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Capital Dynamics Market Environment

Summary 2009

Environment – EU

The recovery of the EU economy remains fragile

The one of the longest and most severe recession in the European post war economy eased, as economic activity slightly expanded in the third quarter of 2009. However, GDP could not maintain its growth in the fourth quarter, following 0.4% in the third, illustrating the fragility of the recovery. The low digit growth in the second half of 2009 was supported by a higher than expected increase in global trading activity, turn in inventory cycle, and significant macroeconomic stimulus. Firms have started to use their capacity at a slightly higher rate, but utilisation rates remain far below their long-term averages. The sizeable spare capacity is likely to lower investment growth in the medium term. Cash holdings of companies have significantly increased, driven by cost cutting measures. These factors caused a low demand for corporate lending, which explains the continued decline of corporate lending volumes.

The recovery of the European economy still remains uncertain. Recent developments in Greece and the downgrading of the sovereign debt of Spain and Portugal increased volatility in the financial markets, putting pressure on the Euro. The risk of a double dip recession has increased, although a weak growth is expected for 2010 as a whole. According to the European Commission forecast, the Eurozone countries are expected to grow by 0.7% in 2010.

The tables below detail the European macroeconomic and financial data.

	2008	2009	H108	H109	Dy/y	Dh/h
GDP in % [1]	(1.9)	(2.2)	0.4	(2.6)	(0.3)	(3.0)
CPI in % [1]	1.6	0.9	0.4	0.2	(0.7)	(0.2)
Interest rate in % [2]	2.50	1.00	4.00	1.00	(1.50)	(3.00)
Unemployment rate in % [2]	8.2	9.9	7.4	9.4	1.7	2.0
Consumer confidence [2]	(30.8)	(16.0)	(15.9)	(25.0)	14.8	(9.1)
FTSE 100 index price [3]	(31%)	22%	(13%)	(4%)	53%	9%
CAC 40 index price [3]	(43%)	22%	(21%)	(2%)	65%	19%
DAX index price [3]	(40%)	24%	(20%)	(0%)	64%	20%
IPO number	150	39	104	7	(74%)	(93%)
IPO in EUR bn	8.8	6.3	6.9	0.3	(28%)	(95%)
M&A in EUR bn	556	365	267	197	(34%)	(26%)

	Q408	Q109	Q209	Q309	Q409	Dq/q
GDP in % [1]	(1.9)	(2.5)	(0.1)	0.4	-	(0.3)
CPI in % [1]	(0.1)	0.4	0.2	-	0.3	0.3
Interest rate in % [2]	2.50	1.50	1.00	1.00	1.00	-
Unemployment rate in % [2]	8.2	9.1	9.4	9.8	9.9	0.1
Consumer confidence [2]	(30.8)	(34.2)	(25.0)	(19.0)	(16.0)	3.0
FTSE 100 index price [3]	(10%)	(11%)	8%	21%	5%	-16%
CAC 40 index price [3]	(20%)	(13%)	12%	21%	4%	-17%
DAX index price [3]	(18%)	(15%)	18%	18%	5%	-13%
IPO number	7	1	6	4	28	600%
IPO in EUR bn	0.7	0.0	0.3	0.0	5.9	14202%
M&A in EUR bn	113	129	68	73	95	30%

1) Figures are for the whole period
2) Period end figures
3) Change for the relevant period
Note: Dq/q is the comparison of Q4 2009 vs. Q3 2009
Source: Bloomberg as of April 21, 2010

GDP growth slowed down

GDP: During 2009, the Eurozone economy shrank by 2.2%, driven by the collapse of global trading activity, inventory de-stocking, and a fall in corporate capital investments. The second half of the year saw the Eurozone economy return to growth as government actions and stimulus programs supported a stabilization of financial markets, world trading activity recovered from a recession shock, and business confidence improved.

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

Inflation: Consumer Price Inflation (CPI) declined from 1.6% in 2008 to 0.9% in 2009, primarily due to the global drop in oil prices at the start of the year, lower food costs and weakening consumer demand. The outlook for annual inflation will continue to be shaped by changes in food and energy prices. At the same time, economic fundamentals, such as weak consumer demand and lower labor cost growth, are expected to weigh down on developments in inflation. The ECB expects price developments to remain subdued over the medium term.

Interest rates: After decreasing the target interest rate in the first quarter of 2009 from 2.5% to 1.0%, the ECB maintained it at this level for the last three quarters. Expected moderate economic growth and low inflationary pressures imply that the current level of rates is likely be maintained for a longer period. Market participants expect that the first central bank rate hikes will happen in the third quarter of 2010 at the earliest.

Unemployment continues to rise but at a slower rate

Employment: The unemployment situation continued to deteriorate throughout 2009, reaching a rate of 9.9%, its highest since 1998. All Eurozone member states recorded increases in their unemployment rates compared with 2008, with Ireland reporting the highest increase of 5% and Germany the lowest of 0.4%. The United Kingdom's unemployment increased by 1.2% from December 2008, but showed signs of peaking towards the end of 2009. The unemployment rates are expected to continue rising in 2010, albeit at a slower rate.

Public markets: During 2009, public equity indices had a bullish rally after hitting a low at the beginning of March. The UK's FTSE 100 and France's CAC 40 gained 22% in 2009, while the German DAX increased by 24%. The appreciation of indices slowed in the fourth quarter as positive news on improved economic environment and increased company earnings were largely priced in.

IPOs: After a quiet period of three quarters, IPO activity surged in the last quarter of the year, with EUR 5.9 billion raised on Western European exchanges. However, compared to 2008, the volumes were still down by 28%, emphasizing the weak state of the market. The largest IPO of the year was a debut of the Belgian insurance company, Delta Lloyd NV, raising EUR 1.0 billion on the Euronext Exchange.

