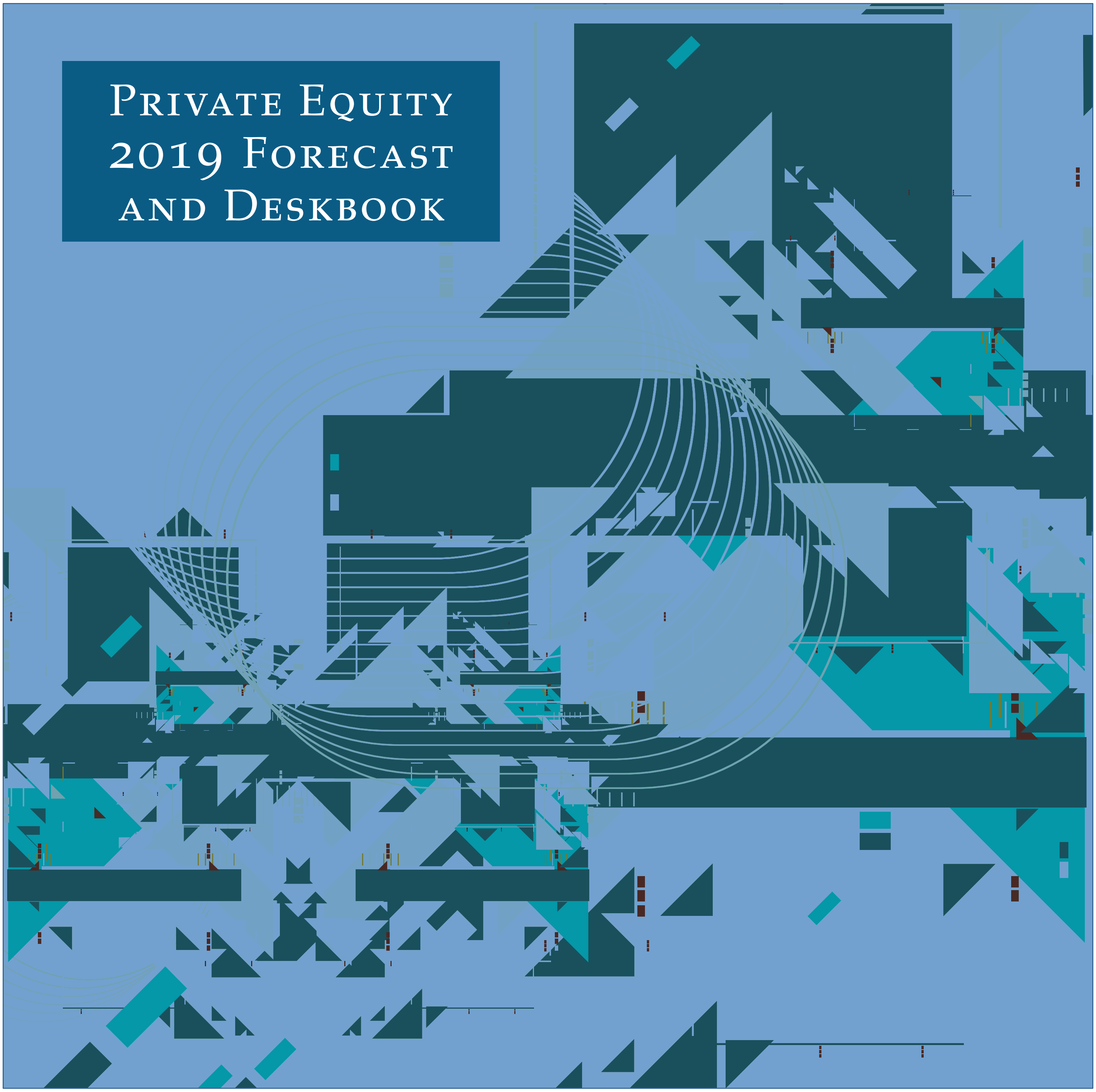
Private Equity 2019 Forecast and Deskbook



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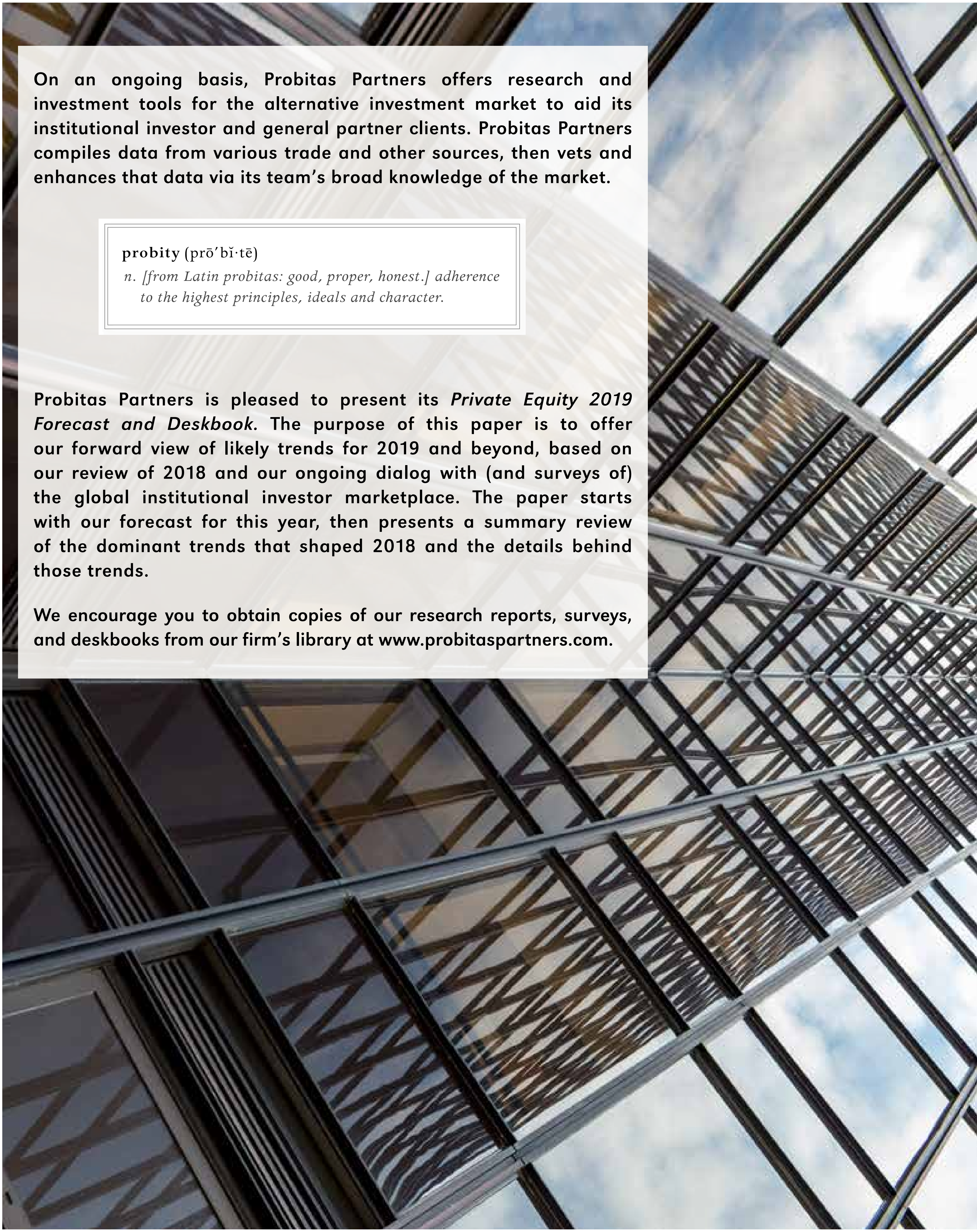
On an ongoing basis, Probitas Partners offers research and investment tools for the alternative investment market to aid its institutional investor and general partner clients. Probitas Partners compiles data from various trade and other sources, then vets and enhances that data via its team's broad knowledge of the market.

probity (prō′bĭ·tē)
n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.

Probitas Partners is pleased to present its *Private Equity 2019 Forecast and Deskbook.* The purpose of this paper is to offer our forward view of likely trends for 2019 and beyond, based on our review of 2018 and our ongoing dialog with (and surveys of) the global institutional investor marketplace. The paper starts with our forecast for this year, then presents a summary review of the dominant trends that shaped 2018 and the details behind those trends.

We encourage you to obtain copies of our research reports, surveys, and deskbooks from our firm's library at www.probitaspartners.com.



Contents

Heighted Focus on Risk

- ***Institutional investors are — and have been for some time now — worried that we are reaching the top of a market cycle.*** This is especially true in the buyout market where high purchase price multiples, high leverage, and record levels of "dry powder" becoming an increasing percentage of the mergers & acquisitions market that is characterized by aggressive competition between buyout funds and strategic acquirers create greater investor concerns about heightened risk. Investors' fears are not, however, limited to the buyout market. Direct lending funds are increasingly moving up the risk spectrum in search of returns, and the use of covenant-lite structures across private debt deals are also of concern, as is the dramatic increase in leverage utilized by secondary fund managers in purchasing secondaries transactions.

- ***There remains no consensus on what the trigger for, or the timing of, a market turn will be.*** Investors have been overtly concerned about the risk of a market turn for the last three years, but few have a strong opinion on what might flip the markets. But there is concern that besides the underlying market fundamentals, the fear that global political risk may have significant economic impacts is increasing.

- ***Distressed private equity: A hedge for the coming market cycle?*** In the past, distressed private equity funds have been used by certain investors concerned about a coming market cycle to moderate impact on their buyout portfolio exposure. Though there is always a degree of opportunistic timing in distressed private equity investing no matter what is going on with the overall economic cycle, a recession usually generates a surge of stressed and distressed opportunities. However, many limited partners have become more cautious about the sector based on their experience with the prior cycle. The forecast for a "100-year flood" of distressed opportunities driven by the Great Financial Crisis ("GFC") was washed away by the wave of central bank liquidity that was pumped into markets globally. Some investors seek to time the opportunity — and today, based on fundraising in the sector, the majority appear to be of the view that the time has not come yet.

- ***Investors remain focused on the need to deploy capital in a market where most alternatives feel fully priced.*** Fear of a coming market cycle has not caused investors to cut back on their pace of commitment to private equity dramatically; they continue to balance their fears with the need to deploy capital to maintain their investment exposure to a market with relatively few attractive alternatives. In this regard, the steep decline in North American buyout fundraising in 2018 seems to be market noise rather than a clear signal as fundraising for the first two months of 2019 is back to 2017's breakneck pace. Six mega-buyout funds seeking $10 billion or more are currently in market. At this point, 2018's fundraising dip seems more likely to have been a temporary gap between two peaks of mega-buyout funds in the market and not a wholesale market retreat.

- ***The need for dry powder going into a down cycle.*** Experienced investors realize that though falling markets will hurt the private equity portfolios recently placed on their books, they need to be ready with dry powder to take advantage of falling purchase price multiples when the

"Fear of a coming market cycle has not caused investors to cut back on their pace of commitment to private equity dramatically."

market turns — so long as those new commitments are to fund managers that have investment bandwidth and are not overwhelmed by legacy investment issues.

Interest in China Not Matched in Other Emerging Markets Outside Asia

- ***Even in the face of trade conflicts with the United States and concerns about its economy, interest in China remains strong.*** The headlines for China over the last few years have highlighted such issues as slowing economic growth, increased strategic tensions with its neighbors and the United States over the South China Sea, and trade tensions with the United States. What has not been as obvious, perhaps, has been the continued interest in private equity fundraising for funds focused on China as well as Pan-Asian funds with significant allocations to Greater China. A quick look at the tables in this report that detail the ten largest funds raised globally for buyouts, growth capital, and venture capital make clear the global interest in China. This focus is also driving a growing interest in South East Asia as a related market positively impacted by the Chinese economy and a lower-cost alternative to Chinese export production...

- ***...although this is not the case generally for emerging markets.*** While interest in private equity in China and Asia remains strong, interest in Latin American and African-focused funds has remained weak over the last three years. In 2018, the largest U.S. dollar-denominated fund raised to focus on China, Hillhouse, raised nearly twice as much as was raised for all Latin American and African private equity. As far as Russia, which has been increasingly unpopular with Western private equity investors due to perceived political risk, the market was unable to raise a single third-party fund in 2018 and the suit against Baring Vostok launched in February 2019 further hurt its already tarnished reputation.

"Large investors are increasingly making very large commitments to a smaller number of the largest funds in order to increase their leverage with certain managers and in turn develop strategic relationships."

Diverging Interests of Investors in Their Approach to the Market

- ***Large investors versus small investors.*** Large investors are increasingly making very large commitments to a smaller number of the largest funds in order to increase their leverage with certain managers and in turn develop strategic relationships. Typically, they are also pursuing co-investments, fund-linked separate accounts, and broad separate accounts. Additionally, these large investors are often major investors in long-dated funds or separate accounts that have begun to be raised over the last three or four years by the largest fund managers who seek to tie up capital commitments for extended periods. These long-dated vehicles are meant to serve the needs of certain large pension plans and sovereign wealth funds looking for exposure that matches their long-term liabilities.

  This approach by large investors gives them an advantage in accessing co-investments that can lower their average cost of investing and provide greater strategic insight into the market — but it is an approach that is difficult for smaller investors to replicate, especially with larger funds. It also has the potential to put smaller investors at odds with larger investors when key issues are reviewed by Limited Partner Advisory Committees ("LPACs"). The largest investors typically dominate a fund's LPAC, and some smaller investors are becoming concerned that their interests may not be adequately represented. That is especially so when certain large limited partners have strategic relations with the fund manager.

- ***Smaller investors and their search for alpha.*** Many smaller sophisticated investors are taking a different approach to the market. They are focusing on "best of breed" managers in narrow strategies, looking to generate alpha in inefficient sectors, such as industry sector-focused buyout or growth capital funds, or in middle-market distressed, turnaround, and special situations vehicles. Executing this strategy often requires both a willingness to diligence and back emerging managers and also moving away from established relationships with managers who investors believe have grown too large to generate sustainably high returns.

Private Debt Is Increasingly an Area of Focus, but There Are Concerns About Current Risk/Return Trade-offs

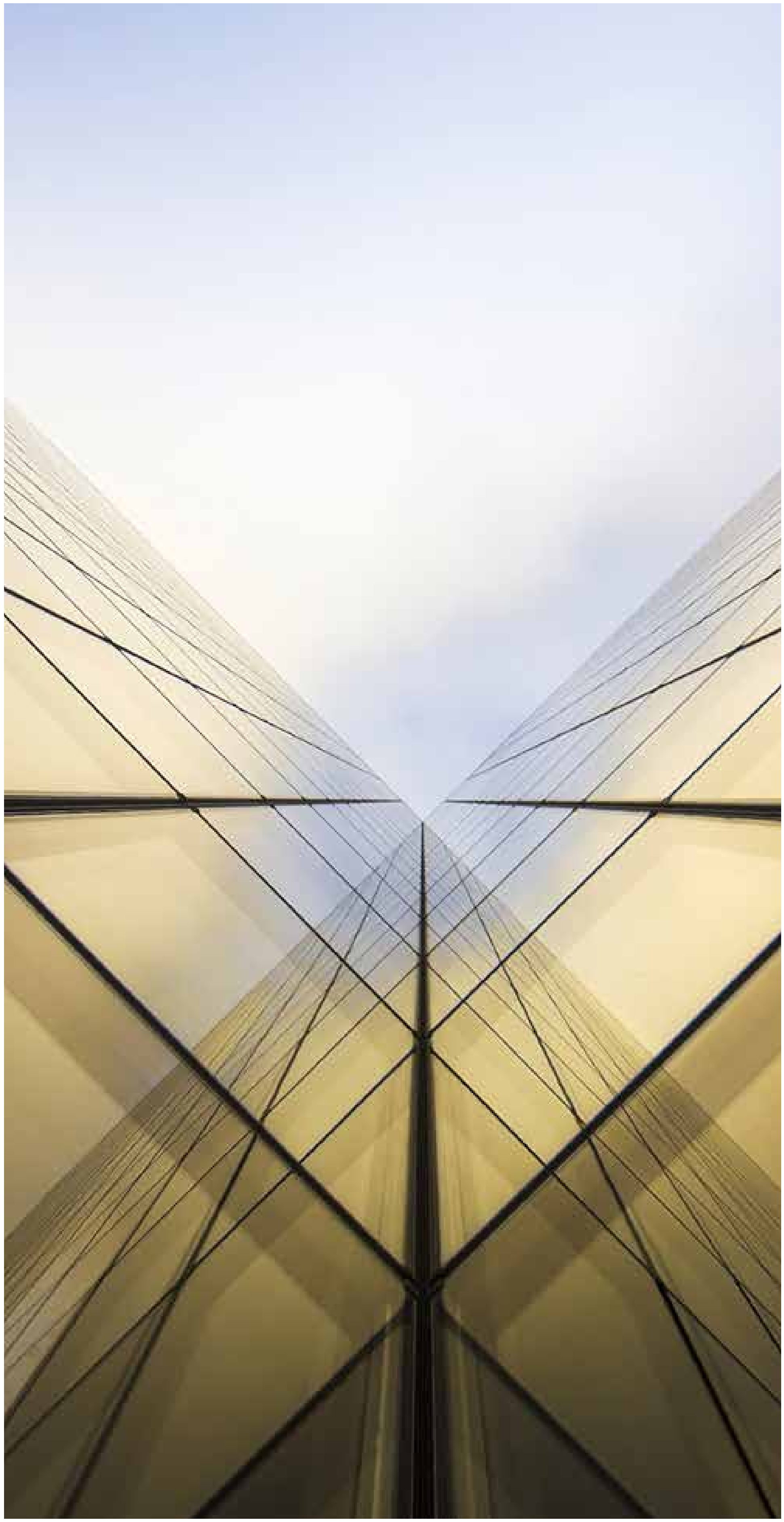
- ***The market environment over the last decade.*** The GFC dramatically hit major commercial banks globally, both stressing their legacy loan portfolios and restricting their ability to generate new loan business due to increased bank regulation. Direct lending funds providing senior debt and unitranche facilities stepped into the breach and expanded dramatically over the past decade, with much of this activity going to support private equity buyout transactions. Beyond direct lending (and mezzanine funds, which have long been a staple of the private equity markets), interest in specialized real estate debt and infrastructure debt funds has also surged over this period.

- ***Changing risk profiles in direct lending.*** There is clearly a change in the risk/return profile of the recently raised direct lending funds. As low interest rates driven by central bank liquidity policies continue to be a feature of the markets, increased competition from new direct lending fund managers has put increasing pressure on returns. Pure senior debt funds that were a large sector of the market five years ago are being increasingly displaced by diversified funds that target riskier exposure such as second-lien, unitranche, and subordinated loans, as they seek to maintain targeted levels of fund returns. Also, covenant-lite structures have made a strong comeback, further increasing the risk profile of newer transactions.

- ***Increased interest in specialty finance.*** The search for yield has also driven increased interest in specialty finance vehicles including structured secured debt targeting healthcare and life science funds, life settlements, litigation finance, and CLOs. Though a few of these opportunities are structured in closed-end private debt formats, many others are structured in hedge fund, listed, or open-ended vehicles.

