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Capital Dynamics Private Equity Review & Outlook

Summary H1 2014

Highlights:

- Global buyout fundraising was steady across the globe
- Venture funds regained investor interest, with commitments advancing to a level last seen in 2007
- Global investment activity increased moderately. Buyout funds invested more in high-growth sectors deals
- Many fast-growing startups are raising significant rounds of capital as they scale their operations
- Valuations for market-leading late-stage technology companies have skyrocketed, but valuations for other VC-backed startups have risen more modestly
- Private equity is on track to achieve the best exit year since 2007. In the first half, record-breaking IPO activity and robust dividend recapitalization was complemented by the return of corporate buyers
- Secondary deal volume is on track toward another record-breaking year

US buyout

In brief

- The distribution cycle of private equity is gaining speed with multiple exit options available. In the first half, record-breaking IPO activity and robust dividend recapitalization was complemented by the return of corporate buyers. Growth in investment pace is moderate compared to exits as target valuations climb. In such an environment, GPs invest more in high-growth sectors.

Table: US buyout market data

USD billion	H113	H114	Q213	Q114	Q214	Dy/y	Dq/q
Fundraising	**90.5**	**96.6**	56.2	47.4	**49.2**	7%	4%
Investments	**68.9**	**76.3**	46.6	43.7	**32.5**	11%	(26%)
Exits	**74.8**	**128.2**	53.0	51.1	**77.1**	71%	51%

Notes: Dq/q is the comparison of Q2 2014 vs. Q1 2014. Dy/y is the comparison of H1 2014 vs. H1 2013. IPO exit values include initial proceeds only.
Source: Thomson ONE, S&P Capital IQ, as of July 10, 2014.

Fundraising

- Buyout fundraising continued to increase steadily

Halfway through 2014, fundraising continues to improve at a steady pace. Private equity funds raised USD 97 billion during the first half, or 7% more than a year ago. Fundraising demonstrates stable investor interest in traditional buyouts and increased demand for real estate and energy funds. Traditional buyout funds raised USD 45.4 billion, the same amount as last year. Bain Capital closed the largest fund, raising USD 7.3 billion for Fund XI. Funds with a Real Estate focus raised USD 23.5 billion, or 48% more than a year ago, followed by energy-focused funds, which attracted USD 15.1 billion. Distressed debt fundraising continued to slow down as the distressed high yield bond and loan markets shrank to the lowest level since the last peak in 2009.

Investments

- Buyout acquisition prices climb, while firms invest more in high-growth sector deals

Buyout investment activity increased at a moderate pace during the first half despite concerns over the valuation-rich environment. The number of deals increased 12% and invested capital rose 11% from a year ago. During the first half, acquisition prices increased to an 8.88 multiple of EBITDA from 8.43x last year, according to S&P Capital IQ. Prices climbed further in the second quarter to 9.27x, a level last seen in 2007. However, a distinctive factor puts valuations into another perspective. Buyout firms moved away from investing in the consumer products and services sector, the most popular sector in 2007, towards high-growth sectors such as internet and software. Companies in high growth markets typically command higher valuations. The share of such acquisitions increased to 24% of all deals, the highest on record according to Thomson Reuters data.

Exits

- PE-backed IPOs broke records, while trade exits increased pace

Exit activity expanded rapidly during the first half, aided by continued strength in stocks and debt markets and a recovery in corporate M&A. As a result, trade exits demonstrated the strongest growth across all exit channels, contributing to about half of the overall exit volume. Biomet, a club deal made by Blackstone, Goldman Sachs, KRR and TPG at the height of the previous buyout boom, was sold to Zimmer for USD 13.5 billion. IPOs of buyout-backed companies also proceeded at a brisk pace. There were 57 IPOs raising a total of USD 22 billion during the first half, the strongest activity on record. There were three USD 1 billion buyout-backed IPOs, with IMS Health backed by TPG Capital and Leonard Green raising the largest amount.

Outlook

- Heightened level of M&A activity and robust public markets are expected to aid PE

Recent solid improvements in employment and consumption suggest a rebound in economic activity after a weak first quarter. The backlog of PE portfolio companies remains high. Therefore, PE exit activity and returns are expected to continue improving. In particular, a robust IPO pipeline sets the stage for continued growth in the second half of the year complemented by a stronger appetite for M&A on the part of corporate buyers and sellers.