IPO and M&A ended the year on a positive note

M&A: European M&A activity was weak in 2009, with values declining by a third from 2008 and a share in global M&A activity declining from 33% in 2008 to 28% in 2009. However, quarterly values increased by 30% in the fourth quarter, from EUR 73 billion in the third quarter to EUR 95 billion, marking an encouraging finish to the year. The largest deal of the fourth quarter was the acquisition of Cadbury Plc by Kraft Foods in a cash and stock transaction valued at EUR 14.3 billion. 2009 was a unique year due to the high involvement of governments in M&A activity. It is not surprising that the largest deal of the year was the government's 14.1% stake acquisition of Royal Bank of Scotland for EUR 28.5 billion.

Private equity markets

2009 set a low-water mark in European private equity

The global economic crisis severely impacted all aspects of the private equity industry, with fundraising the most affected. After robust development over the past four years, fundraising values plunged by 77% between 2008 and 2009 to EUR 14.3 billion, driven by a severe decline in buyout fundraising, according to the Thomson One database. Investment levels declined at a lower rate, particularly due to the recovery of buyout activity in the second half of 2009. Buyout managers focused on managing existing portfolio companies and concluding small platform acquisitions in the uncertain market environment. However, the continued recovery of credit markets, as the post-crunch restructuring of financial institutions appeared largely complete, supported the closings of a number of large buyout deals in the second half of 2009. Likewise, exit activity picked up in the second half as well capitalized trade buyers seized premium assets, with private equity firms realizing investments at attractive terms. In contrast to 2008, private equity portfolio values increased over three consecutive quarters of 2009. The combination of increased economic stability, improved trading performance of the companies, and positive development in global equity markets supported the recovery of values in 2009.

The tables below detail the European private equity data.

all values in EUR billion		2008	2009	H108	H109	Dy/y	Dh/h
LBO	Funds raised	51.6	9.9	30.4	7.4	(81%)	(66%)
	Number of funds raised	85	48	51	26.0	(44%)	(47%)
	Investments	76.8	24.1	48.6	5.5	(69%)	(89%)
	Drawdowns [1]	16.9	4.2	8.9	2.2	(75%)	(75%)
	Distributions	8.4	1.3	4.9	0.4	(84%)	(91%)
	Appreciation as % of NAV	(28.4%)	2.4%	-5.8%	-3%	31%	3%
	5 year rolling IRR [2]	11.1%	7.9%	16.9%	7%	(3%)	(10%)
VC	Funds raised	9.4	4.4	5.4	3.6	(53%)	(34%)
	Number of funds	135	98	72	76.0	(27%)	6%
	Investments	4.8	3.1	2.4	1.4	(36%)	(41%)
	Drawdowns [1]	2.5	0.6	1.5	0.4	(75%)	(74%)
	Distributions	1.1	0.1	0.5	0.0	(91%)	(92%)
	Appreciation as % of NAV	(10.1%)	(0.5%)	-3.1%	0%	10%	3%
	5 year rolling IRR [2]	1.1%	0.7%	1.6%	1.1%	(0%)	(1%)

all values in EUR billion		Q408	Q109	Q209	Q309	Q409	Dq/q
LBO	Funds raised	12.5	5.3	2.1	1.2	-1.8	(252%)
	Number of funds raised	18	15	11	11	14	27%
	Investments	6.9	2.1	3.5	9.5	9.0	(6%)
	Drawdowns [1]	2.4	1.6	0.6	1.0	1.0	(7%)
	Distributions	1.8	0.4	0.0	0.5	0.4	(9%)
	Appreciation as % of NAV	(18.9%)	(4.0%)	1.3%	2.3%	2.8%	0%
	5 year rolling IRR [2]	11.1%	9.5%	7.3%	8.8%	7.9%	(1%)
VC	Funds raised	2.9	1.3	2.3	0.3	0.5	91%
	Number of funds	40	20	56	8	16	100%
	Investments	1.2	0.8	0.6	0.7	0.9	25%
	Drawdowns [1]	0.6	0.2	0.1	0.1	0.1	7%
	Distributions	0.2	0.0	0.0	0.0	0.1	903%
	Appreciation as % of NAV	(6.5%)	1.0%	(1.0%)	(1.1%)	0.5%	2%
	5 year rolling IRR [2]	1.1%	1.6%	1.1%	0.9%	0.7%	(0%)

1) Drawdowns and Investments data are not comparable as Investments include debt. Also, the figures are based on different sample databases.

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

Source: LBO investments – Private Equity Insight database of Incisive Media, VC investments – Dow Jones Venture Source, Fundraising, Cash flow and Performance data – Thomson One, formerly known as Venture Economics, as of April 21, 2010

LBO

Fundraising remained weak during the year

2009 was a challenging fundraising year for buyout funds. The fundraising volumes plummeted from EUR 51.6 billion in 2008 to EUR 9.9 billion in 2009, representing an 81% decline. Several dynamics are reflected in the numbers. Firstly, investors chose to allocate their limited investment capacity towards other strategies, as indicated by a decline in the buyouts share of total commitments, from 66% in 2008 to 27% in 2009. Indeed, some strategies, such as secondary and real estate focused funds, were able to exceed 2008 commitment levels. Secondly, many private equity firms stayed out of the fundraising market in 2009. This may have been due to an ample amount of dry powder still to invest from the 2006-2008 record fundraising periods and the delay of new fund launches until the performance of predecessor funds improved.

