



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

SEPTEMBER 2018  
Private Equity Outlook



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# Observations driving Verus outlook

## Executive summary

### The investment climate

- Recent tax legislation is expected to have a positive, though transitory, impact on private equity; key near-term impacts include increased transaction activity fueled by higher free cash flow and increased pricing effect
- Buyout activity in Europe has remained strong; however exits declined as firms continue to focus on deployment of capital
- Investor demand continues to support strong capital flows into private debt, resulting in record levels of U.S. and Europe “dry powder” — defined as committed capital not yet deployed; in Europe, private lenders have to compete with entrenched traditional lenders

### Asset allocation

- Lean times continue for distressed strategies as credit markets remain strong with low defaults
- Abundant activity in the secondary market as the seller’s market continues with pricing close to par value
- Investment pace remains robust in venture capital; fewer firms raising more capital, while time to exit continues to extend, in part fueled by the availability of, and preference for, late-stage private capital
- Small buyouts offer better opportunities over large buyouts; averaging 17% lower entry multiples and attractive supply-demand characteristics

# Summary of findings

				Outlook		
				Unattractive	Neutral	Attractive
						
Strategy	Geography		Commentary			
Buyout	U.S.	Small		Higher earnings from the U.S. tax reforms, demand for add-on acquisitions from large buyout players, countered by headwinds from persistence of high purchase price multiples		
		Large		High levels of dry powder, record high entry prices, and rising interest rates can detract from ability to generate outsized returns		
	Europe	Small		Accommodative ECB, improved growth trajectory, and more attractive pricing relative to the U.S. may benefit investors; but with some caution as debt multiples remain at record highs		
		Large		Some benefit from economic expansion, but record pricing could reduce upside potential and the ability to deal with risks, for example Brexit / other populist movements if investment thesis relies on open trade		
Private Credit	U.S.			The low-interest-rate and default environment has resulted in increasingly borrower-friendly leveraged finance conditions		
	Europe			Availability of private credit has reached record levels, but market penetration of non-bank lenders has a long way to go before reaching levels seen in the U.S.		
Special Situations	Distressed Debt			Potential for increased opportunity due to normalization of monetary policy and the late cycle position of the U.S. economy and credit markets		
	Secondaries			Elevated pricing persists; thus allowing LPs and GPs to increasingly use the secondary markets as a tool to generate liquidity and restructure older portfolios		
Venture Capital	Early Stage			Investment activity is strong, but exits have been lackluster as holding periods continue to lengthen		
	Late Stage			Large capital pools continue to target more proven breakout companies; demand has translated into strong competition for deals that fund ever-expanding entrepreneurial visions		

# Topical focus

## Tax reform legislation net positive impact on private equity

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (TCJA). The TCJA lowered business and individual tax rates, modernized U.S. international tax rules, and provided the most significant overhaul of the U.S. tax code in more than 30 years.

Below is a brief summary of select provisions in the TCJA that are most relevant to private equity:

### Principal effects

- **Tax reduction** – The largest change in the new tax code for PE is the reduction of the U.S. corporate tax rate from 35% to 21%, which will lead to an increase in free cash flow (FCF) and therefore enterprise value (EV) for most PE portfolio companies in the U.S. *(positive effect)*
  - A small uptick in buyout pricing multiples is justified in the U.S.; we estimate 0.5x EBITDA relative to prior years.
- **Full expensing capital expenditures** – Under the new tax code, companies can expense up to 100% of capital expenditures, realizing a large tax benefit upfront, but it also reducing the depreciation expense available to write off in the future. *(net positive effect to free cash flow in early years)*
  - This creates an environment suitable for acquisitions as asset purchases can be expensed at 100%.
- **Interest deductibility** – The reduction in interest deductibility to 30% of EBITDA could create a net tax increase for more highly levered companies. This could drive PE-backed companies to limit leverage to 6-7x EBITDA. *(minimal effect)*
  - Even after capping the deduction at 30% of EBITDA, roughly 80% of interest expense could still be deductible.

# Topical focus

## Secondary effects

- **Carveouts** – After a sustained period of record-setting M&A, many large corporations are looking to shed some assets and focus on streamlining operations to drive share price growth. *(positive effect)*
  - Large companies may be more willing to dispose of noncore assets as the after-tax proceeds have increased. These corporate divestitures would provide for an increase in private equity deal flow.
- **Carried Interest** – An investment must now be held for at least three years to realize long-term capital gains rates. According to PitchBook, only 16.9% of exits in 2017 were completed in under three years. *(minimal negative effect)*
  - We expect the greatest impact to be on the structuring of add-on deals to platform companies that may create a split holding period for a single investment.
- **Decrease In Fund Performance** – While a challenging macro backdrop and competitive pressures have contributed to a downtrend in PE returns for recent vintages we expect lower levels of debt utilization to be a further drag on IRRs and cash multiples going forward. *(negative effect)*
  - However due to its structural advantages, including better flexibility in capital structuring and long term operational focus we expect PE to continue to outperform the public markets.

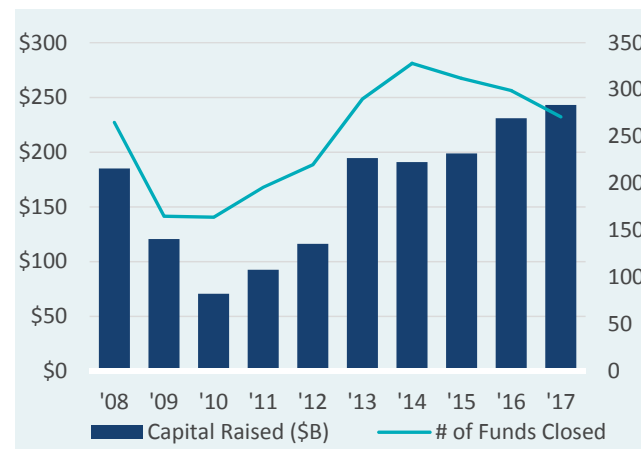
# U.S. buyouts

## Buyout development continuing at double the volume of exits

### Trends

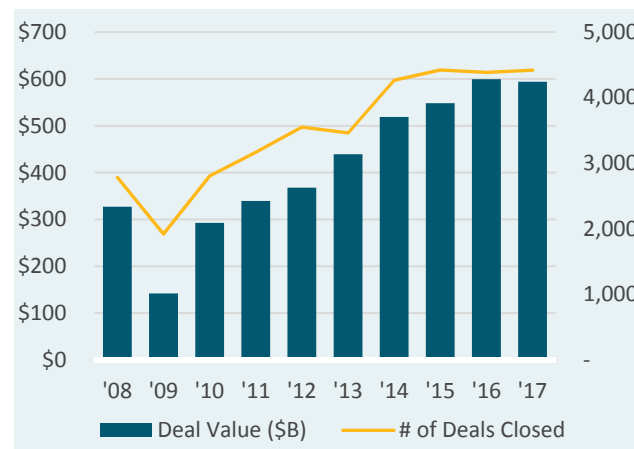
- Capital raised by fewer managers with larger funds as LPs consolidate around more established, high-conviction GPs
- Continued deployment into private equity companies strong and steady, despite a high valuation environment
- Deal sizes continue to inflate driven by higher purchase price multiples and a substantial step up in fund sizes
- A strong year for exits via M&A, IPOs and other private equity buyers
- Corporate acquirers active in M&A; but less so than PE firms buying companies via secondary buyouts (SBOs)

### FUNDRAISING



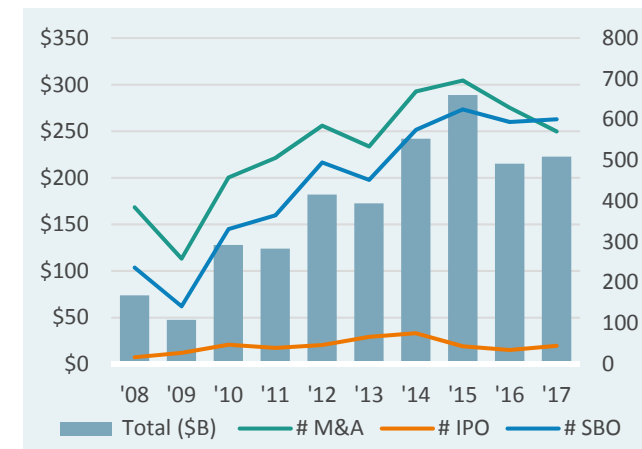
Source: PitchBook

### DEAL FLOW



Source: PitchBook

### EXITS BY TYPE



Source: PitchBook

# U.S. buyouts

## Purchase price multiples reach new high

### 2018 Environment

- Oversupply of capital and positive market outlook driving price competition and increasing the risks of failing to achieve returns
- While rich by historical standards, price multiples of private companies (10.4x to 12.6x EBITDA) trade at a discount to public companies (EBITDA multiples of Russell 1000 and Russell 2000 as of 12/2017: 13.5x and 16.6x, respectively)
- Interest rates still low, but a shift to rising rates increases the cost of leverage. Unexpected significant rate moves could disrupt deal activity.
- Potential for a stronger M&A environment (i.e. both exits and new deal flow) primarily due to the recent tax and regulatory moves in the U.S.

