	2,548	**2,647**	33%	4%
M&A in USD bn	649.2	766.9	185.4	211.7	**210.1**	13%	(1%)
Leveraged loan in USD bn[4]	239.3	375.6	64.7	142.2	**92.4**	43%	(35%)
High yield bond in USD bn[4]	132.8	276.8	66.5	81.8	**24.2**	(64%)	(70%)

1) Annual figures are annual averages and quarterly figures are period end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs Q3 2010
n/a - data not available.
n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, January 25, 2012; Credit Suisse Leveraged Finance Market Update, December 2011.

Private equity markets

US private equity firms continued to find attractive investment opportunities and exit portfolio companies in the third quarter. Investment volumes matched the previous quarter’s pace, while cash rich corporations continued to acquire investments from private equity firms. However, as market conditions deteriorated in the quarter, the private equity recovery lost some momentum. Likewise, fundraising slowed in the quarter as investors showed renewed concern about the capital markets. For the year, however, there was a healthy increase in commitments to private equity funds which will provide capital for future investment activity.

Buyout

Despite some slowdown, buyout fundraising improved over 2010 levels

Buyout fundraising activity was mixed. The number of funds raised increased by 26% from the second quarter, to 131. However, fundraising volumes declined by 11% to USD 28.9 billion. Several megacap funds completed fundraising in the first half, so the average amount per fund declined in the third quarter. Buyout fundraising is well on track to significantly exceed 2010 levels, with USD 89 billion of investor commitments received during the first three quarters of 2011, up 47% from the same period of 2010. Among non-VC strategies, secondary, distressed, and expansion capital funds received increased investor support in the third quarter. The share of commitments to those funds increased to 20%, up from just 3% in the previous quarter, although YTD figures trailed prior year levels. Lexington Capital Partners raised USD 3.1 billion for its seventh secondary fund, the largest fund closed during the third quarter.

buyout investment activity maintained the second quarter pace with investments totalling USD 22.5 billion, versus USD 23.0 billion in the second quarter. Investment pace was robust in July, but faltered in August-September as uncertainty about

Existing investments held up well, but new investment activity showed signs of slow down

economic growth and leverage availability increased. Six large buyout deals, with transaction values above USD 1 billion were closed, compared with just one in the previous quarter. The largest, by Clayton Dubilier & Rice, was an acquisition of the French engineering group SPIE SA, for USD 3.0 billion from PAI Partners. According to Thomson Reuters' *Buyouts* publications, new buyout deals were more than half of deal activity and the remainder came mostly from add-on acquisitions. Year-to-date investe amount almost doubled from 2010, to USD 72.3 billion.

Improved credit availability supported first half investment activity in 2011. However, weaker credit market conditions were visible in third quarter buyout financing terms; credit became more expensive, leverage ratios declined from 5.1x, seen in the second quarter, to 5.0x, forcing buyout firms to put more equity in new deals. The equity contribution increased to 39% in the third quarter, up from 36% in the second quarter. Interestingly, leverage was higher and equity contribution lower than in the same quarter a year ago. Purchase multiples for buyouts, however, rose in the third quarter, to 9.36x EBITDA, from an average of 8.51x EBITDA in the prior quarter. The increase was about the same across size transactions, and seems to be partly related to transactions that were mostly agreed in the first half, and a shift to more stable recurring revenue businesses, which command higher price multiples.

Market volatility curbed deal activity in the final quarter of 2011, and the investment pace is expected to be slow in the near term. However, the US buyout industry continues to hold substantial dry powder for new investments to be deployed before investment periods expire.

Exit activity was steady but volumes declined

Exit activity remained steady during the third quarter, with US buyout funds realizing 75 portfolio companies via M&A, one more than in the second quarter. There were five IPOs in the third quarter, the same number as in the previous quarter. Due to a lack of large exits, the disclosed M&A deal exit values declined to USD 12.7 billion, from USD 24.4 billion in the previous quarter. While the previous quarter included two deals of USD 6 billion, the largest completed exit was the USD 2.1 billion sale of Turkish food company Mey Icki Sanayi ve Ticaret by TPG Capital to Diageo PLC. Blackstone announced the most exits, including a USD 1.03 billion sale in Theme Park Universal to its joint partner NBC Universal. All IPO exits in the quarter were concluded in July, before the market turbulence, and raised USD 1.4 billion of initial proceeds. Dunkin Brands Group, backed by Bain Capital, Carlyle Group, and Thomas H. Lee Partners raised the largest amount, USD 423 million, on a corporate valuation of USD 2.3 billion.

Distribution activity by buyout and other non-VC funds slowed in the second quarter, according to the latest available quarterly distribution statistics. Thomson Reuters figures show that USD 12.2 billion, 28% less than in the first quarter, were distributed by 839 funds. Fair value measures for portfolio assets, which continued to appreciate in the second quarter, fell in value in the third quarter because of weakness in comparable public companies.

VC

Venture capital fundraising faltered in the third quarter after a strong start to the year; quarterly volumes (USD 2.1 billion) were the lowest since the second quarter of 2010.

Activity was dominated by smaller VC funds: the average size of closed funds was USD 125 million. The number of funds closed increased by 39% to 64, the highest since the second quarter of 2008, which indicates that investors may be willing to look beyond the very well known names. The largest VC fund was Shasta Ventures, which held a final close at USD 265 million for its third early stage focused fund. The early stage funds continued to dominate the fundraising landscape in the third quarter, with nearly half of quarterly commitments allocated to such strategies.

VC fundraising continued to falter

VC investment activity continued to be strong, with third quarter investment volume increasing by 4% from the previous quarter, to USD 8.4 billion. The quarterly increase was driven by a surge in consumer information services deals which increased by 52% to USD 1.3 billion. The lion's share of this amount was attributable to the USD 400 million investment by Russian venture firm DST Advisors, in Twitter, a provider of a social networking and micro-blogging service. Another bright spot of the quarter was business support deals which soared by 58%, to USD 1.2 billion. The largest deal in this business segment was the USD 136 million investment by Insight Venture Partners and New Enterprise Associates in Cvent, provider of a Web-based suite of data analysis tools. YTD 2011 investment volumes exceeded the prior year's total by 19%.

Business support and social networking deals drove investment surge

Healthcare industry deal volume decreased by 16% from the second quarter. Medical device deal volumes surpassed the biopharmaceutical sector for the first time since 1998, in part because biopharmaceutical deal volumes declined by 33%. VC firms continued to put more money into new financing rounds, and median deal sizes reached USD 6 million, the highest since the fourth quarter of 2008. There were 27 VC companies that received VC financing of more than USD 50 million in the third quarter, compared with 13 in the same quarter a year ago.

