Capital Dynamics

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Capital Dynamics Private Equity Review & Outlook

Summary

FY 2015

Highlights:

- Global private equity fundraising continued at a robust level in 2015, although aggregate volume declined. Europe was a bright spot, recording growth in private equity and venture capital fundraising.[1]

- US private equity demonstrated elevated levels of investment and exit activity. Add-on acquisitions dominated investment activity, with such deals rising to an all-time high[2].

- European buyout investment volume increased for a third consecutive year. Robust acquisition activity from trade buyers and buoyant IPO activity of private equity-backed companies helped propel the exit volume to the highest level on record[3].

- Asia-Pacific private equity had the strongest investment year on record, driven by large buyouts and growth and venture investments in rapidly growing technology start-ups.

- The US and European venture markets saw the strongest investment years post the dot-com bubble, driven by large funding rounds from unconventional investors. Unicorns emerged in the US at a record pace but funding became more cautious, as a result of correction in public markets[4].

- In the secondary market, given the high valuations and uncertain macroeconomic conditions, we expect a growing price gap between top-tier and lower quality GPs and funds. We also expect lower interest in funds with significant public exposure and high single-company concentrations.

1,2,3,4 AVCJ, Bloomberg,Dow Jones VentureSource, EMPEA, Preqin, Thomson One

US buyout

In brief

- In 2015, US PE demonstrated elevated levels of investment and exit activity. Add-on acquisitions dominated investment activity, with such deals rising to a record level. In contrast, LBO deal-making was subdued, driven by a cautious approach in a competitive M&A market and challenging conditions in the leveraged finance markets in the second half of 2015. Exits to trade buyers remained resilient. However, public equity and credit market conditions became less receptive to IPOs and dividend recapitalizations, each weighing on aggregate exit volume.

Table: US buyout market data

USD billion	2014	2015	Q414	Q315	Q415	Dy/y	Dq/q
Fundraising	218.8	**207.5**	60.4	36.7	**65.3**	(5%)	78%
Investments	166.8	**245.5**	35.9	42.5	**97.6**	47%	130%
Exits	303.1	**260.0**	50.5	73.7	**45.8**	(14%)	(38%)

Notes: Dy/y is the comparison of 2015 vs. 2014. Dq/q is the comparison of Q4 2015 vs. Q3 2015.
Source: Thomson ONE, Preqin, S&P Capital IQ and Bloomberg as of March 10, 2016.

Fundraising

- **Fundraising slowed slightly after a record 2014**

US private equity had a solid fundraising in 2015, the second strongest since the global financial crisis. However, fundraising volume declined slightly to USD 208 billion after four years of consecutive growth. Fundraising varied across sub-strategies. Buyout funds raised USD 104 billion or 4% more capital than a year ago, lifted by the USD 18 billion close of Blackstone Fund VII. Strained energy markets, coupled with the fewer number of energy managers in fundraising after a busy 2014, resulted in a 20% decline in commitments to USD 28 billion for private equity energy funds. Fundraising volume was more concentrated among fewer players in 2015, with the number of funds holding a close falling 28% to 371 funds.

Investments

- **Add-on deals surged while buyouts declined**

During 2015, US buyout funds focused on augmenting the growth of existing portfolio companies with the number of add-on and merger transactions hitting a record level. The number of add-on deals increased 7% to 873, while two such deals (the USD 67 billion add-on acquisition of EMC by Silver Lake Partners and a consortium of private investors and the USD 40 billion merger of Kraft Foods Group and J.C. Heinz Company) lifted the annual deal volume to USD 246 billion, up 47% from 2014. In contrast, the number of new buyout deals and buyout deal volume declined from those of 2014 by 12% and 19%, respectively. This reflects cautious investing by GPs in high public equity valuation and competitive strategic M&A environments, with LBO acquisition enterprise values climbing to a 9.94x multiple of EBITDA, up from 9.34x during 2014. Furthermore, LBO deal-making was affected by turbulent credit markets as investors retreated from high yield bond and leveraged loan issuance. Reflecting this development, LBO leverage levels declined to a 5.20x multiple of EBITDA in the fourth quarter, pushing the 2015 average multiple down to 5.60x from 5.74x in 2014, according to S&P Capital IQ.