### U.S. Buyouts Outlook

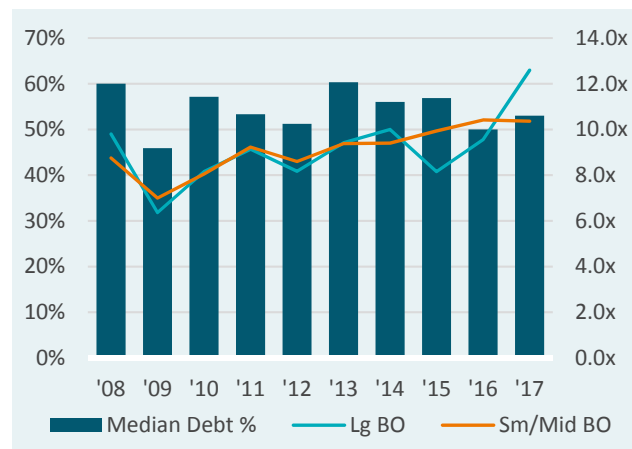
- Corporations with strong profits and a windfall from recent U.S. tax legislation are expected to drive growth through acquisitions; exit prices linked to public multiples can deliver upside returns
- Managers that can improve the operating performance of companies will prove more resilient in generating returns than those relying on leverage and multiple expansion
- Small buyouts to continue offering more compelling supply-demand characteristics than larger and mega-buyouts

### YIELDS ON LEVERAGED LOANS



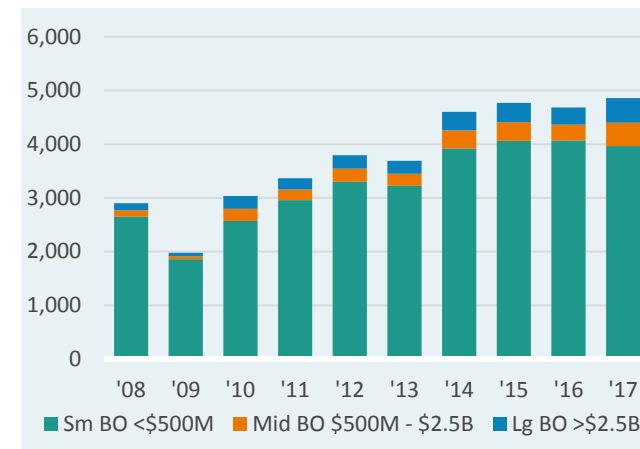
Source: S&P/LSTA U.S. Leveraged Loan 100 Index

### PURCHASE MULTIPLES AND MEDIAN DEBT %



Source: PitchBook

### DEAL FLOW (#) BY SIZE



Source: PitchBook



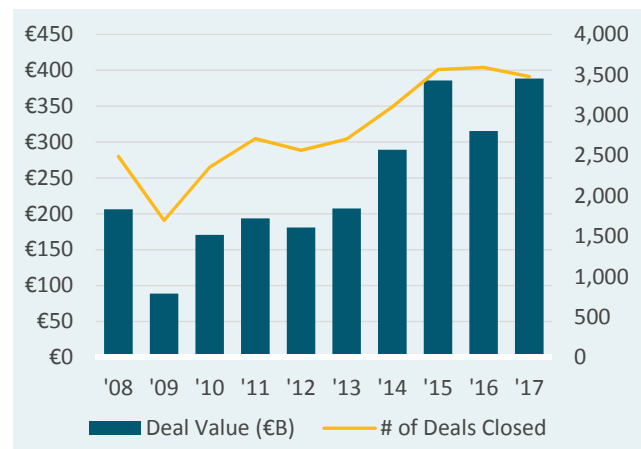
# European buyouts

Increase in net deployment pace, at more reasonable purchase prices than the U.S.

## Trends

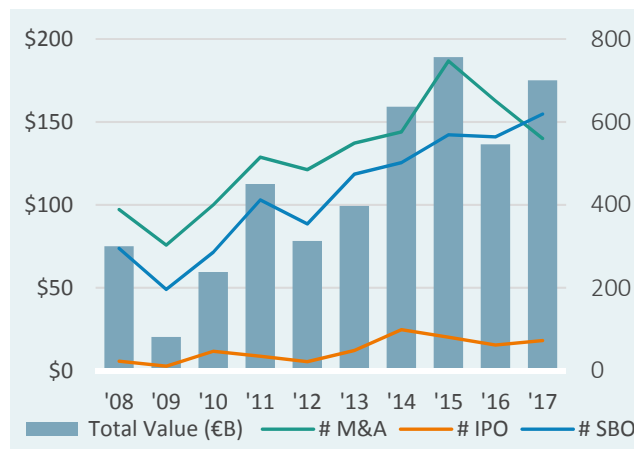
- Deployment into new investments continue to surpass exits in Europe by more than 2 times
- Investment activity mirrors trends in the U.S. with investors completing fewer, but larger deals
- Secondary buyouts, in which PE firms acquire portfolio companies from other PE sponsors, account for one half of exit activity; corporate acquirers slow M&A pace to incorporate recent purchases
- With an increase in the use of debt, entry prices climb higher ending 2017 at a record 7.6x EBITDA; but still far lower than U.S. purchase price multiples: 10.4x for small and mid-market buyouts and 12.6x for large buyouts

## DEAL FLOW



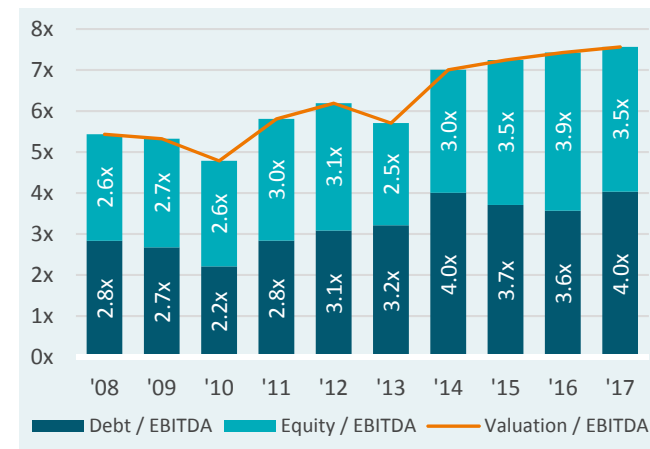
Source: PitchBook

## EXITS BY TYPE



Source: PitchBook

## PURCHASE MULTIPLES



Source: PitchBook

# European buyouts

## With the right manager, European buyout dynamics appear more favorable

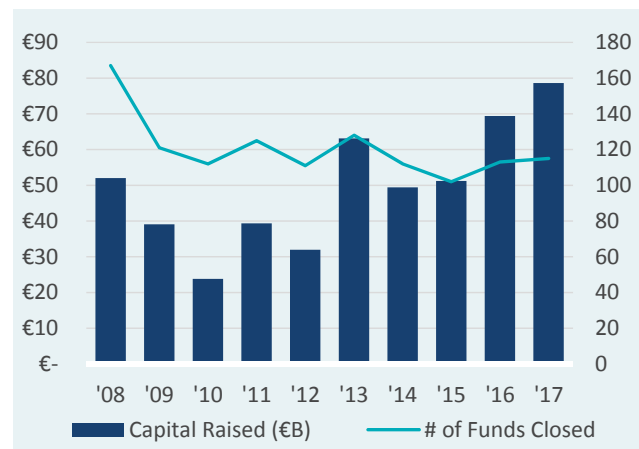
### 2018 Environment

- GDP expected to build off 2017 growth; improving economy continues to provide tailwinds to PE deal activity
- More capital flowing into European buyouts, and specifically, into larger funds
- European businesses garner interest from non-European investors as an efficient way to expand global footprints

### European Buyouts Outlook

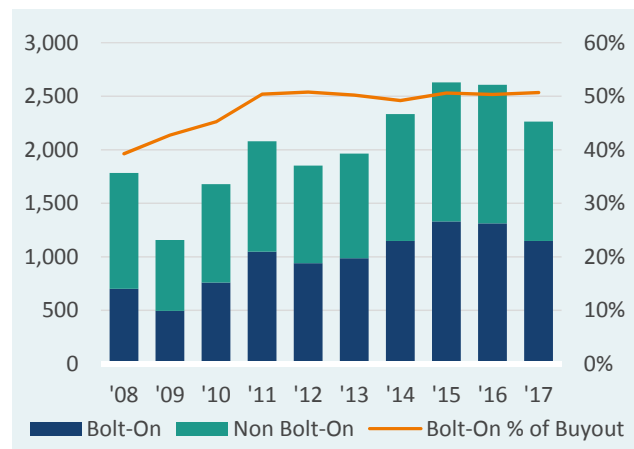
- By deal size, European buyouts mirror our outlook in the U.S. as the smaller end remains less competitive, maintains somewhat lower entry pricing, and continues to offer more favorable supply-demand characteristics
- Bolt on transactions continue to remain attractive as investors inside and outside of Europe look to accelerate growth of their platforms
- On-the-ground managers with local resources to roll up smaller companies and enhance efficiencies stand to benefit