IPO exit activity had a strong start in July with six companies going public, but activity faded in August and September. Ultimately, only 10 companies staged public offerings in the third quarter, down from 14 in the previous quarter. The offerings were smaller, and as a result, proceeds from offerings fell by 70% from the previous quarter to USD 505 million. Skullcandy Inc, provider of audio products backed by Battery Ventures, Goode Partners, and Mercato Partners achieved the highest IPO proceeds (USD 188 million). Despite the slowdown in IPO exit activity during the third quarter of 2011, YTD IPO activity exceeded comparable YTD 2010 activity.

IPO exits declined, while M&A exits were on track to have the best year since 2007

Corporate buyers' acquisition activity remains buoyant and exit values for YTD 2011 are on track to be the best since 2007. There were 122 exits of VC-backed companies during the third quarter, up 17%, and exit values increased by 6% from the second quarter to USD 13.0 billion. Large corporate buyers paid USD 37.3 billion to acquire VC-backed companies during the first three quarters, 46% more than for the same period of 2010. Google was the most active, with nine acquisitions, followed by Dell with four acquisitions. Median price paid leapt to USD 71 million in the first three quarters of 2011, up from USD 40 million in 2010. These values are substantially higher than the median pre-money amount raised prior to M&A exits (USD 18.2 million in 2011 and USD 20.0 million in 2010). That kind of post/pre-money multiple has not been seen since the dot-com crash of 2000. The largest exit of the third quarter was the sale of PopCap Games for USD 750 million by Meritech Capital Partners and individual investors to Electronic Arts.

Following the impressive first half which was supported by a deal friendly environment and expanding capital markets, the private equity recovery lost steam in the second half of the year. However, market dislocations present attractive investment opportunities for private equity managers. Therefore, we expect a prudent investment pace for 2012, while any possible stabilization in capital markets will support exit and fundraising activity.

The table below details US private equity data.

all values in USD billion		YTD10	YTD11	Q310	Q211	Q311	Dytd/ytd	Dq/q
BO	Funds raised[1]	60.4	**89.0**	22.8	32.4	**28.9**	47%	(11%)
	Number of funds[2]	249	**326**	90	104	**131**	31%	26%
	Investments	38.0	**72.3**	16.0	23.0	**22.5**	90%	(2%)
	Drawdowns[3]	41.3	**n/a**	15.4	7.2	**n/a**	n/m	n/m
	Distributions	28.2	**n/a**	12.2	12.9	**n/a**	n/m	n/m
	Appreciation as % of NAV	8.3%	**n/a**	3.6%	2.8%	**n/a**	n/m	n/m
	5 year rolling net IRR[4]	4.9%	**n/a**	4.9%	5.8%	**n/a**	n/m	n/m
VC	Funds raised[1]	10.0	**12.6**	3.7	2.8	**2.1**	25%	(24%)
	Number of funds[2]	150	**155**	55	46	**64**	3%	39%
	Investments	19.8	**23.6**	6.5	8.0	**8.4**	19%	4%
	Drawdowns[3]	4.1	**n/a**	1.0	1.2	**n/a**	n/m	n/m
	Distributions	5.5	**n/a**	2.3	3.2	**n/a**	n/m	n/m
	Appreciation as % of NAV	2.5%	**n/a**	2.6%	2.6%	**n/a**	n/m	n/m
	5 year rolling net IRR[4]	3.8%	**n/a**	3.8%	4.8%	**n/a**	n/m	n/m

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) Buyout 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.
Dq/q is the comparison of Q3 2011 vs. Q2 2011; Dytd/ytd is the comparison of the first three quarters of 2011 vs. the first three quarters of 2010.
n/a Data was not yet published by Thomson One.
n/m not meaningful.
Source: Thomson One, Buyouts for buyout investments; Dow Jones VentureSource for VC investments.

Environment – EU

Capital markets hit by severe sovereign debt crisis

A widening European sovereign debt crisis severely hit capital markets in the third quarter as lingering demand for the ECB emergency funding increased fears of a deep European banking crisis. Moody's decreased the long term rating of several European banks amid concerns over bailout needs of Italy and Spain. As a result, European public equity markets, led by financial stocks, saw the worst quarterly declines since 2002, with DAX and CAC each losing a quarter of their value and the FTSE 100 declining by 14%. Investor retreat from riskier assets affected high yield bond issuance activity which dropped by 62% from the previous quarter. Similarly, leveraged loan issuance declined by 24%. According to the ECB lending survey, significant tightening of lending standards occurred in the third quarter on the back of a sharp rise of marginal funding costs. Furthermore, lending capacity of European banks appeared to be more constrained as balance sheets were strained from write downs of sovereign debt. According to a recent assessment of the European Banking Authority, European banks have a capital shortfall of EUR 115 billion under stress tests which accounts for the upcoming implementation of stricter regulation under Basell III.

In light of decreased public equity valuations and heightened investor risk aversion, fewer companies ventured to raise money from investors. The number of IPOs

IPO and M&A activities slowed as a result of market volatility

decreased by 16% to 96 during the third quarter, while proceeds from initial public offerings shrunk by two thirds to EUR 5.3 billion. The largest offering of the quarter was illustrative of the current climate. According to Bloomberg, Spanish lender, Bankia, pushed by the government to shore up capital, raised EUR 3.1 billion, a smaller amount than initially targeted due to a lower corporate valuation. In contrast, M&A activity in small and mid markets continued to be lively, with the number of deals increasing by 4% to 1,595 from the second quarter. However, overall M&A deal values declined by 38% to EUR 94.6 billion from the previous quarter as activity slowed significantly in the large deal segment. There were 19 deals with transaction values exceeding EUR 1 billion, with total transactions worth EUR 48.3 billion, compared with 28 deals, worth an aggregate of EUR 93.0 billion during the second quarter.

Slow-paced growth continued, with contraction signs visible in the final quarter of 2011

The pace of economic activity remained slow with GDP output in Eurozone countries increasing by 0.2% in the third quarter. However, business and consumer confidence dropped severely as fears of a credit crunch emerged. The deterioration in activity was first visible in September when industrial production volumes, which dropped by 2.1% from August, continued to decline in the following two months. According to the most recent release from the German Federal Statistical Office, Germany's economy, the largest in Europe, contracted by 0.2% in the final quarter of 2011, confirming earlier predictions that the Eurozone may slide into negative growth territory in the next couple of quarters. For the whole of 2012, market participants of Bloomberg's composite survey estimate a decline of 0.2% for the Eurozone.

The table below details European macroeconomic and financial data.