Exits

- **Trade buyers bolstered exits; IPOs declined**

Exit markets remained robust, driven by acquisition activity from corporate buyers. However, total annual exit volume declined 14% y-o-y to USD 260 billion from the record level of 2014 due to a slowdown in IPO and dividend recapitalization activities. The number of private equity-backed IPOs declined from 76 in 2014 to 46 while proceeds from PE-backed IPOs and from dividend recapitalizations almost halved to USD 13 billion and USD 23 billion, respectively. 2015 saw a single billion-dollar plus IPO which took place in the fourth quarter with First Data Corporation raising USD 2.8 billion in initial proceeds. Nevertheless, GPs continued to generate liquidity from public markets with post-IPO disposals increasing 18% y-o-y to USD 56 billion, the highest on record according to Bloomberg data.

Outlook

- **Tighter credit markets can impact deal making**

Headwinds stemming from corrections in public equity and credit markets could weigh on deal pace in the first half of 2016. However, lower stock valuations, less frothy debt markets and the lowest pricing of leveraged loans since 2011 may result in more attractive buyout and distressed opportunities. Broader macro-environment remains supportive for existing investments outside of the energy sector, with recent ISM Index reading suggesting a rebound in economic activity while employment, housing and consumption continue to improve.

US venture

In brief

- The US venture market saw a robust 2015, with investments surging to a multi-year high as investors other than venture funds continued to invest large amounts in late-stage deals, creating a record number of unicorns at frothy valuations. IPOs of VC-backed companies fell sharply after a record 2014, while corporations continued to actively acquire innovation-driven companies, particularly in the B2B and healthcare sectors, boosting VC M&A exit levels.

Table: US buyout market data

USD billion	2014	2015	Q414	Q315	Q415	Dy/y	Dq/q
Fundraising	31.1	**28.6**	6.2	4.7	**5.3**	(8%)	14%
Investments	58.2	**72.3**	18.3	19.2	**17.1**	24%	(11%)
Exits	96.6	**64.7**	38.1	18.8	**18.5**	(33%)	(2%)

Notes: Dy/y is the comparison of 2015 vs. 2014. Dq/q is the comparison of Q4 2015 vs. Q3 2015.
Source: Dow Jones VentureSource, as of March 15, 2016.

Fundraising

- **Solid VC liquidity supported robust fundraising**

US venture fundraising had another robust year with commitments reaching USD 29 billion, the second highest annual fundraising volume since 2006. Acceleration in investment pace combined with improved returns and elevated liquidity were tailwinds for a surge in US venture fundraising, with the industry amassing USD 60 billion over the last two years. Early stage VC funds continued to receive the greater investor support, led by the largest-ever early stage fund closed by New Enterprise Associates, which raised USD 2.8 billion for Fund 15. Fundraising is expected to remain robust as sought-after managers return in the market during 2016; a few funds have already held successful interim closes so far this year.

Investments

- **Unicorns drove invested capital**

During 2015, invested capital in the US venture-backed companies surged to the highest level post-dotcom. Large funding rounds from corporations, mutual funds, hedge funds, and sovereign wealth funds fueled a 24% increase in annual investment volume to USD 72 billion. In contrast, deal flow declined slightly as late stage deals captured the larger share of invested capital. The largest investment of 2015 exemplifies this trend, with Uber attracting USD 2.1 billion funding from Chinese investment corporations, a few months after receiving USD 1 billion funding from Microsoft and Times Internet. Unicorns- companies that are valued at USD 1 billion or higher - emerged at a record pace during 2015, pushing the median pre-money valuations for late-stage deals to an all-time high at USD 400 million. However, companies seeking to achieve “unicorn” status had difficulty raising money during the fourth quarter. Concerns over valuations weighed on investor sentiment, as IPOs of VC-backed companies during the fourth quarter fell short of private valuations - prompting some mutual funds to write down their VC investments.