#### FUNDRAISING



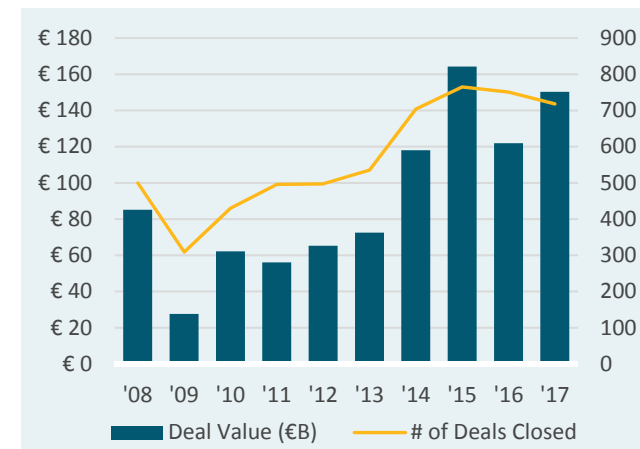
Source: PitchBook

#### EUROPEAN BOLT-ON ACQUISITION ACTIVITY



Source: PitchBook

#### DEAL FLOW WITH NON-EUROPEAN INVESTORS



Source: PitchBook

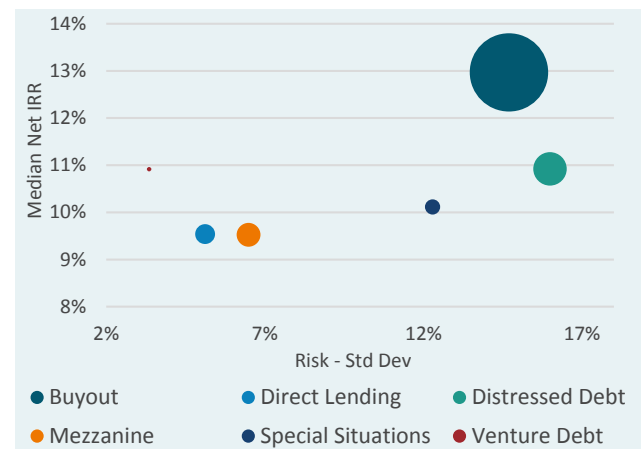
# U.S. private credit

## Can the market support continued growth?

### Trends

- Direct lending produced attractive risk-adjusted returns to investors in recent years: median net IRR of 9.5% for vintage 2005-2015 funds, per Preqin
- As investors continue to reach for yield, direct lending fundraising surged in 2017 to \$32 billion doubling the amount raised in the prior year
- More capital raised by GPs as investors seek managers with scale and a global footprint that can demonstrate attractive track record
- Low interest-rate and default environment resulting in increasingly borrower-friendly terms and conditions; preliminary signs of lower recovery rates by covenant-lite leveraged loans (56% post-GFC versus 78% pre-GFC)\*
- The influx of fundraising produce record levels of dry powder, reaching \$234 billion in 2017

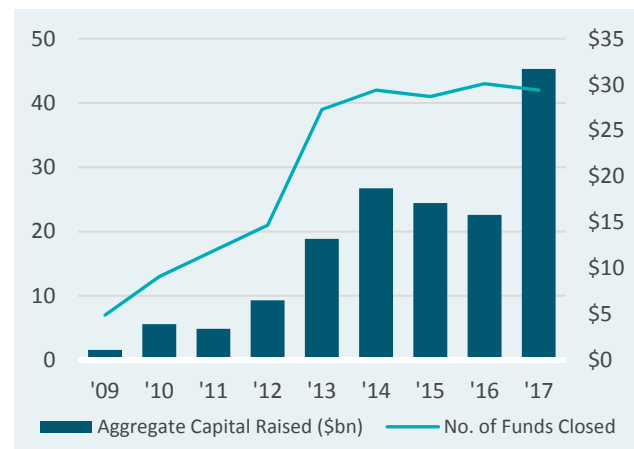
RISK/RETURN BY STRATEGY (VINTAGE 2005-2015)



Source: Preqin

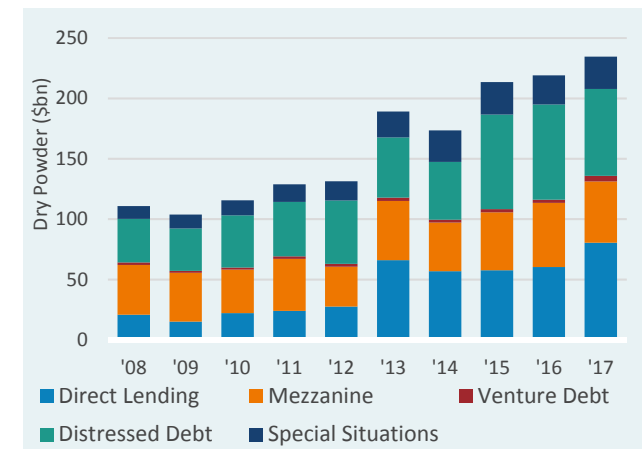
\* Source: LCD, July 2018

DIRECT LENDING FUNDRAISING



Source: Preqin

PRIVATE CREDIT DRY POWDER



Source: Preqin



# U.S. private credit

## More capital with careful underwriting

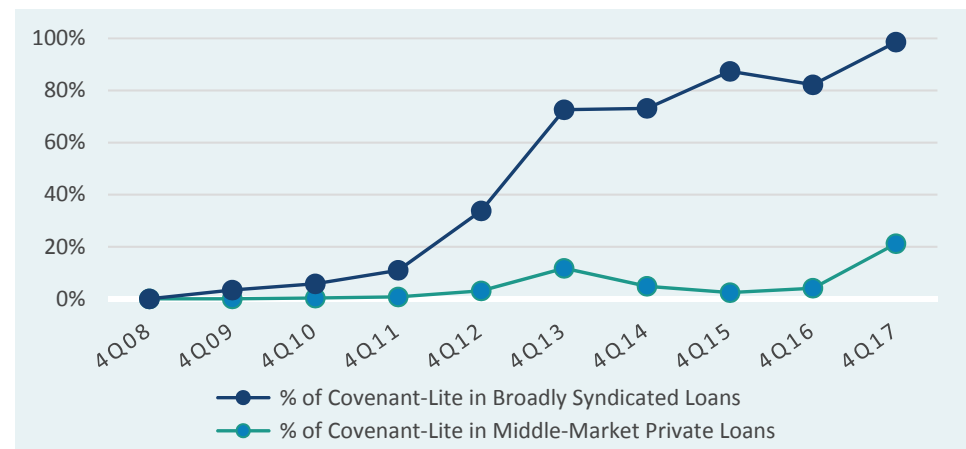
### 2018 Environment

- Increased competition eroding manager ability to negotiate terms; and on hot deals, to devote time to diligence
- Traditional banks, now with balance sheet strength, competing with relatively aggressive terms
- Driven by macroeconomic tailwinds and investor demand for yield, private credit increasingly a more sizeable and permanent allocation in institutional portfolios

### U.S. Private Credit Outlook

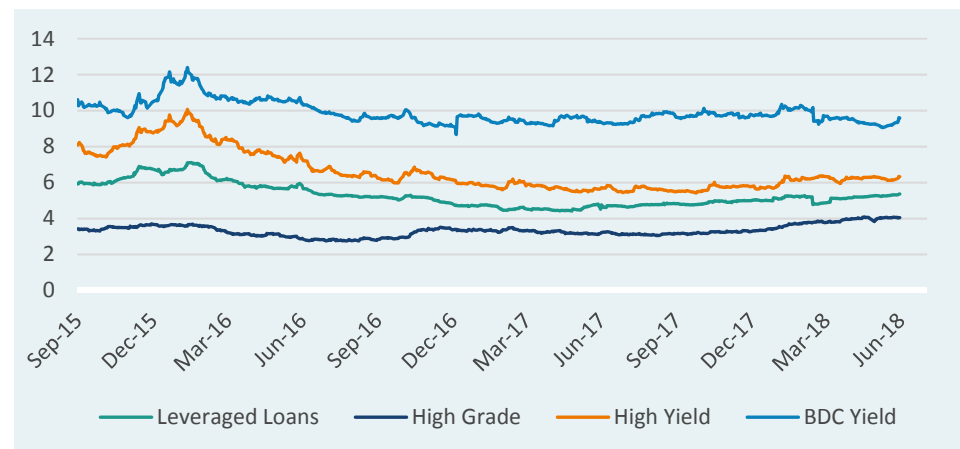
- Covenant-lite terms to continue to increase, not just in performing syndicated market, but also private loans
- Attractive returns increasingly reliant on underwriting skills, manager prudence, and differentiated insights to pursue deals in sectors and companies that tend to be less followed
- Portfolios to ultimately benefit from commitments to distressed managers; so long as fund terms accommodate the wait

### COVENANT-LITE LOANS INCREASING



Source: Bloomberg & Thomson Reuters

### HISTORICAL YIELDS OF BDCs, BROADLY SYNDICATED LOANS AND HIGH YIELD BONDS



Source: Broadly Syndicated Loans – S&P LSTA US Leveraged Loan 100 Index; High Yield – BofA ML US Master High Yield Index; BDC: S&P BDC Index; High Grade: BofA ML US Corporate Master Effective Yield