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US venture capital

In brief

- VC exits and fundraising are at their highest levels since 2007, boosted by robust demand from public market investors and strategic acquirers. Many fast-growing startups are raising significant rounds of capital as they scale their operations. Valuations for market-leading late-stage technology companies have skyrocketed, but valuations for other VC-backed startups have risen more modestly.

Table: US venture capital market data

USD billion	H113	H114	Q213	Q114	Q214	Dy/y	Dq/q
Fundraising	7.7	**17.3**	3.3	9.1	**8.3**	125%	(9%)
Investments	16.2	**25.2**	8.6	11.4	**13.8**	56%	21%
Exits	18.1	**38.3**	11.5	21.0	**17.4**	112%	(17%)

Notes: Dq/q is the comparison of Q2 2014 vs. Q1 2014. Dy/y is the comparison of H1 2014 vs. H1 2013. IPO exit values include initial proceeds only.
Source: Dow Jones VentureSource, as of July 10, 2014.

Fundraising

- Fundraising was the strongest since 2007

Venture fundraising rebounded strongly during the first half of 2014. Vibrant IPO and public markets over the last few quarters enabled venture firms to generate strong liquidity and re-ignite investor interest in this asset class. Venture firms raised USD 17.3 billion in the first half of 2014, more than during all of 2013. However, fundraising remains highly concentrated, with five firms raising funds of at least USD 1.0 billion accounting for a third of all committed capital. Late-stage investor Technology Crossover Ventures raised the largest venture capital fund during the first half of 2014, with TCV VIII attracting USD 2.3 billion in commitments.

Investments

- Large late stage investments drove a rebound in VC investments

Overall VC investments during this period were at their highest levels since 2001. With an improved exit environment, late-stage companies are attracting their highest-ever share of VC investments, accounting for two-thirds of overall investments during the period. However, most of the capital invested in these companies came from mutual funds, hedge funds, private equity funds and strategic investors rather than from traditional venture capital firms. The first half recorded a dramatic upturn in valuations of late-stage financings, as illustrated by two mega-deals. Uber, maker of an application that allows users to order private cars or taxis via mobile phones, raised USD 1.2 billion from an investor group led by Fidelity Investments at a USD 17 billion valuation, while home rental firm Airbnb raised USD 450 million from TPG Capital at a USD 10 billion valuation.

Exits

- Large M&A exits and a record number of IPOs boosted VC liquidity

Despite market volatility in the second quarter, large numbers of venture-backed companies completed initial public offerings, with 63 companies raising USD 5.1 billion through IPOs during the first half of the year. Many biotech companies completed small IPOs but a number of technology companies completed larger IPOs led by HD personal camera maker GoPro. Large corporations drove exit activity, with first half acquisitions more than doubling to USD 38.3 billion. Five multi-billion dollar M&A exits took place in the first half, led by Google's acquisition of home automation company Nest Labs for USD 3.2 billion. M&A figures could increase significantly if the pending USD 19 billion acquisition of WhatsApp by Facebook is approved by European antitrust regulators.

Outlook

- Venture performance is expected to remain strong, driven by IPOs and M&A

We expect continued strong VC liquidity and performance as long as public markets, a driver of recent venture gains, remain robust. In particular, the IPO-pipeline of 41 VC-backed companies includes many profitable technology companies; many other companies are attractive M&A targets. Amongst healthcare startups, the IPO window may not be open consistently, but acquisitions by large pharma companies should remain steady.

European buyout

In brief

- Exit activity intensified in Europe, driven by strong IPO activity in the second quarter. Investment deal flow improved as deal sourcing from private and corporate sellers started to increase. Fundraising started slowly and a lack of mega-buyout fund closings weighed on the total amount raised.

Table: European buyout market data

EUR billion	H113	H114	Q213	Q114	Q214	Dy/y	Dq/q
Fundraising	28.5	**24.3**	16.6	10.7	**13.7**	(15%)	28%
Investments	38.4	**35.7**	25.8	14.5	**21.2**	(7%)	46%
Exits	44.0	**69.3**	34.1	29.2	**40.1**	57%	38%

Notes: Dq/q is the comparison of Q2 2014 vs. Q1 2014. Dy/y is the comparison of H1 2014 vs. H1 2013.
Source: Thomson ONE, unquote data, as of July 10, 2014.

Fundraising

- Fundraising activity was dominated by small and mid-market buyout managers

Following the strongest fundraising year since 2008, activity took off slowly in 2014. During the first quarter, 25 funds held closings, the lowest number of the last six quarters. Fundraising increased slightly in the second quarter, although it continued to trail the prior year's level. Among buyout funds, there were only two large-cap fund closings, with Permira Advisors raising EUR 3.1 billion towards a final fund size of EUR 5.3 billion. Activity in the small and mid-market buyout segment remained steady.