- ***Investor allocations are still in flux.*** A decade ago, few investors had separate private debt allocations; instead, commitments came from private equity, fixed income, or special situations portfolios. Though that has changed significantly, investors' definitions of what constitutes private debt for allocation purposes still vary dramatically depending on their perception of risk. Mezzanine funds that often combine subordinated debt, equity warrants, and toehold equity positions are often made via private equity allocations as their risk/return profile is perceived as being more equity-like, driven as much by capital gains as current coupons. Other investors have broad definitions of private debt that sweep in not only mezzanine but also distressed debt and special situations; still others include these strategies in distressed private equity allocations. In real estate and infrastructure allocations, debt funds are often considered a sub-sector allocated by those teams and not included as part of private debt or fixed income allocations.

> *"Direct lending funds providing senior debt and unitranche facilities stepped into the breach and expanded dramatically over the past decade, with much of this activity going to support private equity buyout transactions."*



Fundraising

Private equity fundraising was weaker in 2018 after hitting a record high in 2017, with significant decreases in both North America and Asia (Chart I). North America is the deepest and oldest private equity market, and distinct long-term market trends are easier to track. The European market shows similar trends, though because it lacked a robust venture capital market in the 1990s, the bust of the Internet Bubble does not show up as much in the 2000 through 2003 period. Asian fundraising began to grow only in 2005 driven by interest in China, while interest in the rest of the emerging markets remains muted.

"Private equity fundraising was weaker in 2018 after hitting a record high in 2017, with significant decreases in both North America and Asia."

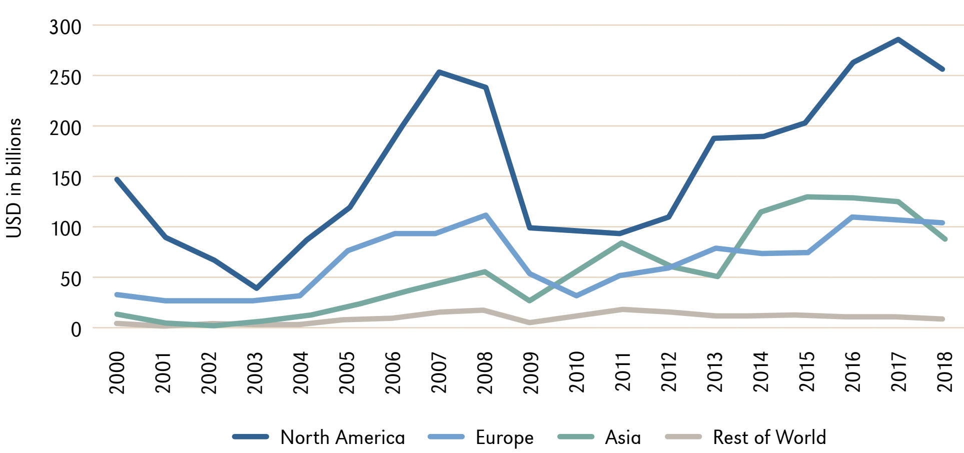
Caveats:

- ***Commitments tracked below are only for closed-end third-party funds.*** Fundraising for these vehicles is relatively easy to track. The numbers in all the fundraising charts in the Deskbook do not include co-investment activity, separate accounts, or direct investments being made by traditional partnership investors, as numbers for all of these are much more opaque. However, it should be noted that these types of investments have become increasingly important over the last decade, especially in North America and Europe.

- ***Many commitments are currency adjusted.*** In order to provide a common basis for comparison, the amounts in Chart I are displayed in U.S. dollars. For the European and Asian totals, many of these funds are denominated in euro, sterling, yuan, rupees, or yen, and were then translated into dollars. Though the long-term trends are relevant, some of the annual volatility in the European and Asian numbers is due to currency volatility versus the dollar.

- ***The North American total includes a few global funds.*** Those numbers include commitments raised for a few mega-funds with global or transatlantic mandates that are headquartered in the United States or Canada but do make significant investments at home as well as abroad.

Chart I Commitments to Private Equity Partnerships



Source: PREQIN; as of January 2019
Note: Does not include funds-of-funds

North America

- The fundraising data since 2000 for North America — the largest private equity market — clearly shows three major market cycles: (i) the fall in the market beginning in 2001, resulting from the bursting of the Internet Bubble of the late 1990s; (ii) the surge into the GFC, culminating in the dramatic fall in 2009; and (iii) the current surge in the market beginning in 2016 (Chart II).

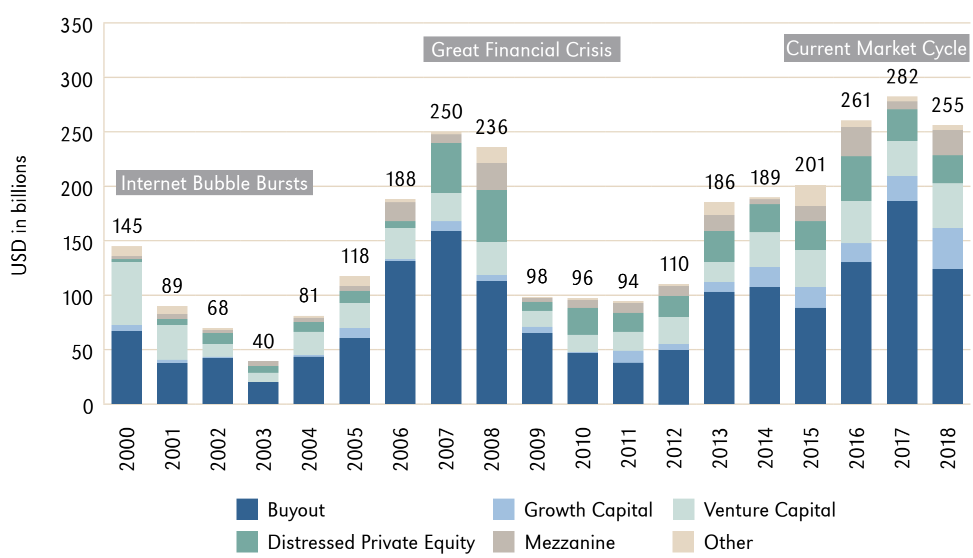
- After peaking in 2017, total fundraising in 2018 decreased slightly by 10%. Buyout fundraising declined by 36% in large part because 2017's numbers were swelled by very large capital commitments for Apollo, KKR, and Silver Lake, and few mega-funds were in the market in 2018.

- Venture capital fundraising, on the other hand, rose by 33% during the year while growth capital surged by over 60%. However, their absolute numbers meant that the buyout decline overwhelmed these increases when looking at total fundraising.

- Distressed private equity fundraising (distressed debt, special situations, and turnarounds) continued to fall in 2018 from its recent 2016 high, with an increase in special situations interest offset by a decline in distressed debt.

- Many mezzanine funds receive commitments from private equity allocations as they often include capital gains from either equity warrants or small equity co-investments. However, on an annual basis, mezzanine fundraising fluctuates dramatically year-by-year whenever one of the few very large mezzanine funds is in the market — as it was in 2018 with Goldman Sach's $13 billion vehicle.

Chart II Commitments to North American Private Equity Partnerships by Sector



Source: Probitas Partners, PREQIN
Note: Does not include funds-of-funds

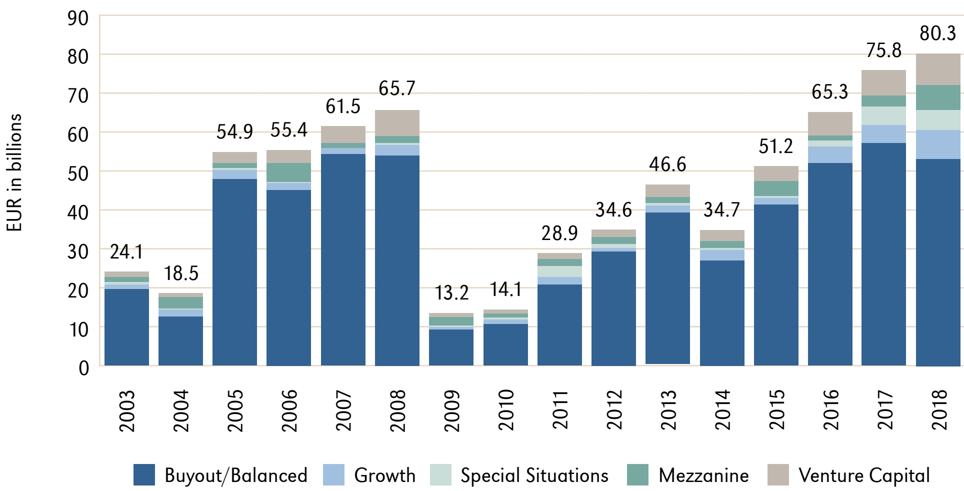
Europe

- In Chart III, European fundraising is denominated in euros (the dominant fund currency) to better track the dynamics of the market separate from short-term currency fluctuations when translated into dollars.

- Historically, buyout funds and balanced funds (a smaller sector that does both buyouts and growth capital) have dominated the European market much more so than in North America. Buyout and balanced fund commitments in 2018 declined slightly by 7% from 2017's total, but overall fundraising was up by 6% over the year, buoyed by increased commitments to growth capital, mezzanine, and venture capital.

- Fundraising was driven, as in previous years, by interest in pan-European funds and funds targeting Northern European countries.

Chart III Commitments to European Private Equity Partnerships by Sector



Source: Probitas Partners

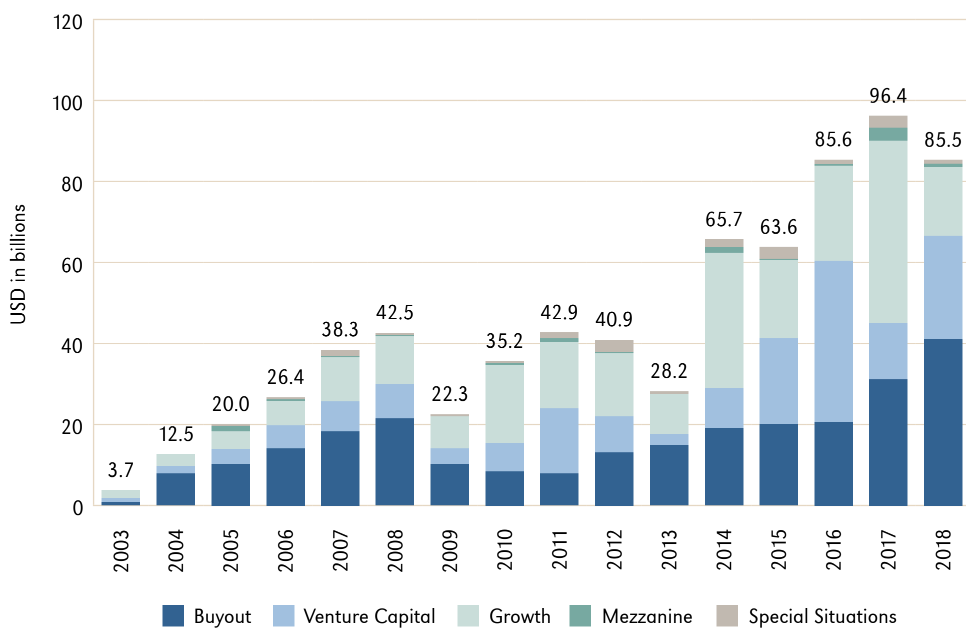
Asia

- Commitments to Asian-focused funds fell by 11% last year as interest in growth capital funds declined by over 60%, making up for increases in buyout and venture capital interest (Chart IV). Hillhouse, a buyout-focused fund, raised $10.6 billion, the largest fund targeting Asia ever raised.

- Special situations and mezzanine funds have never been of large interest in the Asian markets, and that did not change in 2018.

- There was weakness in China, the largest private equity market in Asia, as steps taken by the Chinese government impacted local stock markets with knock-on effects on funds denominated in RMB.

Chart IV Commitments to Asian Private Equity Partnerships by Sector



Source: Probitas Partners; PREQIN

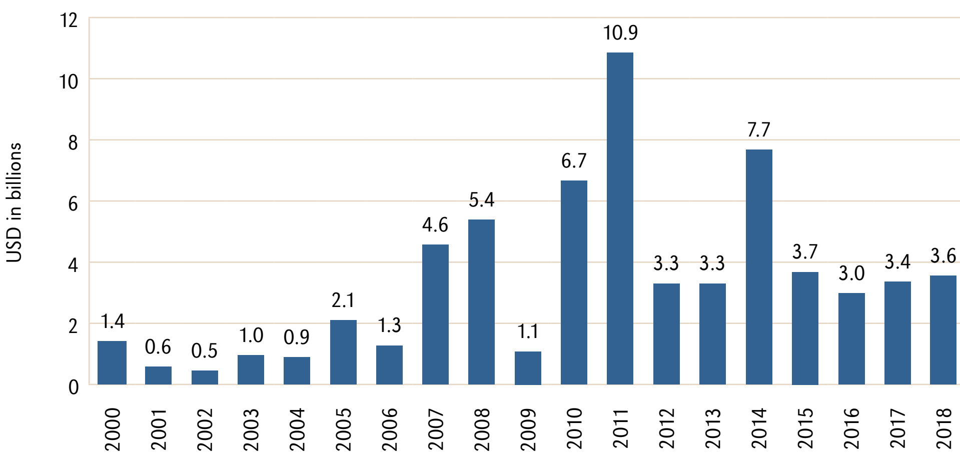
Latin America

- Commitments for Latin American-focused funds remained flat, as they have been since 2015 (Chart V). Political turmoil, slow economies, and weak currency valuations continued to plague the continent.

- The past peaks in Latin American fundraising in 2007-2008, 2010-2011, and 2014 were not driven by sudden surges in overall interest, but by the presence in the market of a few very large Brazilian or pan-Latin American funds that serendipitously are on the same fundraising cycle.

- There are hopes that in the coming year the political changes in Brazil could have a positive impact on Latin America's largest economy.

Chart V Capital Raised for Latin American Private Equity Partnerships



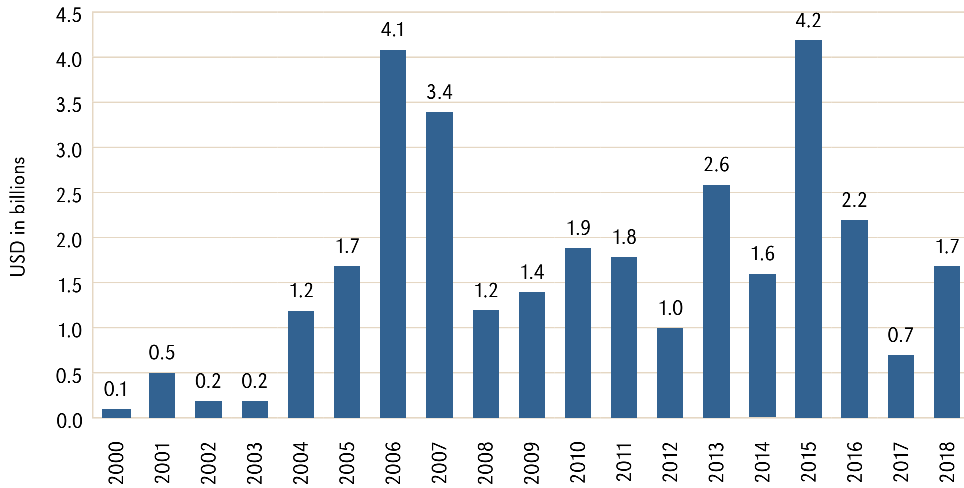
Source: PREQIN

Africa

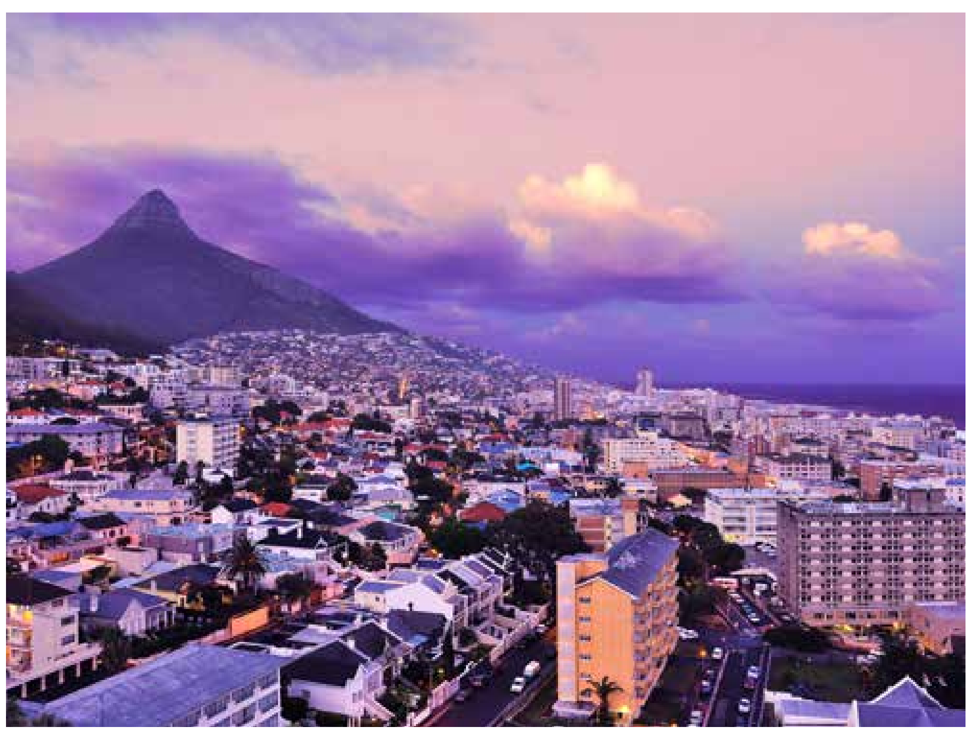
- **Fundraising for African-focused private equity funds remained weak since its last surge in 2015 (Chart VI). Many investors who have previously invested in African-focused funds are looking for significant investment exits before committing more capital to this geography.**

- **Most investors in Africa target regionally-focused instead of country-focused funds and are most interested in sub-Saharan Africa.**

Chart VI Capital Raised for African Private Equity Partnerships



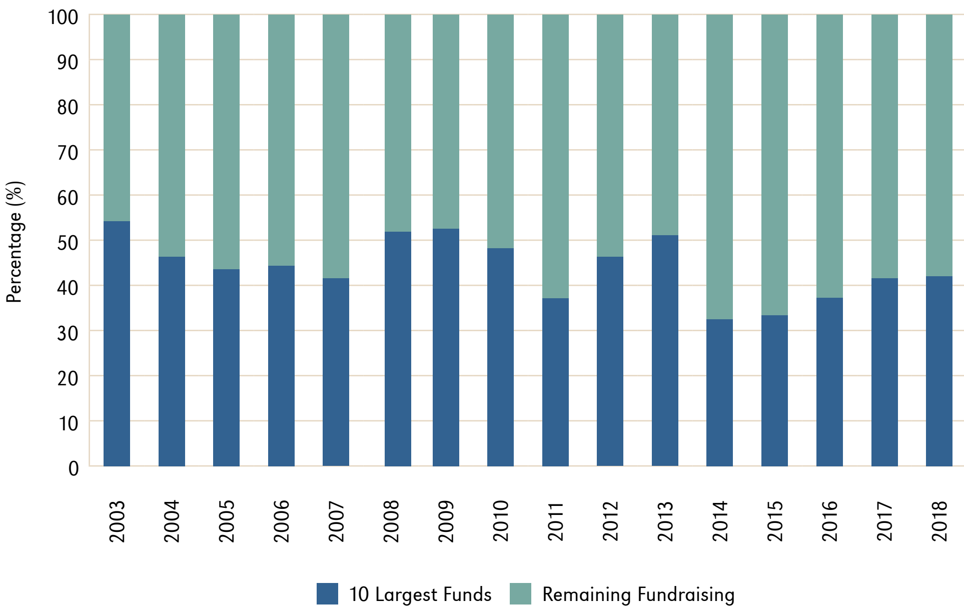
Source: PREQIN



Largest Funds

- Large funds with long histories of strong returns drive fundraising in those years when they are actively fundraising. Chart VII uses the global buyout market as an example of how fundraising is concentrated in these large funds. Since 2003, on average 213 funds reached a final close each year, but out of these the ten largest funds made up 44% of total commitments on average, ranging from a high of 54% to a low of 33%. In 2018, they made up 42% of the total.

