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Capital Dynamics Market Environment

Summary Q3 2010

Confidential

Environment – US

During the third quarter, US economic growth proceeded at a moderate pace, with continued improvement in consumer spending and inventory rebuilding. Real GDP increased at an annualized rate of 2.6%, up from 1.7% in the second quarter.

Manufacturing enjoyed a stronger recovery than other sectors, although production growth outpaced new orders. Hence, the contribution of inventory investments to GDP growth nearly doubled from the second quarter. Growth in real final sales, however, remained low at 0.9%, indicating flat domestic demand. Nevertheless, expectations for a small rise in domestic demand were evident in the ISM non-manufacturing industry reports. The reports revealed mixed expectations, yet with a slight majority showing optimism. Manufacturers are more upbeat than service providers, according to the ISM December 2010 forecast, with the majority of respondents expecting higher rates of revenue growth, capital expenditures and utilization.

Inventory re-stocking and consumption gains contributed to modest growth

Personal consumption rose at an annual rate of 2.4% in the third quarter from the preceding quarter, and continued the gradual increase seen in the last four quarters. Rising disposable income and equity prices contributed to this development. Private industry wage and salary disbursements advanced at an annual rate of 1.2% from the preceding quarter on job creation in the private sector. Equity markets posted solid gains during the quarter, helping to lift net wealth. However, the ongoing elevated level of unemployment and depressed real estate market continue to restrain consumer confidence and only substantial improvements in those areas are likely to spark consumer spending.

The Federal Reserve has recently started to buy recently longer-term Treasury bonds, with the intention of purchasing an additional USD 600 billion by the end of the first half of 2011. Furthermore, the government has proposed an extension of all income tax rates for the next two years, an extension of unemployment insurance benefits and new stimulus through reduction in the employee payroll tax. These measures are intended to promote a stronger rate of recovery. The government's continued support underscores the recovery's fragility and uncertainty. The outlook for 2011 remains cautious. According to the Bloomberg composite estimate, US economic growth is expected to expand modestly, at an average annual rate of 2.5%; insufficient to significantly lower unemployment.

The table below details US macroeconomic and financial data.

	Q309	Q409	Q110	Q210	Q310	Dq/q
Real GDP in % q/q annualized	1.6	5.0	3.7	1.7	2.6	0.9
CPI in % y/y	(1.6)	1.4	2.3	1.8	1.1	(0.7)
Interest rate in % [1]	0.25	0.25	0.25	0.25	0.25	0.00
Unemployment rate in % [1]	9.8	9.9	9.7	9.5	9.6	0.1
Consumer confidence [1]	73.5	72.5	73.6	76.0	68.2	(7.8)
S&P 500 index price [2]	15%	5%	5%	(12%)	11%	n/m
NASDAQ Composite index price [2]	16%	7%	6%	(12%)	12%	n/m
IPO number	21	35	34	49	38	(22%)
IPO in USD bn	6.9	9.8	5.4	7.5	8.1	7%
M&A in USD bn	88.6	203.1	186.4	174.7	179.6	3%
Leveraged loan in USD bn[3]	50.2	84.6	74.8	99.3	75.4	(24%)
High yield bond in USD bn[3]	39.2	38.1	54.6	33.5	66.5	99%

1) Period-end figures.
2) Change for the relevant period.
3) New issue values
Notes: Dq/q is the comparison of Q3 2010 vs. Q2 2010. n/m – not meaningful
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 20, 2010; Credit Suisse Leveraged Finance Market Update, October 2010

GDP: GDP growth accelerated in the third quarter from the previous quarter, reflecting increases in consumer spending, private inventories, non-residential fixed investments and exports, as well as a slower rate of increase in imports. Residential construction continued to decline in the third quarter, but many economists expect the situation to turn around during the next three quarters.

Quantitative easing is intended to mitigate deflation risks

Inflation: The inflation rate decreased to 1.1% in the third quarter from 1.8% in the second, primarily due to lower rental costs and the slower pace of consumer price increases versus a year ago. Pricing for commodities and imported goods increased, though final goods producers gained little-to-no pricing power and continued to seek productivity gains to offset higher input costs. Wary of sustained deflation, the US Federal Reserve's current quantitative easing policy is intended to deflect deflationary pressures.

Interest rates: The policy interest rate remains at its lowest level of the post-war era as economic recovery remains slow and inflation lingers below the policy target. The US Federal Reserve continues to employ expansionary monetary actions and increase its security holdings.

Unemployment remains stubbornly high; despite more job creation in the private sector

Unemployment: The unemployment rate increased 0.1% to 9.6% from the second quarter. Non-farm payroll employment declined during the quarter as 91,000 jobs were lost, following the 570,000 jobs created in the second quarter and the 261,000 jobs created in the first quarter. However, the job losses in the third quarter were attributable to reductions in temporary census and government employees. Significantly, the private sector strengthened as 372,000 jobs were created in the third quarter, following 353,000 in the second quarter and 253,000 in the first quarter.

Public equities: Share prices were volatile, moving higher in July, falling in August and then rallying in September. Overall, third-quarter equity market performance was stellar, with the S&P 500 and NASDAQ gaining 11% and 12% respectively, and in sharp contrast to the losses recorded in the second quarter. The September surge was driven by unexpected strength in corporate profits, higher orders for durable goods and increased M&A activity.

IPO and M&A activity remained steady

IPOs: IPO activity remained relatively strong in the third quarter. IPO volumes amounted to USD 8.1 billion, a 7% increase from the second quarter, although the number of IPOs dropped slightly to 38 from 49 in the second quarter. Most activity occurred in the technology sector, which featured ten IPOs during the quarter. The largest IPO of the quarter was the listing of Tortoise MLP, a closed-end fund focused on natural gas investments. From an annual perspective, the IPO market displayed significant improvement, compared to the weak year-ago period.