European buyout investments ended 2009 on a positive note, as the fourth quarter saw the third consecutive increase in deal activity, according to the Private Equity Insight database. Although 2009 investments dropped by 69% from 2008, they gained some momentum in the second half of the year with EUR 18.6 billion of invested capital, over a threefold increase from the first half of the year. All five mega deals of 2009 were announced in the second half, with the largest deal of the year being EQT's EUR 2.3 billion acquisition of German Media Group Springer Science+Business Media. LBO deal terms returned to normal levels in 2009, as purchase price/EBITDA multiples declined for all LBO size transactions, most notably for mega deals (from 10.1x to 8.4x). Less leverage was used in 2009 deals, with equity contribution making up half of deal values, according to the S&P M&A statistics.

Investments and exits increased in the second half of 2009

In line with overall M&A and IPO markets, exit activity was very low in 2009. However, a positive development was observed in the second half with a few large trade and secondary exits. In fact, the largest exit of the year, the EUR 3.5 billion sale of Unity Media GmbH by Apollo to Liberty Global, exceeded the value of the largest investment. Nevertheless, many private equity firms continue to hold assets that they believe can increase in value in the mid-term.

Buyout assets started to recover

The level of investment and exit activity is reflected in the drawdown and distribution values, which dropped by an average of 75% and 85% from 2008 respectively, for a sample of 446 European buyout funds monitored by Thomson One. The net cash flow figures improved from last year, easing the liquidity pressure on LPs. Buyout fund assets appreciated by 2.4% in 2009, compared with a 28% drop in 2008. Small and mega buyout funds had the best rates of recovery, with medium and large buyout funds lagging.

VC

As with buyouts, VC fundraising was not immune to the economic downturn. During 2009, 98 funds raised EUR 4.4 billion, representing a decline of 53% in values and 27% in the number of funds from 2008. The fundraising picture among different substrategies is mixed. While later stage fundraising declined by 81%, early stage VC funds were able to exceed 2008 levels by 15%, according to the Thomson One database. The two largest VC fund closings in 2009 were early stage focused funds, BP Developpement and AXA Infrastructure, with combined commitments making up a quarter of all European VC commitments in 2009.

VC fundraising declined less than buyout fundraising

VC investment values declined by 36% in 2009, from EUR 4.8 billion in 2008 to EUR 3.1 billion, marking the weakest year of venture investment in European companies since 2000, according to Dow Jones VentureSource data. The majority of deals were first round deals, while later stage deals continued to receive the highest share of VC investments, due to the higher valuation of later stage rounds. Healthcare deals were in favor in 2009 with their share increasing from 28% in 2008 to 34%. The largest VC deal of the year was concluded, however, in the clean tech industry, with the EUR 64 million financing of Norwegian solar energy company NorSun by a consortium of investors led by Swiss VC firm, Good Energies. The UK continued to lead European VC investments (26% of all invested capital in 2009), followed by Germany and France. These three countries made up 61% of all European investments.

VC investments and exits remained at a low level

With the weak IPO market and subdued M&A deal flow, VC exit activity was also limited in 2009. Exit volumes declined to EUR 1.5 billion, down 69% from 2008. Most notably, weak buyout investment activity also impacted VC exits. In 2009, only EUR 178 million was realized in LBO transactions, compared with EUR 2.0 billion in 2008. In the fourth quarter of 2009, the first three IPO exits of European VC backed companies took place, raising EUR 112 million. Likewise, M&A exits increased fivefold from the third quarter, reaching EUR 609 million in the fourth quarter. However, due to an anemic first half, M&A exits declined to EUR 1.14 billion in 2009, down 52% from 2008. Performance of VC funds improved from 2008, when the assets depreciated by 10.1%. In 2009, VC assets recorded a small depreciation of 0.5%. Performance among different stages was mixed. While later stage funds reported an appreciation of assets, early stage funds continued to demonstrate net write downs.

Private equity shows early signs of recovery

As it turned out, 2009 was one of the most challenging years faced by private equity. However, the lowest point in the industry seems to be behind us. Private equity managers focused on guiding their portfolio holdings through the storm of recession by the restructuring of debt financing, selling off some assets, while preserving and creating value in other investments through operational improvements. Going forward, private equity investments will likely continue to trend upwards from the low of 2009, while exits will depend on the continued recovery of public markets. Recent private equity deals, such as the Bridgepoint sale of Pets at Home for EUR 1.1 billion to KKR and the Providence Partners backed IPO of Kabel Deutschland (the largest IPO in Germany since 2007 raising EUR 760 million), show a return of confidence to private equity and could be seen as early signs of recovery.

Environment – U.S.

Economic recovery is at an early stage, with outlook suggesting a moderate growth

The US economy returned to growth in the second half of 2009 after five quarters of declining activity. The economic development was driven by expansionary monetary policy, inventory destocking, and an increase in global trading activity. Business investments remained few and far between as uncertainty in the economic outlook persisted. Supported by government actions, financial stress has been easing since March 2009, with liquidity and credit risk premiums narrowing significantly. A continuous increase in US corporate profits since a low in the fourth quarter of 2008 supported a positive development of US public equity markets. Issuance of corporate debt securities increased in 2009, exceeding the 2008 level, while demand for bank lending remained weak for most of the year. Business and consumer confidence, as indicated by various surveys, showed an upward trend over the past three quarters. Household spending grew at a moderate rate but remained constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.

Although unemployment rates stabilized towards the end of the year, changes in non-farm payroll employment remained in negative territory, suggesting that the economic recovery is not yet sustainable. The continued gains in manufacturing production were bolstered by growing demand from foreign trading partners, especially emerging market economies. However, fiscal retrenchment in some foreign countries could trigger a slowdown of those economies and hence weigh on the demand for U.S. exports. The Federal Reserve continues to anticipate a moderate growth over the next two years as housing activity remains volatile; government spending may decline, while consumer spending will much depend on the employment situation.

The tables below detail U.S. macroeconomic and financial data.