Exits

- **IPOs declined sharply, while M&A were steady**

Exit volume and the number of companies that achieved liquidity declined from record levels of 2014. 2015 saw 66 IPOs of VC-backed companies, a steep decline from 107 public offerings during 2014. Public market correction, combined with availability of large funding and partial liquidity at lofty valuations given by private investors to founders and early investors, resulted in delay of potential IPOs. Fitbit completed the largest IPO of 2015 during the second quarter and was valued at USD 5.1 billion at the offer date, although its market capitalization almost halved since floatation. Unlike IPOs, M&A exits were resilient, with the number of exits declining only 7% to 552 deals. However, exit deal volume declined 33% due to lack of mega M&A exits. The USD 2.1 billion sale of Cardioxyl Pharmaceuticals Inc. by a consortium of VC investors led by New Enterprise Associates to Bristol-Myers Squibb Company was the largest M&A exit of 2015.

Outlook

- **VC fund investing may remain resilient**

The correction in public markets and the subdued post-IPO performance of VC-backed companies is expected to weigh on investment activity from non -VC fund investors. However, the increased dry powder among VC funds should support venture fund investments. Cash-rich and innovation-hungry corporations will continue to acquire VC-backed companies that provide technological edge and expand at a fast rate. VC funds that invest in such market disruptive companies at fair valuations can withstand market volatility.

EU buyout

In brief

- The European buyout market had a positive year with all indicators reflecting improved investor sentiment. Buyout investment volume increased for a third consecutive year. While deal flow in the mid-market remained steady, the growth in invested capital was driven by a rebound in billion-Euro plus deals. Robust acquisition activity from trade buyers and buoyant IPO activity of private equity-backed companies helped propel the exit volume to the highest level on record, supporting growth in fundraising volume for European private equity funds.

Table: European buyout market data

EUR billion	2014	2015	Q414	Q315	Q415	Dy/y	Dq/q
Fundraising	57.8	**60.0**	12.9	21.8	**6.9**	4%	(68%)
Investments	78.0	**81.1**	28.7	18.9	**11.1**	4%	(41%)
Exits	128.4	**141.4**	29.4	34.6	**24.1**	10%	(30%)

Notes: Dy/y is the comparison of 2015 vs. 2014. Dq/q is the comparison of Q4 2015 vs. Q3 2015.
Source: Thomson ONE, Preqin and Bloomberg as of March 10, 2016.

Fundraising

- **Large fund closings lifted fundraising volume**

Europe was a bright spot in the global fundraising market, with the region recording the highest volume since 2008. Building on a solid 2014, commitments to European private equity funds increased 4% to EUR 60 billion. 2015 saw a marked increase in average fund sizes, with 21 funds exceeding the billion-Euro threshold. The top three largest fund closings comprised a quarter of the annual volume. EQT led the way, with the oversubscribed Fund VII collecting EUR 6.75 billion, the second largest European private equity fund closed since 2008. Bridgepoint Capital closed its Fund V at EUR 4.0 billion, while KKR held an interim close for its fourth European fund at EUR 3.3 billion.

Investments

- **Annual deal volume grew despite a slow Q4**

Buyout investments increased during 2015 supported by robust credit markets, ample dry powder among large buyout funds and a strong flow of secondary buyouts and opportunities from divesting private sellers and corporations. A rebound in large cap deals supported growth in deal volume. Deal values across the 19 billion-Euro plus deals increased 31% y-o-y to EUR 41 billion, comprising half of the annual volume. The EUR 1.2 billion acquisition of Team System by Hellman & Friedman was the largest buyout of the fourth quarter while the EUR 3.7 billion acquisition of Lease Plan topped the list of large buyouts of 2015. From a regional perspective, UK buyouts dominated the investment volume and recorded an 18% y-o-y increase to EUR 27 billion. Spain and Italy continued to demonstrate robust growth, with southern Europe emerging as the third largest market after the UK and France following 73% y-o-y growth in invested capital to EUR 13 billion.