Chart VII Ten Largest Buyout Funds as a Percentage of the Market



Source: PREQIN

$99.8 billion

Total Fundraising for Ten Largest Buyout Funds 2018

$236.1 billion

Total Fundraising for Buyout Funds 2018

42.3%

Ten Largest Funds as a Percentage of Total Fundraising 2018

- The largest buyout funds with a final close in 2018 are summarized in Table I.
  - Historically, the large end of the buyout market has been dominated by funds targeting North America or by global or transatlantic funds headquartered in North America. In 2018 however, three of the ten funds were focused on Asia and three were focused on Europe.
  - Hillhouse is the largest U.S. dollar-denominated fund focused on Asia that has been raised to date.
- Growth capital funds — which sit between buyouts and late-stage venture capital — have become an increasing sector of interest for investors over the last decade (Table II).
  - As far as geographic focus, the largest of these funds invest globally, while a number of the other funds are focused on opportunities in a single country.
  - Four of these funds are focused on technology investing, and most of the diversified funds do some technology investing.
  - A few of these funds are sponsored by prominent venture capital or buyout firms.

Table I Ten Largest Buyout Funds Raised in 2018

Fund Name	Strategy	Geographic Scope	Amount Raised (MM)	Headquarters
Carlyle Partners VII	Buyouts	North America	18,500 USD	Washington, DC
Hellman & Friedman Capital Partners IX	Buyouts	North America, Europe	16,000 USD	San Francisco
EQT VIII	Buyouts	Europe	10,750 EUR	Stockholm
Hillhouse Fund IV	Buyouts	Asia	10,600 USD	Beijing
BC European Cap X	Buyouts	Europe	7,000 EUR	London
West Street Capital Partners VII	Buyouts	Global	7,240 USD	New York
American Securities Partners VIII	Buyouts	North America	7,000 USD	New York
Carlyle Asia Partners V	Buyouts	Asia	6,550 USD	Washington, DC
PAI Europe VII	Buyouts	Europe	5,100 EUR	Paris
PAG Asia Capital Fund III	Buyouts	Asia	6,000 USD	Hong Kong

Source: PREQIN

"Hillhouse is the largest U.S. dollar-denominated fund focused on Asia that has been raised to date."

Table II Ten Largest Growth Capital Funds Raised in 2018

Fund Name	Sector Focus	Geographic Scope	Amount Raised (MM)	Headquarters
Sequoia Capital Global Growth Fund III	Diversified	Global	8,000 USD	Menlo Park
Insight Venture Partners X	Technology	Global	6,312 USD	New York
General Atlantic Investment Partners 2017	Diversified	Global	3,289 USD	New York
Sequoia Capital China Growth Fund V	Diversified	China	1,800 USD	Menlo Park
FSI Mid-Market Growth Equity Fund	Diversified	Italy	1,400 EUR	Milan
K4 Private Investors	Technology	U.S.	1,500 USD	Los Angeles
Trustbridge Partners VI	Diversified	China	1,500 USD	Shanghai
Inflexion Partnership Capital II	Diversified	UK	1,000 GBP	London
NewView Capital Fund I	Technology	North America	1,340 USD	Burlingame, CA
Providence Strategic Growth III	Technology	North America	1,300 USD	Providence, RI

Source: PREQIN

Deal Volume and Capital Overhang

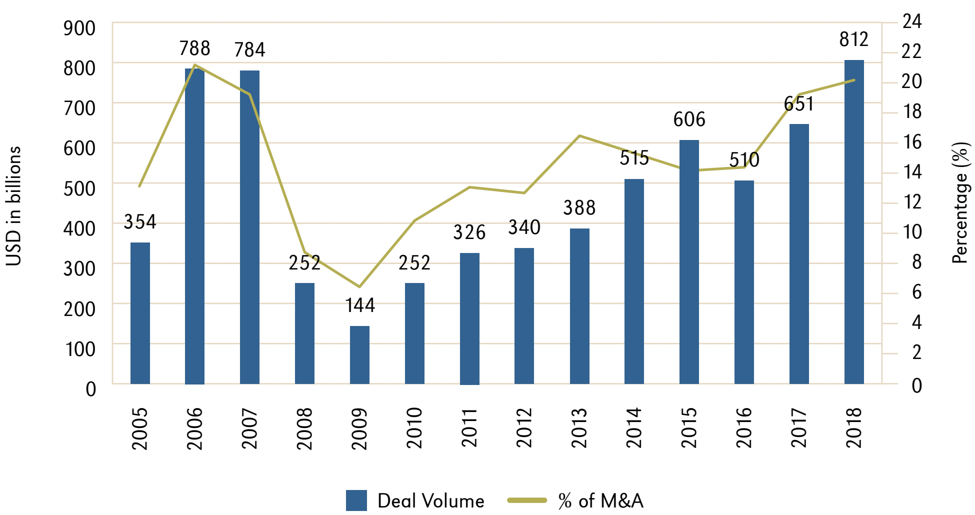
Buyouts and growth capital are major factors in the global mergers and acquisitions (M&A) market. Trends in M&A impact private equity and similarly, private equity fundraising and dry powder in private equity funds affect both M&A activity and deal pricing.

Global Deal Making

- Except for a dip in 2016 (caused by a volatile stock market in the first half of that year) private equity deal volumes have continued to rise since the 2009 low point of the GFC, and the 2018 total exceeded the record totals of 2006 and 2007 (Chart VIII).

- Perhaps more importantly, private equity activity as a percentage of total M&A activity finished just below its 2006 previous peak, hitting 20.2% in 2018. That is significantly above the 14-year average of 14.7% as private equity cuts more into the activity of strategic acquirers.

Chart VIII Global Private Equity Deal Volume and Percentage of M&A Activity



Source: Thompson Reuters, January 2019

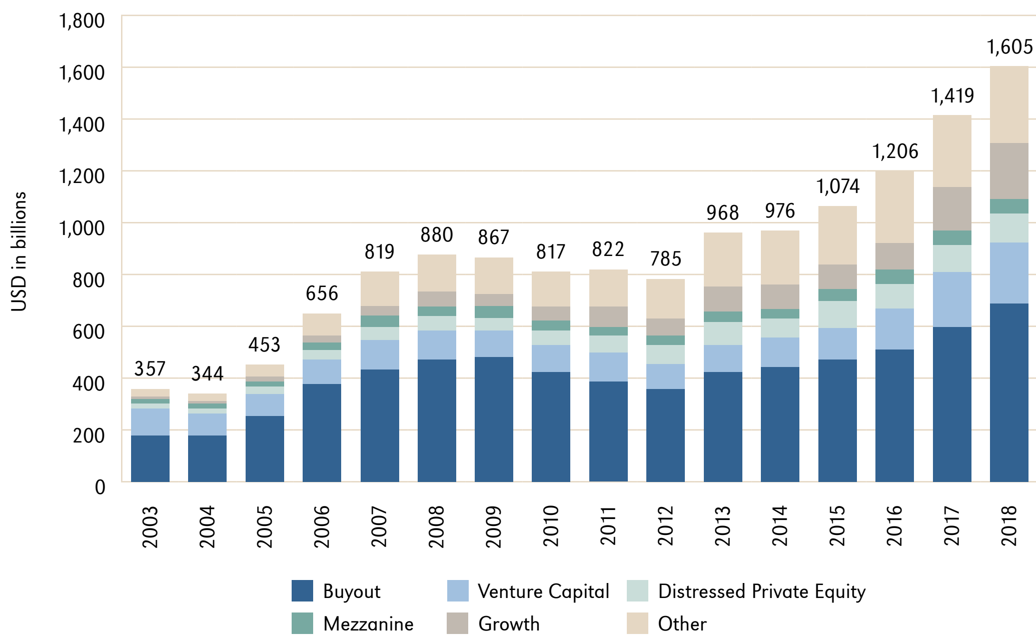
"Private equity activity as a percentage of total M&A activity finished just below its 2006 previous peak, hitting 20.2% in 2018."

Capital Overhang or Dry Powder

- Private equity dry powder — the amount of capital committed to private equity funds awaiting deployment — continued to surge as it has the last three years, hitting an all-time high of over $1.6 trillion, nearly double the GFC peak level and 13% higher than 2017 (Chart IX). The current dry powder total is also 40% of the size of 2018's overall M&A activity. Dry powder is important, as high levels put more pressure on fund managers to deploy capital, even in an expensive market.

- Buyout funds are the largest component of dry powder in the market, as they have been historically, making up 43% of the total, with growth capital increasing the most and with dry powder for growth capital being 28% higher than last year.

Chart IX Private Equity Dry Powder by Investment Strategy

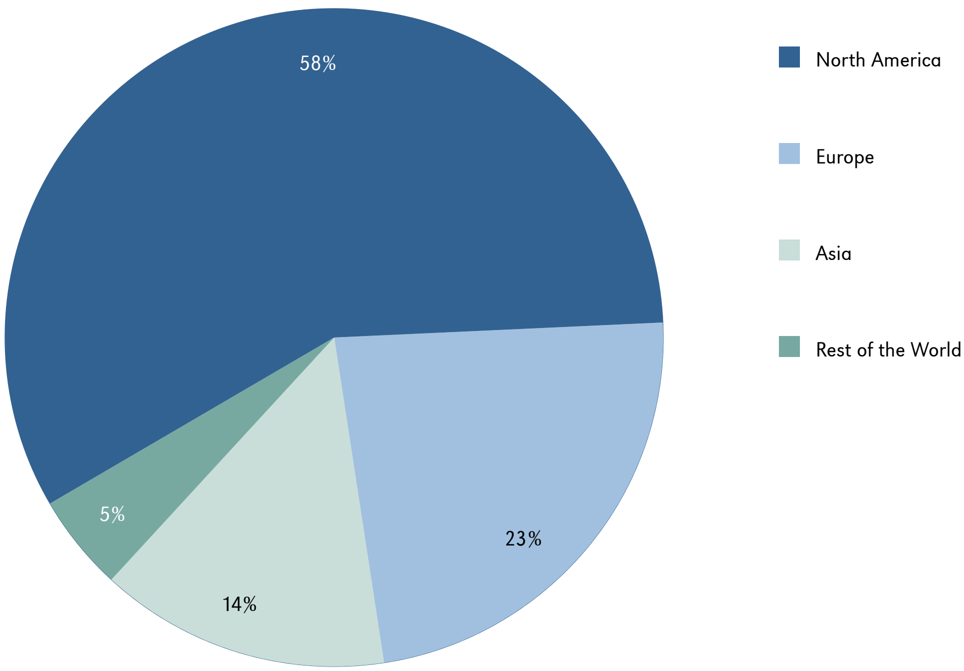


Source: PREQIN, as of February 2019

- Geographically the largest capital overhang is in funds focused on North America, accounting for 58% of the total at the end of 2018 (Chart X), with European funds following at 23%. As with the fundraising totals, the North American amount includes capital from a few U.S. headquartered mega-buyout funds that invest globally as well as in North America.

- The only geographic sector that registered a decline in dry powder in 2018 were funds targeting the emerging markets outside of Asia.

Chart X Private Equity Dry Powder by Geography, December 2018



Source: PREQIN

"The largest capital overhang is in funds focused on North America, accounting for 58% of the total at the end of 2018."

The Buyout Market: Investor Focus and Concerns

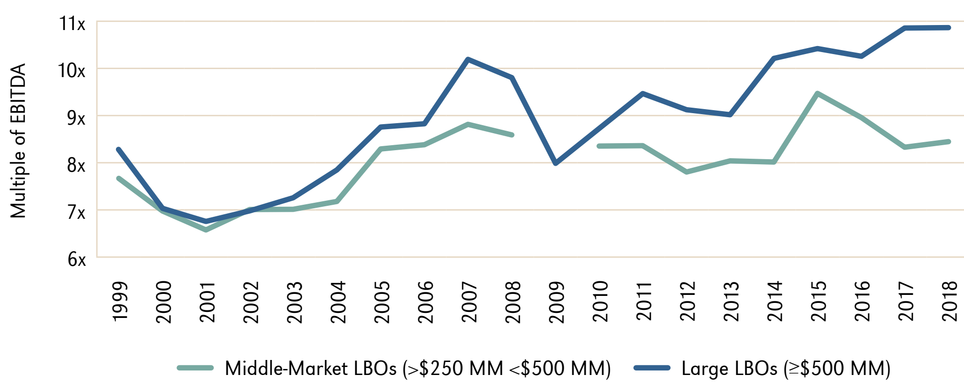
Buyouts remain the largest sector of private equity, and they dominate fund strategy in North America and Europe. Key market factors that impact buyouts have an outsized impact on institutional private equity portfolios globally.

"Key market factors that impact buyouts have an outsized impact on institutional private equity portfolios globally."

Purchase Price Multiples

- Beginning with the GFC, purchase price multiples for middle-market and large buyouts in the United States have widened noticeably, with the gap between them increasing to roughly 2½ turns in both 2017 and 2018 (Chart XI).
- Multiples for large buyouts have increased significantly since 2013 and have been above their GFC peak for the last five years. Middle-market buyout multiples, on the other hand, peaked in 2015.
- Absent a dramatic change in the market, high purchase multiples usually stress the opportunity to generate strong future returns, especially if the market subsequently falls significantly in an economic downturn.

Chart XI Average U.S. LBO Purchase Price/Adjusted EBITDA Multiples

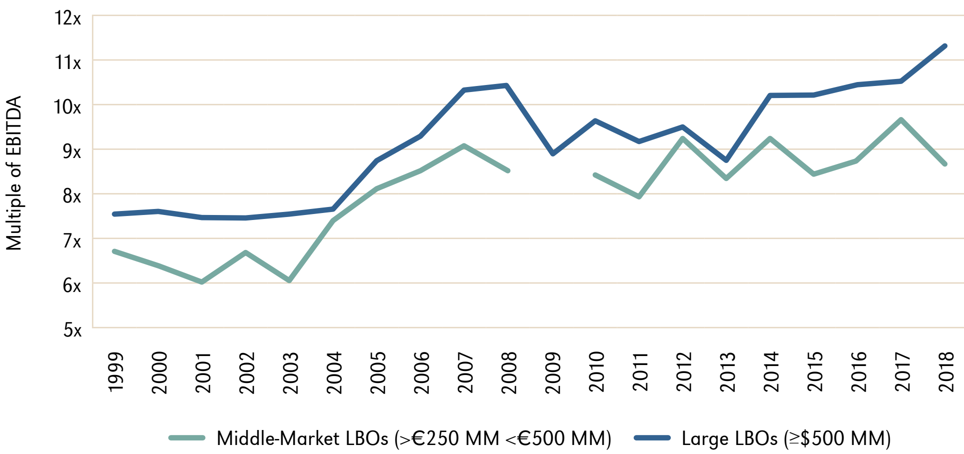


Source: Standard & Poor's LCD
Note: For middle-market LBOs, data from 2009 is not statistically significant

- The trend for large European buyouts is similar to large buyouts in the U.S. with a steady increase since 2013 (Chart XII). The European middle-market is somewhat different, being more volatile year-by-year. Notably, in 2018 the difference between large and middle-market buyouts widened substantially.

- The gap between large and middle-market purchase price multiples is a major reason why many institutional investors target the middle-market, seeking fund managers that would buy companies at more attractive entry prices.

Chart XII Average European LBO Purchase Price/Adjusted EBITDA Multiples



Source: Standard & Poor's LCD
Note: For middle-market LBOs, data from 2009 is not statistically significant

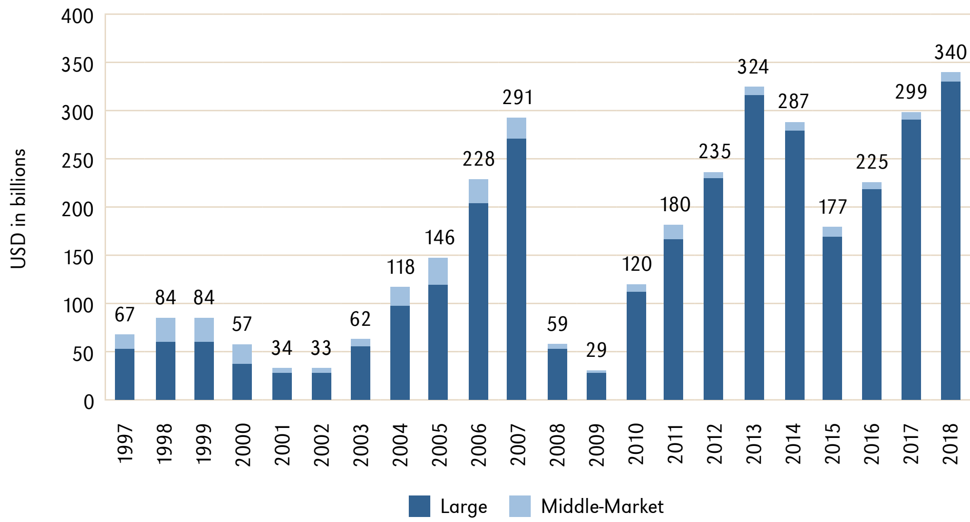
Buyout Loan Volumes

- The leveraged loan market for transactions sponsored by private equity firms in the U.S. surged in the decade since the GFC and hit a new high in 2018 (Chart XIII).

- The cause of this surge is not obvious from the chart, and over this period the force behind the numbers has been different. From 2010 through 2013 loan volumes were driven by refinancing of loans already on lenders' books at lower interest rates made possible by central bank intervention. There was a shift toward the issuance of loans backing new transactions beginning in 2014, and by 2018, 68% of loan activity was for original buyouts or add-on acquisitions (Chart XIV).