	2008	2009	H108	H109	Dy/y	Dh/h
GDP in % [1]	(1.9)	0.1	0.2	(1.8)	2.0	(2.0)
CPI in % [1]	0.1	2.7	0.9	0.7	2.6	(0.2)
Interest rate in % [2]	0.25	0.25	2.00	0.25	-	(1.8)
Unemployment rate in % [2]	7.4	10.0	5.5	9.5	2.6	4.0
Consumer confidence [2]	60.1	72.5	56.4	70.8	12.4	14.4
S&P 500 index price [3]	(38%)	23%	(13%)	2%	62%	15%
NASDAQ Composite index price [3]	(41%)	44%	(14%)	16%	84%	30%
IPO number	63	80	51	24	27%	(53%)
IPO in USD bn	28.7	20.2	27.3	3.4	(30%)	(88%)
M&A in USD bn	882	645	540	342	(27%)	(37%)

	Q408	Q109	Q209	Q309	Q409	Dq/q
GDP in % [1]	(5.4)	(6.4)	(0.7)	2.2	5.6	3.4
CPI in % [1]	(0.7)	(0.1)	0.7	0.2	0.2	-
Interest rate in % [2]	0.25	0.25	0.25	0.25	0.25	-
Unemployment rate in % [2]	7.4	8.6	9.5	9.8	10.0	0.2
Consumer confidence [2]	60.1	57.3	70.8	73.5	72.5	(1.0)
S&P 500 index price [3]	(23%)	(12%)	15%	15%	5%	-9%
NASDAQ Composite index price [3]	(25%)	(3%)	20%	16%	7%	-9%
IPO number	1	5	19	21	35	67%
IPO in USD bn	0.1	1.1	2.3	6.9	9.8	42%
M&A in USD bn	82	171	171	98	205	110%

1) Figures are for the whole period
2) Period end figures
3) Change for the relevant period
Note: Dq/q is the comparison of Q4 2009 vs. Q3 2009
Source: Bloomberg as of April 21, 2010

GDP continued to expand

GDP: The U.S. economy accelerated during the final quarter of 2009, with a 5.6% annualized growth rate. On the y-o-y, the US economy grew at 0.1% in 2009. According to BEA, the increase in real GDP in the fourth quarter primarily reflected positive contributions from private inventory investment, exports, personal consumption expenditures (PCE), and non-residential fixed investment.

Inflation: For the 12 month period ending December 2009, the Consumer Price Index (CPI) rose 2.7%, compared to 0.1% for 2008. The increase was primarily due to the increase in energy prices. The core personal consumption expenditures inflation, which excludes energy and food prices, did not increase from 2008 and remained stable at 1.8%. With substantial resource slack continuing to restrain cost pressures, inflation is likely to be subdued for some time, according to the FOMC. Bloomberg's composite forecast suggests a moderate 2.1% inflation in 2010.

With stable inflation expectations, the target interest rate remains low

Interest rates: The Federal Reserve's target interest rate remained unchanged at 0.25% since the dramatic cut from 2.00% in the third quarter of 2008. Minutes from the last FOMC suggest that the Federal Reserve will only adjust the rate if there is "evidence of economic activity accelerating markedly or underlying inflation rising notably".

Unemployment continued to increase at a lower rate

Unemployment: The unemployment rate continued to increase in 2009, from 7.4% at the end of 2008 to 10.0%. During 2009, 3.2 million non-farm jobs were lost, with January the hardest hit with a loss of 729,000. Employment fell mostly in construction, manufacturing, and wholesale trade, while the number of jobs in temporary help services and healthcare increased, according to the U.S. Bureau for Labor Statistics. The Bloomberg composite forecast was revised down, with an average unemployment rate of 9.6% during 2010.

Public markets: During 2009, S&P 500 and NASDAQ Composite continuously increased from a low in March 2009, gaining 23% and 44% respectively. For S&P 500, it was the best performing year since 2003. IT firms within S&P 500 were the standout performers of 2009, with the sector gaining 62%. The appreciation of US equities slowed down in the fourth quarter of 2009, as S&P 500 gained 5% and NASDAQ 7%.

With a surge of public prices, IPO activity has rebounded strongly

IPOs: The number of IPOs in the US rose consistently over each quarter of 2009, with fourth-quarter IPO activity raising the highest quarterly proceeds since the first quarter of 2008, according to Bloomberg data. In 2009, 80 IPOs raised USD 20.2 billion, compared with 63 IPOs and USD 28.7 billion in 2008. The number of IPOs in 2009 exceeded 2008 figures; however values were lower due to 2008 boasting the largest IPO in US history (Visa Inc, USD 17.9 billion). In contrast, the largest US IPO in 2009 was Verisk Analytics, raising USD 1.9 billion. Spain's Banco Santander raised USD 8.1 billion on the San Paulo Stock Exchange and NYSE, making it the world's largest IPO of 2009.

M&A: The number of M&A deals increased continuously during 2009, from a low of 1,205 in the first quarter; however, the values of disclosed M&A deals remained volatile. The last quarter of 2009 showed the strongest activity. Despite the strong finish, overall M&A activity declined from 2008. In 2009, 5,838 deals were announced with disclosed transaction values of USD 645.4 billion compared to 7,204 deals and USD 882.2 billion in 2008, according to Bloomberg. The biggest M&A deal in a decade was announced in the fourth quarter of 2009 - the USD 41.1 billion acquisition of XTO Energy by Exxon Mobil.