Exits

- **Europe has the strongest exit year-ever**

European buyouts had the strongest exit year on record supported by buoyant IPO markets and active trade buyers. Annual exit volume totaled EUR 141 billion, surpassing 2014's figure by 10%. Exits through public markets stood out in particular. Proceeds from 65 initial offerings and numerous post-IPO disposals jumped 28% y-o-y to EUR 45 billion. The fourth quarter saw the largest private equity-backed IPO of 2015 with Worldpay PLC, backed by Advent International and Bain Capital, raising EUR 3.4 billion on the London Stock Exchange. Cash-rich trade buyers stepped up acquisition activity, reinforced by 20% growth in the number of exits to trade buyers. The exit volume to trade buyers increased 6% y-o-y to EUR 68 billion across 282 deals. Financial buyers remained an important source of liquidity but were not the preferred exit route, recording 218 deals.

Outlook

- **Steady PE development will continue. However, volatility may impact PE activities**

We expect European private equity to continue its steady development supported by stable, if low, growth in the European economy as employment, income and consumption gradually improve. The strong fundraising market is a cause for concern with regard to entry pricing. Thanks to continued accommodative monetary policy from the ECB, European credit markets appear to be less constrained than those elsewhere. However, European private equity is not immune to global market volatility while the Brexit uncertainty and clouded growth prospects in export markets are making recovery fragile.

European venture

In brief

- The European VC market accelerated during 2015, with fundraising, investment and exit volume rising to the highest level post dot-com. In line with global venture trends, European VC-backed companies continued to expand, attracting funding from venture as well as other private investors. Exit volume surged as VC-backed companies in biotechnology and consumer internet sectors became welcome targets for corporate acquisitions.

Table: European venture capital market data

EUR billion	2014	2015	Q414	Q315	Q415	Dy/y	Dq/q
Fundraising	3.18	**7.03**	0.64	3.00	**1.54**	121%	(49%)
Investments	8.43	**12.96**	2.05	3.32	**3.29**	54%	(1%)
Exits	13.08	**24.60**	5.09	6.71	**7.90**	88%	18%

Notes: Dy/y is the comparison of 2015 vs. 2014. Dq/q is the comparison of Q4 2015 vs. Q3 2015.
Source: Dow Jones VentureSource, as of March 15, 2016.

Fundraising

- **Experienced managers boost fundraising**

European venture had the strongest fundraising year since 2001, as the market is increasingly attracting investor interest. Commitment volume has more than doubled to EUR 7 billion from 2014. However, allocations were geared towards a limited number of experienced and well performing managers, with the number of fund closes (69) substantially trailing previous peak levels (129) in 2008. Index Ventures closed the largest fund with a European investment focus attracting EUR 650 million for its Growth Fund III. The rise in aggregate volume was also driven by the largest fund of 2015 from Russia with a global focus – the EUR 1.6 billion DST Global Fund V. Excluding the outlier, fundraising volume still demonstrated an impressive growth of 70% year-on-year.

Investments

- **Invested capital is the highest since 2001**

European venture continued an upward trend, with VC-backed companies attracting capital from various investor sources at favorable terms. Invested capital increased consecutively during the past three years, with European start-ups attracting EUR 13 billion during 2015 or 54% more capital than in 2014, the highest on record since 2001, according to Dow Jones VentureSource data. Similarly to the US, companies in late-stage of development attracted the lion's share of venture capital. As few European venture firms have adequate dry powder for larger deals, funding was increasingly provided by US venture capital funds, corporate venture arms and other private investors. The presence of 19 deals exceeding EUR 100 million contributed to a surge in invested capital. European unicorns Delivery Hero and Spotify received EUR 639 million and EUR 489 million - respectively - for further expansion, while BlaBlaCar - a French provider of a long-distance ride sharing platform - reached "unicorn" status after the latest financing round including EUR 180 million investment by US firm Insight Venture Partners and other investors, according to Dow Jones VentureSource data. Across sectors, consumer internet deals continued to dominate the venture investor allocations, while biotechnology and IT sector companies also saw an upturn in invested capital.