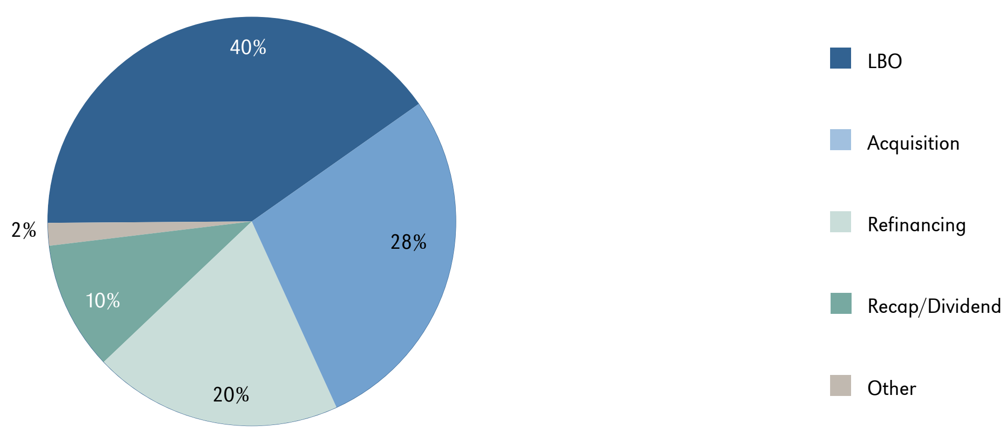
- The trend in Europe is very different, as loan portfolio problems at European banks prevented the strong rebound that took place in the U.S. (Chart XV).

Chart XIII U.S. Leveraged Sponsored Loan Volume



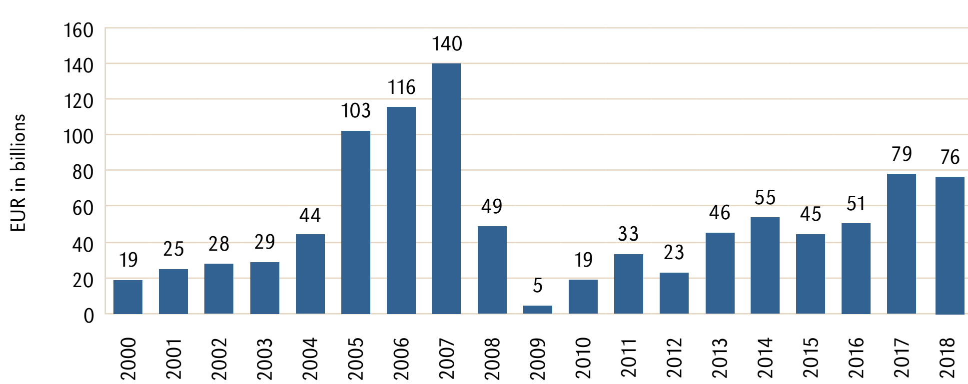
Source: Standard & Poor's LCD

Chart XIV U.S. Leveraged Sponsored Loans by Purpose, 2018



Source: Standard & Poor's LCD

Chart XV European Buyout Loan Volume



Source: Standard & Poor's LCD

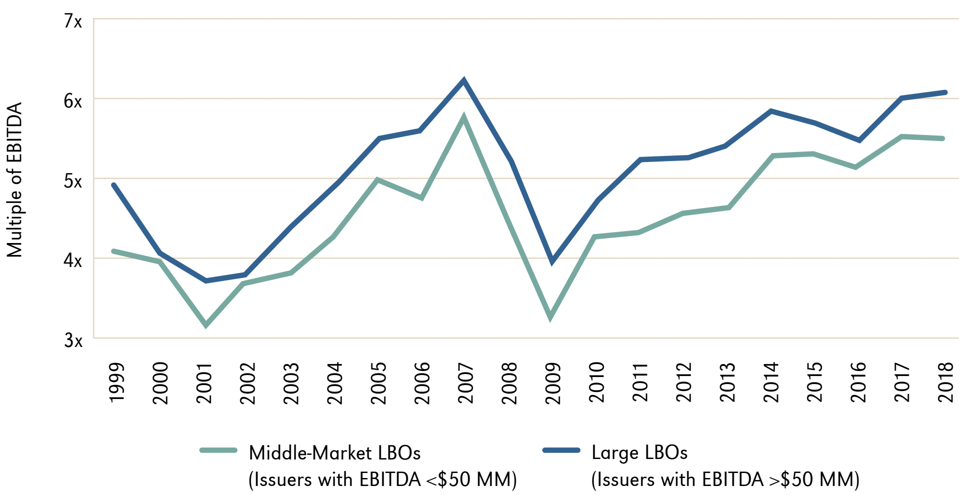
Debt Multiples

- **Debt multiples for transactions supporting leveraged buyouts in both the U.S. and Europe remained fairly steady in 2018 (Charts XVI and XVII).**

- **Data is available for the U.S. market on debt multiples for both middle-market and large buyout deals. There has always been a gap between debt multiples for these deals, but unlike purchase price multiples, that gap has not been very volatile.**

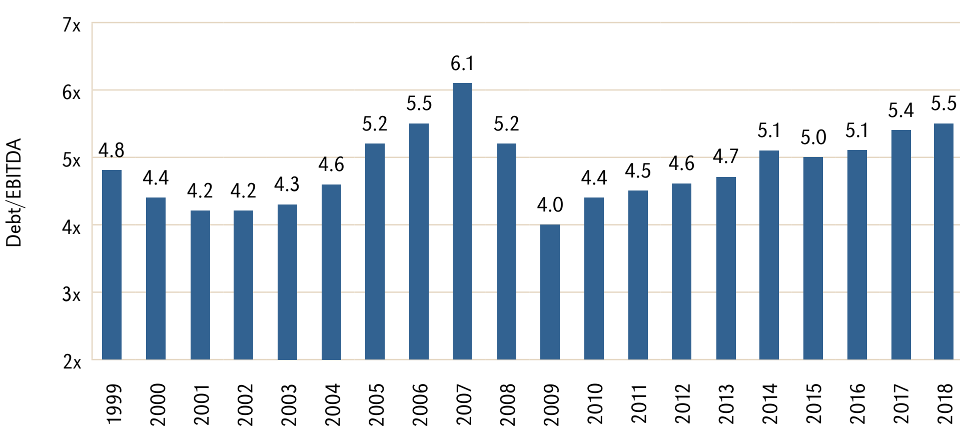
- **While in the U.S. debt multiples on large buyouts are nearly back to their pre-GFC market peak, in Europe and the U.S. middle-market, debt multiples are still noticeably below those levels.**

Chart XVI Average Debt Multiples of U.S. Corporate LBO Loans



Source: Standard & Poor's LCD

Chart XVII Average Debt Multiples of European Corporate LBO Loans



Source: Standard & Poor's LCD

Industry-Focused Funds

- One other important aspect of the buyout and growth capital markets is industry specialization. Industry-focused funds have become an increasing area of interest for investors over the last fifteen years, especially in North America.

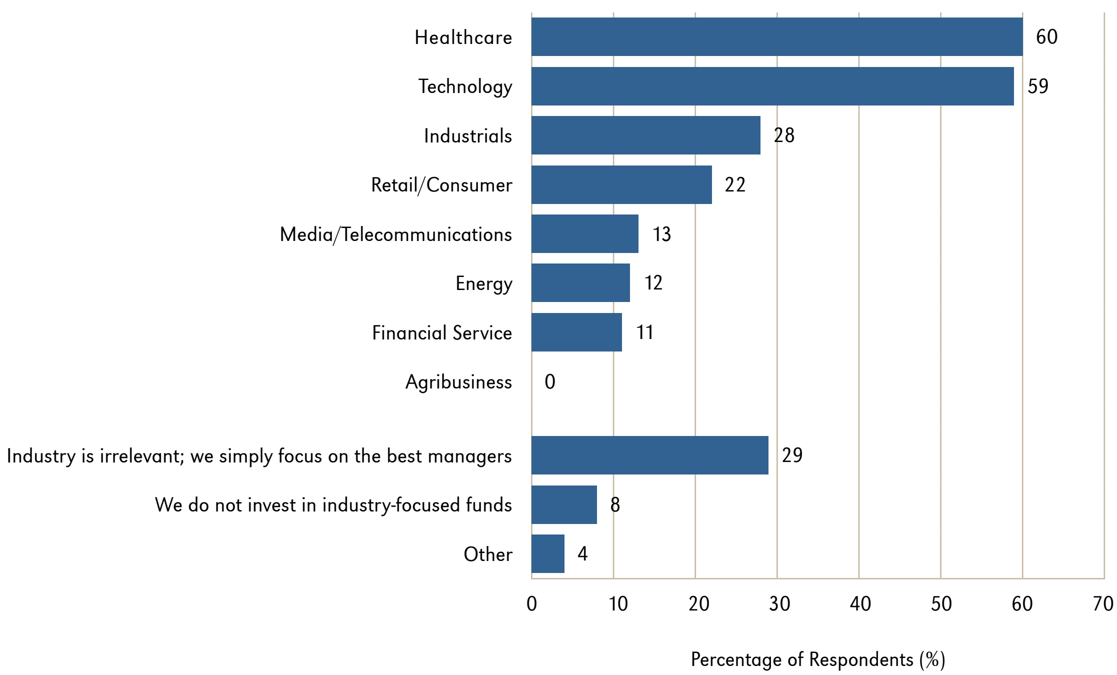
- Investor interest in specific industries changes over time, based upon market forces in those industries. Chart XVIII highlights investor interest going into 2019, with healthcare and technology leading by far.

- Four years ago, interest in energy was much higher at 30% before volatility in oil prices muted investor interest.

- Agribusiness is a newer sector with fewer funds focused on it, though last year 6% of investors targeted it.

Chart XVIII Interest in Industry-Focused Funds

As far as funds focused on single industries, we are most interested in (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

> *"Industry-focused funds have become an increasing area of interest for investors over the last fifteen years, especially in North America."*

U.S. Venture Capital

- The deepest venture capital market with the longest history is the U.S., and Chart XIX summarizes fundraising for U.S. venture capital since 2000 in order to analyze trends.

- The high point of venture capital fundraising to date was 2000 at the height of the Internet Bubble. The bursting of the Internet Bubble led to a dramatic decrease in fundraising. Though not obvious from the chart, fundraising in the second quarter of 2003 was negative, with a number of large managers canceling a portion of commitments made to their 2000 and 2001 vintage funds that they felt they were unable to deploy — and in that quarter the amounts canceled exceeded new money raised.

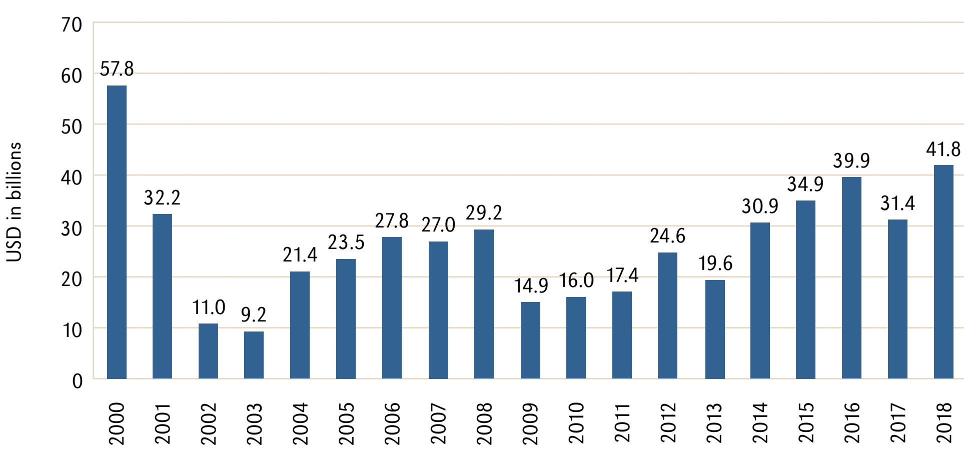
- The GFC more strongly impacted buyouts, and though venture capital was affected from 2009 through 2011, the venture capital fundraising decline was mild compared to that of buyouts.

- Since 2014, interest in venture capital overall has increased with the advent of "Unicorns," venture capital-backed companies, most in the technology and digital media sectors, that are valued at a billion dollars or more that are still private. This development has been a double-edged sword for investors, however. Though these strong valuations have increased paper profits, the longer holding periods of these investments have meant delays in receiving cash back. Nevertheless, partly driven by these forces, fundraising in 2018 hit a post-Bubble peak.

- Another trend not evident from the chart is the rise of micro venture capital ("micro VC") funds that make small investments in startups. Though there are a number of these funds, they are quite small, most often raising $50 million or less, and do not have a large impact on overall fundraising, though they do provide a launching pad for certain firms that become much more interesting in the future. This trend has become possible as changes in many key technology sectors have made it much easier to launch a firm with a small amount of capital, and this capital efficiency has paved the road for micro VC funds.

"Though not obvious from the chart, fundraising in the second quarter of 2003 was negative."

Chart XIX Commitments to U.S. Venture Capital



Source: PREQIN, as of January 2019

- Venture capital is very diversified, by industry sector and investment stage, and Chart XX highlights investors' interests going into 2019.

- As far as industry sectors, investors are most interested in technology-focused funds — either those that invest broadly in technology or invest narrowly in such strategies such as fintech or digital media/internet. There is also a significant focus on life science funds.

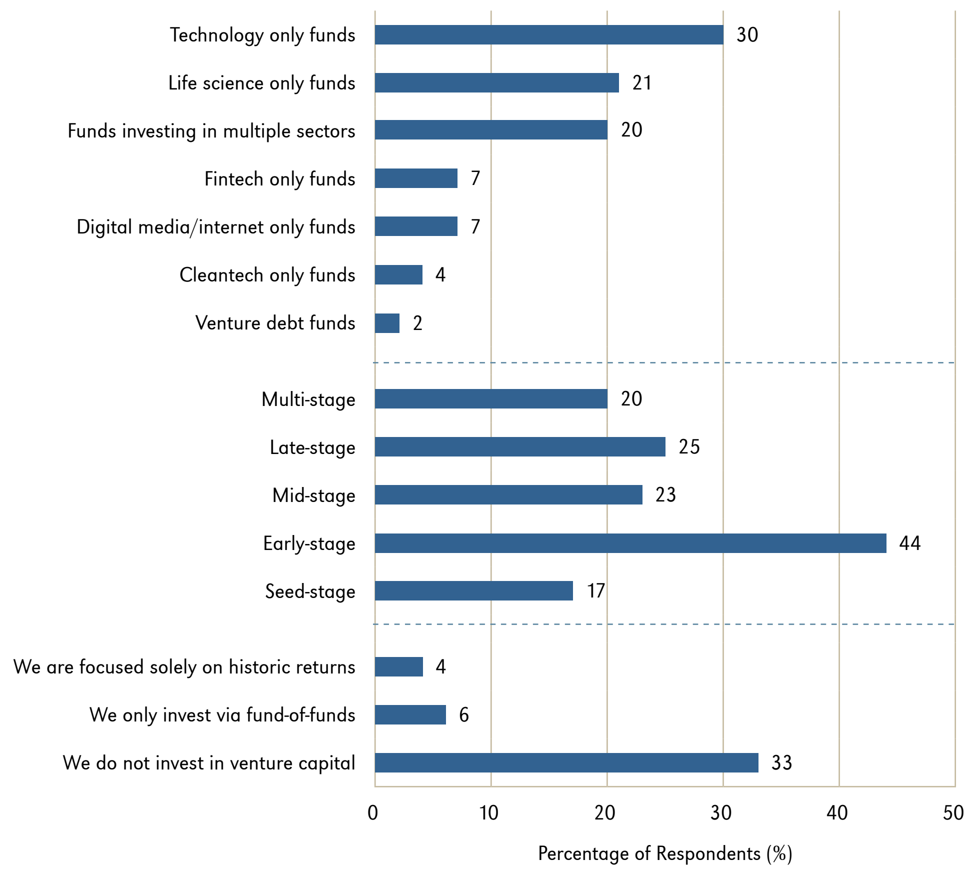
- Venture debt funds are the least popular sector, and have been over the history of this survey, while cleantech-focused funds, which were somewhat popular a decade ago, now trail all equity strategies.

- Early-stage funds are the clear preference of institutional investors, though the minimum fund size requirements of these investors often make it difficult to invest in small funds focused on seed-stage or micro VC funds.

- Last year 37% of respondents said they do not invest in venture capital, while this year that has fallen slightly to 33%. Many of these respondents believe that they need to focus on funds that have generated top decile historical performance in order to secure adequate returns in what can be a volatile market, and these funds are extremely difficult to access.

Chart XX Most Attractive Venture Capital Sectors

In venture capital, we focus on funds active in the following sectors or stages (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

- **Table III lists the ten largest venture capital funds that had their final close in 2018.**

- **A decade ago most of the funds on this list would have been focused on North America. However, interest in China-focused venture capital has grown tremendously over that time, as have global funds. China-focused funds are now the second largest venture capital market after the United States.**

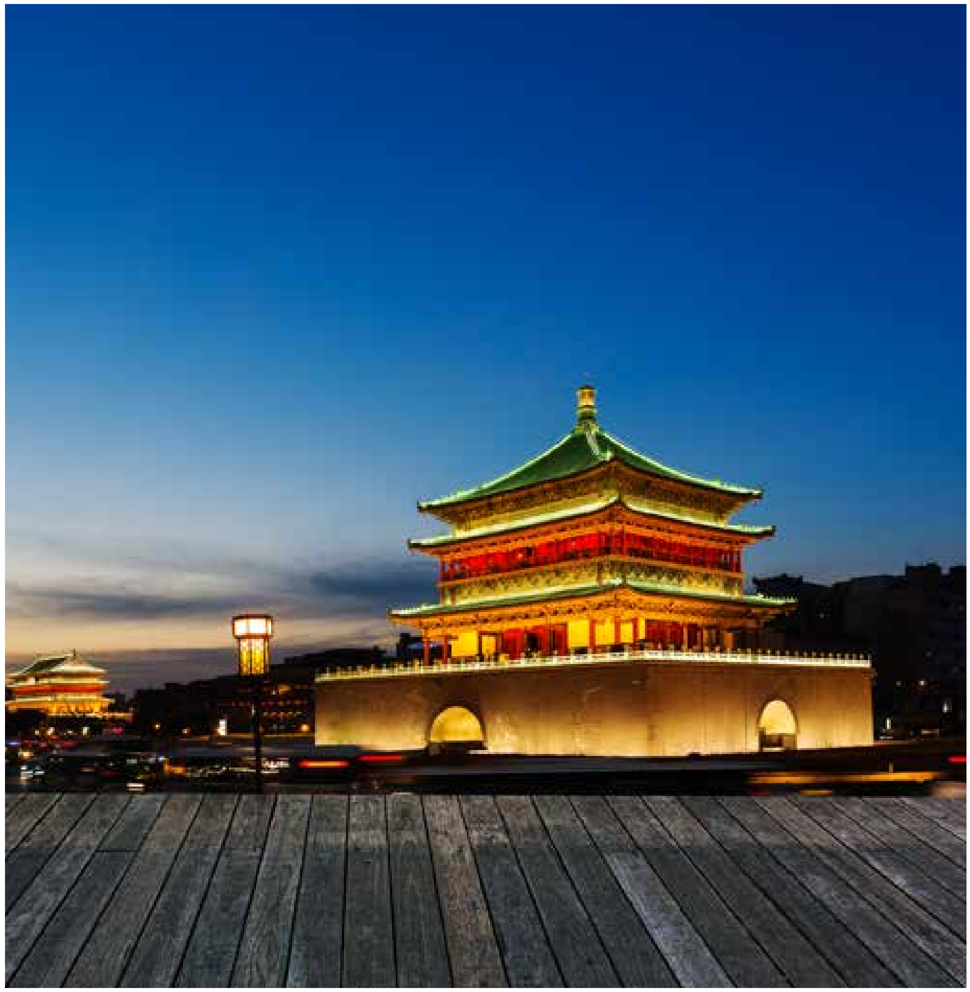
- **Though early-stage funds are the leading focus of many investors, many of the largest funds are generalist funds investing across stages, as it is more difficult to deploy large amounts of capital solely in early-stage transactions.**

- **Most of these funds are focused on technology or invest in multiple industry sectors.**

Table III Ten Largest Venture Capital Funds Raised in 2018

Fund Name	Stage/Sector	Geographic Scope	Amount Raised (MM)	Headquarters
Tiger Global Private Investment Partners XI	Venture (General)/ Telecomm – Media	Global	3,750 USD	New York
Yunfeng Fund III	Venture (General)/ Diversified	China	2,500 USD	Shanghai
Bessemer Venture Partners X	Venture (General)/ Technology	Global	1,850 USD	Larchmont, NY
Xiong'An Global Blockchain Innovation Fund	Early-Stage/ Financial Services	China	1,600 USD	Hangzhou
General Catalyst Group IX	Venture (General)/ Technology	North America	1,375 USD	Cambridge, MA
H.I.G. Strategic Partners Fund	Venture (General)/ Life Science	North America	1,275 USD	Miami
GGV Capital VII	Venture (General)/ Technology	U.S., China	1,090 USD	Menlo Park
Lightspeed Venture Partners Select III	Expansion – Late-Stage/ Technology	Global	1,050 USD	Menlo Park
Index Ventures Growth IV	Expansion – Late-Stage/ Diversified	Europe, North America	1,000 USD	London
Morningside China USD Fund	Early-Stage/ Diversified	China	1,000 USD	Shanghai

Source: PREQIN



"China-focused funds are now the second largest venture capital market after the United States."