	2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
Real GDP in % q/q[1]	(4.2)	1.9	0.4	0.2	**0.1**	(0.3)	(0.1)
CPI in % y/y[1]	0.3	1.6	1.7	2.7	**2.7**	1.0	(0.1)
Interest rate in %[2]	1.00	1.00	1.00	1.25	**1.50**	0.50	0.25
Unemployment rate in %[2]	10.1	10.0	10.1	10.0	**10.2**	0.1	0.2
Consumer confidence[2]	(16.1)	(11.0)	(11.0)	(9.7)	**(19.1)**	(8.1)	(9.4)
FTSE 100 index price[3]	22.1%	9.0%	12.8%	0.6%	**(13.7%)**	n/m	n/m
CAC 40 index price[3]	22.3%	(3.3%)	7.9%	(0.2%)	**(25.1%)**	n/m	n/m
DAX index price[3]	23.8%	16.1%	4.4%	4.5%	**(25.4%)**	n/m	n/m
IPO number	71	242	44	114	**96**	118%	(16%)
IPO in EUR bn	5.5	27.1	2.3	16.1	**5.3**	127%	(67%)
M&A deal number	5,188	6,029	1,459	1,531	**1,595**	9%	4%
M&A in EUR bn	365.7	399.1	120.0	151.4	**94.6**	(21%)	(38%)
Leveraged loan in EUR bn[4]	47.5	70.2	15.8	30.1	**22.8**	44%	(24%)
High yield bond in EUR bn[4]	29.3	50.8	13.0	18.8	**7.2**	(45%)	(62%)

1) Annual figures are annual averages and quarterly figures are period end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs Q3 2010.
n/a - data not available.
n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, January 25, 2012; Credit Suisse Leveraged Finance Market Update, December 2011.

Private equity markets

Recovery of European private equity was curbed by market turmoil and a deteriorating economic outlook. In particular, private equity deal activity slowed markedly. Caution by both buyers and sellers, together with tightened banking financing resulted in fewer and smaller new investments and exits. The decline in activity was more pronounced for buyout deals compared with venture. Fundraising continued to be slow for the majority of funds, especially for venture funds. However, a few established firms were able to successfully raise large funds, lifting overall private equity fundraising volumes.

Buyout

Investors continued to commit selectively to a few established European buyout managers

Buyout fundraising continued to be dominated by large fund closings of established firms. During the third quarter, fundraising volume increased by 46% from the previous quarter to EUR 8.6 billion, according to Thomson Reuters. High quarterly volumes were lifted by a single fund closing – EQT raised EUR 3.5 billion for its sixth fund during the third quarter and closed the fund at EUR 4.75 billion. YTD fundraising statistics demonstrated a modest increase in activity as indicated by a 17% increase in the number of funds raised compared with 2010 activity. Fundraising volume, though, almost tripled from a cyclical low of 2010, driven by the return into fundraising of a few established buyout firms that received the greatest investor support.

Market uncertainty and credit tightening affected buyout investments

Buyout investment activity slowed markedly in the third quarter of 2011, with investment volumes decreasing by 46% from the previous quarter to EUR 14.8 billion. Compared with the second quarter, which saw the highest number of buyout deals since the sub-prime debt crisis, the number of deals declined by 17% to 110, according to the Private Equity Insight data. The slowdown in activity was visible across all transaction sizes. Mid–market (those with enterprise values between EUR 25-500 million) investment volumes declined by 25% from the previous quarter to EUR 8.7 billion. However, mid-market deal activity was more resistant to the market downturn than large buyouts, which declined by 61% to EUR 6.2 billion. Banks appeared willing to finance large buyout deals, but only with syndicate financing, as illustrated by the largest deal of the third quarter – the EUR 1.8 billion acquisition of Com Hem by BC Partners from the Carlyle Group and Providence Partners was financed by a syndicate of five large banks.

Strong exit activity seen in the first half lost momentum

Likewise, buyout exit activity slowed substantially. Buyout funds exited 68 European companies worth EUR 11.5 billion during the third quarter, representing a decline of 36% in the number of exits and a 67% decrease in exit values from the previous quarter. Secondary exit activity declined the most; from 54 deals in the second quarter to 35 in the third quarter. There were also fewer trade sale exit deals, although the decline was not as steep as secondary exits. This is partly due to the cash liquidity of trade buyers - which had been responsible for the recent surge of M&A activity by corporations. In fact, the largest realization of the third quarter was the trade sale of Provimi Group, a Dutch company in the animal nutrition business, which Permira Advisers sold to Cargill for EUR 1.5 billion. Despite the slowdown in exit activity, YTD 2011 exit volumes already exceeded the figure for the whole of 2010 due to the robust activity in the first half of 2011. During the first three quarters of 2011, 244 companies worth EUR 63.2 billion were realized, representing a 65% increase in deal numbers and a 182% rise in deal values.

Portfolio valuations and distributions of buyout funds increased in the second quarter, according to the most recent quarterly statistics available from Thomson Reuters.

However, third quarter performance weakened across many portfolios as GPs reflected decreased maket comparables in their quarterly valuations.

VC

VC fundraising had the slowest quarter since 2003

Fundraising activity for venture capital funds weakened further as market turmoil made fundraising even more difficult. Only six funds held a closing in the third quarter with only EUR 0.4 billion raised. In contrast with other strategies, venture fundraising trailed behind 2010 levels, with YTD 2011 volume decreasing by 41% to EUR 1.8 billion. Scottish Equity Partners raised the largest amount during the third quarter as investors committed EUR 229 million to its balanced stage fund IV. As with buyouts, established names continue to gain investor support, while others struggle.

VC investment activity hit the lowest point since 2000, while average deal sizes increased

European VC investment activity slowed further in the third quarter, marking the lowest quarterly deal count since 2000. VC firms put EUR 951 million in 219 deals for European companies representing a 4% decline in deal values and a 28% decline in deal numbers from the previous quarter. During the third quarter, VC firms made larger investments on average, focusing on fewer but more promising targets. There were four companies that received backing in excess of EUR 50 million, in contrast with an absence of such deals in the previous quarter. The semiconductor sector, which is especially vulnerable to downturns, suffered a steep decline of 96% from the second quarter, similarly, renewable energy deal values declined sharply, by 69% in deal value. In contrast, the consumer services segment, powered by internet retail, and the healthcare segment, which includes medical device companies, continued to attract VC interest. Compared with the second quarter, consumer service deal values increased by 30% to EUR 274 million, while healthcare deal values increased by 10% to EUR 262 million.

The largest deal of the third quarter, however, was in the information services industry. Managed data provider, Six Degrees Technology Group Ltd, received EUR 88 million from Penta Capital Partners.

VC exit activity slowed

Similar patterns were observed in M&A exit activity of VC funds. According to the Dow Jones VentureSource, 40 European venture-backed companies worth EUR 1.4 billion were exited through M&A during the third quarter of 2011, representing a 26% drop in exit volumes and a 7% decline in the number of deals from the previous quarter. Despite the slowdown, third quarter activity was more robust in 2011 with 11% more exits and 37% higher volumes than a year ago. Large corporations continued to find attractive targets among VC-backed companies. Most notable exits include a EUR 122 million acquisition by Google of DailyDeal GmbH, a German internet consumer services company with a similar business model to Groupon, from Alpinvest. Public market turmoil shut down IPO activity with just three companies going public in the third quarter and raising EUR 65 million. On a positive note, VC portfolio valuations increased marginally by 0.3% in the second quarter, the latest available quarterly information, following the 2.7% decrease in the first quarter.