M&A: M&A activity continued to strengthen, thanks to an increase in both the number of transactions and announced M&A values. The most active sectors were telecommunications, oil & gas and chemicals. However, the largest deal of the quarter was recorded in the pharmaceutical sector, with France's Sanofi-Aventis SA taking over Massachusetts-based Genzyme Corporation in a deal worth USD 18.2 billion.

Credit markets continued to strengthen

Credit markets: US high-yield issuance volumes doubled from the second quarter and are on track for a record-breaking year. US leveraged loan issuance in the first three quarters was stronger than during the same period in 2009, up 61% to USD 249.5 billion. LBO sponsors became increasingly active, pursuing dividend recaps and financing a number of large LBOs. USD 27.4 billion was issued to finance LBO transactions during the first three quarters of 2010, with USD 15.1 billion issued in the third quarter alone. Nearly USD 5 billion in dividend recap financings occurred in the third quarter, according to Thomson Reuters LPC, spread across 11 deals, a signal that banks are regaining their appetite for risk.

Private equity markets

Private equity continued to recover during the third quarter of 2010, with fundraising and investment activity picking up from the preceding quarter. Following a slow second quarter, fundraising volumes increased by nearly a quarter, although total figures were somewhat skewed by the closing of a single mega buyout fund. Investors continued to favor turnaround and distressed debt funds, with 11 funds garnering USD 5.6 billion during the third quarter and USD 13.7 billion during the first nine months – the second most popular group of funds, following those with a buyout focus. Despite a strong third quarter, fundraising remained challenging and volumes trailed those from 2009. Private equity firms have been slowly shifting their focus to deal making as the financing environment has stabilized and overall M&A activity has gained traction. Furthermore, many buyout funds still hold a substantial level of dry powder, which has prompted many to increase their investment pace. This combination of factors helped drive the significant pick-up in third-quarter investment activity – both the number and size of deals increased – compared to the previous quarter. Nevertheless, investments are still well below peak levels as many firms continue to be selective in their investment strategy. The improved public equity and debt markets and the generally more stable operating performance of portfolio companies supported 2010 exit activity. Thanks to selective exits by large buyout and distressed debt funds, distributions increased in the second quarter (the latest for which figures are available). Portfolio valuations improved only marginally, however, in the second quarter, as volatility in public markets took its toll.

Fundraising remained challenging; distressed and turnaround funds enjoyed investor attention

The table below details US private equity data.

all values in USD billion		Q309	Q409	Q110	Q210	Q310	Dq/q
LBO	Funds raised [1]	13.7	14.2	16.9	16.9	20.5	21%
	Number of funds [2]	44	54	68	60	60	0%
	Investments	4.0	25.0	12.0	10.0	16.0	60%
	Drawdowns [3]	4.7	10.5	6.1	9.9	n/a	62%
	Distributions	2.5	6.2	4.5	6.8	n/a	52%
	Appreciation as % of NAV	4.4%	3.4%	3.2%	0.5%	n/a	(3%)
	5 year rolling IRR [4]	6%	5%	5%	5%	n/a	(1%)
VC	Funds raised [1]	2.3	4.1	4.0	2.1	3.2	48%
	Number of funds [2]	32	47	46	52	49	(6%)
	Investments	5.9	7.0	4.7	7.7	5.5	(29%)
	Drawdowns [3]	1.2	1.4	1.5	1.2	n/a	(22%)
	Distributions	0.9	2.1	2.6	1.2	n/a	(54%)
	Appreciation as % of NAV	2%	2%	2%	(0%)	n/a	(2%)
	5 year rolling IRR [4]	5.5%	4.7%	5.1%	4.4%	n/a	(1%)

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Drawdowns and Investments data are not comparable as Investments include debt. In addition, the figures are based on differences between the sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.

Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Dq/q is the comparison of Q3 2010 vs. Q2 2010 for fundraising and investment data and Q2 2010 vs. Q1 2010 for cash flow and performance data.
n/a Data was not yet published by Thomson One.
Source: Thomson One, Buyouts for LBO investments; Dow Jones VentureSource for VC investments.

LBO

During the third quarter, 60 LBO funds raised USD 20.5 billion, representing a 21.0% increase in volume from the second quarter, while the number of funds remained stable, according to the Thomson One database. Quarterly volumes got a boost from the USD 4.5 billion final closing of Blackstone Capital Partners VI, bringing the total fund size to USD 13.5 billion. The target size of this fund was USD 15.0 billion, USD 6.0 billion less than its predecessor, underlining the trend toward raising smaller funds. Fifty-nine funds were launched in the first nine months of 2010, a small increase from 56 during the same period of 2009. However, the number of funds with a USD 1 billion target declined to 11 from 17, and the combined target size decreased to USD 22.5 billion from USD 45.0 billion. Lower target sizes were partially responsible for the sluggish 2010 fundraising, which was down 6% from the first nine months of 2009. The record commitment pace set by many LPs during 2006-2007 that resulted in over-allocation to private equity, and to buyout funds in particular, appears to be further constraining fundraising. All together, these factors have prompted a significant number of LBO firms to postpone fundraising until they can deploy the dry powder already available for new investments.