Investments

- Improved confidence among private sellers supported investment deal flow

The buyout market continued to recover in the first half of 2014. In particular, deal flow in the small and mid-market segment increased markedly. In total, 241 buyout deals were announced - 13% more than a year ago. However, a decline in average deal size in the large cap segment weighed on total invested capital. Advent International and Bain Capital Europe acquired Danish payment solutions provider Nets for EUR 2.3 billion in the largest deal of the first half. In further positive news, deal flow from private and family-owned businesses started to increase. Private equity firms previously dominated deal vendor activity for several quarters, resulting in a surge of secondary buyouts. Deals sourced from private sellers accounted for nearly half of all deals announced during the first half, reflecting improving confidence across the wider deal-making community.

Exits

- PE firms preferred to float companies, driven by favorable public market conditions

Buyout firms used increasingly robust public markets to generate liquidity. European buyouts saw their strongest ever IPO activity in the second quarter of 2014. There were 19 IPOs in the second quarter bringing the year-to-date number of flotations to 28. Overall, buyout exit deal values increased 42% to EUR 62.7 billion from a year ago. Large size PE-backed companies particularly benefited from higher demand for IPOs of large, established businesses. The largest five exit deals were all IPOs, with the offering of Danish outsourcing company ISS, backed by EQT and Goldman Sachs, topping the list with a EUR 4 billion market capitalization. Trade buyers were also active in the large cap segment, but slow activity in the small-cap segment weighed on the number of exits, which dropped 33% to 189 deals compared to a year ago.

Outlook

- Private equity portfolios and activity expected to benefit from positive macroeconomic developments

We maintain a positive outlook for the European buyout market. The latest Eurostat data indicates consolidation in economic recovery across Europe, with robust growth in production and construction as well as a slow but steady downward trend in unemployment rates. Furthermore, export-oriented buyout-backed companies could benefit from improving global economic activity as indicated by a rise in the global purchasing manager index (PMI), while the ECB quantitative easing policy could further support deal-making activity.

European venture capital

In brief

- European venture-backed IPOs accelerated in the first half, boasting debuts of the two largest-ever multi-billion euro offerings. Venture invested capital continued to increase, with companies in business and financial services attracting higher shares of venture capital.

Table: European venture capital market data

EUR billion	H113	H114	Q213	Q114	Q214	Dy/y	Dq/q
Fundraising	1.33	**1.65**	0.47	0.64	**1.01**	24%	58%
Investments	2.69	**3.61**	1.49	1.50	**2.12**	35%	41%
Exits	3.96	**3.84**	1.76	2.38	**1.46**	(3%)	(39%)

Notes: Dq/q is the comparison of Q2 2014 vs. Q1 2014. Dy/y is the comparison of H1 2014 vs. H1 2013. IPO exit values include initial proceeds only.
Source: Dow Jones VentureSource, as of July 10, 2014.

Fundraising

- Fundraising volume increased as established fund managers raised large funds

Venture fundraising increased in the second quarter after a slow start. Q2 saw four funds that exceeded the EUR 200 million threshold, compared with just one a year ago. Investor commitments to venture capital funds increased to EUR 1.7 billion, 24% more than a year ago. However, the overall fundraising pace slowed, with fewer funds holding closes than last year. In contrast, established VC managers raised funds quickly as investors continued to invest very selectively. Following several large exits since beginning of last year, Index Ventures held an interim closing of its early stage venture Fund VII at EUR 400 million - the largest venture fund close in Europe during the first half and the largest early stage venture fund raised since 2011.

Investments

- Investments increased 21% y-o-y powered by Business and Financial Services deals

Investment activity continued to solidify. Venture firms completed 776 deals during the first half, up 5% from a year ago, while invested capital increased 21% to EUR 3.4 billion. VC investments in Business and Financial Services companies increased sharply to EUR 893 million (+152% from a year ago), becoming the second largest industry during the first half and recording the largest VC deal. Swedish Klarna, provider of a payment solution for e-commerce stores in Europe, received EUR 90 million from General Atlantic and Sequoia Capital. Consumer Internet deals continued to dominate investments, attracting nearly a third of all invested capital. In contrast with US venture, VC investments in European IT companies continued to decline in the first half.