Limited growth prospects are likely to impact trading; uncertainty will be constraining both investments and exits

Looking ahead, many private equity portfolio companies may maintain their sound trading and fundamentals, provided that economic conditions do not deteriorate further. However, growth prospects will be limited in an environment of falling consumer confidence, cautious business investment and fiscal consolidation. Investment and exit activity may remain subdued until uncertainty, caused by the delay of a European public debt crisis solution, wanes, and investment confidence is restored across the board.

The table below details European private equity data.

all values in EUR billion		YTD10	YTD11	Q310	Q211	Q311	Dytd/ytd	Dq/q
BO	Funds raised[1]	7.2	**20.6**	1.6	5.9	**8.6**	186%	46%
	Number of funds[2]	47	**55**	20	18	**17**	17%	(6%)
	Investments	44.3	**59.0**	22.2	27.8	**15.4**	33%	(45%)
	Drawdowns[3]	11.5	**n/a**	5.6	2.4	**n/a**	n/m	n/m
	Distributions	7.0	**n/a**	1.4	2.0	**n/a**	n/m	n/m
	Appreciation as % of NAV	8.3%	**n/a**	0.2%	0.5%	**n/a**	n/m	n/m
	5 year rolling net IRR[4]	6.0%	**n/a**	6.0%	6.0%	**n/a**	n/m	n/m
VC	Funds raised[1]	3.9	**2.3**	1.3	1.1	**0.4**	(41%)	(65%)
	Number of funds[2]	58	**39**	16	18	**6**	(33%)	(67%)
	Investments	3.3	**3.2**	1.1	1.0	**1.0**	(4%)	(4%)
	Drawdowns[3]	0.8	**n/a**	0.2	0.1	**n/a**	n/m	n/m
	Distributions	0.5	**n/a**	0.2	0.1	**n/a**	n/m	n/m
	Appreciation as % of NAV	1.0%	**n/a**	(2.5%)	0.3%	**n/a**	n/m	n/m
	5 year rolling net IRR[4]	(0.9%)	**n/a**	(0.9%)	(1.7%)	**n/a**	n/m	n/m

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) Buyout 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.
Dq/q is the comparison of Q3 2011 vs. Q2 2011: Dytd/ytd is the comparison of the first three quarters of 2011 vs. the first three quarters of 2010.
n/a Data was not yet published by Thomson One.
n/m not meaningful.
Source: Thomson One, Private Equity Insight for buyout investments; Dow Jones VentureSource for VC investments.

Environment – Asia-Pacific

Asia-Pacific continued to dominate global IPO activity despite a drop in activity to the lowest level in nine quarters

Asia-Pacific public equity markets mirrored developments of US and European indices as investors sold off equities due to the fear of a global recession and a sharp slowdown in economic activity, with main indices declining between 11% (Nikkei 225) and 22% (Hang Seng) during the third quarter. Market instability impacted the Asia-Pacific IPO activity. The number of IPOs declined by 19% to 182, while raised proceeds plunged by 29% to USD 17.6 billion in the third quarter, marking the smallest quarterly volume since the second quarter of 2009. There were just three companies raising proceeds above USD 1 billion; Sinohydro raised USD 2.1 billion in the largest Chinese IPO since August 2010. Despite the lack of large IPOs and a slowdown in IPO activity, Asia continued to maintain its leading regional position for IPOs, with its share of global IPO volume reaching 55%.

Mixed M&A activity in emerging and developed Asia-Pacific

M&A activity slowed in the third quarter, with the number and value of deals declining from the previous quarter by 7% to 2,055, and 3% to USD 134.5 billion respectively. Activity across developed and emerging countries of the region was varied. Although deal activity decreased in both sub-regions, the slowdown was more pronounced in emerging Asia-Pacific countries with declines of 9% compared with 3% in developed countries. Moreover, in developed countries, M&A volume grew by 5% to USD 76.9 billion from the second quarter, while in emerging countries, M&A volume declined by 14%. Despite volatility, mega deals continued to complete. The third quarter boasted the sixth largest

M&A deal in Asia-Pacific history as Nippon Steel Corporation acquired Sumitomo Metal Industries in a deal worth USD 22.5 billion.

Economic growth in the Asia-Pacific region continued to moderate as export demand decreased and governments continued tightening monetary policy to fight inflation. Despite the slowdown, growth of developing nations remained solid. Third quarter GDP growth in China and India slowed only marginally from the second quarter, because of continued consumer spending and business investment. Japan's economy returned to growth as consumer spending firmed and industrial production increased, partly due to re-stocking demand from abroad. Similarly, the Australian economy continued to recover, with output increasing during the last two quarters, driven by increased business expenditure, while South Korean GDP continued to increase at a moderate rate.

Growth slowed in emerging economies, while GDP in developed countries advanced

There is rising concern that the unresolved European debt crisis could trigger a sharp global economic slowdown in international trade similar to the one recently seen in 2008/2009, which could impact growth in the Asia-Pacific region. However, Asia-Pacific appears to be in a better position to absorb such shocks due to increasing domestic and regional demand, sound balance sheets of Asian banks, and underleveraged governments.

The table below details Asia-Pacific macroeconomic and financial data.

		2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
Japan	Real GDP in % q/q[1]	(5.5)	4.4	0.5	(0.5)	**1.4**	0.9	1.9
	CPI in % y/y[1]	(1.3)	(0.7)	(0.6)	(0.4)	**0.0**	0.6	0.4
	Interest rate in %[2]	0.10	0.10	0.10	0.10	**0.10**	0.00	0.00
	Unemployment rate in %[2]	5.2	4.9	5.0	4.6	**4.1**	(0.9)	(0.5)
	Consumer confidence[2]	37.9	40.2	41.4	36.3	**38.5**	(2.9)	2.2
	Nikkei 225 index price[3]	19.0%	(3.0%)	(0.1%)	0.6%	**(11.4%)**	n/m	n/m
China	Real GDP in % y/y[1]	9.2	10.4	9.6	9.5	**9.1**	(0.5)	(0.4)
	CPI in % y/y[1]	(0.7)	3.3	3.5	5.7	**6.3**	2.8	0.5
	Interest rate in %[2]	5.31	5.81	5.31	6.31	**6.56**	1.25	0.25
	Shanghai Composite price[3]	80.0%	(14.3%)	10.7%	(5.7%)	**(14.6%)**	n/m	n/m
India	Real GDP in % y/y[1]	7.0	8.7	8.4	7.7	**6.9**	(1.6)	(0.1)
	CPI in % y/y[1]	10.8	12.1	10.3	8.9	**9.2**	(6.3)	(0.1)
	Interest rate in %[2]	3.25	5.25	5.00	6.50	**7.25**	2.25	0.75
	SENSEX index price[3]	81.0%	17.4%	13.4%	(3.1%)	**(12.7%)**	n/m	n/m
Korea	Real GDP in % y/y[1]	0.3	6.2	4.4	3.4	**3.5**	(0.9)	0.1
	CPI in % y/y[1]	2.8	3.5	3.4	4.2	**3.8**	0.4	(0.4)
	Interest rate in %[2]	2.00	2.50	2.25	3.25	**3.25**	1.00	0.00
	Unemployment rate in %[2]	3.5	3.5	3.4	3.3	**3.0**	0.2	(1.0)
	Kospi index price[3]	49.7%	21.9%	10.3%	(0.3%)	**(15.8%)**	n/m	n/m
Australia	Real GDP in % y/y[1]	1.4	2.7	2.7	1.9	**2.5**	(0.2)	0.6
	CPI in % y/y[1]	1.9	2.9	2.8	3.6	**3.5**	0.7	(0.1)
	Interest rate in %[2]	3.75	4.75	4.50	4.75	**4.75**	0.25	0.00
	Unemployment rate in %[2]	5.5	4.9	5.1	5.0	**5.3**	(0.4)	0.0
	ASX 200 index price[3]	30.8%	(2.6%)	6.5%	(4.8%)	**(13.0%)**	n/m	n/m
Total Asia	IPO number	496	914	216	225	**182**	(16%)	(19%)
	IPO in USD bn	77.1	175.4	41.4	25.0	**17.6**	(57%)	(29%)
	M&A deal number	8,376	8,836	2,109	2,204	**2,055**	(3%)	(7%)
	M&A in USD bn	404.6	504.8	140.1	139.0	**134.5**	(4%)	(3%)