The LBO investment pace accelerated

LBO exit activity accelerated in the third quarter, with USD 16.0 billion of completed investments, a marked increase from the USD 10.0 billion in investments made in the second quarter. The largest closed deal of the quarter, the USD 3.0 billion acquisition of Interactive Data Corporation by Silver Lake Partners and Warburg Pincus, fell just shy of the total deal volume recorded during the entire third quarter of 2009. However, LBO investments are still far from their pre-crisis levels. Add-on investments accounted for the largest share of LBO deals, as LBO firms continued to build out portfolio companies. The stable lending environment helped to finance a number of large LBO deals. LBO acquisition price multiples increased to 8.1x EBITDA in the 12 months ended September 30, 2010, from 7.2x EBITDA during 2009, with large-target deals (those deals worth USD 500 million or more) commanding the highest valuations, according to Standard & Poor's M&A statistics. During the same 12 months ended September 30, 2010, equity contributions declined to 42% compared with 46% during the full year of 2009, reflecting eased financing conditions.

LBO exit and volume levels fluctuated during 2010, yet were significantly stronger than in 2009

Exit activity lost some momentum in the third quarter, with 61 M&A and six IPO exits, compared with 69 and eight during the second quarter, according to industry tracker Thomson Reuters and *Buyouts*. Exit values declined slightly as well, to USD 10.3 billion in the third quarter from USD 12.0 billion in the second. Only one deal worth USD 1 billion or above was conducted in the third quarter – the secondary sale of Vertafore Inc. by Hellman & Friedman LLC and JMI Equity to TPG Capital LLC. Despite the decline in exit values, exit activity remained well ahead of 2009 recession levels. The elevated level of exits seen during the first three quarters of 2010 will eventually translate into increased distributions. LBO distributions picked up to USD 6.8 billion in the second quarter from USD 4.5 billion in the first quarter, for those private equity funds tracked by Thomson Reuters. Dividend recaps are expected to play a greater role in future distributions as nearly USD 5 billion of dividend recap financing was completed in 11 deals during the third quarter, bringing the year-to-date volumes to USD 12.5 billion. LBO firms have been utilizing dividend recaps, with credit again available for quality portfolio companies that proved they could generate cash during the downturn. As M&A exits continue to be challenging, the dividend recap has emerged as a viable option for returning capital to LPs.

VC

Similar to LBO, VC fundraising volumes increased in the third quarter; USD 3.2 billion was committed to 49 US venture funds, representing a 48% increase over the preceding quarter. Most of the increase was attributable to the final closing of Institutional Venture Partners raising USD 750 million for its later-stage fund, USD 160 million above its target. The quarterly volumes were not, however, sufficient to close the gap in the year-to-date September figures, which were down 22%, reflecting the challenging state of fundraising. The decline came despite more managers holding fund closings during the first three quarters of 2010 than during the same period of last year, because the average fund target decreased to USD 195 million from USD 250 million. Balanced-stage funds were in favor, due to their greater investment flexibility. Most fundraising dollars were committed to balanced-stage venture funds, which raised 49% of the quarter's commitment volumes and 52% of the volume committed in the first nine months of 2010, despite early-stage funds historically dominating US venture capital fundraising.

Overall investments slowed; IT investments bounced back

After a strong second quarter, VC investments dipped in the third quarter on fewer large deals in renewable energy and a drop in healthcare deal making, which drove values in the second quarter. VC funds invested USD 5.5 billion in 662 deals, down 29% in volume and 11% in number of deals from the second quarter of 2010. Despite the decline, the year-to-date September figures revealed a 10% increase in both investment and deal activity over the same period last year, indicating improved confidence among venture capitalists. IT investment allocation bounced back in the third quarter, with its share in total investments rising to 34% from 25% in the second quarter. Software and hardware segments made particularly good progress, with volumes advancing 11% and 74% respectively from the preceding quarter. VC-backed companies in the IT industry may benefit from the improvement in corporate capital expenditures and rising M&A activity. Later-stage deals continued to dominate the deal flow, comprising 40% of the deal count and 57% of the deal volume. The largest deal was also in the later stage – Ace Ltd. made a USD 75.0 million investment in California-based Chegg Inc., a provider of textbook rental services.

Corporate M&A activity drove VC exits

Exit volumes increased in the third quarter due to stronger M&A exit activity. VC firms made 102 M&A exit deals, worth USD 5.7 billion, compared with 85 deals and USD 4.8 billion in the second quarter, according to Dow Jones VentureSource. Year-to-date September figures reveal a strong recovery from 2009, with volumes soaring 75% and the number of exits up 8%. During the third quarter, VC funds boasted large exits, with the top five deals accounting for a third of the exit volume. Exits such as the Playdom sale to the Walt Disney Company, Alnara Pharmaceuticals to Eli Lilly & Co and Slide to Google indicate a rising interest in M&A by cash-rich corporations. In contrast, IPO exit activity slowed due to ongoing public equity volatility, with nine IPOs raising USD 0.7 billion compared with 15 listings receiving offering proceeds of USD 1.1 billion, according to Thomson Reuters. However, year-to-date, VC-backed firms raised USD 2.7 billion with 31 listings, more than double over the same period last year, when eight companies raised USD 1.3 billion. The largest IPO was the USD 164 million listing of Green Dot Corporation, backed by VC investors such as Total Technology Ventures and Sequoia Capital.

In summary, US private equity investment activity has increased modestly from 2009 lows, and the trend is expected to extend to the buyout sector. The substantially improved exit environment is likely to be a crucial element for future fundraising, which currently remains slow. According to the latest survey of VC firms and CEOs of VC-backed companies published by the North American Venture Capital Association, approximately half of all respondents expect investments to pick up, while a quarter expect them to remain the same. Finally, exit activity is expected to increase further as the M&A market continues to show signs of revival.

Environment – EU

Following a strong second quarter, economic activity softened in the eurozone countries in the third quarter. Output, affected by the slower rate of growth in business investments and exports, increased 0.4% at a quarterly non-annualized rate during the third quarter compared with 1.0% in the second quarter.