Distressed Private Equity

Distressed private equity is a sector with four basic strategies:

- ***Distressed debt.*** Investing in distressed corporate debt, with the goal of generating capital gains either through a position of influence in the restructuring process or through seeking to take control of a company through its debt.

- ***Opportunistic credit.*** These funds may invest in distressed corporate debt but also invest more broadly into such assets as whole-loan portfolios (in sectors such as credit card debt, retail mortgages, or student loans), busted asset-backed securities, claims in bankruptcy, or stressed hard assets.

- ***Special situations.*** These funds usually target investing in corporations, but beyond purchasing distressed debt in the secondary market they often make new high-yield loans to companies under stress — though not in anticipation of default — and may invest equity into stressed companies as well.

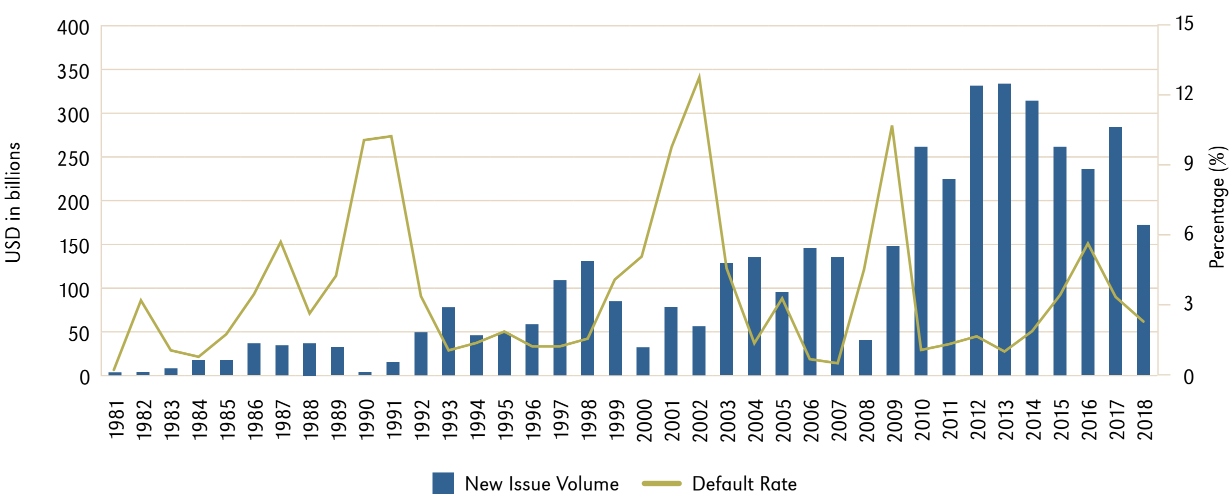
- ***Turnarounds.*** Funds focused on investing equity into companies under stress or that are distressed, looking either to avoid bankruptcy or in some cases buy a company out of bankruptcy.

Though the number of opportunities in distressed private equity expands during a recession, there are always companies that are having difficulties, often due to poor management, especially in the middle-market, providing a certain number of stressed or distressed investment opportunities at any time.

As far as the current market, where are we in the cycle and what is catching investor interest?

- Since the beginning of the new issue "junk" bond market in the early 1980s, annual default rates have spiked above 10% three times, the last being a decade ago during the GFC (Chart XXI). Each of these spikes was preceded by a surge in issuance of high-yield bonds, which put many weakly rated credits into the market.

Chart XXI U.S. High-Yield Bond Issuance and Annual Default Rates: 1981–2018



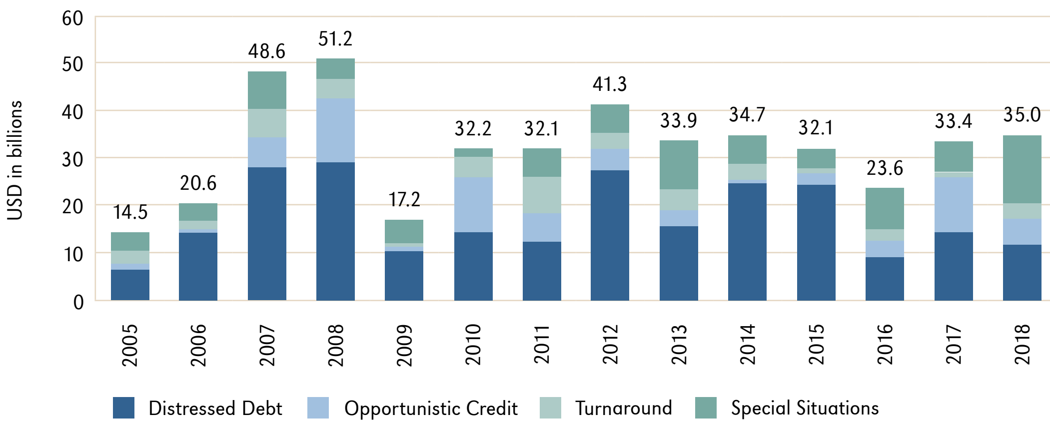
Source: SIFMA, Moody's

- Over the last nine years, central bank policies put in place to lower interest rates to mitigate the negative impact of the GFC have moderated default rates and boosted new issuance — much of it used to refinance bonds.

- In 2016 there was a notable increase in defaults to nearly 6%, but defaults then were not widespread across industries but concentrated in the energy and retail sectors. The subsequent rise in oil prices turned the default percentage around, and in 2018 the default rate had fallen to 2.3%, below the long-term default average of 3.5%.

- Even with this background, more investors are beginning to anticipate a market downturn that could significantly increase distressed private equity opportunities. During 2018, commitments to distressed private equity funds increased slightly by 5% (Chart XXII) even as buyout fundraising decreased significantly. There was a strong increase in commitments to special situations funds, which often invest in stressed rather than pure distressed situations, to drive this result.

Chart XXII Global Distressed Private Equity Fundraising



Source: Probitas Partners

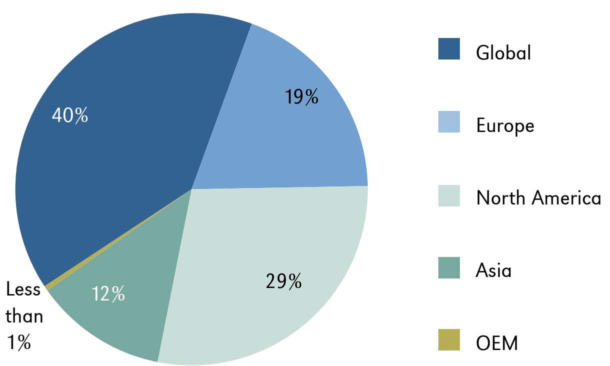
"Though the number of opportunities in distressed private equity expands during a recession, there are always companies that are having difficulties, often due to poor management, especially in the middle-market."

- In terms of geography, 88% of the funds raised targeted the developed markets of Europe and North America, with many of the funds categorized as global being transatlantic vehicles (Chart XXIII). The reason for this is that bankruptcy law is more restructuring friendly in North America and Northern Europe.

- Looking ahead to investors' appetites for 2019 (Chart XXIV), interest in distressed debt for control strategies dropped to 29%, as competition in this sector intensified. Interest in special situations funds increased to 47%, as funds in this category usually have more flexible mandates that allow them to invest in stressed as well as distressed opportunities.

Chart XXIII Capital Raised for Distressed Private Equity Funds by Geography, 2018

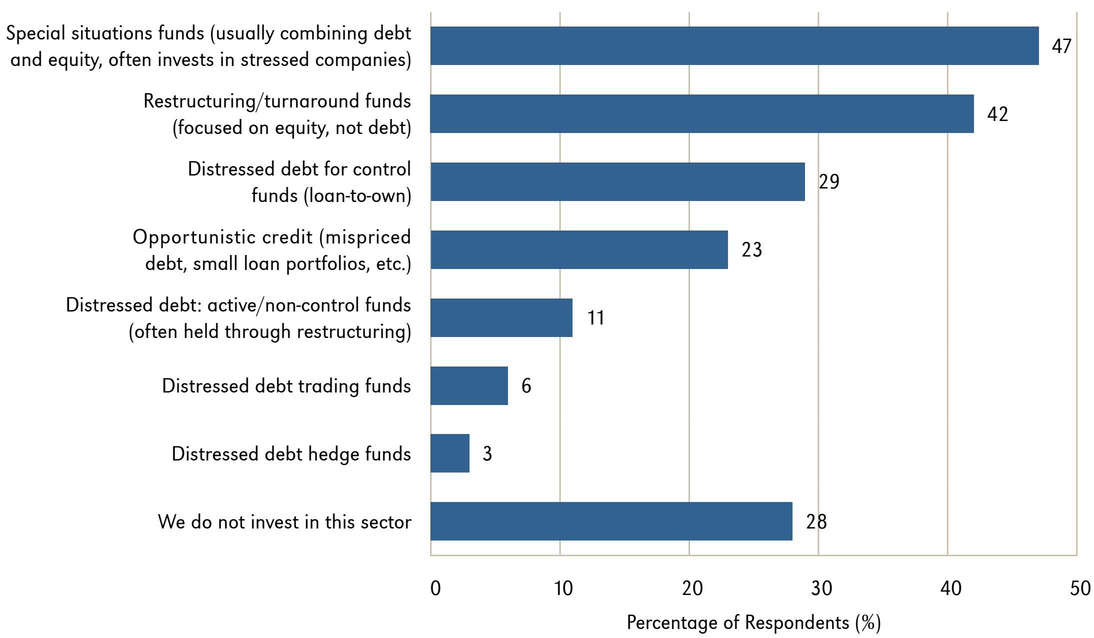
(In terms of USD raised)



Source: Probitas Partners, PREQIN, Private Equity Analyst

Chart XXIV Distressed Investments

Within the distressed private equity sector, we are most interested in (choose no more than two):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

- The ten largest distressed private equity funds with final closes in 2018 are summarized in Table IV.

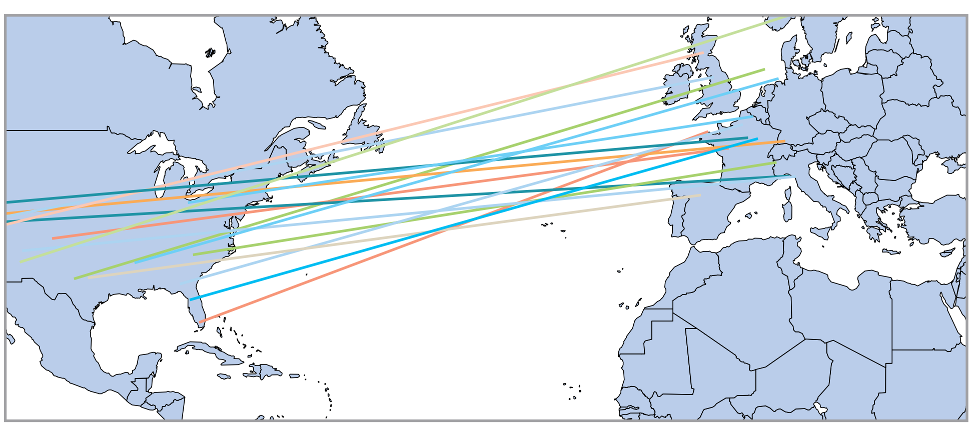
- Four of the funds on the list focus on distressed debt with another four being special situations funds. Though there is significant interest in turnaround funds, there are relatively few managers following that strategy.

- Five funds are transatlantic vehicles, though interestingly all of these are headquartered in the U.S., and only one fund is headquartered in Europe.

Table IV Ten Largest Private Equity Funds Raised in 2018

Fund Name	Strategy	Geographic Scope	Amount Raised (MM)	Headquarters
GSO Capital Solutions Fund III	Distressed Debt	North America, Europe	7,356 USD	New York
Clearlake Capital Partners V	Special Situations	U.S.	3,600 USD	Santa Monica
CVI Credit Value Fund IV	Opportunistic Credit	North America, Europe	3,000 USD	Hopkins, MN
Strategic Value Special Situations Fund IV	Special Situations	North America, Europe	2,850 USD	Greenwich, CT
Atlas Capital Resources III	Turnaround	U.S.	1,675 USD	Greenwich, CT
Edelweiss India Stressed Assets Fund II	Distressed Debt	India	1,300 USD	Mumbai
Monarch Capital Partners IV	Distressed Debt	North America, Europe	1,250 USD	New York
Alchemy Special Opportunities Fund IV	Special Situations	Europe	900 GBP	London
Anchorage Illiquid Opportunities VI	Distressed Debt	North America, Europe	1,140 USD	New York
Bain Capital Special Situations Asia	Special Situations	Asia	1,000 USD	Boston

Source: PREQIN



Asia

- Chart IV at the beginning of the Deskbook details overall fundraising for Asian-focused funds, which decreased by 11% last year from 2017's all-time high, as commitments to growth capital funds fell by nearly 60%.

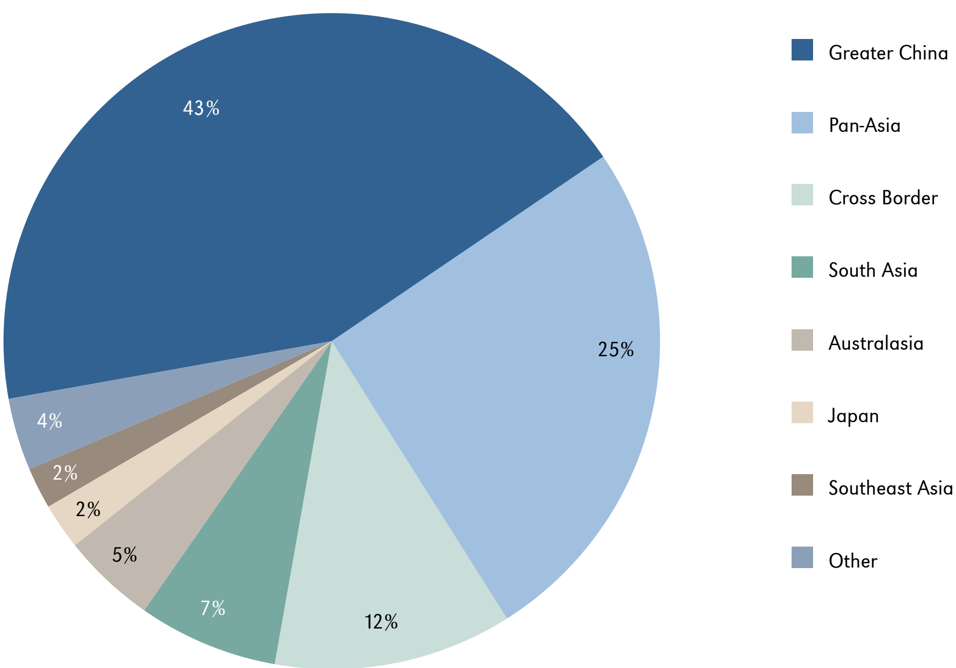
- Chart XXV focuses on the geographic dispersion of funds. In 2017, 42% of funds raised were pan-Asian funds driven by KKR's, CVC's, and Affinity's latest Asian funds, which by themselves generated over 30% of total Asian fundraising. In 2018, the pattern reversed to historical norms with 43% funds focusing on Greater China and pan-Asian funds falling to 25% of the total.

- This year a new category has been added to the geographic commitments list — cross border funds. Vehicles focused on investing either in the U.S. and China or in Europe and China have become increasingly important and make up 12% of the total in 2018.

- Unlike many emerging markets, many China-focused funds are denominated in local currency and have significant support from local investors. The percentage of the market for China-focused funds denominated in RMB can fluctuate significantly year-by-year, but on average the annual total has been 50%. In 2018 RMB fundraising decreased by 34% even as overall fundraising for China-focused funds increased by 60% so that RMB denominated funds only made up 24% of China fundraising (Chart XXVI).

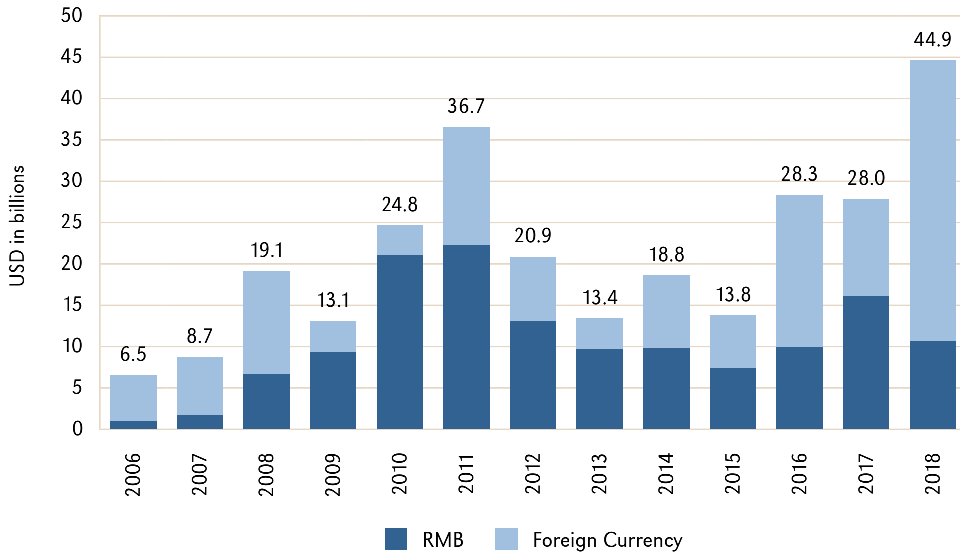
"Unlike many emerging markets, many China-focused funds are denominated in local currency and have significant support from local investors."