1) Annual figures are annual averages.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs. Q3 2010.
n/a - data not available.
n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, January 25, 2012.

Private equity markets

Brisk fundraising reached new heights in the third quarter

Fundraising activity stepped up impressively in the third quarter of 2011, with commitment volume increasing by 59% from the previous quarter to USD 18.7 billion, and recording the second highest quarterly volume in Asia-Pacific history. Quarterly activity included the third largest fund closing in Asia-Pacific as a consortium of private equity managers including Sequoia Capital, Infinity Fund and other Chinese managers formed a USD 4.3 billion Innovation Industrial Investment Fund focusing on venture investments in China. Unsurprisingly, China-bound investment accounted for 79% of the entire regional fundraising activity in the quarter. Fundraising activity increased in Japan as well. During the third quarter, 14 Japan-based funds, the same number of funds as in the first half of 2011, raised USD 797 million, the highest volume since the second quarter of 2010. Buyout fundraising in Asia-Pacific increased fourfold from the previous quarter as eight funds raised USD 3.7 billion, with the largest share attracted by PAG Asia.

Despite this overall pick-up in fundraising, 2011 buyout fundraising trailed behind prior levels, while venture and growth funds continued to dominate regional fundraising. Commitments to growth and venture funds increased by 39% to USD 15.1 billion. Overall, Asian private equity fundraising was on track to significantly exceed 2010 levels, driven mainly by the emergence of many local managers in China, and investor support for established firms that started fundraising their next generation in 2011.

Surge in buyout investments did not match prior year's pace

In contrast, actual private equity investment activity cooled off. During the third quarter USD 18.1 billion was invested across 403 deals, representing a decline of 12% in volume and 6% in the number of deals from the prior quarter. The decline was driven by growth and venture investment activities which decreased by 26% to USD 11.1 billion from the previous quarter. Despite the slowdown, growth and venture deals continued to dominate Asia-Pacific private equity investment activity and accounted for two thirds of regional investment during the first three quarters of 2011. Buyout investment volumes increased by 27% to USD 6.9 billion over the previous quarter due to a number of large deals, such as the USD 2.6 billion acquisition of Japan Display by Innovation Network Corporation. However, the investment pace of buyout funds was slower compared with the same quarter of last year. The number of deals declined by 27% while volume declined by 39%. As a result, YTD investment activity ended closer to YTD 2010 levels despite strong first half year activity.

Growth and venture capital deals drove YTD PE investment levels despite a fall in overall quarterly activity

Information technology deals dominated deal flow in the third quarter with its share stabilising at 21% during the first three quarters of 2011. Investment volumes in this industry increased from 5% in the second quarter to 14% as a result of the largest growth capital deal of the third quarter. A consortium of private equity investors including Silver Lake, DST Advisors, Temasek Holdings, and Yunfeng Capital invested USD 1.6 billion in the Chinese technology group Alibaba, an affiliate of Yahoo. Investment volumes across countries were less skewed towards China, which attracted only 37% of overall quarterly investment volumes due to a number of large deals completed in Australia, Japan, and Malaysia – which make up the top four investment destinations for the region.

As public equity prices continued to decline, Private Investment in Public Equity (PIPE) deal volumes continued to be strong. USD 4.5 billion was invested in the third quarter, triple the amount compared with the same quarter in 2010. In contrast, mezzanine/pre-IPO deal volumes declined further. Only USD 250 million was invested in such deals compared with USD 2.5 billion in the previous quarter and USD 4.7 billion in the same quarter of 2010.

IPO and M&A exits were up in the first half of 2011

Private equity exit activity had a strong third quarter, driven by increased M&A activity of corporations. Exit volume via M&A doubled from the previous quarter to USD 15.7 billion across 91 transactions, 15% more exits than the previous quarter. China, whose dominance in IPO exits has remained unchallenged for many quarters, is also gradually gaining a leading position in M&A exit volumes. In the third quarter, Chinese exits contributed 40% to quarterly regional exit volumes, compared with 30% in the second quarter and 21% in 2010. Exits in more mature private equity countries such Australia and New Zealand increased as well. Those countries accounted for 38% of all exit volumes which included the two largest transactions: the Pacific Equity Partners and Unitas Capital realization of New Zealand beverage firm Independent Liquor to Japan's

Strong M&A exit activity is contrasted by falling IPO exits

Asahi Group for USD 1.27 billion, and Archer Capital and HarbourVest's sale of Australian accounting software firm MYOB for USD 1.25 billion in secondary exit to Bain Capital.

As expected, many firms were hesitant to exit companies in a volatile environment via IPOs, with the number of exits declining by 22% to 54 and volumes declining by 34% to USD 7.5 billion from the previous quarter. Companies in the electronics industry dominated IPO exits, while companies from the retail industry raised the largest IPO proceeds. Sun Art Retail Group, backed by General Atlantic, GIC and Kazanah National, among others, raised USD 1.6 billion on the Hong Kong Stock Exchange, the largest IPO exit of the third quarter.

Asia-Pacific private equity continues to attract strong investor interest, both locally and internationally, driven by a higher return expectation and diversification benefits. However, fundraising dominated by Chinese government-linked entities should be viewed with caution. Private equity deal activity in the Asia-Pacific region slowed due to weakness in buyout deals, while private equity firms continued to find investment opportunities in growth and venture companies despite market volatility and fierce competition for targets from cash rich corporations. The strong corporate balance sheets also supported the recent surge in M&A exit activity. However, a prolonged uncertainty and sharp slowdown of global economic activity may impact private equity activities in the region.