Exits

- **Strong M&A exits; IPOs remained resilient**

European VC exit volume nearly doubled during 2015, driven by corporations acquiring consumer internet companies and biotechnology start-ups with promising product pipelines. The final quarter of 2015 saw two billion-Euro exits, underscoring this trend. AstraZeneca took over a VC-backed Acerta Pharma B.V. for EUR 2.5 billion in the largest exit deal of 2015, while Naspers Ltd acquired a Russian online advertisement company Avito from a consortium of VC investors including Northzone Ventures, Baring Vostok Capital Partners and Accel Partners. IPO activity from VC-backed companies was robust with 48 offerings, slightly down after a busy 2014. The debut of NovoCure, backed by Index Ventures, achieved a EUR 1.9 billion market capitalization at the offer date, in the largest IPO of 2015.

Outlook

- **European VC market can continue growing**

The European venture market is expected to continue growing, driven by globalization of VC investments, benign valuations of European targets and an emergence of venture hubs across Europe. We expect experienced managers to seize opportunities to invest as well as gain liquidity when opportunities arise in a volatile market environment.

Asia-Pacific private equity

In brief

- Asia-Pacific private equity investment volume had the strongest year on record. PE firms concluded larger buyout deals than ever while private equity-backed technology companies attracted large funding rounds from corporations and sovereign wealth funds. M&A exits remained resilient despite market volatility while exits through public markets dropped sharply due to market turmoil and the temporary IPO suspension in China.

Table: Asia-Pacific private equity market data

USD billion	2014	2015	Q414	Q315	Q415	Dy/y	Dq/q
Buyout fundraising	19.9	**16.9**	3.6	3.5	**9.0**	(15%)	155%
Growth fundraising	51.3	**45.8**	14.8	12.1	**5.6**	(11%)	(54%)
Buyout investments	30.6	**65.3**	10.2	17.9	**13.3**	113%	(25%)
Growth investments	62.5	**72.7**	15.7	16.3	**20.3**	16%	25%
M&A exit values	56.2	**52.0**	17.5	14.4	**13.8**	(7%)	(4%)
IPO exit values	70.1	**40.1**	17.8	4.6	**10.2**	(43%)	122%

Notes: Dy/y is the comparison of 2015 vs. 2014. Dq/q is the comparison of Q4 2015 vs. Q3 2015.
Source: AVCJ as of March 15, 2016.

Fundraising

- **Large funds raised despite subdued fundraising**

Challenging market conditions weighed on investor minds in the Asia-Pacific region. The number of closed funds hit the lowest level since 2004, mainly driven by shrinking activity from RMB funds. In contrast, experienced managers continued to raise ever larger funds, with RRJ Capital raising the largest fund of 2015 at USD 4.5 billion, while PAG and Bain Capital closed the largest funds of the fourth quarter at USD 3.7 billion and USD 3.0 billion, respectively. While aggregate fundraising volume at USD 63 billion trailed the 2014 by 12%, venture capital funds remained a magnet for investor allocations, matching the heights of 2014 at USD 13 billion.

Investments

- **Investments hit a record level**

In 2015, invested capital in buyout transactions more than doubled to USD 65 billion from a year ago, the highest level in the history of the Asia-Pacific market. The surge in volume was driven by an upturn in large transactions in Australia and South Korea. While Australia has historically been a major buyout market, South Korea has emerged as a hotspot for buyout investments with the country recording its fourth year of consecutive growth in deal volume. Underpinning this development, 2015 saw two largest-ever buyout deals in these markets with MBK Partners investing USD 6.5 billion in Homeplus, and KKR acquiring the Australian consumer credit unit of GE Capital for USD 6.3 billion. Growth and VC investments surged 16% y-o-y to USD 73 billion, the highest on record according to the AVCJ, driven mainly by large investment rounds from corporations and sovereign wealth funds. Technology deals established themselves as the main investment theme with China becoming a major hub, exemplified by the two largest growth capital deals of 2015: the China-based taxi service start-up Didi Kuaidi and China Internet Plus received USD 3.0 billion and USD 2.8 billion in funding, respectively.