Chart XXV Asian Fund Commitments by Geography, 2018



Source: Asia Private Equity Review

Chart XXVI Commitments to China-Focused Funds by Fund Denomination



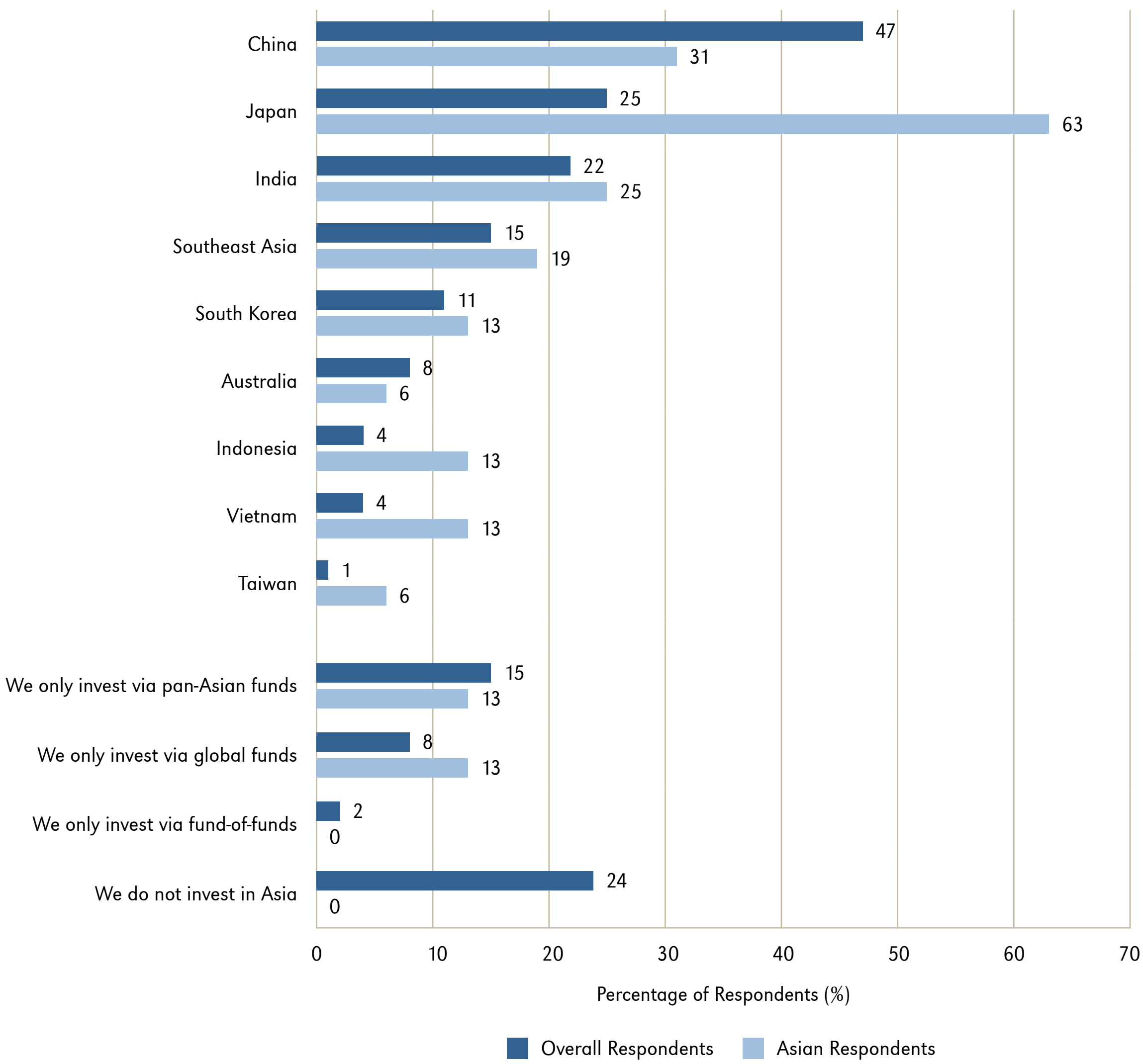
Source: Asia Private Equity Research

- **Looking toward 2019, interest in China among global investors dramatically increased from 30% last year to 47% this year despite the uncertainties around an incipient trade war with the U.S. (Chart XXVII). Interest in China among Asian investors was much less than that while interest in Japan was much stronger, driven by the fact that Japanese investors were strongly represented in the survey.**

- **Asian-based venture capital fundraising has only become a major market factor since the GFC (Chart XXVIII). Much of this activity is focused on Greater China and on various aspects of technology. It should be noted that the peak level of fundraising in 2016 was driven by the China State-Owned Capital Venture Investment Fund which raised CNY 102,000 million (roughly $15.7 billion equivalent) with the support of Chinese state-owned enterprises.**

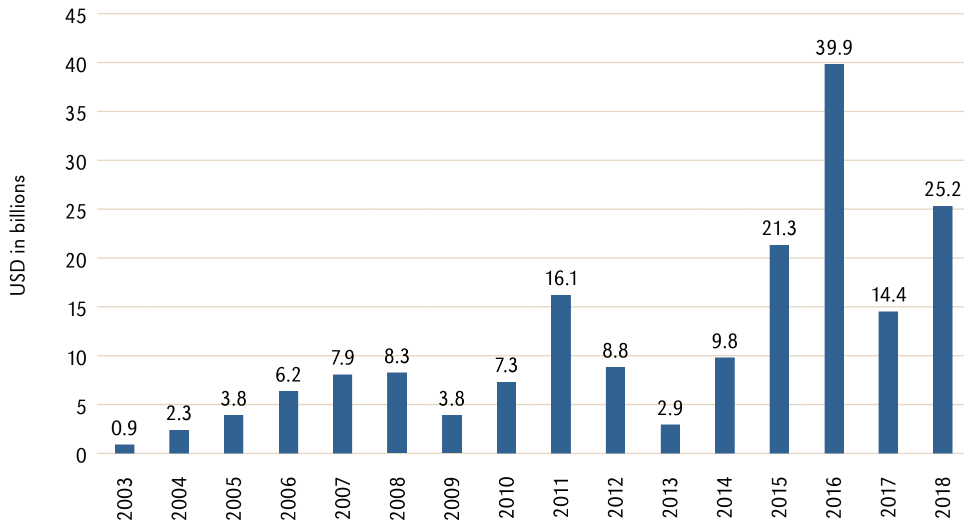
Chart XXVII Most Attractive Asian Markets

For Asian-focused funds, we find the most attractive markets to be (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

Chart XXVIII Commitments to Asian Venture Capital Partnerships



Source: Probitas Partners, PREQIN, as of January 2019

> *"The peak level of fundraising in 2016 was driven by the China State-Owned Capital Venture Investment Fund which raised CNY 102,000 million (roughly $15.7 billion equivalent) with the support of Chinese state-owned enterprises."*

Europe

- Europe remains a market where buyout funds predominate (Chart III) and this year fundraising in euro terms continued to increase modestly, rising by roughly 6%.

- Chart XXIX details the fundraising by geographic type for European-focused corporate finance funds. During 2018, the amount raised by pan-European funds declined significantly after CVC's latest €16 billion fund cleared the market, but a surge in fundraising for regionally-focused funds made up for the deficit. Fundraising for country-focused funds also increased, but though these funds are the most numerous on average, they are much smaller and do not move the top-line commitment numbers as much as the other two major categories do.

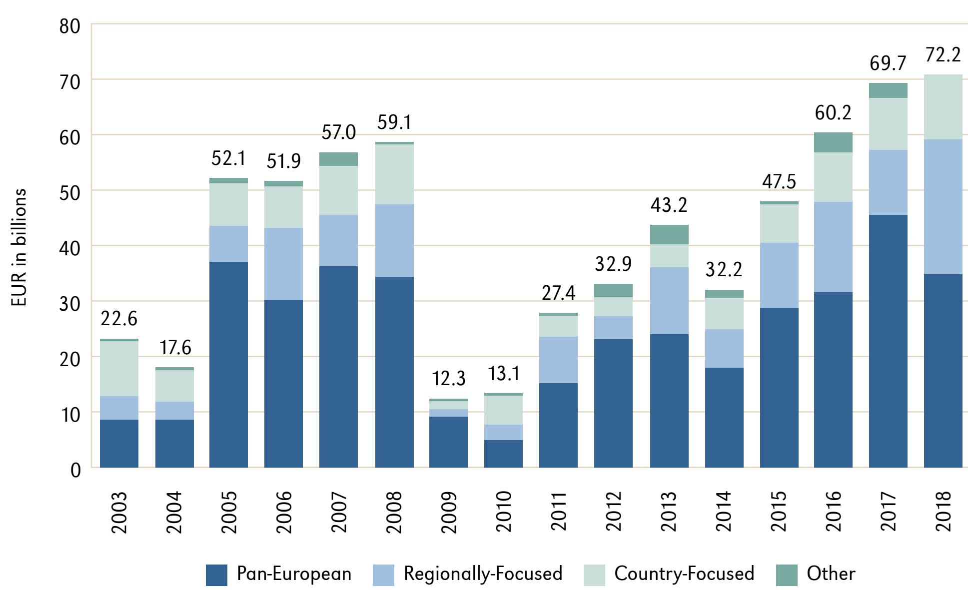
- Going into 2019, our latest private equity survey indicates the strongest interest in Northern European country-focused and regionally-focused funds (Chart XXX) with the Nordic Region, Germany, and the United Kingdom as the leading targets.

- As the possibility of a "crash-out" Brexit from the EU became more likely, interest in the UK declined significantly. What is not obvious in Chart XXX is that much of the support for investing in the UK at the moment is coming from North American and Asian investors, and not from investors in continental Europe.

- European venture capital commitments increased by 31% in 2018 from the previous year (Chart XXXI) driven by increased fundraising for life science funds.

"Our latest private equity survey indicates the strongest interest in Northern European country-focused and regionally-focused funds."

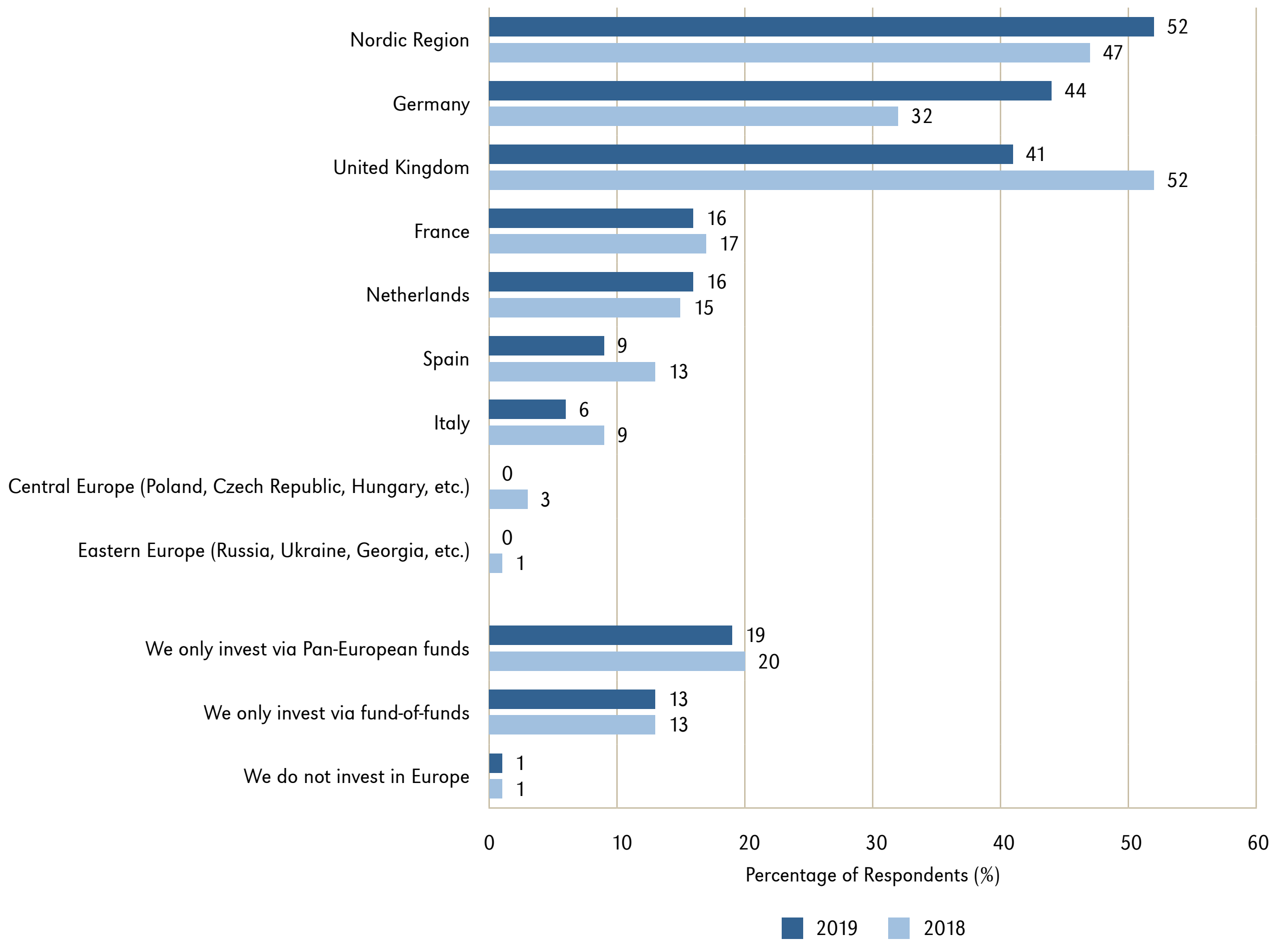
Chart XXIX Commitments to European Corporate Finance Funds by Geography



Source: Probitas Partners
Note: "Other" includes commitments to funds with a geographical focus on Eastern Europe, Cyprus, Greece, and Turkey

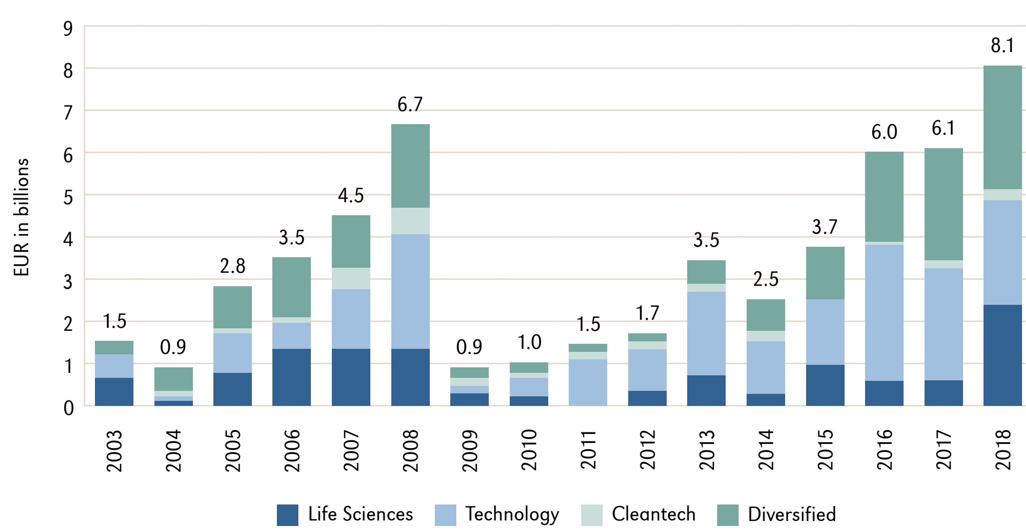
Chart XXX Most Attractive European Markets

For European country/regionally-focused funds, we find the most attractive markets to be (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

Chart XXXI Commitments to European Venture Capital Partnerships



Source: Probitas Partners

Emerging Markets

Emerging market fundraising is often volatile from year-to-year, driven by general economic cycles and by political, regulatory, or technical factors affecting specific countries or regions. China is by far the largest emerging market, but given the importance of its economy in the global market and the breadth of Greater China-focused fund offerings, it is arguably no longer "emerging." Other key emerging markets are quite small in terms of annual commitments, (see Charts V and VI for Latin America and Africa) and Hillhouse, the largest fund focused on Asia raised in 2018, secured commitments totaling nearly twice the amount raised for Latin America and Africa combined.

Our latest private equity survey questioned investors about their interest in emerging markets in 2019:

- Interest in China, which has usually led the emerging markets, increased significantly, with 46% of investors targeting it compared to 31% last year (Chart XXXII). Interest in Indian and pan-Asian funds also rose, while interest in pan-Latin American and Brazilian funds declined.

- The number of respondents who were not interested at all in investing in emerging markets rose significantly from 22% in the 2017 survey two years ago to 36% this year.

" China is by far the largest emerging market, but given the importance of its economy in the global market and the breadth of Greater China-focused fund offerings, it is arguably no longer "emerging."