Economic growth moderated, with divergence between countries remaining significant

The recovery's moderation was visible across the majority of eurozone countries. As the largest contributor to the eurozone economy, Germany's economic slowdown was the most notable; its economy expanded 0.7% in the third quarter, following an impressive 2.3% in the second. Despite the deceleration, Germany's economy expanded above expectations and the long-established trend. Furthermore, the German Ifo business climate index continued to climb, rising to 106.8 in September from 101.9 in June and suggesting a strong level of business confidence, not seen since 2007. Germany's export-led recovery appeared to fuel domestic demand. Consumer spending was supported by job creation; Germany's unemployment rate fell nearly to its lowest level in 20 years.

The eurozone's reliance on Germany for overall economic growth was underscored by the divergence between eurozone countries. Economic activity in three eurozone countries – the Netherlands, Greece, and Ireland – contracted during the quarter, and Spain's economy stagnated. Among EU members, the UK posted healthy growth rates over the last two quarters; 0.8% in the third quarter and 1.2% in the second quarter. Generally positive macroeconomic news, coupled with stronger corporate profits, drove public equity prices higher, evidenced by the FTSE 100's 13% gain during the third quarter. Moreover, the revival of M&A activity pushed European deal volumes to a six-quarter high.

Ongoing sovereign debt issues and fiscal consolidation shadowed growth prospects

Nevertheless, concerns about growth prospects are deepening as Portugal, Spain and Ireland remain indebted, and especially after Ireland received a bailout package from the EU and the International Monetary Fund. In addition, tensions in some segments of the financial market have the potential to spill over into the eurozone's real economy. Fiscal consolidation also threatens to curb growth prospects in the eurozone periphery and the UK, and could ultimately affect the consumer revival in core eurozone countries. According to composite estimates, the European economy is expected to underperform other regions' economies in 2011, and grow 1.4%.

The table below details European macroeconomic and financial data.

	Q309	Q409	Q110	Q210	Q310	Dq/q
Real GDP in % q/q	0.4	0.2	0.4	1.0	0.4	(0.6)
CPI in % y/y	(0.4)	0.4	1.1	1.5	1.7	0.2
Interest rate in % [1]	1.00	1.00	1.00	1.00	1.00	0.0
Unemployment rate in % [1]	9.8	9.9	9.9	10.0	10.0	0.0
Consumer confidence [1]	(19.0)	(16.1)	(17.3)	(17.3)	(11.0)	6.3
FTSE 100 index price [2]	21%	5%	5%	(13%)	13%	n/m
CAC 40 index price [2]	21%	4%	1%	(13%)	8%	n/m
DAX index price [2]	18%	5%	3%	(3%)	4%	n/m
IPO number	14	35	47	69	44	(36%)
IPO in EUR bn	0.4	4.6	4.6	9.7	2.3	(76%)
M&A in EUR bn	72.8	91.2	53.4	73.3	122.3	67%
Leveraged loan in USD bn[3]	10.4	14.7	11.7	19.8	13.3	(33%)
High yield bond in USD bn[3]	8.2	16.9	13.5	8.2	13.5	65%

1) Period-end figures.
2) Change for the relevant period.
3) New issue values.
Notes: Dq/q is the comparison of Q3 2010 vs. Q2 2010.
n/m - not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 20, 2010; Credit Suisse Leveraged Finance Market Update, October 2010.

GDP: During the third quarter, eurozone GDP increased 0.4% on a non-annualized quarterly rate from the preceding quarter, driven by increased government and household consumption. Fixed investments and inventories remained stable, while exports and imports both grew at slower rates. Finland displayed the highest quarterly GDP growth in the eurozone with 1.3%; among EU members, it was Sweden with 2.1%. Greece posted the starkest rate of contraction (1.1%) in both the EU and eurozone, although the decline eased from (1.7%) in the second quarter.

Inflation: The annual inflation rate increased to 1.7% in September from 1.5% in June, primarily on higher transportation costs. Labor-cost pressures have remained low, although a moderate pick-up in private sector wages is expected to have only a minimal impact on inflation because it will likely be offset by productivity increases and public sector wage restraint in several countries. Inflation may increase, though, if energy and non-energy commodity prices rise further. However, remaining spare capacity is expected to keep inflation low.

Inflation increased slightly, but remained below the target rate

Interest rates: The European Central Bank expects price developments to remain moderate, and thus, continues to maintain the low interest environment. Analysts do not expect the policy rate to change throughout most of 2011.

Unemployment: The number of persons employed in the eurozone and in EU member states was stable in the third quarter compared with the second quarter. While employment levels declined in construction (1.1%) and manufacturing (0.3%), they rose 0.3% in both financial services and business support activities. The unemployment rate stabilized at an elevated level. Subdued economic growth and the considerable amount of spare capacity are likely to keep unemployment rates at their current levels in the near future.

Public equities: In European equity markets, equity indices recovered partially during the third quarter from the sharp correction that occurred in May 2010, driven by better-than-expected corporate profits. Financial stock prices, especially those of banks, outperformed the overall indices, supported by the additional transparency provided by the publication of EU-wide bank stress test results and a lengthier implementation period for the new Basel III capital requirements.

IPOs fell sharply while M&A volume reached a six-quarter high

IPOs: European IPO activity fell sharply in the third quarter as numerous announced European IPOs were postponed or canceled due to market uncertainty caused by the sovereign debt crisis. A 76% drop in IPO volume reversed the trend of three consecutive quarters of increasing capital raised between the third quarter of 2009 and the second quarter of 2010. The largest IPO of the third quarter was the EUR 792 million listing of Vallar PLC, an investment vehicle targeting acquisitions in the mining industry.