Exits

- European venture notched multi-billion euro IPOs of VC-backed companies

IPOs of VC-backed companies accelerated in the first half. 27 offerings took place, ten more than in all of 2013, raising EUR 855 million in initial proceeds. The first half saw a milestone in European venture with two of the largest-ever IPOs of VC-backed companies by market capitalization. A venture investment by Apax Partners in King Digital Entertainment, a maker of smartphone games, was valued at EUR 5.1 billion at the offer date. JUST EAT, an online marketplace for restaurants and a portfolio investment of Index Ventures, Greylock Partners and other investors, was valued at EUR 1.8 billion. JUST EAT was the first company admitted to the London Stock Exchange's High Growth Segment, which supports access to public equity capital for VC-backed companies. This market, similar to NASDAQ, could become a platform for more VC-backed IPOs in the future.

Outlook

- Fundamentals remain positive. However, concerns over valuations dent IPO outlook

We expect further improvement in European VC deal developments supported by the macroeconomic environment and a continued increase in venture confidence. There are promising companies in the IPO pipeline but European public markets have recently had difficulty absorbing large issues. Additionally, subdued post-IPO performance stemming from concerns over the sustainability of valuations could cloud the near-term IPO exit outlook.

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Asia-Pacific private equity

In brief

- Asia-Pacific demonstrated significant growth in exit activity driven by the re-start of IPOs on Chinese Exchanges after 18 months of suspension. Internet IPOs and M&A of tech companies drew the attention of investors to the venture space in China, with VC fundraising experiencing strong growth.

Table: Asia-Pacific private equity market data

USD billion	H113	H114	Q213	Q114	Q214	Dy/y	Dq/q
Buyout fundraising	3.6	**10.0**	1.1	2.4	**7.6**	176%	220%
Growth fundraising	21.7	**14.5**	6.9	7.7	**6.7**	(33%)	(13%)
Buyout investments	15.1	**15.6**	8.3	9.3	**6.2**	3%	(33%)
Growth investments	17.4	**27.0**	11.3	14.0	**12.9**	55%	(8%)
M&A exit values	22.6	**22.8**	7.0	11.3	**11.5**	1%	1%
IPO exit values	4.5	**17.9**	3.5	9.7	**8.3**	297%	(14%)

Notes: Investment & exit values are enterprise values. IPO exit values are total proceeds raised by all shareholders including non-PE investors.
Source: Asian Venture Capital Journal database, as of July 10, 2014. Dq/q is the comparison of Q2 2014 vs. Q1 2014. Dy/y is the comparison of H1 2014 vs. H1 2013.

Fundraising

- VC fundraising was the strongest since 2011

Fundraising remained bifurcated. However, capital raised was in line with the previous year's benchmark, driven by renewed investor interest in Chinese venture and the activity of large buyout funds. With increased M&A and IPO activity by Chinese internet companies, venture funds, including local teams of global VC managers such as Sequoia Capital and Matrix Partners China, had the most successful fundraising since 2011. Buyout fundraising momentum continued into 2014. The first half included four billion-dollar buyout fund closes: Affinity Equity Partners, CVC Capital Partners, Pacific Equity Partners and TPG Asia, which raised the largest amount – USD 3.5 billion for its Fund VI.

Investments

- Growth capital investments turned a corner with investments in Greater China more than doubling

Large private equity funds have been very active dealmakers so far this year, pushing the overall invested capital amount well above the prior year's level. Temasek Holdings acquired a 25% stake in Hong Kong retailer A.S. Watson for USD 5.6 billion in the largest growth capital transaction of the first half. Overall, growth capital investments increased 55% to USD 27 billion from a year ago. Investments in China more than doubled from a year ago, claiming half of total invested capital in Asia-Pacific. Buyout invested capital remained at a solid level. Carlyle Asia took over Korean security solutions provider ADT Caps from Tyco for USD 1.9 billion in the largest buyout deal of the first half and the largest buyout deal in Korea since 2008.

Exits

- IPOs came roaring back. Trade buyers remained a main source of PE liquidity

IPO reform by the Chinese securities regulator provided a major boost for private equity exit activity. 94 PE-backed companies saw an IPO during the first half, raising USD 17.4 billion, a fourfold increase from a year ago. Furthermore, Chinese companies re-started listings on US exchanges. JD.com Inc., backed by Insight Venture Partners and Sequoia China among others, raised USD 1.8 billion on the NASDAQ exchange. M&A exit activity and open-market sales proceeded at a steady pace. Korea was the home of a high profile M&A exit in the first half, with KKR Asia and Affinity Equity Partners selling Oriental Brewery back to Anheuser Busch for USD 5.8 billion and making more than five times their cost, according to the AVCJ.