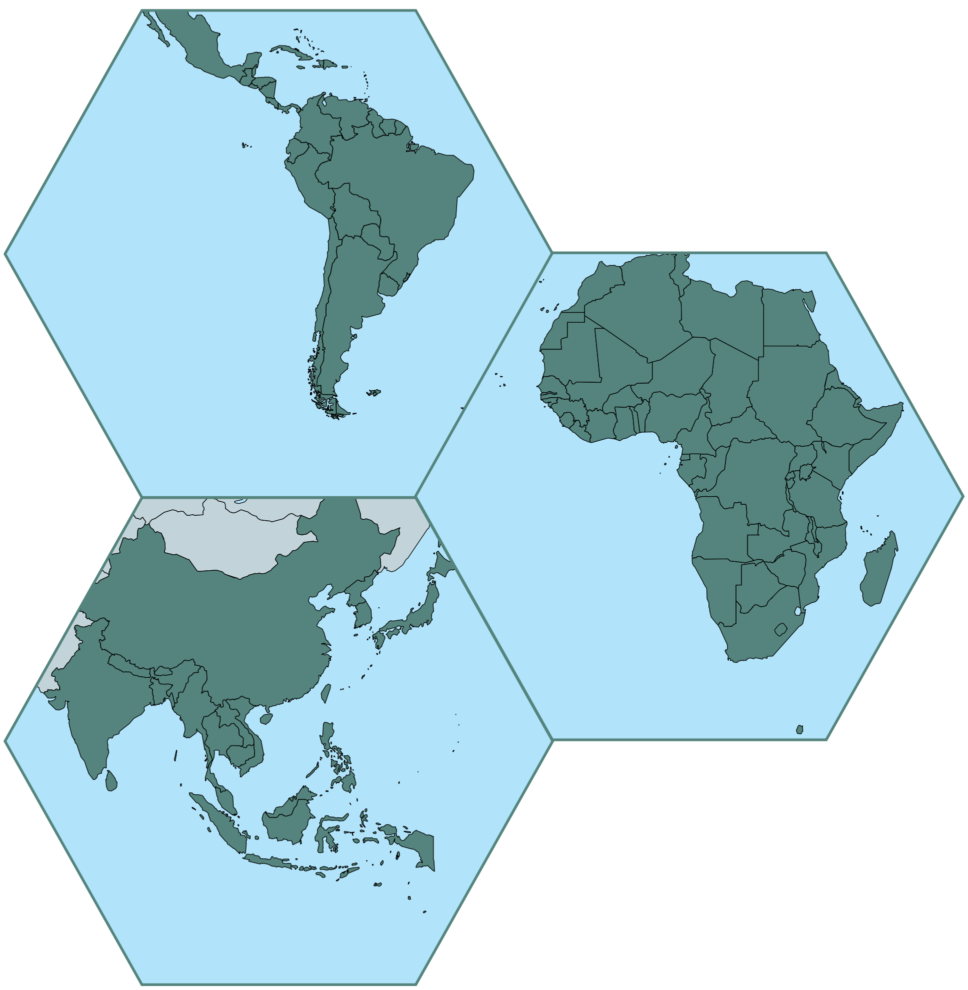
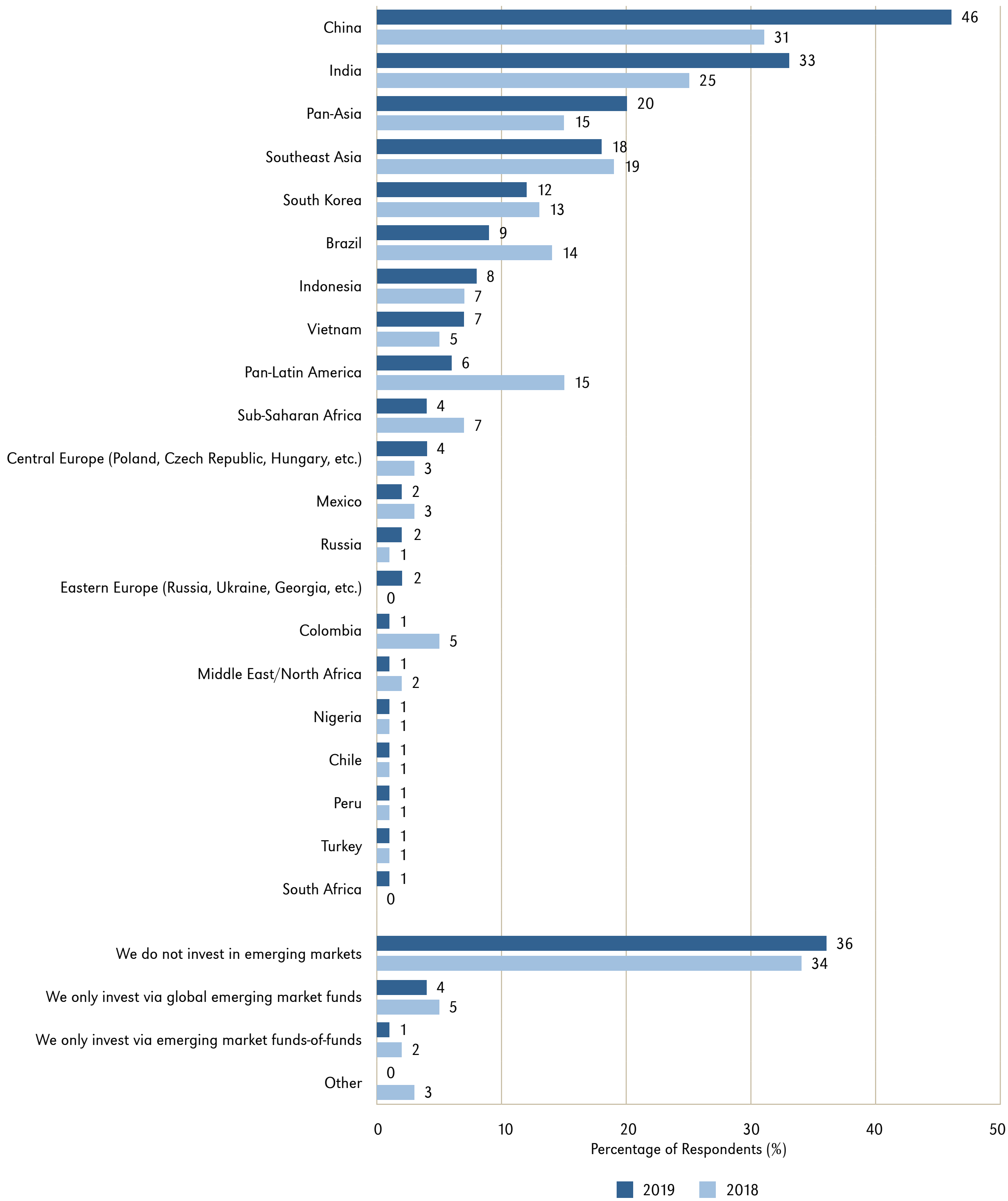


Chart XXXII Most Attractive Emerging Markets

Which emerging markets do your firm find most attractive (choose no more than four):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

Private Debt Markets

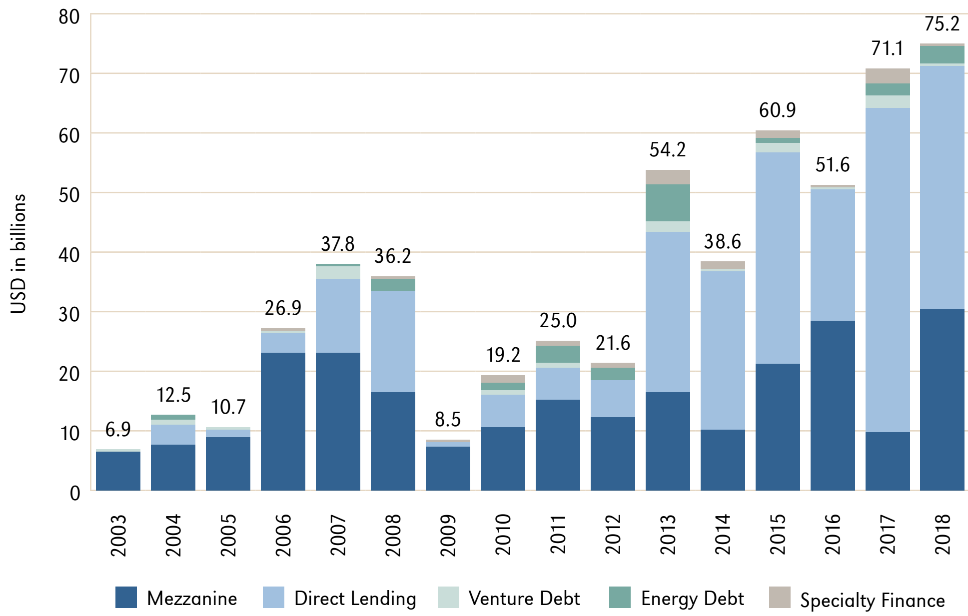
Closed-end private debt funds are a separate but allied asset class to private equity. Certain funds — mezzanine and venture debt for example — usually contain a degree of equity upside in their returns, and most direct lending funds issue debt in support of buyouts. For these reasons, the sector is covered here.

Interest in private debt has increased significantly since the GFC as investors have increased their search for yield instruments with significant returns and debtors have sought alternatives to bank financing as commercial banks came under economic and regulatory stress.

> *"Interest in private debt has increased significantly since the GFC as investors have increased their search for yield instruments with significant returns and debtors have sought alternatives."*

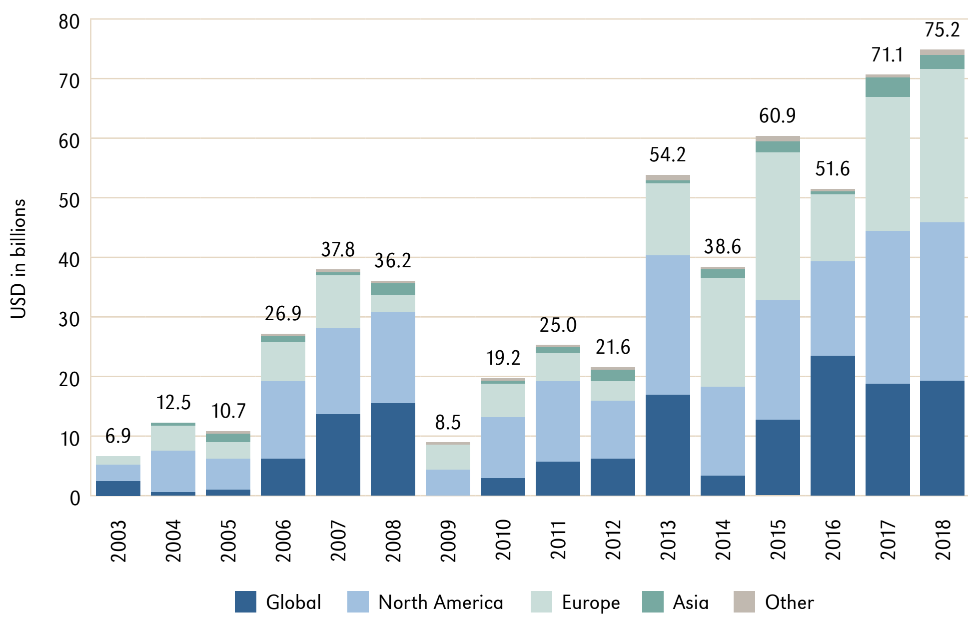
- Probitas Partners tracks fundraising in five different private debt sectors:
    - ***Mezzanine,*** targeting subordinated debt, often alongside equity co-investments or with equity kickers.
    - ***Direct lending,*** with certain funds targeting solely senior debt and others providing a mix of senior and unitranche debt, and in some cases subordinated debt as well. Investments can be made either directly or, less frequently, through secondary markets.
    - ***Venture debt,*** usually targeting early-stage venture capital-backed companies, with a focus on generating returns through equity warrants.
    - ***Energy debt,*** funds focused on energy sector debt investments (unusual because most debt funds are diversified across industries).
    - ***Specialty finance funds,*** which invest in such areas as royalty income streams from patented products, often in the life sciences sector, debt secured by all the assets of a firm (including intellectual property), or in niche areas such as life settlements or litigation finance.
    - ***Distressed debt and special situations funds*** are considered by some investors to be private debt strategies, but Probitas Partners includes them under the distressed private equity category discussed previously.
- Private debt fundraising inched higher in 2018 after soaring in 2017 (Chart XXXIII). However, the picture by sub-sector was quite mixed, with direct lending, last year's market leader, slumping by 25% while fundraising for mezzanine increased by over 200%. Mezzanine fundraising was driven by Goldman Sachs latest effort which raised $13 billion, tying the record for largest mezzanine fund ever raised which Goldman itself set in 2007, and which by itself made up 42% of all mezzanine commitments in 2018.
- Underlying the top-line summary numbers are two other trends:
    - The shift in risk profile over the last five or six years in direct lending funds from more of a senior debt focus toward unitranche in a search for yield;
    - The rise of covenant-lite debt back to levels not seen since the GFC.
- Energy debt-focused funds raised $2.8 billion last year, continuing the sector's recovery from a period of turbulence.
- North American- and European-focused funds led the fundraising market in 2018 as they did last year, and most of the global funds were transatlantic focused (Chart XXXIV).

Chart XXXIII Global Private Debt Fundraising by Strategy



Source: Probitas Partners

Chart XXXIV Global Private Debt Fundraising by Geography



Source: Probitas Partners

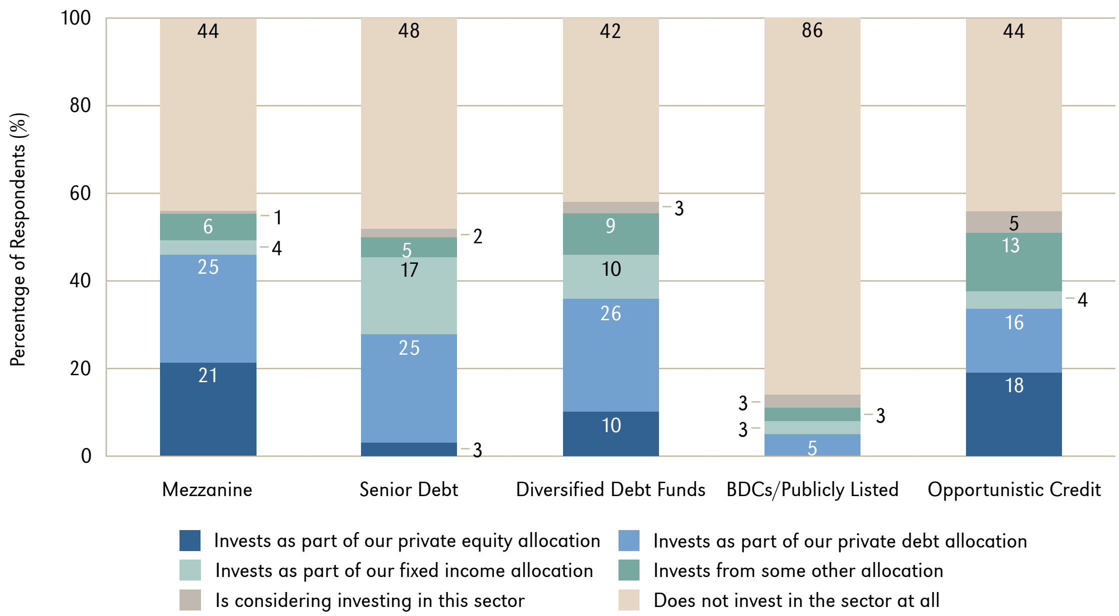
"Private debt fundraising inched higher in 2018 after soaring in 2017."

- Chart XXXV details from which allocations within investors' portfolios commitments are being made. Mezzanine has a long history in investors' private equity allocations because of the capital gains upside coming from equity warrants, options, and co-investments, with investors nearly split between allocating mezzanine to private equity or private debt. Direct lending funds, especially those focused on senior debt, are more likely to come from private debt or fixed income allocations. Opportunistic credit, previously covered in the distressed private equity section of this report, is split between private equity and private debt allocations.

- Specialty finance is not covered in detail here because at the moment it is such a small sector, though interest is growing. Certain strategies, such as life settlements or litigation finance, are more often found in hedge fund or publicly listed formats.

Chart XXXV Credit

In the credit sector, my firm:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results
Note: Some sectors total greater than 100% of respondents as a few investors had multiple responses

"Mezzanine has a long history in investors' private equity allocations because of the capital gains upside coming from equity warrants, options, and co-investments."

- To provide more background on the market, Table V provides summary information on the ten largest closed-end private debt funds raised in 2018.
- As noted previously, Goldman Sachs' mezzanine fund is tied for the title of largest mezzanine fund ever raised, though seven of the funds on the list are direct lending funds.
- Four of the funds target Europe and were denominated in euro, while three are focused on North America and two were transatlantic.

Table V Ten Largest Private Debt Funds Raised in 2018

Fund Name	Strategy	Geographic Scope	Amount Raised (MM)	Headquarters
GS Mezzanine Partners VII	Mezzanine	North America, Europe	13,000 USD	New York
Ares Capital Europe IV	Direct Lending	Europe	6,400 EUR	Los Angeles
ICG Europe Fund VII	Mezzanine	Europe	4,500 EUR	London
Kayne Senior Credit Fund III	Direct Lending	North America	3,000 USD	Los Angeles
KKR Private Credit Opportunities Partners II	Mezzanine	North America, Europe	2,240 USD	New York
White Oak Yield Spectrum Fund	Direct Lending	Global	2,120 USD	San Francisco
EQT Mid-Market Credit Fund II	Direct Lending	Europe	1,800 EUR	Stockholm
Guggenheim Private Debt Fund II	Direct Lending	North America	2,000 USD	Chicago
Golub Capital Partners 11	Direct Lending	North America	1,860 USD	New York
AlbaCore Partners I	Direct Lending	Europe	1,458 EUR	London

Source: PREQIN

"Goldman Sachs' mezzanine fund is tied for the title of largest mezzanine fund ever raised."

Real Assets

Real assets as a separate portfolio allocation are a relatively recent phenomenon for many institutional investors. At its broadest, real assets can include infrastructure and, less often, real estate, though most investors active in those sectors have separate allocations for them. Also, some investors invest in certain sectors of real assets through private equity allocations.

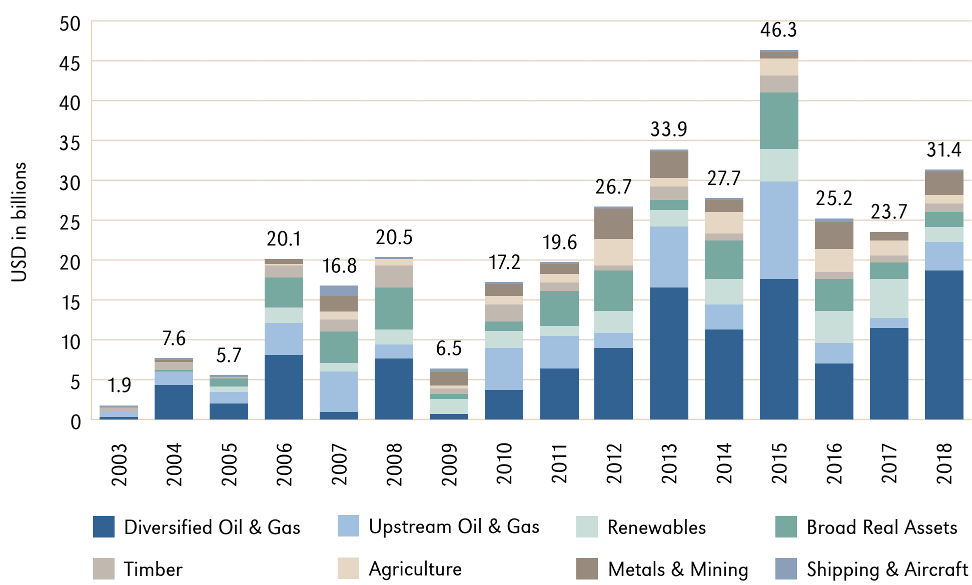
- **Fundraising for real assets, narrowly defined to focus on certain energy plays, such as agriculture, metals & mining, timber, shipping & aircraft, began to expand in 2006 in a reaction both to the impact of the commodity "supercycle" on real assets in general and to the impact of the fracking revolution on oil and gas production in the United States. The end of the supercycle and the global turmoil in oil prices that began in 2014, eventually put downward pressure on fundraising for these real asset sectors (Chart XXXVI).**

- **Energy continues to be the sector of most interest in real assets, either in diversified oil & gas, upstream oil & gas, or renewables. Most broadly diversified real assets funds also have significant exposure to energy as well.**

- **Investor interest in various real asset sectors going into 2019 is detailed in Chart XXXVII. The sector of most interest is infrastructure, and though many investors commit to infrastructure through dedicated allocations or real asset allocations, a significant number invested through private equity allocations.**

- **Besides energy and infrastructure, large numbers of respondents to the survey did not invest in the other real asset categories.**