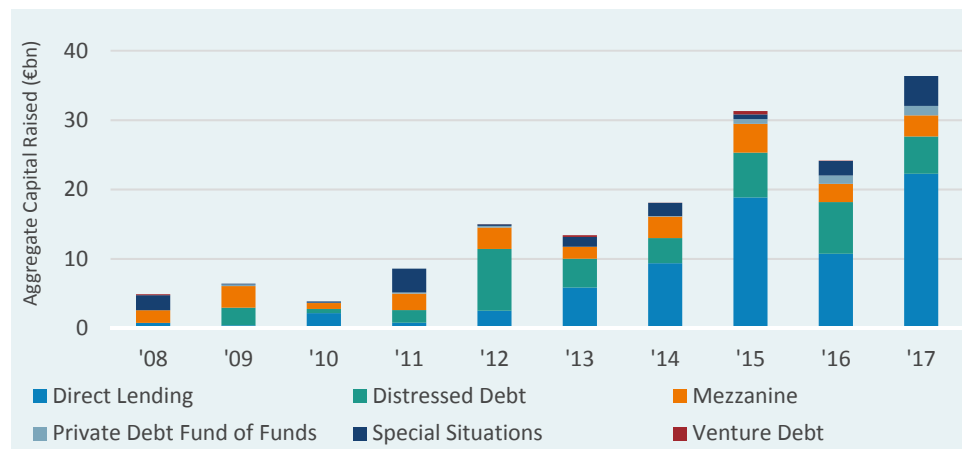
# European private credit

## Availability of private debt continues to expand in Europe

### Trends

- Fundraising in 2017 set record: €36 billion raised in private debt funds focused on Europe
- Direct lending solidly in place as a financing tool for businesses throughout the continent, evidenced by significant fundraising growth since 2013
- Record fundraising levels in 2017 also led to record-high dry powder totals: €54 billion in commitments

PRIVATE CREDIT FUNDRAISING BY TYPE



Source: Preqin

DRY POWDER



Source: Preqin

# European private credit

## When careful underwriting matters most, more capital to be deployed

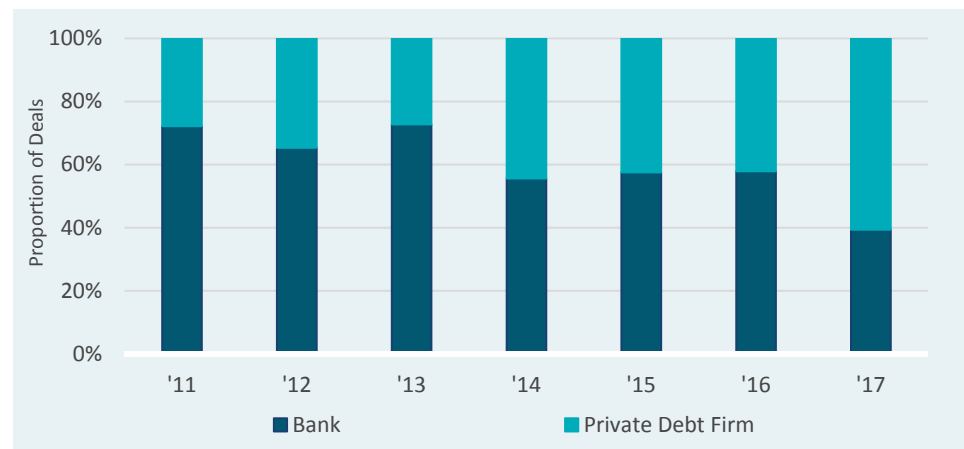
### 2018 Environment

- Despite substantial capital raised to target direct lending, pricing in Europe has tightened only marginally
- Private loans continue to benefit from high upfront fees and stable spreads. As a result, the current premium for private debt as compared to broadly syndicated debt remains attractive in Europe.
- Entrenched local banks seek to fend off private lenders; stiff competition for access to high quality deals continues
- Pressure from record-high dry powder poses challenge to deploy effectively

### European Private Credit Outlook

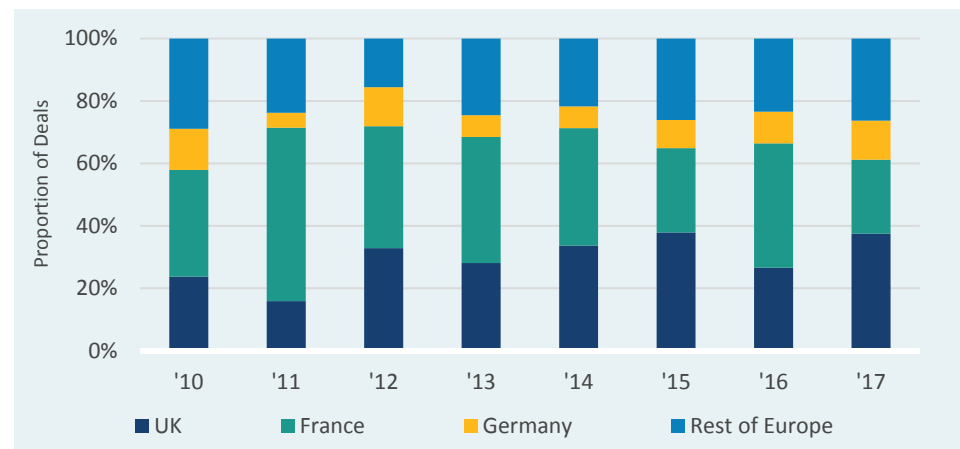
- Given diversity of European landscape, managers need local relationships and intimate knowledge of local laws to source and play effectively

#### PRIVATE DEBT-BACKED DEALS IN EUROPE: BANKS VS. PRIVATE DEBT FIRMS



Source: PitchBook

#### DEALS IN EUROPE BY LOCATION



Source: PitchBook



# Distressed debt

## Distressed war chests awaiting for the cycle

### Trends

- With no imminent signs of distress, fundraising activity and dry powder levels for distressed investing decline in 2017
- North America remains the largest market for distressed funds: 66% of all funds representing \$65 billion since 2015

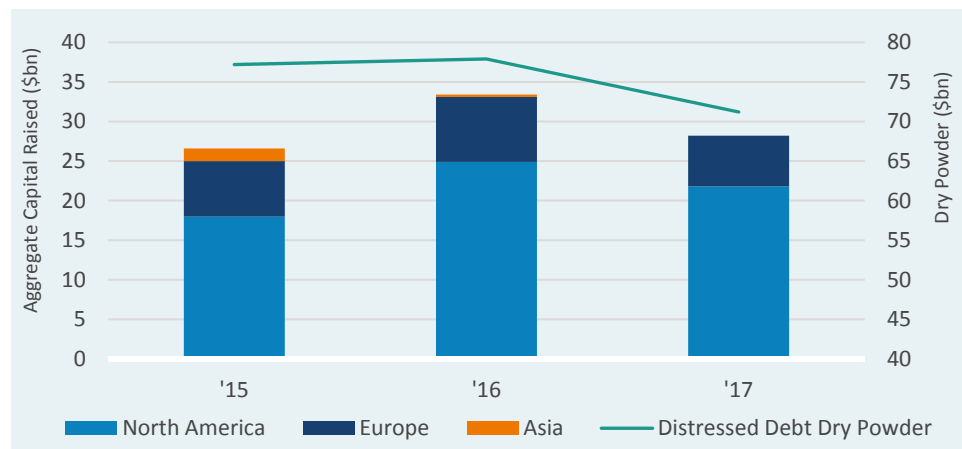
### 2018 Environment

- Defaults remain low globally, as debt markets continue to be available and at increasingly attractive terms
- Factors that can trigger distress: rising rates, if substantial in reaction to, or anticipation of, inflation; exogenous issues, company specific

### Distressed Debt Outlook

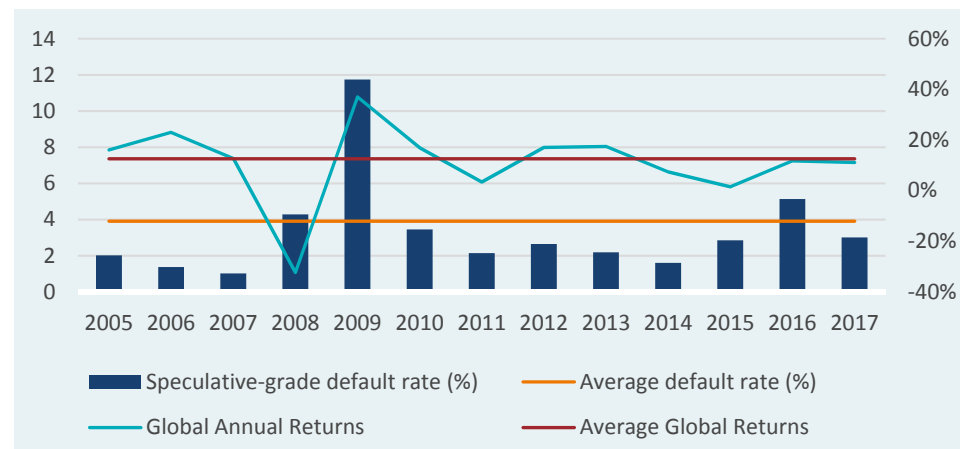
- Ongoing staple of control-oriented opportunities in small- and mid-market companies undergoing some level of underperformance
- Funds targeting larger cycles have potential, so long as terms and structure allows the wait and the manager has exhibited discipline

### GLOBAL DISTRESSED CAPITAL RAISED & DRY POWDER



Source: Preqin

### GLOBAL DEFAULT RATES AND RETURNS



Source: S&P 2016 Annual Global Corporate Default Study and Thomson CA

# Global secondaries

## Strong pricing, despite record deal flow

### Trends

- Over \$70 billion raised by secondary funds over the last two years – an influx of dry powder waiting to be deployed
- Pricing remain at elevated levels: buyouts averaging 94%, venture capital is just below 80% of NAV
- Sellers transact at record volume, tapping into the secondary markets to fine tune portfolios and to liquidate mature funds
- General Partners increasingly use secondary process on mature funds to provide liquidity and accommodate team spin-outs