Outlook

- IPO exits are expected to drive PE liquidity

We expect Asia-Pacific private equity to continue its positive development. IPO exits will advance, driven by a significant backlog of IPO candidates. The upcoming debut of Chinese online trading platform Alibaba could elevate investor interest in Asia-Pacific, which offers attractive fund and deal opportunities.

Emerging Markets (Ex. Emerging Asia)

In brief

- Fundraising started strongly in 2014, with committed amounts almost doubling in the first quarter, mostly driven by the SSA and CEE & CIS regions. In the second quarter, Brazil recorded two large fund closes pushing capital raised to its highest level since 2011. Investment activities were relatively weak across the region, with the exception of SSA where capital-intensive sectors with big-ticket deals helped bring capital into the region.

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

USD million		2012	2013	Q113	Q413	Q114	Dy/y	Dq/q
MENA	Fundraising	548	568	104	154	**46**	(56%)	(70%)
	Investments	1,593	209	54	39	**1**	(98%)	(97%)
	Number of deals	48	38	9	13	**3**	(67%)	(77%)
SSA	Fundraising	1,448	922	38	143	**522**	1274%	265%
	Investments	1,125	1,610	100	357	**474**	376%	33%
	Number of deals	77	74	15	21	**19**	27%	(10%)
CEE & CIS	Fundraising	5,224	1,382	365	396	**1,456**	299%	267%
	Investments	2,290	1,955	99	1,288	**132**	33%	(90%)
	Number of deals	132	97	18	42	**33**	83%	(21%)
Russia	Fundraising	357	601	126	200	**250**	98%	25%
	Investments	1,291	296	58	165	**20**	(66%)	(88%)
	Number of deals	49	33	8	15	**10**	25%	(33%)
Latin America	Fundraising	4,211	3,212	558	464	**415**	(26%)	(11%)
& Caribbean	Investments	5,486	4,288	242	1,019	**615**	154%	(40%)
	Number of deals	144	101	22	25	**18**	(18%)	(28%)
Brazil	Fundraising	2,617	1,024	161	187	**206**	27%	10%
	Investments	4,589	2,784	120	173	**135**	13%	(22%)
	Number of deals	80	55	11	9	**7**	(36%)	(22%)
Emerging	**Fundraising**	11,431	6,084	1,065	1,157	**2,439**	129%	111%
Markets	**Investments**	10,494	8,062	495	2,703	**1,222**	147%	(55%)
(Ex. Em. Asia)	**Number of deals**	401	310	64	101	**73**	14%	(28%)

Notes: Data for Russia and Brazil is also included in CEE & CIS and Latin America & Caribbean, respectively.
Source: Emerging Markets Private Equity Association, as of May 30, 2014. Dq/q is the comparison of Q1 2014 vs. Q4 2013. Dy/y is the comparison of Q1 2014 vs. Q1 2013.

Brazil

- Private equity deal activities slowed in Q1 2014 as investors weighed big events planned in Brazil, while fundraising in the first half was the strongest since 2011

The slowdown in Brazil's private equity continued in Q1 2014, with only seven deals completed in the country and a decrease in capital invested. On the other hand, fundraising in Brazil increased to USD 206 million in the first quarter and, with two more large closes in the second quarter, has been the strongest since 2011. During the first quarter, NSG Capital closed a buyout fund at USD 175 million. The second quarter, not yet reflected in EMPEA's statistics, featured two more large closes: Patria Investimentos raised USD 1.4 billion for Fund V and USD 400 million for Infrastructure Fund III.

In contrast to fundraising, deals were somewhat muted in the Brazilian market, where only seven deals were completed in Q1 2014. With a lack of sizeable deals, the largest contributor was Kinea Investimentos's USD 106 million deal in Lojas Avenida, a small stake in a retail group in Brazil.

Slow investment activity reflects investors' caution towards the country ahead of big events such as the 2014 FIFA World Cup in Brazil and a presidential election in October. However, investments are expected to increase in 2014, driven by pending deals. In particular, there are two large buyout deals awaiting regulatory approval: KKR's USD 430 million acquisition of Aceco TI and Bain Capital's USD 850 million purchase of health insurance provider Intermedica.