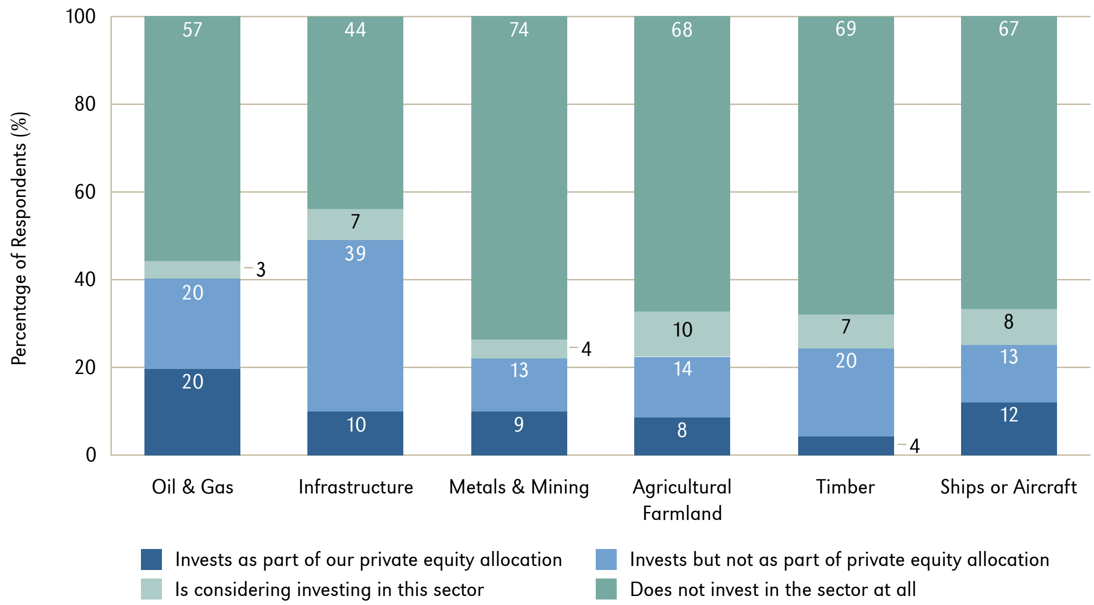
Chart XXXVI Real Asset Global Fundraising by Strategy



Source: Probitas Partners; PREQIN, as of February 2019

Chart XXXVII Real Assets

In the real asset sector, my firm:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results
Note: Some sectors total greater than 100% of respondents as a few investors had multiple responses

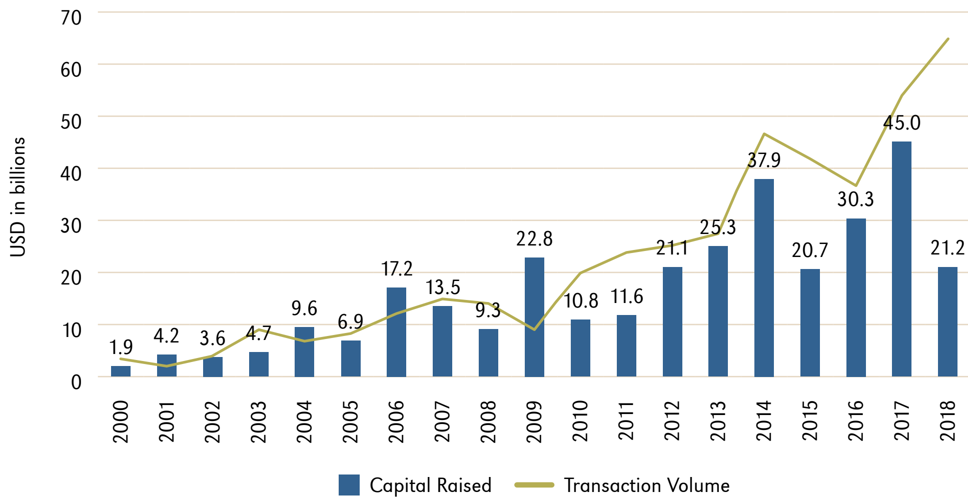
The Secondary Market

Commitments targeting private equity secondaries are difficult to track accurately as are actual transaction volumes. Chart XXXVIII tracks fundraising by secondary specialist funds as well as estimates of historical transaction volumes that, even if not totally accurate, do provide some relevant trendlines.

"Many secondary investors are buying secondary positions with debt as well as equity in order to hit their return targets."

- The columns in Chart XXXVIII track capital raised by secondary specialists targeting private equity as this information is most readily available. However, it is not the whole story:
  - The fundraising numbers understate the total amount of capital raised as they do not include amounts that are raised within primary funds-of-funds that plan to invest a certain amount of their capital into secondaries, as these amounts are either undisclosed or set with a range of prospective totals.
  - They do not include amounts from certain large institutional investors active in secondaries directly that may have target allocations to secondaries that are often undisclosed.
  - In the current high-priced market, many secondary investors are buying secondary positions with debt as well as equity in order to hit their return targets. Triago estimates that 38% of secondaries transactions executed in 2018 used leverage compared to only 4% in 2013, with that debt adding to the dry powder targeting secondaries.
- Though transaction volume is the best measure of secondary activity, purchase prices are often not disclosed, so activity has to be estimated, and different players can have very different estimates. For consistency's sake, we have used Evercore's numbers (previously Cogent) to build out the long-term trendline.
- Given all these factors, in 2018 secondary transaction volumes were roughly three times the amount of 2018 secondary fundraising.
- General partner-led secondaries are among the most complex transactions in the market. Because of that, they are not easily executed without being arranged by one of the secondary fund specialists who are extremely experienced, and difficulty in executing these transactions make them potentially more profitable. Campbell Luytens estimates that 38% of 2018's transaction totals were for general partner-led transactions compared to 28% in 2017.
- Large limited partners are increasingly active in both buying secondary positions, often for strategic reasons, and selling secondaries directly to manage their portfolio exposures (Chart XXXIX).
- Only 14% of the participants in this year's survey responded that they were not active in secondaries in any manner compared to 26% last year.

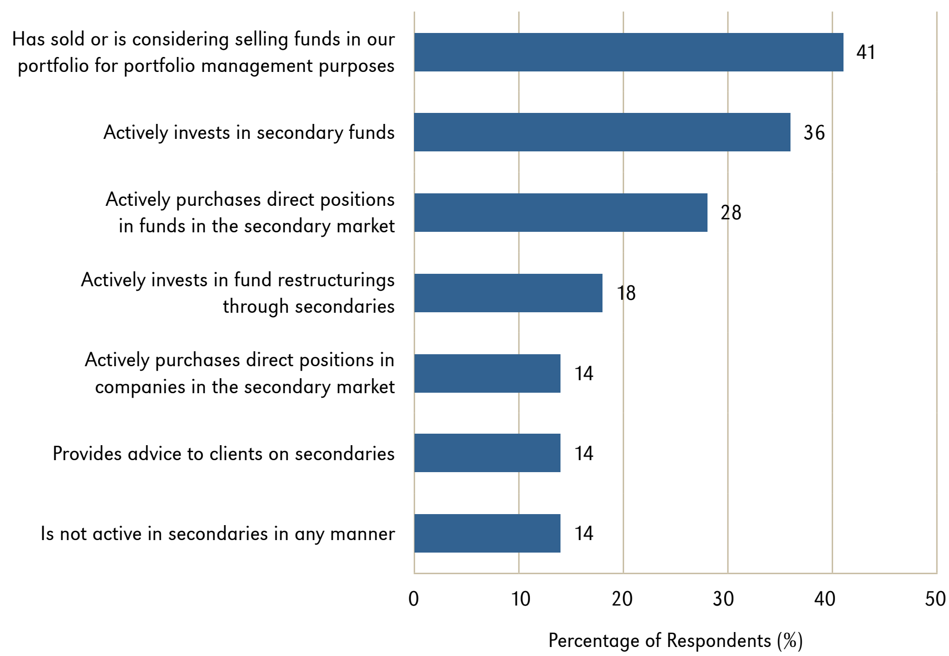
Chart XXXVIII Secondary Market Transaction Volume and Capital Raised by Secondary Fund Specialists



Source: Probitas Partners; Evercore

Chart XXXIX Secondary Market Investments

In the secondary market, my firm (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results

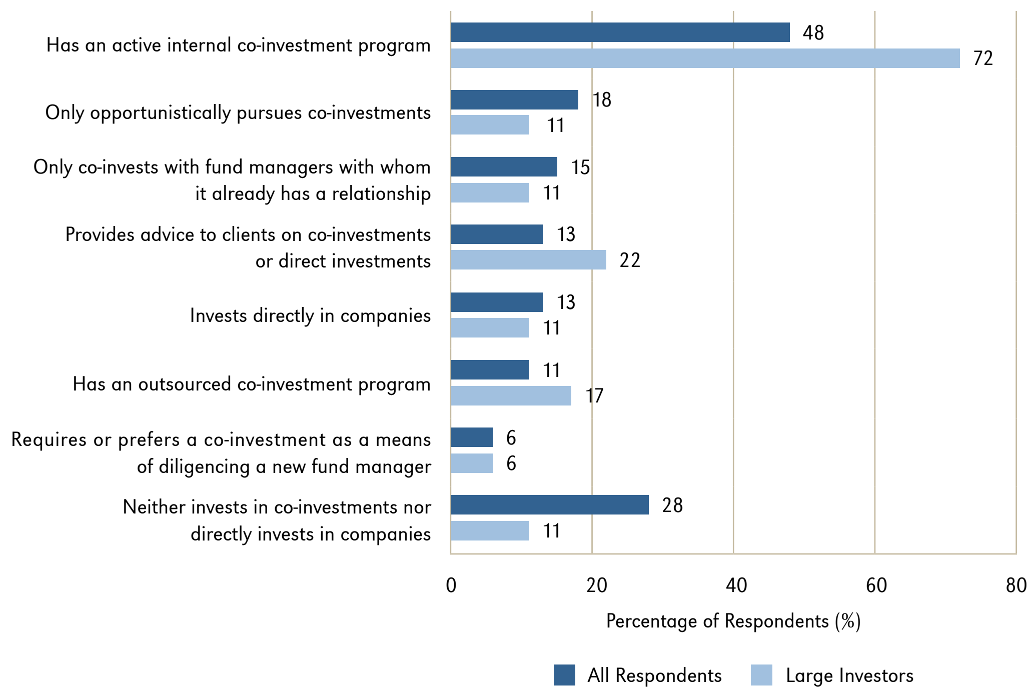
Co-Investments

Co-investments are another area where hard data on activity is difficult to come by. What is certain is that over the past decade co-investments have become increasingly important, especially to large investors who are seeking to lower their expenses in investing in private equity and gain more control over their portfolios.

- **Chart XL summarizes investor interest in co-investments going into 2019. 89% of large investors, who usually have access to more resources to support co-investing, either have an active internal co-investment program or an outsourced program.**
- **Only 28% of overall respondents are not active in co-investments in any way, and only 11% of large investors fall into that category.**
- **Investing directly into companies is much more complex than co-investing alongside a fund manager, and few institutional investors do that.**

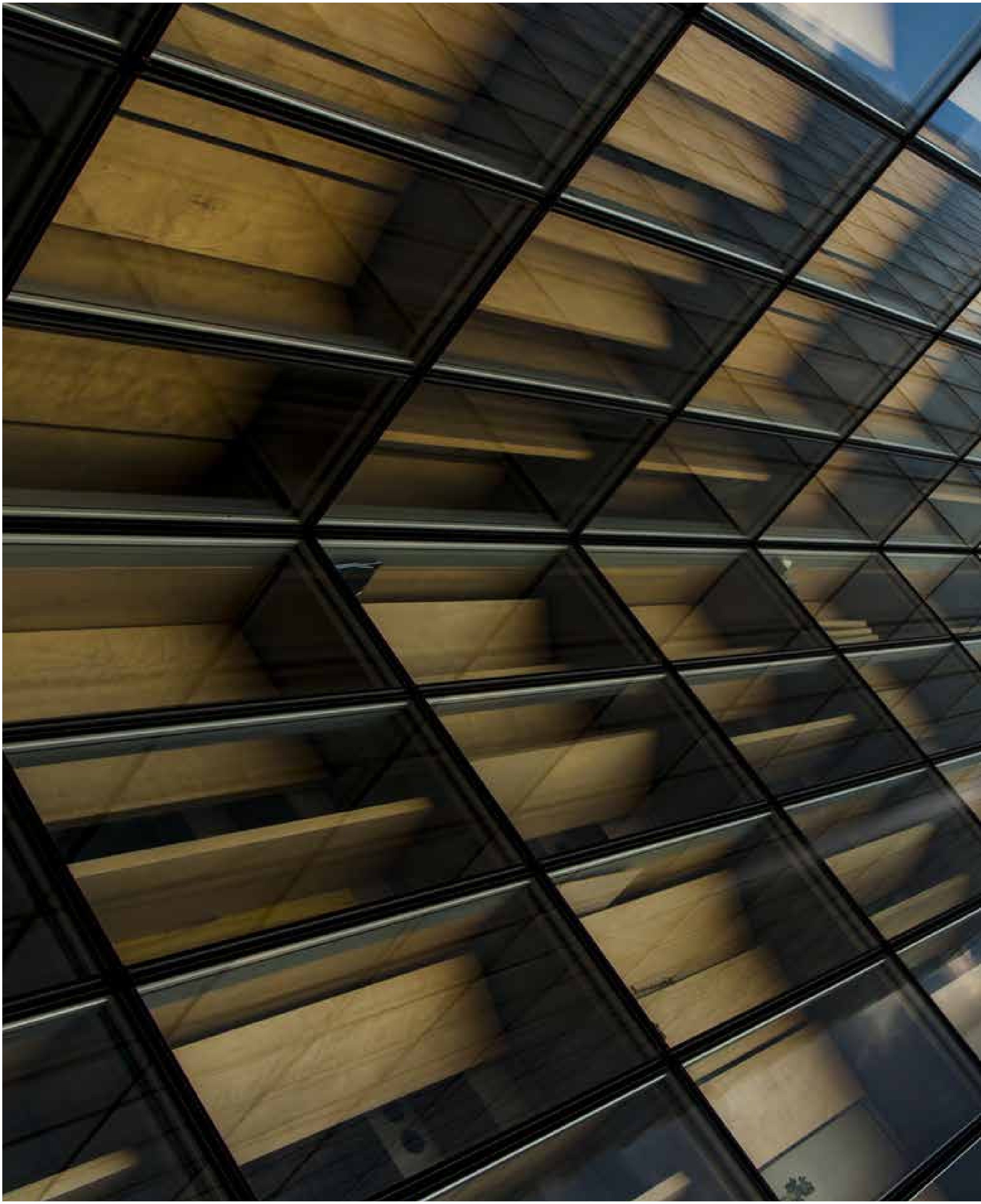
Chart XL Directs and Co-Investments

Regarding directs and co-investments, my firm (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2019 Survey Results
Note: "Large Investors" denotes those survey respondents who plan to commit $500 million or more to private equity in 2019

"Over the past decade co-investments have become increasingly important, especially to large investors, who are seeking to lower their expenses in investing in private equity and gain more control over their portfolios."

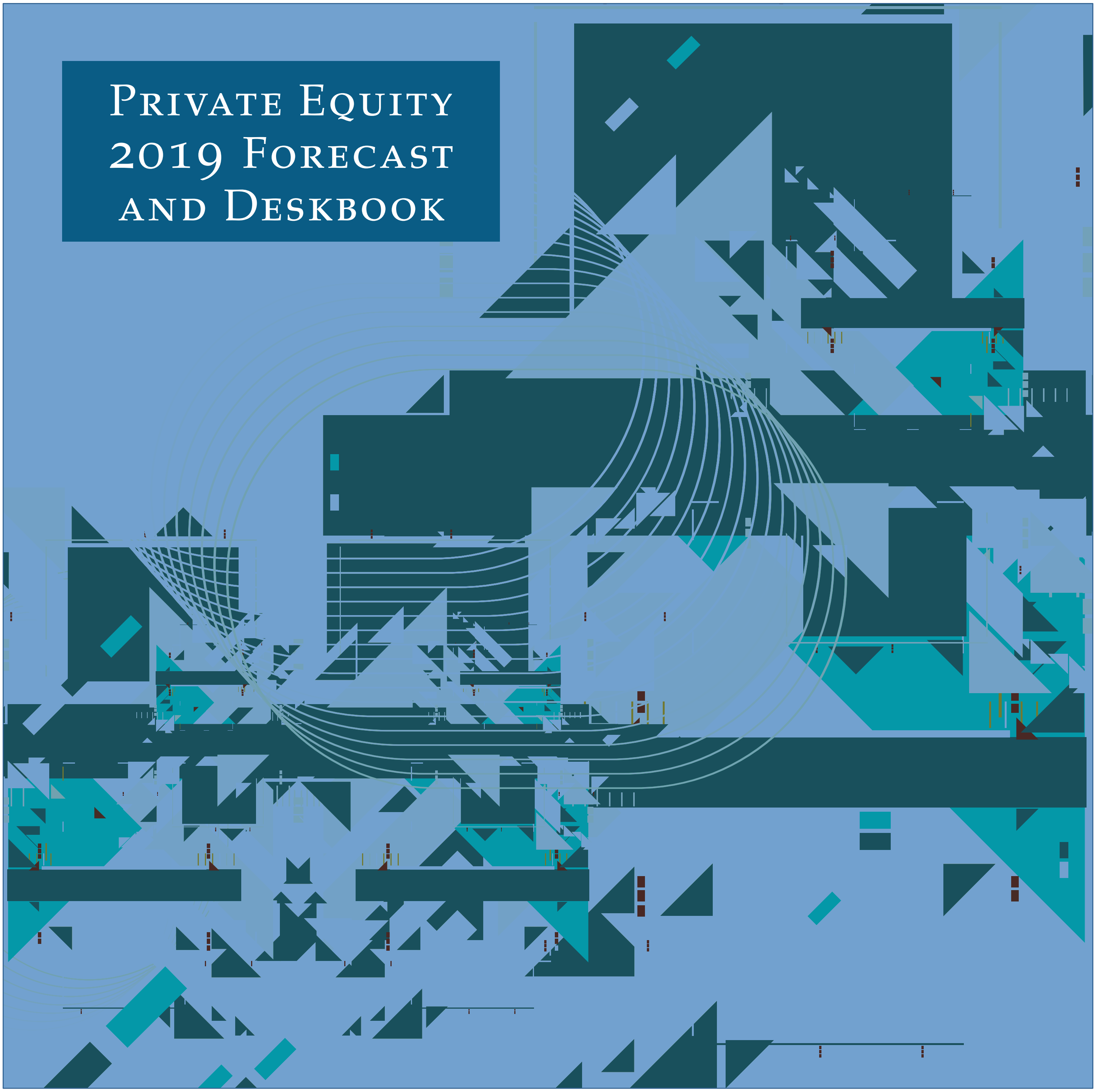


CONCLUSION

In 2018, the post-GFC trend of strong fundraising across most sectors of private equity slowed, especially in the buyout market. Many institutional investors see the decline as a temporary pause in the market caused by technical factors, and strong fundraising in the first part of 2019 lends some support to that theory. Other limited partners who experienced the last cycle have become cautious, either limiting the amounts they intend to commit in 2019, setting a higher performance bar for re-upping to managers they have backed previously or focusing on commitments to fund managers with experience across market cycles, in whom they have a very high degree of confidence. In any case, many institutional investors feel that the current return opportunities in private equity are more attractive than other investment opportunities they are presented within other market sectors.

Many fund managers do not seem as worried as institutional investors about where we are in the cycle, at least in their public statements, with many of them saying, in effect, "this time it's different." However, many managers of distressed private equity funds are publicly anticipating improved opportunities over the next year.

For those institutional investors who are turning cautious, and for those distressed private equity managers who have become more optimistic at their prospects, there is no consensus on either the timing or the cause of a market correction. For investors, there is also recognition that dry powder in the hands of fund managers experienced in market cycles is needed to take advantage of the opportunities that come when the market does actually turn.



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