Exits

- **M&A exits were resilient, while IPOs stalled**

Exit activity slowed during 2015, affected by market turmoil in China, triggering a four-month ban on equity listings by Chinese authorities and volatility in stock markets across the region. PE-backed IPO volume dropped 43% y-o-y to USD 40 billion. However, IPOs rebounded in the fourth quarter as the Chinese IPO market reopened in November. GPs continued to generate liquidity through resilient M&A markets. M&A exit volume declined 7% y-o-y (from the historical peak in exit volume) to USD 52 billion despite the lack of mega-cap exits. The largest exit of 2015 was the USD 2.3 billion sale by MBK Partners of the Taiwanese cable TV provider China Networks Systems to a trade and financial buyer.

Outlook

- **Investment environment is supportive for PE**

Despite severe market turbulence and a deceleration in economic activity in China, the Asia-Pacific private equity market showed a great deal of resilience during 2015 which bodes well for 2016. More investor-friendly stock market valuations, coupled with the re-opening of IPOs in China, should support deal-making. However, market uncertainty is prevalent so investors are more likely to pursue fund and deal opportunities cautiously.

Emerging Markets (excl. Emerging Asia)

In brief

- Following a strong 2014, fundraising volume in Emerging Markets (ex. Emerging Asia) declined sharply. MENA was the only region showing a stable fundraising activity. A lack of large deals weighed on investment volume, while a decline in deal flow was relatively moderate. Across sub-regions, deal flow improved in MENA and in Latin America, while CEE &CIS saw a marked slowdown. Across all sub-regions, consumer goods and services companies were the most favored investment targets, as unsaturated consumer demand combined with a rising middle class population make such companies attractive for private equity investments.

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

USD million		2014	2015	Q414	Q315	Q415	Dy/y	Dq/q
MENA	Fundraising	1,043	**1,052**	773	529	**59**	1%	(89%)
	Investments	752	**928**	186	134	**154**	23%	15%
	Number of deals	67	**56**	15	7	**21**	(16%)	200%
SSA	Fundraising	4,323	**3,638**	1,280	564	**341**	(16%)	(40%)
	Investments	2,103	**1,041**	431	117	**299**	(51%)	155%
	Number of deals	125	**99**	39	24	**30**	(21%)	25%
CEE & CIS	Fundraising	2,016	**637**	231	202	**258**	(68%)	28%
	Investments	1,902	**1,421**	491	627	**76**	(25%)	(88%)
	Number of deals	152	**94**	34	16	**26**	(38%)	63%
Latin America & Caribbean	Fundraising	10,230	**6,120**	6,380	1,108	**2,257**	(40%)	104%
	Investments	5,748	**2,475**	1,459	518	**476**	(57%)	(8%)
	Number of deals	140	**141**	30	22	**55**	1%	150%
Emerging Markets (Ex. Em. Asia)	**Fundraising**	17,611	**11,448**	8,663	2,402	**2,915**	(35%)	21%
	Investments	10,505	**5,865**	2,567	1,397	**1,005**	(44%)	(28%)
	Number of deals	484	**390**	118	69	**132**	(19%)	91%

Notes: Dy/y is the comparison of 2015 vs. 2014. Dq/q is the comparison of Q4 2015 vs. Q3 2015.
Source: EMPEA, as of March 15, 2016.

Latin America

- **Fundraising and investment activities slowed down from record 2014, but were in line with 2012-2013**

Fundraising activity slowed in Latin America following a 2014's record high of raising more than USD 10 billion. In 2015, commitments totaled USD 6 billion, in line with previous years' fundraising totals despite regional macroeconomic challenges associated with severe currency depreciation and downturn in commodity markets, with Brazil's economy being hit the most. In such an environment, pan-Latin America-focused funds raised more capital than Brazil-focused funds for the first time since 2010 despite the largest fund of 2015 being raised in Brazil. Patria Investimentos' P2 Brasil Private Infrastructure Fund III raised USD 867 million during 2015 and closed the fund at USD 1.7 billion. Regional funds such as Linzor Capital Partners III (USD 621 million) and Southern Cross Latin America Private Equity V (USD 455 million) contributed the most to pan-Latin America fundraising.