M&A: European deal making staged a comeback in the third quarter, with a jump in multibillion-euro deals, reaching the highest quarterly deal volume since the first quarter of 2009. Given the build-up of substantial cash balances and the availability of low-cost financing, the ability to implement deals and long-term strategies has improved for many major corporations. The largest announced M&A deal during the third quarter was the EUR 19.6 billion merger of GDF Suez Energy International and International Power plc.

LBO firms benefited from improved credit markets

Credit markets: European leveraged finance issuance declined slightly from the second quarter of 2010, due to lower leveraged loans issuance, while high-yield issuance nearly doubled. Activity in the third quarter highlighted the growing role of capital markets for European leverage lending as the share of high-yield bond issuance reached 47% of total issuance volume. Notably, proceeds used toward LBOs surpassed refinancing deals in the third quarter, particularly among leveraged loans.

Private equity markets

Deal activity continued to recover, while fundraising remained muted

European private equity continued to recover during the third quarter, although different strategies and activities revealed a mixed picture. Buyout activity proceeded to strengthen, driven primarily by deal activity in the large buyout segment. Eased financing conditions enabled the return of a significant number of large deals, both primary and secondary, such as Tomkins, Sunrise Communications and RBS WorldPay. Venture capital investments stabilized at a low level, moving within the EUR 0.9 -1.1 billion range seen over the last five quarters. VC investment levels fell due to the limited amount of dry powder within the European VC industry on the one hand and uncertainties over the economic environment on the other. The number and volume of exits rose on improved M&A activity, which resulted in a significant pick-up in distributions to LPs. Private equity portfolio valuations continued to rise during the first two quarters of 2010 thanks to improving trading and public equity market comparables. However, continued LP liquidity constraints, general concern over the future, over-allocation to private equity by some investors and fewer quality GPs in fundraising continue to depress the fundraising atmosphere. The year-to-date September fundraising figure shows a contraction of fundraising activity from 2009, despite slightly higher fundraising in the third quarter.

The table below details European private equity data.

all values in EUR billion		Q309	Q409	Q110	Q210	Q310	Dq/q
LBO	Funds raised [1]	1.6	(2.0)	1.2	2.3	1.5	(34%)
	Number of funds [2]	13	14	7	8	19	138%
	Investments	9.7	11.7	9.6	11.4	19.2	69%
	Drawdowns [3]	1.6	2.4	1.6	1.2	n/a	(24%)
	Distributions	0.7	0.8	1.8	2.2	n/a	23%
	Appreciation as % of NAV	1.7%	4.6%	2.2%	5.2%	n/a	3%
	5 year rolling IRR [4]	8.2%	9.8%	9.2%	8.5%	n/a	(1%)
VC	Funds raised [1]	1.1	0.5	1.1	1.3	2.2	76%
	Number of funds [2]	14	17	22	19	9	(53%)
	Investments	0.9	1.0	0.9	1.1	0.9	(20%)
	Drawdowns [3]	0.2	0.4	0.1	0.2	n/a	49%
	Distributions	0.2	0.2	0.0	0.0	n/a	0.0%
	Appreciation as % of NAV	(1.3%)	(1.7%)	1.5%	1.9%	n/a	0.4%
	5 year rolling IRR [4]	(0.4%)	(0.6%)	(0.6%)	(0.6%)	n/a	0.1%

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Drawdowns and Investments data are not comparable as Investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.

Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Dq/q is the comparison of Q3 2010 vs. Q2 2010 for fundraising and investment data and Q2 2010 vs. Q1 2010 for cash flow and performance data.
n/a Data was not yet published by Thomson One.
Source: Thomson One, Buyouts for LBO investments; Dow Jones VentureSource for VC investments.

LBO

LBO fundraising continued to contract

The LBO fundraising cycle appeared to be heading toward a new 2010 trough. During the first three quarters, fundraising volume totaled EUR 5.0 billion, a 61% decline from the same period last year. In the third quarter, LBO fundraising volume declined by a third from the second quarter, with 19 LBO funds receiving EUR 1.5 billion, according to the Thomson One database. The number of fund closings increased to 19 from eight; however, the majority of the funds that held closings were small-sized funds, as GPs appeared to adjust their fundraising activity to LP investment demand and capacity. The largest fund of the quarter, Inflexion Buyout 2010 Fund, raised EUR 432 million. Fifteen funds raised amounts ranging between EUR 1 million and EUR 100 million. In the first nine months of 2010, 17 buyout and mezzanine funds with a 2010 vintage year were raising funds, compared with 18 funds with a 2009 vintage year during the same time last year. The low number of funds launched stands in stark contrast to the peak year of 2006, when 96 funds were launched during the comparable period.

Investment activity was driven primarily by large LBOs

In contrast, buyout deal activity was brisk and well ahead of 2009. During the first nine months of 2010, LBO firms put EUR 40.2 billion (including debt financing) to work for European companies compared with EUR 15.3 billion in the same period of last year. Third-quarter investment volume was largely responsible for the staggering increase; EUR 19.2 billion was invested during the third quarter, representing a 69% increase over the second quarter. The average LBO transaction size increased dramatically during the third quarter, with six deals exceeding the EUR 1 billion mark. Large and mid-sized investments continued to recover at a faster rate than that of smaller deals as secondary buyouts and corporate disposals traditionally tend toward larger transactions. Also, banks lent selectively, seeming to prefer financing larger deals with a higher revenue potential. In contrast, family and private vendor deal activity slowed in the third quarter, resulting in a fall in the number of small-sized deals. LBO acquisition multiples for mid-sized deals with an EBITDA between EUR 500 million and EUR 1 billion remained above 2009 levels due to increased competition within this deal size bracket. On the other hand, small-sized deals were priced at lower multiples than last year, while large deal pricing remained flat.