Private equity markets

Fundraising showed a declining trend throughout 2009, while investments and exits had a promising finish

After the strong fundraising period of the last four years raising over USD 1.0 trillion of funds in the US, the private equity industry took a tumble in 2009. US private equity funds raised USD 87.0 billion in 2009, representing a 68% decline from 2008, according to Thomson One database. However, 2009 fundraising figures exceeded amounts raised in the previous recession of 2002-2003. Private equity strategies that offer the best investment opportunities in a recessionary environment, such as secondary and turnaround, saw an increase in fundraising. Buyout, mezzanine, and growth funds declined the most. Likewise, private equity investments decreased, driven by buyout investments stalling for most of the year. Disconnect in pricing expectations between buyers and sellers, higher cost of leverage, and uncertainty in the external environment impaired the deal making ability of buyout managers. However, the fourth quarter saw an uptick in investment levels, matched by an increase in exit activity. With rising public equity prices, General Partners took opportunities to exit portfolio companies through IPOs. 33 private equity backed companies went public on US stock exchanges, raising USD 8.6 billion of initial proceeds, compared to 11 IPOs and USD 1.7 billion made in 2008, according to Thompson One database. Like other asset classes, values of private equity assets continued to recover throughout the year. Despite public equity markets recovering faster, private equity continued to outperform public equity in the mid- and long-term.
The tables below detail the U.S. private equity data.

all values in USD billion		2008	2009	H108	H109	Dy/y	Dh/h
LBO	Funds raised	247.0	71.2	164.4	43.8	(71%)	(73%)
	Number of funds raised	246	159	195	104.0	(35%)	(47%)
	Investments	137.1	34.7	75	8.0	(75%)	(89%)
	Drawdowns [1]	54.0	11.8	30.3	8.6	n/a	(72%)
	Distributions	13.1	5.0	6.0	2.6	n/a	(56%)
	Appreciation as % of NAV	(14.7%)	0.1%	-0.6%	0.2%	15%	1%
	5 year rolling IRR [2]	8%	6%	14%	6%	(1%)	(8%)
VC	Funds raised	28.5	15.7	16.5	9.4	(45%)	(43%)
	Number of funds	224	134	157	87	(40%)	(45%)
	Investments	31.0	21.4	8.3	9.5	(31%)	17%
	Drawdowns [1]	7.0	2.7	3.7	1.7	n/a	(55%)
	Distributions	5.8	1.6	3.5	1.0	n/a	(71%)
	Appreciation as % of NAV	(8.4%)	0.5%	-1%	-3%	9%	(2%)
	5 year rolling IRR [2]	6%	5%	9%	6%	(1%)	(3%)

all values in USD billion		Q408	Q109	Q209	Q309	Q409	Dq/q
LBO	Funds raised	19.4	23.5	20.3	14.9	12.5	(16%)
	Number of funds raised	51	68	36	45	51	13%
	Investments	7.0	5.0	3.0	3.2	23.6	648%
	Drawdowns [1]	7.9	3.2	5.4	3.2	n/a	(40%)
	Distributions	2.8	1.3	1.3	2.4	n/a	81%
	Appreciation as % of NAV	(9.2%)	(3.4%)	3.6%	4.3%	n/a	1%
	5 year rolling IRR [2]	8%	6%	6%	6%	n/a	1%
VC	Funds raised	3.6	5.2	4.2	2.3	4.0	75%
	Number of funds	49	56	31	29	40	38%
	Investments	6.1	4.2	5.6	5.4	6.3	17%
	Drawdowns [1]	1.3	0.9	0.8	1.1	n/a	38%
	Distributions	1.2	0.5	0.6	0.6	n/a	15%
	Appreciation as % of NAV	(6%)	(2%)	(2%)	1%	n/a	3%
	5 year rolling IRR [2]	6%	6%	6%	5%	n/a	(0%)

1) Drawdowns and Investments data are not comparable as Investments include debt. Also, the figures are based on different sample databases.

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 Q309 vs. Q209 while remaining figures are compared for Q409 vs. Q309

n/a Data was not yet published by Thomson One

Source: Thomson One, Buyouts for LBO investments, Dow Jones VentureSource for VC investments

LBO

LBO had the weakest fundraising year since 2004

The credit crunch took its toll on LBO fundraising, with commitments to U.S. buyout and mezzanine funds dropping by 71%, to USD 71.2 billion in 2009 compared to USD 247.0 billion in 2008. Quarterly fundraising was trending down over the course of 2009, with only USD 12.5 billion raised in the fourth quarter, the weakest fundraising quarter since 2004. Many managers postponed fundraising or lowered target amounts. In 2009, 81 LBO funds were launched with an average target size of USD 950 million, compared with 178 funds targeting USD 1,400 million per fund in 2008. The reduced number of available investment opportunities and smaller target fund size further drove down fundraising, already impaired by limited investor demand. Only 20 LBO funds exceeded the USD 1 billion mark in 2009, compared with 58 LBO funds in 2008. Hellman & Friedman Capital Partners VII received the largest proportion of 2009 commitments from investors, raising USD 8.8 billion.

Investments remained weak but activity improved towards the year end.

Likewise, LBO investment activity remained weak throughout the third quarter of 2009 but finished the year on a positive note. In 2009, investments declined by 69% to USD 24.1 billion, from USD 76.8 billion in 2008. LBO deal activity suffered from banks' reduced appetite for risk, anemic institutional investor interest and a dearth of CLO activity. As such, new LBO deals were too expensive to finance. Heading into 2009, the spread of term loans and revolving credit had more than doubled from mid-decade levels. In the first half of 2009, the average spread of US LBO loans reached 650 basis points above LIBOR before declining to the 500 basis-point range in the final quarter of the year. In such an environment, the majority of LBO transactions were add-on acquisitions since they were easy to finance through the balance sheet of the platform portfolio company. Terms of a handful of LBO deals suggest that lower prices were paid and a modest amount of debt was employed, with equity contribution of LBO sponsors rising to its highest level since 1997 (52% in 2009 from 33% in 2007), according to S&P M&A stats. The largest LBO deal in 2009, reflecting the best of a troubled economy, was the USD 11.0 billion investment of Silver Point Capital and Elliot Management in distressed auto parts maker Delphi Inc.