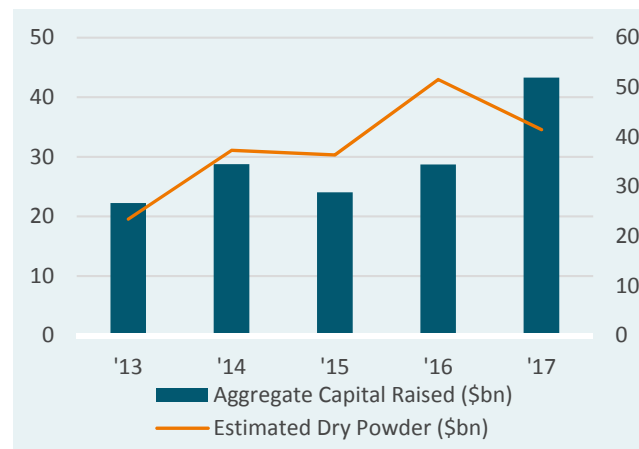
### 2018 Environment

- Secondary funds continue to accommodate both LPs and GPs by providing portfolio management and restructuring solutions
- Asset specific sales expected to grow as GPs design structures to provide liquidity to one set of investors, while investing anew on behalf of others

### Global Secondaries Outlook

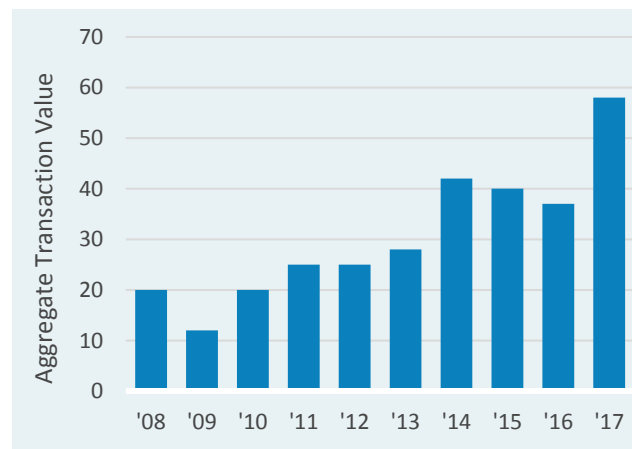
- Secondaries: a sellers' market into the foreseeable future

#### FUNDRAISING & DRY POWDER



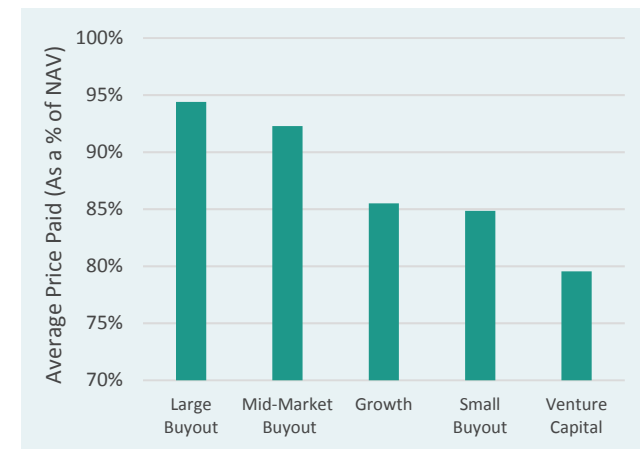
Source: Preqin

#### AGGREGATE TRANSACTION VALUE



Source: Preqin

#### PRICING



Source: Preqin

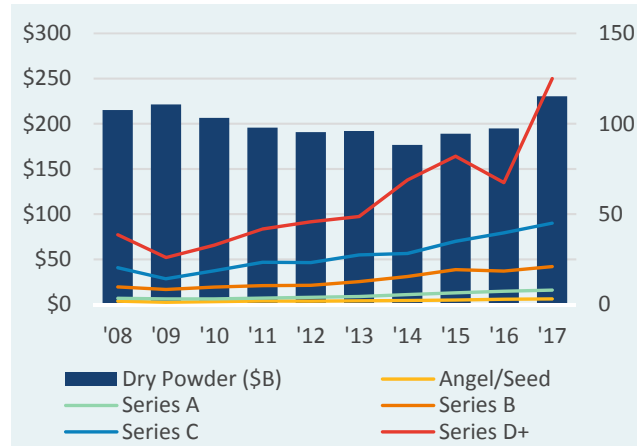
# Venture capital

## As new investors pile in, valuations soar

### Trends

- Entry prices expanded across all stages; the later the stage, the higher the price inflation
- Over the past 5 years, the average pre-money valuations of Seed stage, Series A, Series B, Series C and Series D investments increased 68%, 131%, 101%, 105% and 206%, respectively, according to PitchBook
- After a brief dip in 2016, investments into Unicorns (\$1bn+ valuations) increased again in 2017, with 23% of total capital deployed by VCs backing such companies
- Exit counts trend lower, but at higher valuations, 17% over 2016 levels
- Private equity sponsors increasingly buying up venture companies; 19% of exits in 2017\*

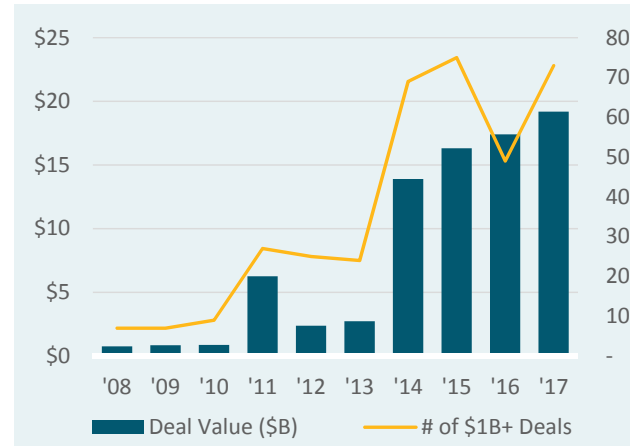
### CAPITAL OVERHANG & ENTRY VALUATIONS



Source: PitchBook.

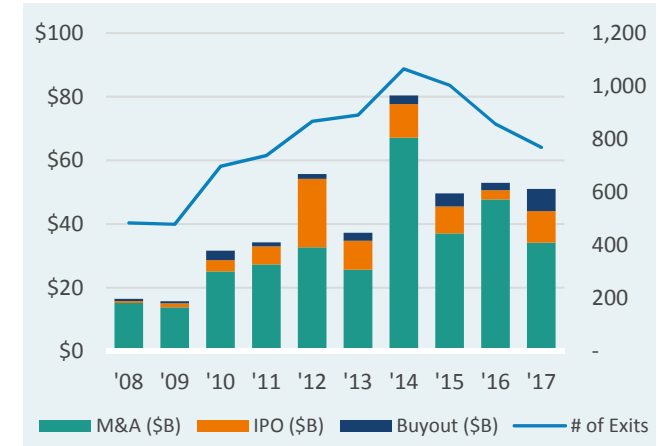
\* 1Q 2018 Pitchbook NVCA Venture Monitor Data

### UNICORN ACTIVITY



Source: PitchBook

### EXIT ACTIVITY



Source: PitchBook.



# Venture capital

## Late stage is the hottest, but is it the best?

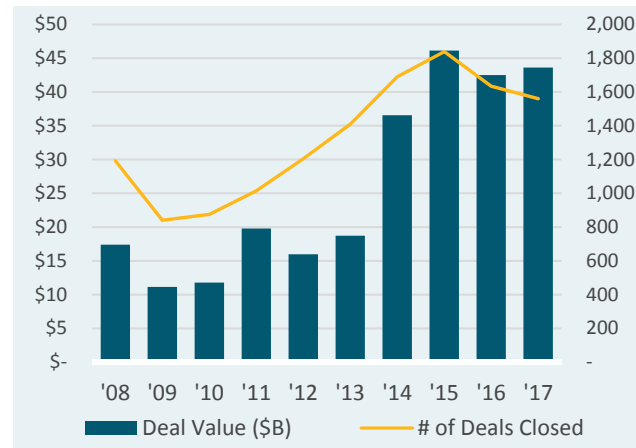
### 2018 Environment

- In late-stage, entrepreneurs continue to prefer venture funding to IPO / public capital as multi-billion dollar global funds chase breakthrough companies
- Early-stage investors remain more disciplined on price, but participate in larger deals
- The wait for venture liquidity continues to stretch: median time to exit now a record 6.1 years, per Pitchbook

### Venture Capital Outlook

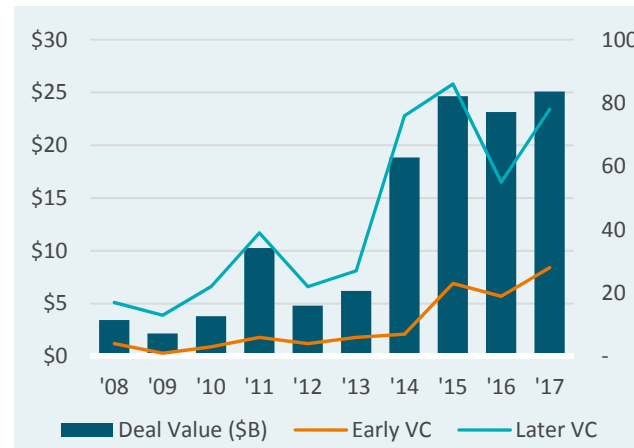
- Demand, capital investment, and price of late-stage deals to keep surging as corporate venture groups, sovereign wealth funds, mutual funds and hedge funds all compete
- Valuations, both entry and unrealized, increase across all stages; assessing venture portfolios increasingly more difficult
- LPs increasingly reliant on managers with discipline and experience to navigate the cycle