The table below details Asia-Pacific private equity data.

all values in USD billion		YTD10	YTD11	Q310	Q211	Q311	Dytd/ytd	Dq/q
BO	Funds raised[1]	6.6	**5.4**	0.9	1.0	**3.7**	(18%)	278%
	Number of funds[2]	20	**13**	6	3	**4**	(35%)	33%
	Investments	19.4	**16.5**	11.4	5.5	**6.9**	(15%)	27%
	Number of deals	121	**108**	41	34	**30**	(11%)	(12%)
VC	Funds raised[1]	23.8	**38.1**	7.7	10.8	**15.1**	60%	39%
	Number of funds[2]	206	**252**	64	98	**92**	22%	(6%)
	Investments	26.3	**34.6**	9.2	15.1	**11.1**	32%	(26%)
	Number of deals	1,063	**1,140**	352	393	**373**	7%	(5%)
PE	M&A exit values	20.7	**36.3**	10.2	7.6	**15.7**	75%	107%
	Number of M&A exits	253	**278**	74	79	**91**	10%	15%
	IPO exit values	45.1	**28.1**	28.1	11.4	**7.5**	(38%)	(34%)
	Number of IPO exits	191	**200**	66	69	**54**	5%	(22%)
	Total number of exits	444	**478**	140	148	**145**	8%	(2%)
	Total exit values	65.8	**64.4**	38.2	19.0	**23.2**	(2%)	22%

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.
Note: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Dq /q is the comparison of Q3 2011 vs. Q2 2011; Dytd/ytd is the comparison of the first three quarters of 2011 vs. the first three quarters of 2010.
Source: Asian Venture Capital Journal database, as of January 25, 2012.

Environment – Brazil

After dramatic GDP growth in 2010, Brazil's economy is now feeling the effects of the global slowdown

Brazil's economic expansion continued to slow in the third quarter of 2011, decreasing another 1.2% from the prior quarter to 2.1%. Banco Central do Brasil, the Brazilian central bank unexpectedly cut interest rates by 50 basis points in August despite having a 7.3% inflation rate, which exceeds the 6.5% upper limit of Brazil's target range. The central bank cited the increasingly unfavorable global economic environment as both a driver of the rate cut and a check on inflationary pressures. The August rate decrease reverses the pattern seen earlier in the year, with five rate increases in 2011, the latest in July. Credit Suisse now expects Brazilian growth to decrease to 3.8% in 2011, down from an original forecast of 4.2%, and to 4.0% in 2012.

Strong private equity activity continues into 2011

During the first three quarters of 2011, Brazilian private equity funds raised USD 4.5 billion, over four times more than all funds raised during the full year 2010. A number of large Latin American funds closing in the first quarter contributed to the increase. Carlyle, for example, raised USD 776 million for the Carlyle South American Buyout Fund. Furthermore, other large fund closings from Patria, Vinci and Banco BTG Pactual were joined by smaller fund closings from ACON and Nexxus Capital. Deal making gathered momentum in the third quarter with USD 708 million invested across ten deals. The strong investment activity follows the USD 977 million invested across 15 deals in the first half of the year.

The table below details Brazilian macroeconomic and financial data.

	2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
Real GDP in % y/y[1]	(0.3)	7.6	6.9	3.3	**2.1**	(4.8)	(0.9)
CPI in % y/y[1]	4.9	5.0	4.7	6.7	**7.3**	2.6	0.4
Interest rate in %[2]	8.75	10.75	10.75	12.25	**12.00**	1.25	(0.25)
Unemployment in %[2]	6.8	5.3	6.2	6.2	**6.0**	(0.2)	(0.3)
Consumer confidence[2]	117.2	117.1	118.3	111.8	**112.4**	(5.9)	(2.7)
IBOVESPA total return index[3]	82.7%	1.0%	13.9%	(9.0%)	**(16.2%)**	n/m	n/m
IPO number	6	11	1	5	**1**	0%	(80%)
IPO in USD bn	12.0	5.9	0.1	1.9	**0.2**	183%	(87%)
M&A deal number	312	489	124	163	**131**	6%	(20%)
M&A in USD bn	58.8	148.5	63.9	37.1	**14.9**	(77%)	(60%)
Country bonds in USD bn[4]	37.7	58.7	21.6	28.4	**8.5**	(61%)	(70%)

1) Annual figures are annual averages.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs. Q3 2010.
n/a - data not available.
n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 16, 2011.

Environment – Middle East North Africa (MENA)

The disruption and uncertainty created by what has been dubbed the “Arab Spring” continues to take a substantial toll on MENA region economies. IMF estimates from September 2011 reveal that regional growth is sharply divided between high growth oil exporters and slower growth oil importers. The former group is estimated to have grown

Non-oil/gas related economic growth and private equity activity has been hampered by unrest and uncertainty

by 5.0% in 2011, with a 4.0% growth projected for 2012. Oil importing nations, however, are estimated to have grown by 1.5% in 2011, with 2.5% growth projected for 2012. Natural gas exporting Qatar leads all economies with an estimated 18.7% growth in 2011, while countries rife with internal destabilization including Egypt, Tunisia and Syria continue to contract or stagnate.

The region's instability continues to significantly affect private equity. Although the private equity landscape appears to be rebounding slightly, deep regional uncertainties have prevented volumes from reaching the multi-billion dollar totals from just a few years ago. Fundraising increased to USD 262 million in the third quarter of 2011, outpacing the USD 91 million raised in the first half of the year, but remains significantly muted in relation to historical comparisons. Of note, TunInvest-AfricInvest raised USD 132 million during the quarter. Investment volumes were similarly affected, with USD 288 million invested during the third quarter vesus just USD 75 million deployed in the first half of the year.

The table below details MENA macroeconomic and financial data.