Exits increased in the second half of 2009, with performance improving slightly

Exit activity was mixed during 2009. While the number of M&A exits declined from 252 in 2008 to 195 in 2009, IPO exits increased from 6 in 2008 to 16 in 2009. The disclosed M&A deal exit values increased in 2009. However, the figures were skewed by a single transaction, the USD 28.1 billion sale by TPG and Goldman Sachs of Alltel to Verizon, representing the largest M&A exit of 2009 and making up 72% of overall M&A exit values. A rebound of public equities prompted some LBO managers to gain liquidity through IPOs. 20 buyout backed companies went public in 2009, raising USD 6.8 billion. The largest was the USD 850 million IPO of Cobalt Energy, backed by Carlyle and First Reserve. The increase in exit activity enabled LBO firms to return some cash to investors as indicated by increased distributions of a sample of 717 US buyout funds tracked by Thomson Reuters. Performance of LBO funds began to improve in the second quarter of 2009. Medium sized funds reported the highest appreciation of assets, while small sized funds continued to report write downs.

VC

In contrast with buyout, VC fundraising contracted at a lower rate, although activity slowed substantially. Commitment values decreased by 40% to USD 15.7 billion and the number of raised funds declined by a third from 2008, to 135. This marked the weakest fundraising year since 2003. 2009 had the fewest number of VC funds raised since 1994, as many VC managers stayed out of the fundraising market. Most of the USD 8.3 billion raised was committed to early stage funds, as investment opportunities in this stage typically increase during recession periods. Khosla Ventures raised the largest fund in 2009, receiving USD 750 million for its early-stage focused Fund III.

VC commitments and investments dropped significantly

The US Venture capital industry finished 2009 strongly, with fourth quarter investments increasing to USD 6.3 billion from USD 5.4 billion in the previous quarter. Despite this, annual investments declined by 31%, to USD 21.4 billion compared with USD 31.0 billion in 2008. Deal activity declined less than disclosed dollar volumes, with 2,429 deals attracting VC investments in 2009, compared with 2,817 deals in 2008. A decline in the average amount invested suggests that VC managers invested smaller amounts in the investment rounds, thereby reducing risk. Across different stages, the majority of deals were made in later stage rounds. In previous years, early stage deals were the most popular. In the uncertain economic environment, early stage companies with unstable businesses and high cash burn rates carry more risk to venture capitalists, which explains the decline of such investments in 2009. Following a continued increase of VC investments in healthcare deals over the past few years, it surpassed IT investments for the first time in US venture capital history. IT investments historically dominated VC investments in the US but have been in decline over the last few years.

After four quarters of drought, IPOs resumed in the second quarter of 2009 with eleven companies raising USD 1.6 billion in IPO proceeds. That compares well with 2008 when six IPOs raised USD 0.5 billion. While 2009 showed improvement, IPO activity remained far below the historic average. However, the IPO pipeline, with numerous companies in the registration process, suggests that IPO activity may continue with positive momentum in 2010. Some companies produced stunning performances, such as Solar Winds, backed by Austin Ventures, Insight Venture and Bain Capital, doubling in value since IPO. This is just one example that will likely attract investor interest for VC backed IPOs going forward. M&A exit activity was weak throughout 2009, with annual M&A exit values amounting to USD 16.2 billion, down 37% from 2008. However, exit values rebounded strongly in the fourth quarter, soaring to USD 7.3 billion from a low of USD 2.5 billion in the third quarter. The VC net assets showed a small appreciation in two consecutive quarters, reflecting improved portfolio company fundamentals and external environment.

Later stage deals dominated investments in 2009, while VC investments in healthcare surpassed IT

In summary, US private equity saw increased investment and exit activity in the second half of 2009. While uncertainty over the stability of economic growth remains, private equity is looking towards 2010 with cautious optimism. Investment is expected to increase from the low base of 2009 as credit markets reopened with strong demand for refinancing and new LBO deals for healthy targets. Dividend recaps may become a major source of liquidity for investors as GPs prefer to hold on to investments until company fundamentals and market multiples improve enough to reach the best possible exit price. Private equity IPO exits may continue their positive momentum into 2010; however activity can remain volatile. We have seen that, even in the adverse economic environment of 2009, managers were able to realize well positioned investments. This boosts our confidence that 2010 can deliver further examples of improved performance.

Environment – Asia

Economic growth is rebounding strongly in Emerging Asia, while advanced economies are on a slow recovery path.

The spillover of the global crisis affected the whole Asia-Pacific region in 2009, although the severity of the impact varied considerably across different economies. While growth in developing Asia slowed significantly due to the collapse in external demand from major industrial countries, advanced economies fell into a recession, driven by a decline in fixed investments and private consumption. China and India were drivers of the regional recovery as government monetary and fiscal policies boosted investments and consumption, offsetting the affect of shrinking demand. Japan's economy emerged from recession following four quarters of decline, driven by an increase in exports and production. However, a small dip in the third quarter implies that there is not sufficient momentum for a self-sustaining recovery. After hitting a low in Q4 of 2008, South Korea staged a strong recovery in 2009, supported by an increase in exports and government consumption. Having contracted at the end of 2008, the Australian economy continued to grow during 2009, with robust employment growth, increasing business and consumer confidence and upward trends in the housing market.

With the global recovery under way, the outlook for developing Asia looks bright. Asian Development Bank forecasts a possible 7.5% rebound in GDP growth in 2010, with all sub-regions expected to perform better than last year. A consensus estimate suggests that Japan's economy is expected to grow by 1.9% in 2010. Assuming that the global economy continues its slow recovery and with softening domestic demand as monetary and fiscal policies are normalized, the developing Asia growth is projected to slow slightly to 7.3% in 2011.