Secondary buyouts continued to dominate the exit scene; large trade sales have returned on a selective basis

Similarly, buyout exit activity accelerated in the third quarter, with exit values reaching EUR 18.6 billion and representing a 141% increase over the second quarter. During the first nine months of 2010, LBO firms piloted exits for 131 European-based portfolio companies. Total disclosed values were EUR 33.0 billion, and double those in the entire year of 2009. Secondary buyout transactions, which involve buyout firms on the buy and sell side, dominated exit activity in the third quarter. Twenty-four secondary buyout deals brought the total number of secondary deals to 49 and the value to EUR 12.0 billion during the first nine months of 2010. The largest secondary buyout exit of the third quarter was the EUR 1.2 billion sale of BC Partners-backed Picard Surgeles to Lion Capital. Trade sales remained the second-most popular exit route. Both the number of transactions and deal value of trade sales gained in the third quarter, reflecting growing investment confidence among strategic acquirers. The largest buyout exit, worth EUR

2.6 billion, was the trade sale of Cognis, backed by Permira, Goldman Sachs and Schroders, to BASF.

VC

The largest VC fund closing since 2007 occurred in Q3, thanks to government support

Venture capital fundraising volume fared relatively well compared with LBO fundraising volume. The year-to-date September figures revealed a 5% decline compared to the same period of 2009, despite a significant fall in the number of fund closings. Fundraising volumes increased steadily in the first three quarters of 2010 from the fourth-quarter 2009 low to reach EUR 4.6 billion in 50 fund closings. Since the start of the post-dotcom crash era in the first quarter of 2001, European venture capital has averaged EUR 1.8 billion in fundraising volume per quarter; in the third quarter of 2010, fundraising reached EUR 2.2 billion and was responsible for lifting the year-to-date figures. However, nearly half of the quarterly commitment volume was attributable to a single fund, Fondo Italiano d'Investimento. The government-supported public-private partnership raised EUR 1.0 billion.

VC investments fell in Q3, but YTD numbers remain above 2009

VC deal activity dropped significantly from the second quarter as concerns over the sustainability of the economic recovery in Europe increased. During the third quarter, VC invested EUR 0.9 billion in 198 European deals, representing a 20% decline in deal volume and a 35% fall in the deal count, according to Dow Jones VentureSource data. IT deal activity contracted sharply during the third quarter, with investment volume halving from the preceding quarter and the deal number decreasing 39%. Healthcare deal flow and volume remained stable from the second quarter as healthcare maintained its favored position within the VC industry. The largest quarterly deal was completed by Highland Capital Partners LLC, Index Ventures and General Atlantic, which provided EUR 70 million in financing to Privalia, a Spanish internet-based brand-named discounter. The relatively buoyant second quarter, however, held year-to-date investment volume above its 2009 level. During the first three quarters of 2010, EUR 2.9 billion was invested in 755 deals, a 16% increase in volume and a 2% decline in number of deals from the same period of 2009.

Exits declined slightly, but improved over 2009

VC exit activity declined in the third quarter, as M&A exits slowed. During the third quarter, the number of M&A exits halved from the second quarter and values dropped by 40% to EUR 0.5 billion. However, the EUR 0.26 billion IPO exit of the UK-based online consumer services firm Ocado Ltd., backed by an investment consortium led by John Lewis and UBS Capital, raised overall exit values, which declined 7% from the second quarter. Strong first-half exit activity in 2010 ensured that year-to-date figures remained above those from the same period of 2009 and indicated an overall improvement in M&A and IPO exit markets from the last year.

In summary, private equity deal activity displayed signs of a modest recovery in the first three quarters of 2010, with both investment and exit volumes ahead of 2009. Portfolio company trading has generally improved since last year as well. Coupled with planned exits and increases in comparable public company multiples, portfolio company valuations have made progress in 2010. However, uncertainties surrounding the economic recovery continue to affect private equity activity, and fundraising in particular, which deteriorated further in 2010. Despite some improvement, the exit outlook remains cautious. In contrast, buyout investments are expected to keep picking up, while VC investments will likely remain stable.

Environment – Asia

Asian economies continued to expand in the third quarter of 2010, albeit at a quieter pace than in the previous quarter due to a slowdown in exports. The combined GDP growth of the 10 largest economies in emerging Asia remained strong and advanced at an annual rate of 8.2% in the third quarter, following an annual rate of 10.2% in the second quarter, according to the Asian Development Bank. Economic activity in Australia declined as well, as consumption growth weakened. In contrast, the pace of Indian economic growth remained high at 8.9%, despite the government's withdrawal of monetary support. Finally, Japan's economy expanded 1.1% in the third quarter, on a consecutive quarterly basis, beating estimates of economists, thanks to stronger-than-anticipated business investments.

Robust economic growth continued, driven by domestic demand

Strong domestic demand continued to be the main driver behind robust growth in East Asia and India. Bolstered by new job creation and rising real income and wealth, consumers retained their confidence and kept spending. Business investments eased, though they still increased at a healthy pace, as corporate profits continued to expand. Industrial production and retail sales were strong in China and India, and helped power growth in the rest of the region. In Japan, fixed business investments drove quarterly growth, although exports and production were flat due to weakened global demand and inventory adjustments in IT. Japan's employment and personal income problems persisted, although the unemployment rate eased to 5.0% in the third quarter from 5.3% in the second.

Growth is expected to moderate as public consumption declines and stimulus programs are phased out

According to various estimates, economic activity within the region is expected to moderate slightly in 2011, from the current high levels, seen particularly in emerging Asian countries, as stimulus is wound down and policy tightening may pressure internal demand. In addition, ongoing deleveraging from European and US economies and rising commodity prices may hamper external demand for Asian goods, which is integral to growth in the Australian, Japanese and South Korean economies. Furthermore, foreign currency exchange rate adjustments, as the Japanese yen and the Chinese yuan appreciate against the dollar, may also hinder exports.