		2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
Egypt	Real GDP in % q/q ann[1]	4.7	5.2	2.5	8.5	**n/a**	n/m	n/m
	CPI in % y/y[1]	16.2	11.7	11.0	11.8	**8.2**	(2.8)	(3.6)
	Interest rate in %[2]	8.25	8.25	8.25	8.25	**8.25**	0.00	0.00
	Unemployment in %[2]	9.4	8.9	8.9	11.8	**11.9**	3.0	0.1
Israel	Real GDP in % y/y[1]	0.8	4.9	5.0	3.5	**3.4**	(1.6)	(0.1)
	CPI in % y/y[1]	3.3	2.7	2.4	4.2	**2.9**	0.5	(1.3)
	Interest rate in %[2]	1.25	2.00	2.00	3.25	**3.00**	1.00	(0.25)
	Unemployment in %[2]	7.2	6.5	6.6	5.5	**5.6**	(1.0)	0.1
	TA-25 index price[3]	74.9%	15.8%	15.4%	(7.4%)	**(11.9%)**	n/m	n/m
Saudi Arabia	Real GDP in % y/y[1]	0.1	4.2	n/a	n/a	**n/a**	n/m	n/m
	CPI in % y/y[1]	5.1	5.4	5.9	4.7	**5.3**	(0.6)	0.6
	Interest rate in %[2]	2.00	2.00	2.00	2.00	**2.00**	0.00	0.00
	Unemployment in %[2]	10.5	10.0	n/a	n/a	**n/a**	n/m	n/m
	SASEIDX index price[3]	27.5%	8.2%	4.9%	0.2%	**(7.1%)**	n/m	n/m
All MENA	Real GDP in % y/y[1,5]	1.8	3.8	n/a	n/a	**n/a**	n/m	n/m
	CPI in % y/y[1,5]	6.5	6.9	n/a	n/a	**n/a**	n/m	n/m
	MSCI Arabian ex SA price[3]	(13.9%)	5.6%	(3.8%)	(1.5%)	**(24.0%)**	n/m	n/m
	IPO number	15	35	8	5	**1**	(88%)	(80%)
	IPO in USD bn	3.0	3.2	0.6	0.2	**0.1**	(90%)	(68%)
	M&A deal number	182	185	45	43	**43**	(4%)	0%
	M&A in USD bn	16.5	23.9	3.2	1.2	**1.4**	(56%)	13%
	Region bonds in USD bn[4]	51.8	53.8	**16.0**	9.1	**7.5**	(53%)	(17%)

1) Annual figures are annual averages and quarterly figures are period-end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
5) Estimates of the International Monetary Fund.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs. Q3 2010.
n/a - data not available.
n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 16, 2011. The International Monetary Fund World Economic Outlook September 2011 database.

Environment – Sub-Saharan Africa

Economic growth continues across Sub-Saharan Africa

The positive economic story in Sub-Saharan Africa continues, with real GDP expected to increase to 5.25% and 5.75% in 2011 and 2012 respectively, maintaining the 5.4% expansion in 2010, according to the IMF. Economic expansion in South Africa, one of the region's most important economies, accelerated modestly from 2.8% in 2010 to 3.4% in 2011; with 3.6% growth expected in 2012. Nigeria, despite benefiting from higher global oil prices, is expected to record economic growth of 6.9% in 2011, a marked decrease from 8.7% in the previous year. Overall, the region's economies continue to weather the global economic crisis and ensuing threats, although creeping inflation – expected at 8.4% in 2011, up from 7.5% in 2010 – remains a threat, as does the occasional political rumbling.

Private equity fundraising across Sub-Saharan Africa continues to gain attention, although third quarter activity slowed markedly compared with earlier in the year. In the quarter, USD 244 million was raised across four funds, including the Global Environment Fund, Aureos and Vantage Capital. Fundraising in the first half of the year totaling over USD 1 billion was skewed by the USD 900 million Helios closing. However, investment activity across the region during the third quarter of USD 227 million across 16 investments nearly equaled the USD 256 deployed across 18 transactions in the first half of 2011.

The table below details Sub-Saharan Africa macroeconomic and financial data.

		2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
South Africa	Real GDP in % y/y[1]	(0.6)	3.0	3.1	3.2	**3.1**	0.00	(0.1)
	CPI in % y/y[1]	6.3	3.5	3.2	5.0	**5.7**	2.5	0.9
	Interest rate in %	7.00	5.50	6.00	5.50	**5.50**	(0.50)	0.00
	Unemployment in %	24.2	24.0	25.3	25.7	**25.0**	(0.3)	0.7
	ZADOW (SA) index price[3]	24.2%	17.6%	11.7%	(2.1%)	**(2.3%)**	n/m	n/m
Nigeria	Real GDP in % y/y[1]	7.0	7.9	7.9	7.7	**7.4**	(0.5)	(0.3)
	CPI in % y/y[1]	12.5	13.7	13.7	10.2	**10.3**	(3.4)	0.1
	Interest rate in %	6.00	6.25	6.25	8.00	**9.25**	3.00	1.25
	Unemployment in %	19.7	21.1	n/a	n/a	**n/a**	n/m	n/m
Kenya	Real GDP in % y/y[1]	2.8	6.9	6.3	8.0	**9.3**	3.0	1.3
	CPI in % y/y[1]	5.3	4.5	3.2	14.5	**17.3**	14.1	2.8
	Interest rate in %	7.00	6.00	6.00	6.25	**7.00**	1.00	0.75
All SSA	Real GDP in % y/y[1,5]	2.8	5.0	n/a	n/a	**n/a**	n/m	n/m
	CPI in % y/y[1,5]	10.5	7.5	n/a	n/a	**n/a**	n/m	n/m
	MSCI EFM Africa price[3]	43.6%	28.7%	21.5%	(2.5%)	**(17.8%)**	n/m	n/m
	SSAXSA50 index price[3]	(13.9%)	5.6%	(3.8%)	(1.5%)	**(24.0%)**	n/m	n/m
	IPO number	2	12	2	2	**8**	300%	300%
	IPO in USD bn	2.1	1.7	0.2	0.2	**0.6**	167%	217%
	M&A deal number	286	351	75	75	**100**	33%	33%
	M&A in USD bn	18.4	30.4	7.8	4.4	**4.6**	(41%)	4%
	Region bonds in USD bn[4]	13.9	21.6	6.8	5.9	**4.0**	(41%)	(32%)

1) Annual figures are annual averages and quarterly figures are period end values.
2) Period-end figures.
3) Change for the relevant period.
4) New issue values.
5) Estimates of the International Monetary Fund.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs. Q3 2010.
n/a - data not available. n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 16, 2011.The International Monetary Fund World Economic Outlook September 2011 database.

Environment – Turkey and Russia/CEE/CIS

Regional economies are rebounding at varying speeds

Turkey's growth is projected to level off from its China/India-like expansion of 8.9% in 2010 to a rate of 6.6% in 2011, largely driven by accommodative economic policies. However, as slower growth in key European and Asian markets takes hold in 2012, growth is expected to drop significantly to 2.2% in 2012 according to the IMF. Public sector debt also continues to be an issue for Turkey, rising to over 43% of GDP in 2010. Across Russia and the CIS, stabilisation continues, although at lower levels than prior to the global economic crisis. In 2011, the region is expected to continue the stable 4.6% growth from one year prior with a slight slowdown to 4.4% in 2012. Several factors, including soft private demand, weak financial systems and continued deleveraging are likely to contribute to the comparatively modest pace. Expected moderation of energy and commodity prices is expected to limit exporter growth. Combined with a more uncertain upcoming presidential election and nascent social unrest, Russian growth is expected to decline to 4.1% in 2012 from 4.3% in 2011.