The tables below detail the Asian macroeconomic and financial data.

		2008	2009	H108	H109	Dy/y	Dh/h
Japan	GDP in % [1]	(4.1)	(1.0)	(0.1)	(1.1)	3.1	(1.0)
	CPI in % [1]	0.4	(1.7)	2.0	(1.8)	(2.1)	(3.8)
	Interest rate in % [2]	0.10	0.10	0.50	0.10	-	(0.4)
	Unemployment rate in % [2]	4.4	5.2	4	5.3	0.8	1.3
	Consumer confidence [2]	26.7	37.9	32.9	38.1	11.2	5.2
	Nikkei 225 index price [3]	(42%)	19%	(12%)	12%	61%	24%
China	GDP in % [1]	6.8	10.7	10.4	7.1	3.9	(3.3)
	CPI in % [1]	1.2	1.9	7.1	(1.7)	0.7	(8.8)
	Interest rate in % [2]	5.31	5.31	7.47	5.31	-	(2.2)
	Shanghai Composite price [3]	(65%)	80%	(48%)	63%	145%	111%
India	GDP in % [1]	6.2	6	8.05	6.0	(0.2)	(2.1)
	CPI in % [1]	9.7	15.0	7.7	9.3	5.3	1.6
	Interest rate in % [2]	6	3.25	6	3.25	(2.8)	(2.8)
	Bombay index price [3]	(52%)	81%	(34%)	50%	133%	84%
Korea	GDP in % [1]	(3.3)	6.0	0.75	1.3	9.3	0.6
	CPI in % [1]	4.1	2.8	5.5	2.0	(1.3)	(3.6)
	Interest rate in % [2]	3	2	5	2	(1.0)	(3.0)
	Unemployment rate in % [2]	3.3	3.5	3.1	3.9	0.2	0.8
	Kospi index price [3]	(41%)	50%	(12%)	24%	90%	35%
Australia	GDP in % [1]	1.0	2.7	0.8	0.8	1.7	(0.1)
	CPI in % [1]	(0.3)	0.5	1.5	0.5	0.8	(1.0)
	Interest rate in % [2]	4.25	3.75	7.25	3.00	(0.5)	(4.3)
	Unemployment rate in % [2]	4.6	5.5	4.2	5.8	0.9	1.6
	ASX 200 index price [3]	(41%)	31%	(18%)	6%	72%	24%
Total Asia	IPO number	336	351	211	83	4%	(61%)
	IPO in USD bn	36.5	57.6	27.5	2.9	58%	(89%)
	M&A in USD bn	491.9	438.3	302.8	170.9	(11%)	(44%)

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 2009
n/m – comparison is not meaningful
Source: Bloomberg as of April 21, 2010

GDP growth is restored in all countries

GDP: Continued recovery of the global economy, combined with ongoing fiscal stimulus and monetary policies, helped the region's growth regain traction in 2009. The y-o-y GDP increased for all major regional economies, with the exception of Japan, whose economy shrank at a lower rate than in 2008. The Chinese GDP surged by 3.9% from 2008 to reach an impressive 10.7% growth by the year end.

Inflation:

India faces a dramatic increase in inflation

Inflation has picked up from low levels in many countries, but remains in manageable boundaries. Japan's economy is threatened by deflation, while inflation in India had increased dramatically to 15% by December 2009, driven by an increase in food prices. Other sectors are also showing signs of inflation. An excessive inflation may weigh on private consumption and hamper the growth of the Indian economy.

Interest rates:

Selective countries started to tighten monetary policies

Regional central banks continued to maintain low interest rates as economies in the region remain largely at the early stage of recovery. However, banks started to tighten monetary policies. Australian Reserve Bank was the first bank to increase the rate from 3.0% to 3.75%, in response to the continued growth of the economy. China's bank announced measures to restrain speculative excesses in bank lending which grew in 2009 by 30%, according to the Asian Development Bank data. South Korean bank implemented guidelines to reduce risky consumer lending practices.

		Q408	Q109	Q209	Q309	Q409	Dq/q
Japan	GDP in % [1]	(2.7)	(3.6)	1.5	-0.1	0.9	1.0
	CPI in % [1]	0.4	(0.3)	(1.8)	-2.2	-1.7	0.5
	Interest rate in % [2]	0.10	0.10	0.10	0.10	0.10	-
	Unemployment rate in % [2]	4.4	4.8	5.3	5.3	5.2	(0.1)
	Consumer confidence [2]	26.7	29.6	38.1	40.7	37.9	(2.8)
	Nikkei 225 index price [3]	(21%)	(8%)	23%	2%	4%	2%
China	GDP in % [1]	6.8	6.20	7.90	9.1	10.7	1.6
	CPI in % [1]	1.2	-1.2	(1.7)	-0.8	1.9	2.7
	Interest rate in % [2]	5.31	5.31	5.31	5.31	5.31	-
	Shanghai Composite price [3]	(21%)	30%	25%	(6%)	15%	22%
India	GDP in % [1]	6.2	5.8	6.1	7.9	6	(1.9)
	CPI in % [1]	9.7	8.0	9.3	11.6	15.0	3.3
	Interest rate in % [2]	6	3.5	3.25	3.25	3.25	-
	Bombay index price [3]	(25%)	1%	49%	18%	2%	-16%
Korea	GDP in % [1]	(4.5)	0.2	2.4	3.2	0.2	(3.0)
	CPI in % [1]	4.1	3.9	2.0	2.2	2.8	0.6
	Interest rate in % [2]	3	2	2	2	2	-
	Unemployment rate in % [2]	3.3	4	3.9	3.4	3.5	0.1
	Kospi index price [3]	(22%)	7%	15%	20%	1%	-20%
Australia	GDP in % [1]	(0.9)	0.8	0.7	0.3	0.9	0.6
	CPI in % [1]	(0.3)	0.1	0.5	1	0.5	(0.5)
	Interest rate in % [2]	4.25	3.25	3.00	3.00	3.75	0.8
	Unemployment rate in % [2]	4.6	5.7	5.8	5.7	5.5	(0.2)
	ASX 200 index price [3]	(19%)	(4%)	10%	20%	3%	-17%
Total Asia	IPO number	44	42	41	82	186	127%
	IPO in USD bn	4.5	0.4	2.5	20.5	34.2	67%
	M&A in USD bn	96.8	72.3	98.5	115.8	151.7	31%