The table below details Asian macroeconomic and financial data.

		Q309	Q409	Q110	Q210	Q310	Dq/q
Japan	Real GDP in % q/q	(0.3)	1.4	1.7	0.7	1.1	0.4
	CPI in % y/y	(2.2)	(1.7)	(1.1)	(0.7)	(0.6)	0.1
	Interest rate in % [1]	0.10	0.10	0.10	0.10	0.10	0.00
	Unemployment rate in % [1]	5.3	5.2	5.0	5.3	5.0	(0.3)
	Consumer confidence [1]	40.7	37.9	41	43.6	41.4	(2.2)
	Nikkei 225 index price [2]	2%	4%	5%	(15%)	(0%)	n/m
China	Real GDP in % y/y	9.1	10.7	11.9	10.3	9.6	(0.7)
	CPI in % y/y	(1.3)	0.67	2.2	2.93	3.47	0.5
	Interest rate in % [1]	5.31	5.31	5.31	5.31	5.31	0.00
	Shanghai Composite price [2]	(6%)	15%	(5%)	(23%)	11%	n/m
India	Real GDP in % y/y	8.7	6.5	8.6	8.9	8.9	0.0
	CPI in % y/y	11.8	13.3	15.3	13.7	10.3	(3.3)
	Interest rate in % [1]	3.25	3.25	3.50	3.75	5.00	1.25
	Bombay SENSEX price [2]	18%	2%	0%	1%	13%	n/m
Korea	Real GDP in % y/y	2.9	0.2	1.8	1.4	0.7	(0.7)
	CPI in % y/y	2.2	2.8	2.3	2.6	3.6	1.0
	Interest rate in % [1]	2.00	2.00	2.00	2.00	2.25	0.25
	Unemployment rate in % [1]	3.4	3.5	4.1	3.5	3.4	(0.1)
	Kospi index price [2]	20%	1%	1%	0%	10%	n/m
Australia	Real GDP in % q/q	0.6	0.6	0.7	1.1	0.2	0.4
	CPI in % y/y	1.3	2.1	2.9	3.1	2.8	0.2
	Interest rate in % [1]	3.00	3.75	4.00	4.50	4.50	0.5
	Unemployment rate in % [1]	5.8	5.5	5.4	5.1	5.1	(0.3)
	ASX 200 index price [2]	20%	3%	0%	(12%)	7%	n/m
Total Asia	IPO number	136	231	183	191	214	12%
	IPO in USD bn	29.6	43.8	36.2	24.9	41.4	66%
	M&A in USD bn	109.9	133.0	104.4	82.1	143.9	75%

1) Period-end figures.
2) Change for the relevant period.
3) New issue values.
Notes: Dq/q is the comparison of Q3 2010 vs. Q2 2010. n/m – not meaningful.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, December 20, 2010.

GDP: Japan’s economy made solid progress; growing 1.1% in the third quarter and 5.3% year-over-year, and reflecting increased business investments and consumption of consumer durable goods. India maintained its impressive pace of growth as its GDP expanded 8.9% in the third quarter, due to resilient internal demand. China’s GDP declined slightly to 9.6% from 10.3% as the local government took measures to cool inflation and guide China's rapid expansion to a more sustainable level following stimulus that fueled a rebound from the global crisis.

Inflation: Increased inflation was observed across many countries in the region, edging up on strong economic performance and consumer demand in some locations. For example, China’s inflation was driven by higher food prices, while India’s restrictive monetary policy helped contain further consumer price increases. Nevertheless, robust consumer demand kept India's inflation high, though the rate eased to 10.3% after peaking at 15.3% in the first quarter of 2010.

Inflation moved upward in China and was contained at a high rate in India, while deflation in Japan continued to ease

Interest rates: Asian central banks responded to domestic business cycles by hiking policy rates. The Reserve Bank of India and the Bank of Korea raised policy interest rates 1.25% and 0.25% respectively. Rising inflation in China prompted the Chinese central bank to increase the policy interest rate after the close of the third quarter. Earlier in the year, the Chinese central bank had increased reserve requirements by five times to control credit availability, particularly for real estate investments.

Unemployment: Unemployment rates proceeded to decline in Japan and Korea, as economic expansion measures continued to hold. In Australia, the unemployment rate remained at the previous quarter's level.

Public equities: The majority of emerging Asian stock markets recovered dramatically in the third quarter, following the region's rapid economic turnaround and positive economic outlook. Bombay's Sensex Index gained 13% during the third quarter, the Shanghai Composite Index expanded 11% and Korea's KOSPI index increased 10%, with large capital inflows driving regional stock price increases. Only the Nikkei 225 price index did not gain from the previous quarter, partially due to the strength of the yen.

Asia continues to dominate global IPO activity

IPOs: Asia further established itself as the globe's IPO headquarters, claiming 71% of all IPOs worldwide and 79% of total proceeds raised in the third quarter. IPO volumes increased 66% from the second quarter and reached USD 41.4 billion as Asia delivered the world's largest-ever IPO in the third quarter, with the Agricultural Bank of China raising USD 22.1 billion on the Hong Kong and Shanghai Stock Exchanges. Chinese issuers continued to dominate listings, making up three-quarters of all Asian Pacific IPO volume. Overall, the quarter's IPO activity showcased a shift in focus from slower-growing developed countries to fast-advancing emerging Asian countries.

M&A volumes rose to a nine-month high

M&A: M&A activity in the third quarter was at its strongest since the second quarter of 2008. Announced deal values soared to USD 143.9 billion, a 75% increase over the second quarter. Deals in the energy and mining & utilities industries were responsible for the highest volumes, while most deals were announced in the industrials & chemicals industry. The largest deal of the quarter was recorded in Japan, where Chuo Mitsui Trust Holdings acquired Sumitomo Trust & Banking for USD 9.2 billion. In the first nine months of the year, M&A deal values increased 21% over the same period of last year.