Combined, Russia, CEE and CIS countries raised USD 332 million in the third quarter, keeping pace with the first half of 2011 and yearly totals from 2010. ADM Capital and Crescent Capital raised the majority of funds for the CEE/CIS region during the quarter. Third quarter investment volumes increased substantially as USD 1.1 billion was invested in 20 deals, representing 60% of transaction value from the first half of the year across one-third of the number of deals. Investment in six Russian deals, in particular, totaled USD 945 million compared with only USD 383 million invested across 16 deals in the first semester.

The table below details macroeconomic and financial data for the major emerging countries of Eastern Europe.

		2009	2010	Q310	Q211	Q311	Dy/y	Dq/q
Turkey	Real GDP in % y/y[1]	(4.7)	8.2	5.3	8.8	**8.2**	2.9	(3.2)
	CPI in % y/y[1]	6.3	8.6	9.2	6.2	**6.2**	(3.1)	2.3
	Interest rate in %[2]	6.50	6.50	7.00	6.25	**5.75**	(1.25)	(0.50)
	Unemployment in %[2]	13.5	11.4	11.3	9.2	**8.8**	(2.5)	(1.6)
	Consumer confidence[2]	78.8	91.0	90.4	96.4	**93.7**	3.3	3.0
	XU100 index price[3]	96.6%	24.9%	19.9%	(1.8%)	**(5.7%)**	n/m	n/m
	IPO number	1	22	7	10	**3**	(57%)	(70%)
	IPO in USD bn	0.0	1.9	0.1	0.3	**0.0**	(70%)	(89%)
	M&A deal number	57	79	30	29	**31**	3%	7%
	M&A in USD bn	2.7	13.1	1.9	2.0	**3.0**	58%	51%
	Country bonds in USD bn[4]	3.9	8.7	1.4	5.1	**1.6**	9%	(69%)
Russia	Real GDP in % y/y[1]	(7.8)	4.0	3.1	3.4	**4.8**	1.7	(0.7)
	CPI in % y/y[1]	11.7	6.9	7.0	9.4	**7.2**	0.2	(0.1)
	Interest rate in %[2]	8.75	7.75	7.75	8.25	**8.25**	0.50	0.00
	Unemployment in %[2]	8.2	7.2	6.6	6.1	**6.0**	(0.6)	(1.0)
	RTS index[3]	128.6%	22.5%	12.6%	(6.7%)	**(29.7%)**	n/m	n/m
	IPO number	0	5	1	1	**2**	100%	100%
	IPO in USD bn	0.0	0.5	0.0	0.0	**0.2**	1710%	624%
	M&A deal number	222	237	51	54	**52**	2%	(4%)
	M&A in USD bn	23.6	50.2	9.5	11.6	**9.0**	(6%)	(23%)
	Country bonds in USD bn[4]	43.4	61.6	14.3	20.3	**5.6**	34%	45%
Ukraine	Real GDP in % y/y[1]	(15.0)	n/a	3.6	3.8	**6.6**	3.0	(1.5)
	CPI in % y/y[1]	15.9	9.4	10.5	11.9	**5.9**	(4.6)	4.2
	Interest rate in %[2]	10.25	7.75	7.75	7.75	**7.75**	0.00	0.00
	Unemployment in %[2]	9.4	8.4	7.1	7.7	**n/a**	n/m	(1.0)
	PFTS index[3]	90.1%	70.2%	3.3%	(18.6%)	**(37.2%)**	n/m	n/m
	IPO number	0	0	0	0	**0**	n/m	n/a
	IPO in USD bn	0.0	0.0	0.0	0.0	**0.0**	n/m	n/a
	M&A deal number	36	38	12	3	**3**	(75%)	0%
	M&A in USD bn	6.3	0.8	0.1	0.5	**0.0**	(54%)	(94%)
	Country bonds in USD bn[4]	3.4	5.0	2.2	2.4	**0.5**	(76%)	(79%)

1) Annual figures are annual averages and quarterly figures are period-end values. 2) Period-end figures. 3) Change for the relevant period. 4) New issue values.
Notes: Dq/q is the comparison of Q3 2011 vs. Q2 2011. Dy/y is the comparison of Q3 2011 vs. Q3 2010.
n/a - data not available. n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are cancelled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 16, 2011.

The table below details private equity data for Emerging Markets.

all values in USD million		2010	ann. 2011	Q211	Q311	% of total	Dy/y	Dq/q
MENA	Funds raised	1,070	**471**	31	**262**	3%	(56%)	745%
	Investments	2,215	**484**	0	**288**	3%	(78%)	n/m
	Number of deals	34	**21**	2	**8**	0%	(37%)	300%
	PE penetration in %[1]	0.11						
SSA	Funds raised	964	**1,733**	900	**244**	3%	80%	(73%)
	Investments	1,383	**644**	83	**227**	2%	(53%)	173%
	Number of deals	37	**45**	8	**16**	0%	23%	100%
	PE penetration in %[1]	0.16						
CEE & CIS	Funds raised	1,586	**1,147**	580	**229**	2%	(28%)	(61%)
	Investments	3,323	**3,804**	556	**1,088**	11%	14%	96%
	Number of deals	76	**107**	36	**20**	0%	40%	(44%)
Russia[2]	Funds raised	455	**80**	60	**0**	0%	(82%)	(100%)
	Investments	217	**1,771**	77	**945**	10%	716%	1127%
	Number of deals	20	**29**	10	**6**	0%	47%	(40%)
	PE penetration in %[1]	0.02						
Latin America	Funds raised	2,248	**7,633**	3,751	**1,577**	16%	240%	(58%)
& Caribbean	Investments	1,318	**2,775**	737	**828**	9%	111%	12%
	Number of deals	54	**72**	18	**22**	0%	33%	22%
Brazil[2]	Funds raised	401	**5,953**	2,850	**1,465**	15%	1385%	(49%)
	Investments	989	**2,247**	481	**708**	7%	127%	47%
	Number of deals	20	**33**	8	**10**	0%	67%	25%
	PE penetration in %[1]	0.06						
Emerging	Funds raised	15,938	**31,652**	6,904	**7,378**	76%	99%	7%
Asia	Investments	13,867	**21,003**	6,835	**4,967**	51%	51%	(27%)
	Number of deals	473	**643**	168	**169**	2%	36%	1%
Multiregion	Funds raised	801	**467**	318	**0**	0%	(42%)	(100%)
Global	**Funds raised**	**22,607**	**43,103**	12,484	**9,690**	100%	**91%**	(22%)
Emerging	**Investments**	**22,106**	**28,709**	8,211	**7,398**	100%	**30%**	(10%)
Markets	**Number of deals**	**674**	**888**	232	**235**	100%	**32%**	1%

1) Private equity penetration is a ratio of private equity annual investments to nominal gross domestic product (GDP).
2) Data is included in CEE & CIS and Latin America & the Caribbean, respectively.
Note: Dy/y is the comparison of annualized 2011 data vs. full-year 2010 data.
Source: Emerging Markets Private Equity Association, as of November 15, 2011.

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