Employment situation is improving slightly

Employment: The regional recovery spurred the creation of jobs, as indicated by declining regional unemployment rates. Unemployment rates decreased in the fourth quarter in Japan and Australia, from 5.3% to 5.2% and 5.7% to 5.5%, respectively. Regional employment surveys report a significant increase in jobs created in services, while the increase in manufacturing jobs remains low.

Public markets: In 2009, Asian stock indices grew at the fastest rate compared to other regions, as foreign funds flew back to the regions in light of the improving economic outlook. Shanghai Composite and Bombay stock indices posted the highest gains in the Asia-Pacific region, appreciating by 81% and 80%, respectively. In contrast, Japan's Nikkei index grew at a more modest rate of 19%, in line with European and US stock markets. Despite gaining, equity markets for all regions remain below early 2008 levels.

IPO and M&A activity rebounded strongly in the second half of 2009

IPOs: Surging equity prices in Asia spurred IPO activity in the second half of 2009, making Asia the only region in the world with the values and number of IPOs exceeding 2008 levels. IPO values increased by 58% to USD 57.6 billion from 2008, driven by a strong Chinese market raising USD 50.1 billion alone, according to Bloomberg data. It is not surprising that the largest IPO was made in China, with China Minsheng Banking Corp raising USD 4.0 billion on the Hong Kong Stock Exchange.

M&A: Asia-Pacific M&A activity had a strong finish at the end of 2009, with M&A values increasing 1.6 times in the second half compared to the first. In 2009, values declined modestly (11% from 2008) in comparison to other regions. Consequently, its share in global M&A values increased from 20% in 2008 to 24% in 2009. The largest deal of 2009 was the acquisition of AXA Asia Pacific by Australian listed insurance company AMP for USD 11.4 billion.

Private equity markets

Buyout and VC fundraising decreased sharply in 2009

Asian private equity fundraising in 2009 developed in tandem with other regions. As elsewhere, investors were reluctant to commit due to liquidity concerns, economic uncertainty, and balance sheet issues. Commitments to private equity funds dropped to USD 17.5 billion, down 63% from 2008, according to the AVCJ database. However, unlike other regions, commitments to VC and growth funds declined at similar rates to commitments to buyout funds. The positive quarterly development observed during the second and third quarters did not continue in the fourth. The values dropped by 54% in the fourth quarter from the third, making it the weakest fundraising quarter in 2009.

From a regional perspective, China, India and South Korea dominated the fundraising activity in 2009, accounting for 70% of all funds raised. Fundraising values declined in all countries in the region, with the exception of Malaysia and Singapore. Notably, a few infrastructure funds, such as the USD 1.0 billion Maguire–SBI Infrastructure Fund, were closed in India as private equity firms try to benefit from the necessity of infrastructure enhancement in the fourth largest economy in the world. The Government of India estimates a requirement of approximately USD 500 billion in new infrastructure investment over the next five years. A number of funds raised over USD 1 billion in capital, including MBK Partners II, the Shanghai Financial Industrial Investment Fund and Unison Capital Partners III.

Investments hold up well due to a strong second half of buyout investments

In contrast to fundraising, investments fared relatively well in 2009 with deal values declining by only 24%, from USD 56.9 billion in 2008 to USD 43.4 billion. The deal flow remained stable over the year. China became a dominant force in the region, as its share in regional investments increased continuously over the last seven years, from 9% in 2003 to 30% in 2009. The breakdown of investments by stage reveals that buyout transactions increased in value by 2% from 2008, while VC and growth investments declined by 62%. In fact, the Asian region boasted the largest buyout deal of the year, worth USD 5.3 billion, as Australian Macquarie Communications was acquired by Canadian Pension Plan Investment Board. However, a closer look at buyout deals depicts that most were concluded by government backed entities in PIPE transactions, taking the opportunity of relatively low valuations of public equity. With public prices continuously rising, this type of deal may become less common in the future, affecting buyout investment levels.

2009 private equity IPO exits doubled in value from 2008

Due to the strong rebound of the public market, Asia Pacific finished 2009 with a number of strong exits via IPO. Exit values for 2009 declined by only 7% to USD 46.3 billion, a figure that compares very well with US and European exit values. The IPO exits soared in 2009, with volumes doubling from USD 15.5 billion in 2008 to USD 29.5 billion. M&A exits were unable to maintain a positive trend in the fourth quarter, with annual values halving from 2008 to USD 16.8 billion. The two largest exits were completed by New Hopu Management, realizing China Minsheng Banking Corp via IPO valued at USD 4.0 billion and the USD 3.9 billion trade sale of Temasek Holdings of Chartered Semiconductor to ATIC based on United Arabic Emirates.

2009 was also a challenging year for the Asia-Pacific region. However, Asian private funds benefitted from a quick improvement in external environment, with its share in global private equity investments and exits continuing to rise. A sustained regional economic growth and positive development in public markets may further drive private equity activity, with Asian fundraising increasing from its low in 2009.

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