#### NON-TRADITIONAL INVESTOR ACTIVITY



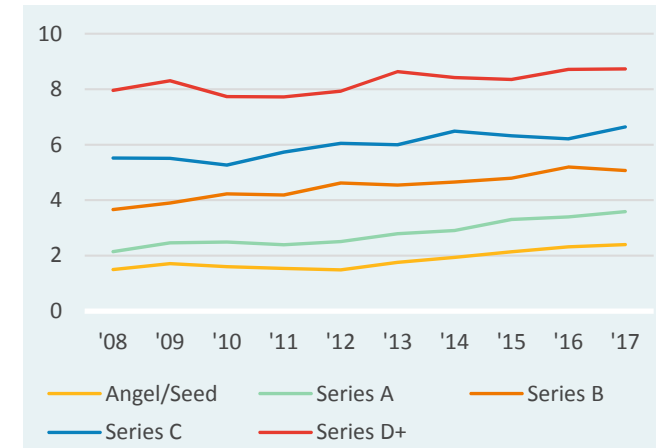
Source: PitchBook.

#### MEGA DEAL ACTIVITY



Source: PitchBook.

#### MEDIAN AGE BY SERIES



Source: PitchBook.

# Appendix

# Verus private equity philosophy

- Private equity is a long-term asset class:
  - Funds deploy capital into new investments over a three- to five-year period
  - After investment, portfolio companies are held for a period of four to seven years on average prior to exit
  - This typical investment course drives discrete fund lives to often last beyond 10 years, during which significant changes can occur
- To address this phenomenon, investors generally “average in” to the market by building portfolios of discrete private equity funds over multiple vintage years
- For these reasons, significant tactical shifts are not easily implemented in private markets portfolios
- Our top-down review of the asset class incorporates current trends, which if sustained, can potentially impact returns over the long term

We believe that careful manager selection is the primary driver of returns

That said, macro and top-down conditions have the potential to impact portfolio returns over the long term

# Detailed returns by geography

Pooled Returns by Geography	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
U.S. All Private Equity *	16.7	11.7	15.0	10.0	13.1	3274	2029.3
Europe All Private Equity *	32.0	15.2	12.6	6.4	14.3	645	581.7
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1
<b>Public Index</b>							
Russell 3000	21.1	11.1	15.6	8.6	7.4		
MSCI Europe	25.5	6.7	7.4	1.3	5.4		
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0		
MSCI EM Latin America	23.7	11.8	(15.0)	(15.5)	--		
MSCI FM Africa	(6.9)	(13.0)	5.7	(0.1)	--		
70% MSCI Arabian/ 30% MSCI Israel	4.3	(1.6)	4.8	(1.1)	--		
<b>Outperformance vs. Public Index</b>							
U.S. All Private Equity *	(4.4)	0.6	(0.6)	1.4	5.7		
Europe All Private Equity *	6.5	8.5	5.2	5.1	8.9		
Asia All Private Equity *	(11.3)	2.1	6.1	7.5	5.9		
LatAM All Private Equity *	(12.0)	(11.6)	15.6	18.6	-		
Africa All Private Equity *	15.7	14.5	(2.9)	3.8	-		
Middle East All Private Equity *	4.7	8.6	3.5	7.0	-		

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

# Pooled returns by implementation approach

Pooled Returns by Implementation Approach	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>U.S. Pooled Returns</b>							
U.S. All Private Equity Direct*	16.7	11.7	15.0	10.0	13.1	3274	2029.3
U.S. Fund of Funds	11.2	7.8	12.6	8.4	9.1	436	139.3
U.S. Secondary Funds	14.6	8.0	10.5	9.0	11.5	171	118.3
<b>Europe Pooled Returns</b>							
Europe All Private Equity Direct*	32.0	15.2	12.6	6.4	14.3	645	581.7
Europe Fund of Funds	21.5	9.6	9.1	4.7	-	88	35.9
Europe Secondary Funds	21.6	10.2	12.1	8.7	12.8	43	27.4
<b>Asia Pooled Returns</b>							
Asia All Private Equity	20.4	12.7	14.8	11.0	11.9	552	257.7
Asia Fund of Funds	12.8	9.0	12.7	8.9	-	59	17.1
<b>Global Pooled Returns</b>							
Global All Private Equity Direct**	16.3	9.3	11.0	8.0	10.3	190	239.0
Global Fund of Funds **	17.4	10.2	11.1	8.4	9.1	79	26.6
Global Secondary Funds **	23.2	15.8	17.1	11.8	-	20	41.4
<b>All Region Pooled Returns</b>							
All Regions Private Equity Direct*	19.1	11.9	14.0	9.1	12.8	4892	3169.5
All Regions Fund of Funds	13.5	8.5	11.8	7.7	9.1	665	220.1
All Regions Secondary Funds	17.5	9.8	11.6	9.3	12.3	236	187.5
<b>Public Index</b>							
Russell 3000	21.1	11.1	15.6	8.6	7.4		
MSCI Europe	25.5	6.7	7.4	1.3	5.4		
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0		
MSCI ACWI	24.0	9.3	10.8	4.7	6.1		

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

\*\* Global Funds invest across the globe, without any targeted regions for investment.

Source: Thomson Reuters C/A as of December 31, 2017



# Pooled returns outperformance

Outperformance vs. Public Index	1 Year	3 Year	5 Year	10 Year	20 Year
<b>U.S. Outperformance</b>					
U.S. All Private Equity Direct*	(4.4)	0.6	(0.6)	1.4	5.7
U.S. Fund of Funds	(9.9)	(3.3)	(3.0)	(0.2)	1.7
U.S. Secondary Funds	(6.5)	(3.1)	(5.1)	0.4	4.1
<b>Europe Outperformance</b>					
Europe All Private Equity Direct*	6.5	8.5	5.2	5.1	8.9
Europe Fund of Funds	(4.0)	2.9	1.7	3.4	-
Europe Secondary Funds	(3.9)	3.5	4.7	7.4	7.4
<b>Asia Outperformance</b>					
Asia All Private Equity *	(11.3)	2.1	6.1	7.5	5.9
Asia Fund of Funds	(18.9)	(1.6)	4.0	5.4	-
<b>All Region Outperformance</b>					
All Regions Private Equity Direct*	(4.9)	2.6	3.2	4.4	6.7
All Regions Fund of Funds	(10.5)	(0.8)	1.0	3.0	3.0
All Regions Secondary Funds	(6.5)	0.5	0.8	4.6	6.2

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

\*\* Global Funds invest across the globe, without any targeted regions for investment.

Source: Thomson Reuters C/A as of December 31, 2017

# U.S. returns

U.S. Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
U.S. Venture Capital	11.1	8.0	15.3	9.0	22.9	1794	373.1
U.S. Growth Equity	21.9	14.0	15.8	11.3	16.4	239	216.6
U.S. Buyouts	18.9	13.4	15.9	10.2	11.9	839	1101.4
U.S. Debt-Related	12.9	8.7	10.4	9.7	10.1	402	338.2
<b>U.S. All Private Equity *</b>	<b>16.7</b>	<b>11.7</b>	<b>15.0</b>	<b>10.0</b>	<b>13.1</b>	<b>3274</b>	<b>2029.3</b>
<b>Public Index</b>							
S&P 500	21.8	11.4	15.8	8.5	7.2		
Russell 3000	21.1	11.1	15.6	8.6	7.4		
Bloomberg Barclays Aggregate	3.5	2.2	2.1	4.0	5.0		
<b>Outperformance vs. Public Index</b>							
All PE Outperformance*	(4.4)	0.6	(0.6)	1.4	5.7		
Debt-Related Outperformance	9.4	6.5	8.3	5.7	5.1		

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

# Europe returns

Europe Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
Europe Venture	24.1	11.9	14.0	6.5	6.8	144	27.8
Europe Growth Equity	34.8	15.2	12.5	8.9	11.5	39	10.3
Europe Buyouts	33.7	15.9	12.8	6.2	15.1	417	493.8
Europe Debt-Related	23.8	11.4	10.3	8.5	9.9	45	49.8
<b>Europe All Private Equity *</b>	<b>32.0</b>	<b>15.2</b>	<b>12.6</b>	<b>6.4</b>	<b>14.3</b>	<b>645</b>	<b>581.7</b>
<b>Public Index</b>							
MSCI Europe	25.5	6.7	7.4	1.3	5.4		
Bloomberg Barclays Pan European Aggregate	0.2	1.4	3.3	4.6	--		
<b>Outperformance vs. Public Index</b>							
All PE Outperformance*	6.5	8.5	5.2	5.1	8.9		
Debt-Related Outperformance	23.6	10.0	7.0	3.9	-		