Macroeconomic challenges also affected investment activity in the region, making fund managers reluctant to deploy capital in 2015. Average deal sizes declined, but deal flow remained stable over the past two years. Consumer-facing sectors remained the preferred investment sectors, with consumer services and healthcare companies attracting 18% and 35% of total capital invested by private equity funds, respectively. Carlyle acquired Rede D'Or Sao Luiz, a healthcare equipment and services company in Brazil for USD 580 million in the largest transaction in the region during 2015. Although macroeconomic challenges remain in the region, lower asset prices are expected to provide more attractive opportunities for private equity fund managers in 2016.

Middle East and North Africa (MENA)

- **MENA was a bright spot across all Emerging Markets, recording growth in both fundraising and investments**

Fundraising volume increased slightly in the MENA, with commitments totaling USD 1.05 billion. MENA was the only region that posted year-on-year increases, in both fundraising and investments, among major emerging markets in 2015. The lion's share of commitments to the region were made to two funds: the Abraaj Group's Abraaj North Africa Fund II and Duet Group's Duet-CIC Egypt Opportunities Fund raised USD 375 million and USD 300 million, respectively.

Investments picked up strongly in the region, with private equity firms investing USD 928 million, or 23% more capital, than in 2014. Similar to other emerging markets regions, the consumer services sector continued to be viewed as one of the most attractive sectors in MENA, given the rapidly growing middle class population and their increasing income level. Another notable phenomenon in the region is an upturn in venture capital activity. With a young and tech-savvy population and rapid growth in mobile phone penetration rate, venture capital accounted for 13% of total invested capital in the region in 2015, its record-high level in history. Looking ahead, some positive changes such as Saudi Arabia opening its stock market to foreign investors in 2015 and the lifting of Iranian sanctions in early 2016 may generate more opportunities for the region's private equity managers.

Sub-Saharan Africa (SSA)

- **SSA fundraising slowed down after a rapid growth in prior years. Private equity managers were slow in deploying large dry powder**

SSA private equity managers raised USD 3.6 billion in 2015, 16% less than a year ago. Despite a decline, 2015 saw the second highest annual fundraising volume since records began in 2006. A modest decline in fundraising despite macroeconomic challenges in the region demonstrate continued strong investor sentiment. Helios Investment Partners closed its third fund attracting USD 1.1 billion, while the Abraaj Group USD raised 990 million for its third Africa fund.

On the investment side, GPs were cautious to deploy capital during 2015. Invested capital halved to USD 1 billion while deal flow dropped 20% from 2014. Activity varied across sub-regions within SSA. Activity slowed down sharply in East Africa. In contrast, Nigeria and South Africa recorded more deals, notably the USD 220 million investment in South African electricity company Lekela Power by Actis and Ethos' backing divisions in Nempak, a South African consumer goods company.

Looking ahead, a surge in dry powder accumulated by private equity funds over the last two years will likely spur investment activity, increase deal size, and add a greater diversity to Sub-Saharan Africa's investment landscape.

Turkey and Russia/CEE/CIS

- **Fundraising declined sharply amid the region's political risks and macroeconomic vulnerability while global PE managers continued investing opportunistically in CEE**

2015 was a challenging year for the Turkey and Russia/CEE/CIS region, given the region's political and economic uncertainty coupled with Russia's continued estrangement. Only USD 637 million was raised in 2015, or 68% decline in fundraising, compared to 2014. In particular, Russia and CIS-focused funds experienced a sharp decrease and raised only USD 245 million in 2015, a five-year low. The majority, or USD 200 million of this, came from FMF Capital's FMF Mezzanine Investment Fund focusing on the CIS region.