Private equity markets

The Asian private equity exit environment featured an unprecedented number of IPO exits in the third quarter. In addition to the numerous private-equity backed IPOs that took place, a group of private equity firms helped back the world's largest-ever IPO to date. Furthermore, a number of large, selective buyout deals were also completed as established private equity firms were able to shore up liquidity from various banking syndicates. In contrast, Asian fundraising slowed down, but still fared relatively well when compared with 2009.

Fundraising slowed, but was above 2009 levels thanks to vibrant fundraising activity in China

Commitment volumes to private equity funds decreased slightly from the second quarter as smaller buyout funds held closings during the third quarter. Thirty-four private equity funds raised USD 6.6 billion, a 7% decline from the preceding quarter; the number of funds raised, however, remained stable. SAIF Partners raised the largest fund during the third quarter, collecting USD 1.3 million for its buyout fund. Despite the quarter-to-quarter slowdown, fundraising figures from the first nine months of 2010 indicate the recovery has taken hold in earnest, as investors sought increased exposure to the rapidly growing region. USD 22.1 billion was committed to 124 private equity funds, up 24% from the same period of last year, despite the number of funds declining by 20%. Funds located in China and Hong Kong attracted 65% of the region's commitments during the third quarter and 63% during the first nine of months of 2010, with China and Hong Kong responsible for six of the top 10 Asian funds raised during the first nine months of 2010. The "flight to quality" theme was dominant in Asian fundraising, similar to other regions, as seasoned private equity firms were able to raise the most money. Another trend seen in Asia during the third quarter was the rise of RMB-denominated private equity funds formed by the local government. As the current regulatory environment in China appears to be more favorable to RMB funds than USD funds, a few established US-based private equity firms such as Blackstone, Carlyle, KKR and TPG launched or closed RMB funds in 2010.

Large buyouts lifted quarterly investment volumes, but growth and pre-IPO deals continued to drive investments

Private equity investment volumes increased 18% in the third quarter from the second quarter, driven by the completion of two mega buyout deals featuring a combined value of USD 4.7 billion: Carlyle Asia and TPG acquired Australian Healthscope and Malaysia's Khazanah Nasional took Singapore-based healthcare company Parkway Holdings private. These deals reflect private equity's growing confidence in the region and an increased capacity for syndicated debt for larger deals. During the third quarter, USD 14.0 billion was invested, representing an 18% increase over the preceding quarter. Among different investment types, growth deals and mezzanine/pre-IPO deals picked up significantly from 2009. The fragmented and rapidly growing local market combined with the buoyant IPO climate offers greater investment opportunities for these investment stages. Overall, private equity investments displayed healthy improvement over the same period of last year, with the number of deals increasing 12% and disclosed volume increasing 2% in the first nine months of 2010.

Driven by surging equity markets and investor appetite for new listings, private equity firms seized the window of opportunity and backed the listing of 52 Asian companies, Private equity firms benefited from strong IPO activity; M&A exit activity continued to improve

raising USD 25.2 billion in the third quarter of 2010 – the third-best quarter in Asia's private equity history. Private equity firms were also minority shareholders and mezzanine investors in the world's largest-ever IPO, the Agricultural Bank of China, raising USD 10.2 billion in the Hong Kong allocation of the listing alone. Since the last quarter of 2009, M&A exit activity has made steady progress. During the third quarter, M&A exit volumes increased 47% from the second quarter, reaching USD 6.4 billion in 47 exits. The largest M&A exit of the third quarter was the USD 974 million sale of Fraser & Neave Ltd, backed by Temasek Holdings, to Kirin Holdings. Third-quarter activity levels underline the significant improvement of the exit environment; total exit volumes were up 176% in the first nine months of 2010 compared with the same period of 2009. Different from the past two years when buyout deals accounted for the lion's share of exit values, in 2010, growth-stage companies played a larger role in overall exit results.

The most impressive demonstration of the recovery within the Asian private equity market during 2010 was the surging exit activity, supported by the region's buoyant equity markets. Another signal toward recovery was the increase in M&A exit volume, which has improved gradually each quarter since the fourth quarter of 2009. Despite a slowdown in investment activity in the third quarter, private equity investors completed more transactions in 2010 than during the comparable period of 2009, indicating growing confidence on the back of steadily improving macroeconomic conditions. In summary, Asian private equity investors are looking forward to 2011 with cautious optimism.

The table below details Asian private equity data.

all values in USD billion		Q309	Q409	Q110	Q210	Q310	Dq/q
LBO	Funds raised [1]	4.3	1.3	3.0	4.2	3.5	(15%)
	Number of funds [2]	13	7	16	7	8	14%
	Investments	5.5	6.4	1.4	2.6	5.8	126%
	Number of deals	27	35	26	43	26	(40%)
VC	Funds raised	5.7	3.1	5.3	3.0	3.1	5%
	Number of funds	37	49	40	27	26	(4%)
	Investments	4.3	8.0	6.3	9.3	8.2	(12%)
	Number of deals	224	262	270	256	224	(13%)
PE	M&A exit values	5.7	3.7	3.9	4.4	6.4	43%
	Number of exits	62	47	75	59	47	(20%)
	IPO exit values	4.1	24.1	9.3	7.2	25.6	258%
	Number of IPO exits	31	96	66	49	52	6%
	Total exit values	9.8	27.8	13.2	11.6	32.0	176%

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.

Note: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Source: Asian Venture Capital Journal database, as of December 20, 2010.

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