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

# Asia, Latin America, Africa, Middle East returns

Asia, Latin America, Africa, Middle East	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1
<b>Public Index</b>							
MSCI Emerging Markets	37.3	9.1	4.3	1.7	7.8		
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0		
MSCI EM Latin America	23.7	11.8	(15.0)	(15.5)	--		
MSCI FM Africa	(6.9)	(13.0)	5.7	(0.1)	--		
70% MSCI Arabian/ 30% MSCI Israel	4.3	(1.6)	4.8	(1.1)	--		
<b>Outperformance vs. Public Index</b>							
Asia All Private Equity *	(11.3)	2.1	6.1	7.5	5.9		
LatAM All Private Equity *	(12.0)	(11.6)	15.6	18.6	-		
Africa All Private Equity *	15.7	14.5	(2.9)	3.8	-		
Middle East All Private Equity *	4.7	8.6	3.5	7.0	-		

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

# Sub-asset class returns

U.S. Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Private Equity Pooled Returns							
U.S. Venture Capital	11.1	8.0	15.3	9.0	22.9	1794	373.1
U.S. Growth Equity	21.9	14.0	15.8	11.3	16.4	239	216.6
U.S. Buyouts	18.9	13.4	15.9	10.2	11.9	839	1101.4
U.S. Debt-Related	12.9	8.7	10.4	9.7	10.1	402	338.2
<b>U.S. All Private Equity *</b>	<b>16.7</b>	<b>11.7</b>	<b>15.0</b>	<b>10.0</b>	<b>13.1</b>	<b>3274</b>	<b>2029.3</b>

Asia, Latin America, Africa, Middle East	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Private Equity Pooled Returns							
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1

Europe Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Private Equity Pooled Returns							
Europe Venture	24.1	11.9	14.0	6.5	6.8	144	27.8
Europe Growth Equity	34.8	15.2	12.5	8.9	11.5	39	10.3
Europe Buyouts	33.7	15.9	12.8	6.2	15.1	417	493.8
Europe Debt-Related	23.8	11.4	10.3	8.5	9.9	45	49.8
<b>Europe All Private Equity *</b>	<b>32.0</b>	<b>15.2</b>	<b>12.6</b>	<b>6.4</b>	<b>14.3</b>	<b>645</b>	<b>581.7</b>

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

# Sub-asset class returns – Fund of funds

Fund of Funds by Geography	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
U.S. Fund of Funds	11.2	7.8	12.6	8.4	9.1	436	139.3
Europe Fund of Funds	21.5	9.6	9.1	4.7	-	88	35.9
Asia Fund of Funds	12.8	9.0	12.7	8.9	-	59	17.1
Global Fund of Funds **	17.4	10.2	11.1	8.4	9.1	79	26.6
<b>All Fund of Funds</b>	<b>13.5</b>	<b>8.5</b>	<b>11.8</b>	<b>7.7</b>	<b>9.1</b>	<b>665</b>	<b>220.1</b>
<b>Public Index</b>							
Russell 3000	21.1	11.1	15.6	8.6	7.4		
MSCI ACWI	24.0	9.3	10.8	4.7	6.1		
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0		
<b>Outperformance vs. Public Index</b>							
U.S. Fund of Funds	(9.9)	(3.3)	(3.0)	(0.2)	1.7		
Europe Fund of Funds	(2.5)	0.3	(1.7)	(0.0)	-		
Asia Fund of Funds	(18.9)	(1.6)	4.0	5.4	-		

\*\* Global Funds invest across the globe, without any targeted regions for investment.

Source: Thomson Reuters C/A as of December 31, 2017



# Sub-asset class returns – Fund of funds (continued)

Fund of Funds by Sub Asset Class <sup>(1)</sup>	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
U.S. Buyout Fund of Funds	13.2	9.2	12.1	8.4	9.8	171	60.2
U.S. Venture Capital Fund of Funds	10.1	6.6	13.9	9.1	9.0	156	45.7
U.S. Venture Capital & Buyout Fund of Funds	9.6	7.1	10.9	6.9	8.0	109	33.3
<b>U.S. Fund of Funds</b>	<b>11.2</b>	<b>7.8</b>	<b>12.6</b>	<b>8.4</b>	<b>9.1</b>	<b>436</b>	<b>139.3</b>
Europe Buyout Fund of Funds	21.7	9.8	9.1	4.7	-	78	33.7
Europe VC & Buyout Fund of Funds	18.1	7.5	8.2	4.5	-	9	3.2
<b>Europe Fund of Funds</b>	<b>21.5</b>	<b>9.6</b>	<b>9.1</b>	<b>4.7</b>	<b>-</b>	<b>88</b>	<b>35.9</b>
Asia Buyout Fund of Funds	12.5	9.1	13.1	10.2	-	44	13.6
Asia VC & Buyout Fund of Funds	15.9	8.9	9.1	1.2	-	13	3.4
<b>Asia Fund of Funds</b>	<b>12.8</b>	<b>9.0</b>	<b>12.7</b>	<b>8.9</b>	<b>-</b>	<b>59</b>	<b>17.1</b>
Global Buyout Fund of Funds **	18.3	9.3	10.2	8.2	9.2	52	19.0
Global Venture Capital Fund of Funds **	17.8	16.2	18.9	12.8	-	9	3.8
Global VC & Buyout Fund of Funds **	13.4	8.5	10.3	7.2	-	18	3.7
<b>Global Fund of Funds **</b>	<b>17.4</b>	<b>10.2</b>	<b>11.1</b>	<b>8.4</b>	<b>9.1</b>	<b>79</b>	<b>26.6</b>

<b>Public Index</b>					
Russell 3000	21.1	11.1	15.6	8.6	7.4
MSCI Europe	25.5	6.7	7.4	1.3	5.4
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0
MSCI ACWI	24.0	9.3	10.8	4.7	6.1

<b>Outperformance vs. Public Index</b>					
U.S. Buyout Fund of Funds	(7.9)	(1.9)	(3.5)	(0.2)	2.4
U.S. Venture Capital Fund of Funds	(11.0)	(4.5)	(1.7)	0.5	1.6
U.S. Venture Capital & Buyout Fund of Funds	(11.5)	(4.0)	(4.7)	(1.7)	0.6
<b>U.S. Fund of Funds</b>	<b>(9.9)</b>	<b>(3.3)</b>	<b>(3.0)</b>	<b>(0.2)</b>	<b>1.7</b>
Europe Buyout Fund of Funds	(3.8)	3.1	1.7	3.4	-
Europe VC & Buyout Fund of Funds	(7.4)	0.8	0.8	3.2	-
<b>Europe Fund of Funds</b>	<b>(4.0)</b>	<b>2.9</b>	<b>1.7</b>	<b>3.4</b>	<b>-</b>
Asia Buyout Fund of Funds	(19.2)	(1.5)	4.4	6.7	-
Asia VC & Buyout Fund of Funds	(15.8)	(1.7)	0.4	(2.3)	-
<b>Asia Fund of Funds</b>	<b>(18.9)</b>	<b>(1.6)</b>	<b>4.0</b>	<b>5.4</b>	<b>-</b>
Global Buyout Fund of Funds **	(5.7)	(0.0)	(0.6)	3.5	3.1
Global Venture Capital Fund of Funds **	(6.2)	6.9	8.1	8.1	-
Global VC & Buyout Fund of Funds **	(10.6)	(0.8)	(0.5)	2.5	-
<b>Global Fund of Funds *</b>	<b>(6.6)</b>	<b>0.9</b>	<b>0.3</b>	<b>3.7</b>	<b>3.0</b>

\*\* Global Funds invest across the globe, without any targeted regions for investment.

(1) All Fund of Funds may occasionally co-invest in private companies and/or invest in secondary transactions.

Europe and Asia Venture Capital Fund of Funds have less than 3 funds and therefore included in the All Europe and Asia FoF pooled returns.

Source: Thomson Reuters C/A as of December 31, 2017

# Sub-asset class returns – Secondaries

Secondary Funds	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
U.S. Secondary Funds	14.6	8.0	10.5	9.0	11.5	171	118.3
Europe Secondary Funds	21.6	10.2	12.1	8.7	12.8	43	27.4
Global Secondary Funds **	23.2	15.8	17.1	11.8	-	20	41.4
<b>All Secondary Funds <sup>(2)</sup></b>	<b>17.5</b>	<b>9.8</b>	<b>11.6</b>	<b>9.3</b>	<b>12.3</b>	<b>236</b>	<b>187.5</b>
<b>Public Index</b>							
Russell 3000	21.1	11.1	15.6	8.6	7.4		
MSCI ACWI	24.0	9.3	10.8	4.7	6.1		
MSCI ACWI	24.0	9.3	10.8	4.7	6.1		
<b>Outperformance vs. Public Index</b>							
U.S. Secondary Funds	(6.5)	(3.1)	(5.1)	0.4	4.1		
Europe Secondary Funds	(2.4)	0.9	1.3	4.0	6.7		
Global Secondary Funds **	(0.8)	6.5	6.3	7.1	-		

\*\* Global Funds invest across the globe, without any targeted regions for investment.

(2) Regions that have less than 3 funds are only included in the All Secondary Funds pooled returns.