Investment activity fared better than fundraising as global GPs continued investing opportunistically from their international/global buyout funds in Central Eastern Europe and in Turkey. CVC Capital Partners invested USD 372 million in the Polish electricity company PKP Energetyka while Apollo Global Management put USD 224 in Slovenian bank Nova KBM. Turkey and Poland were the two most popular countries for deal-making in the region, receiving 15 and 14 deals respectively. Russia slipped to the third place, accounting for 13 deals in 2015. Almost all deals completed in Russia were venture deals and were completed by local players.

Private equity secondary

In brief

- The secondary market deal flow remained robust and 2015 was another strong year. We expect to see increased deal flow in 2016 and continue to see attractive opportunities in the smaller segment of the market.

Greenhill Cogent estimates that the volume of secondary deals was USD 40 billion during 2015. The number of sellers and transactions remained steady but there were fewer deals in the USD 1 billion plus category. Sub USD 50 million transactions were largely driven by tail-end portfolio sales. The average age of buyout funds traded on the secondary market continued to increase, with funds in their harvesting phase (6 to 9 years old) comprising the bulk of buyout volume in 2015.

Dry powder remains strong, with an estimated USD 80 billion of equity capital available from a broad range of institutions. Furthermore, an increasing portion of secondary buyers are using leverage and deferrals, leading to aggressive pricing.The vast majority of capital raised in 2015 comprised of far larger secondary funds, with several USD 10 billion secondary funds successfully closing their fundraising processes. This aggregation of capital at the larger end continues to favor the competitive dynamics at the lower end of the secondary market.

As the secondary market matures, and buyers and sellers become more experienced, transactions are being completed faster than ever. More and more one step binding auction processes are being requested by sellers. In this market environment, strong execution capabilities as well as access to a strong primary private equity platform are sources of considerable competitive advantage.

One of the most significant trends of 2015 was the upturn in the number of GPs initiating the secondary sale of fund interests in their funds. The main driver behind this is the large inventory of unrealized assets in mature funds coming to the end of their fund lives. GPs of such funds are incentivized to restructure their own funds through a secondary sale in order to secure income stream and potential carry from a continued management of the portfolio companies. As of February 2016, Greenhill Cogent estimates the volume of GP-led deals over the prior 24 months to be at approximately USD 15 billion.

Another trend is the rise of real estate deals, exemplified by the CalPERS USD 3 billion sale of its real estate portfolio. Diversification of sellers' profiles away from U.S. financial institutions is another theme of 2015. While deal flow from US banks has been reduced this year, following the extension of the Volcker rule, large pension funds, non-US banks, insurance firms and multi-asset management firms continue to drive supply. Greenhill Cogent estimates that the volume of real estate secondaries was at USD 7.5 billion in 2015, compared to just USD 3.0 billion in 2013.

The recent market turmoil in China and high volatility in crude oil have had a broader market impact. Volatility has been higher across most asset classes so far in 2016. The recent public market volatility had no dramatic effect on overall secondary market volume or pricing but has induced a flight to quality. Demand and prices remain strong for high quality assets, while average and lower quality assets are increasingly more difficult to sell.As GPs typically value private equity portfolios "mark-to-market", NAVs of PE funds were affected but remained relatively resilient compared to public markets. Discounts for secondary private equity stakes widened in this environment, but only slightly. According to market observations from Greenhill Cogent, the average pricing on buyout secondaries declined from 96% of NAV during 2014 to 94% of NAV during 2015.

Looking forward, given the high valuations and uncertain macroeconomic conditions, we expect a growing price gap between top-tier and lower quality GPs and between funds and lower interest in funds with significant public exposure and high single-company concentrations. Furthermore, we expect the supply of tail-end funds to remain strong, with many sellers focusing on selling tail-end portfolios for administrative reasons. We also expect to work on an increasing number of GP-led deals as GPs use the secondary market to create LP liquidity and to restructure funds. Finally, we continue to expect attractive investment opportunities in the small and medium segments of the secondary market.

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