Middle East North Africa (MENA)

- Private equity activities remained muted, but there are some positive signs for investor confidence

Within emerging markets, the MENA region saw the biggest slowdown in Q1 2014. Both fundraising and investment activities in MENA remained muted, with only three deals and one fund close. NBK Capital's second private equity fund accounted for all of the new capital raised for the region in the quarter, with USD 46 million raised. The results of EMPEA's 2014 Global Limited Partners Survey showed some positive indications that LPs are developing greater confidence in the region. The MENA region's ranking for overall attractiveness of GP investment over the next 12 months rose to sixth place, which is a significant jump from its tenth place ranking last year.

Investment activity remained muted. Only USD 1 million was invested in Q1 2014, compared to USD 39 million in the last quarter and USD 54 million in Q1 2013. Fund managers deployed capital in Algeria (Emerging Capital Partners), the Palestinian territories (Sadara Ventures) and the United Arab Emirates (Hummingbird Ventures). This is certainly an interesting phenomenon, as relatively stable Gulf Cooperation Council (GCC) countries have long been favored in this region.

Sub-Saharan Africa (SSA)

- SSA continued to be a fast growing market with robust fundraising and investment activities

Both fundraising and investment activities were robust in the SSA region in Q1 2014, proving it is a fast growing market. Fundraising in Q1 2014 alone, which totaled US 522 million, was more than half of last year's total fundraising level and is on pace to surpass 2013 levels in early Q2, with Carlyle's Sub-Saharan Africa fund closing in that period. Pan-Sub-Saharan Africa funds accounted for 78% of capital raised in the quarter.

Some investors have been wary of relatively small deal sizes in SSA, however big-ticket deals contributed to a big surge in capital invested in the region, proving the region has the ability to absorb more capital. Actis's USD 220 million purchase of a Cameroonian power generator was the biggest deal in the quarter. While the largest deal was completed in Cameroon, Kenya had the highest number of deals. Investments in the region increased to USD 474 million, posting a 33% increase from Q4 2013 and 376% increase on a quarter-on-quarter basis.

Turkey and Russia/CEE/CIS

- While the geopolitical crisis in Ukraine captured the world's attention, the CEE/CIS region posted remarkable fundraising activities in Q1 2014

The CEE/CIS region's private equity fundraising activities skyrocketed in Q1 2014, with an impressive USD 1.5 billion, surpassing 2013's total fundraising level (USD 1.4 billion). The majority of capital raised in Q1 2014 was from CEE-focused funds led by Mid Europa Fund IV, which closed at USD 906 million and Elbrus Capital Fund II, which raised USD 250 million.

Fund managers completed 33 deals across the region in Q1 and deployed USD 132 million. No disclosed deals were greater than USD 50 million, resulting in increased prominence of venture capital activity: the largest disclosed investment of Q1 was Lithuania-based online retailer Vinted's USD 27 million Series B financing round, led by Insight Venture Partners and Accel Partners. While the geopolitical crisis in Ukraine may have clouded the short-term outlook for private equity in the CEE/CIS region, the full impact of the recent unrest for teams deploying capital and those on the fundraising trail is perhaps yet to be felt.

Private equity secondary

In brief

- Secondary deal volume is on track toward another record-breaking year as seller diversity expands and portfolio rebalancing increases

After a record year for private equity secondaries volume in 2013, the first half of 2014 is trending towards another record year for deal flow. While traditional sales of portfolio interests accounted for the majority of the volume, there was a significant increase in the demand for non-traditional deals, including GP fund restructurings and spinouts. Seller diversity continues to increase, with investors of all types looking to reduce their non-core holdings. The year 2014 to date has also seen indications of a return of mega-deals, including the largest ever private equity secondary – the USD 1.3 billion purchase of GE Capital's private equity portfolio.

Pricing continues to stay elevated in the 1H of 2014: we believe that increased distribution activity, and strong public markets are the driving factors behind the trend that we have been observing for the last 18 months. During the first half, the S&P 500 increased 6.1% while the NASDAQ gained 5.5%. Recent GP valuation increases were significant, but continued to trail the rise in public markets.

Looking forward, we expect to see increased deal flow in the second half of 2014 in all segments of the market. We anticipate financial institutions will resume portfolio sales due to clarity brought about by the finalization of the Volker Rule, with a deadline set for July 2015 ("the Final Rule"). Furthermore, non-traditional sales will comprise a greater share of the overall market and mega deals will resume.

While competition from large secondary funds is expected to cause upward pressure on prices at the larger end of the market, we will see continued opportunities at the lower end. We remain confident about generating attractive returns for investors by investing in smaller deals, with a focus on high quality assets, especially in non-traditional transactions with more complex structures.

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