Source: Thomson Reuters C/A as of December 31, 2017

# Geography and approach

Pooled Returns by Geography	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
U.S. All Private Equity *	16.7	11.7	15.0	10.0	13.1	3274	2029.3
Europe All Private Equity *	32.0	15.2	12.6	6.4	14.3	645	581.7
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1

## Public Index

Russell 3000	21.1	11.1	15.6	8.6	7.4
MSCI Europe	25.5	6.7	7.4	1.3	5.4
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0
MSCI EM Latin America	23.7	11.8	(15.0)	(15.5)	--
MSCI FM Africa	(6.9)	(13.0)	5.7	(0.1)	--
70% MSCI Arabian/ 30% MSCI Israel	4.3	(1.6)	4.8	(1.1)	--

## Outperformance vs. Public Index

U.S. All Private Equity *	(4.4)	0.6	(0.6)	1.4	5.7
Europe All Private Equity *	6.5	8.5	5.2	5.1	8.9
Asia All Private Equity *	(11.3)	2.1	6.1	7.5	5.9
LatAM All Private Equity *	(12.0)	(11.6)	15.6	18.6	-
Africa All Private Equity *	15.7	14.5	(2.9)	3.8	-
Middle East All Private Equity *	4.7	8.6	3.5	7.0	-

Pooled Returns by Implementation Approach	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
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## U.S. Pooled Returns

U.S. All Private Equity Direct*	16.7	11.7	15.0	10.0	13.1	3274	2029.3
U.S. Fund of Funds	11.2	7.8	12.6	8.4	9.1	436	139.3
U.S. Secondary Funds	14.6	8.0	10.5	9.0	11.5	171	118.3

## Europe Pooled Returns

Europe All Private Equity Direct*	32.0	15.2	12.6	6.4	14.3	645	581.7
Europe Fund of Funds	21.5	9.6	9.1	4.7	-	88	35.9
Europe Secondary Funds	21.6	10.2	12.1	8.7	12.8	43	27.4

## Asia Pooled Returns

Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
Asia Fund of Funds	12.8	9.0	12.7	8.9	-	59	17.1

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

# Geography and approach (continued)

Global Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Global All Private Equity Direct**	16.3	9.3	11.0	8.0	10.3	190	239.0
Global Fund of Funds **	17.4	10.2	11.1	8.4	9.1	79	26.6
Global Secondary Funds **	23.2	15.8	17.1	11.8	-	20	41.4
<b>All Region Pooled Returns</b>							
All Regions Private Equity Direct*	19.1	11.9	14.0	9.1	12.8	4892	3169.5
All Regions Fund of Funds	13.5	8.5	11.8	7.7	9.1	665	220.1
All Regions Secondary Funds	17.5	9.8	11.6	9.3	12.3	236	187.5
<b>Public Index</b>							
Russell 3000	21.1	11.1	15.6	8.6	7.4		
MSCI Europe	25.5	6.7	7.4	1.3	5.4		
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0		
MSCI ACWI	24.0	9.3	10.8	4.7	6.1		

Outperformance vs. Public Index	1 Year	3 Year	5 Year	10 Year	20 Year
<b>U.S. Outperformance</b>					
U.S. All Private Equity Direct*	(4.4)	0.6	(0.6)	1.4	5.7
U.S. Fund of Funds	(9.9)	(3.3)	(3.0)	(0.2)	1.7
U.S. Secondary Funds	(6.5)	(3.1)	(5.1)	0.4	4.1
<b>Europe Outperformance</b>					
Europe All Private Equity Direct*	6.5	8.5	5.2	5.1	8.9
Europe Fund of Funds	(4.0)	2.9	1.7	3.4	-
Europe Secondary Funds	(3.9)	3.5	4.7	7.4	7.4
<b>Asia Outperformance</b>					
Asia All Private Equity *	(11.3)	2.1	6.1	7.5	5.9
Asia Fund of Funds	(18.9)	(1.6)	4.0	5.4	-
<b>All Region Outperformance</b>					
All Regions Private Equity Direct*	(4.9)	2.6	3.2	4.4	6.7
All Regions Fund of Funds	(10.5)	(0.8)	1.0	3.0	3.0
All Regions Secondary Funds	(6.5)	0.5	0.8	4.6	6.2

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

\*\* Global Funds invest across the globe, without any targeted regions for investment.

Source: Thomson Reuters C/A as of December 31, 2017

# Geographies with outperformance

U.S. Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
U.S. Venture Capital	11.1	8.0	15.3	9.0	22.9	1794	373.1
U.S. Growth Equity	21.9	14.0	15.8	11.3	16.4	239	216.6
U.S. Buyouts	18.9	13.4	15.9	10.2	11.9	839	1101.4
U.S. Debt-Related	12.9	8.7	10.4	9.7	10.1	402	338.2
<b>U.S. All Private Equity *</b>	<b>16.7</b>	<b>11.7</b>	<b>15.0</b>	<b>10.0</b>	<b>13.1</b>	<b>3274</b>	<b>2029.3</b>
<b>Public Index</b>							
S&P 500	21.8	11.4	15.8	8.5	7.2		
Russell 3000	21.1	11.1	15.6	8.6	7.4		
Bloomberg Barclays Aggregate	3.5	2.2	2.1	4.0	5.0		
<b>Outperformance vs. Public Index</b>							
All PE Outperformance*	(4.4)	0.6	(0.6)	1.4	5.7		
Debt-Related Outperformance	9.4	6.5	8.3	5.7	5.1		

Europe Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
Europe Venture	24.1	11.9	14.0	6.5	6.8	144	27.8
Europe Growth Equity	34.8	15.2	12.5	8.9	11.5	39	10.3
Europe Buyouts	33.7	15.9	12.8	6.2	15.1	417	493.8
Europe Debt-Related	23.8	11.4	10.3	8.5	9.9	45	49.8
<b>Europe All Private Equity *</b>	<b>32.0</b>	<b>15.2</b>	<b>12.6</b>	<b>6.4</b>	<b>14.3</b>	<b>645</b>	<b>581.7</b>
<b>Public Index</b>							
MSCI Europe	25.5	6.7	7.4	1.3	5.4		
Bloomberg Barclays Pan European Aggregate	0.2	1.4	3.3	4.6	--		
<b>Outperformance vs. Public Index</b>							
All PE Outperformance*	6.5	8.5	5.2	5.1	8.9		
Debt-Related Outperformance	23.6	10.0	7.0	3.9	-		

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017

Asia, Latin America, Africa, Middle East	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
<b>Private Equity Pooled Returns</b>							
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1
<b>Public Index</b>							
MSCI Emerging Markets	37.3	9.1	4.3	1.7	7.8		
MSCI AC Asia Pacific	31.7	10.6	8.7	3.5	6.0		
MSCI EM Latin America	23.7	11.8	(15.0)	(15.5)	--		
MSCI FM Africa	(6.9)	(13.0)	5.7	(0.1)	--		
70% MSCI Arabian/ 30% MSCI Israel	4.3	(1.6)	4.8	(1.1)	--		
<b>Outperformance vs. Public Index</b>							
Asia All Private Equity *	(11.3)	2.1	6.1	7.5	5.9		
LatAM All Private Equity *	(12.0)	(11.6)	15.6	18.6	-		
Africa All Private Equity *	15.7	14.5	(2.9)	3.8	-		
Middle East All Private Equity *	4.7	8.6	3.5	7.0	-		

# Geographies with sub-asset classes excluding outperformance

Pooled Returns by Geography	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
U.S. All Private Equity *	16.7	11.7	15.0	10.0	13.1	3274	2029.3
Europe All Private Equity *	32.0	15.2	12.6	6.4	14.3	645	581.7
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1

U.S. Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Private Equity Pooled Returns							
U.S. Venture Capital	11.1	8.0	15.3	9.0	22.9	1794	373.1
U.S. Growth Equity	21.9	14.0	15.8	11.3	16.4	239	216.6
U.S. Buyouts	18.9	13.4	15.9	10.2	11.9	839	1101.4
U.S. Debt-Related	12.9	8.7	10.4	9.7	10.1	402	338.2
<b>U.S. All Private Equity *</b>	<b>16.7</b>	<b>11.7</b>	<b>15.0</b>	<b>10.0</b>	<b>13.1</b>	<b>3274</b>	<b>2029.3</b>

Europe Pooled Returns	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Private Equity Pooled Returns							
Europe Venture	24.1	11.9	14.0	6.5	6.8	144	27.8
Europe Growth Equity	34.8	15.2	12.5	8.9	11.5	39	10.3
Europe Buyouts	33.7	15.9	12.8	6.2	15.1	417	493.8
Europe Debt-Related	23.8	11.4	10.3	8.5	9.9	45	49.8
<b>Europe All Private Equity *</b>	<b>32.0</b>	<b>15.2</b>	<b>12.6</b>	<b>6.4</b>	<b>14.3</b>	<b>645</b>	<b>581.7</b>

Asia, Latin America, Africa, Middle East	1 Year	3 Year	5 Year	10 Year	20 Year	Fund Count	Total Capitalization (\$B)
Private Equity Pooled Returns							
Asia All Private Equity *	20.4	12.7	14.8	11.0	11.9	552	257.7
LatAM All Private Equity *	11.8	0.2	0.6	3.2	2.8	66	28.5
Africa All Private Equity *	8.8	1.5	2.8	3.7	7.0	51	12.6
Middle East All Private Equity *	9.0	7.0	8.3	5.9	4.0	73	12.1

\* All Private Equity excludes Natural Resource, Infrastructure, Real Estate, Fund of Funds and Secondary Funds.

Source: Thomson Reuters C/A as of December 31, 2017



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