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Capital Dynamics Private Equity Review & Outlook

Summary

H1 2015

Highlights:

- Global private equity fundraising continued to increase, driven by a surge of investor commitments to US private equity and venture capital funds[1].
- Exit markets remained robust, albeit volume trailed the record pace of 2014. European exit activity reached new heights and is well on track to having the strongest-ever exit year[2].
- US buyout deal activity was driven by the highest levels of add-on acquisition and merger activity as PE firms focused on augmenting growth across existing portfolios[3].
- European buyouts reached their strongest level since 2007 due to the continued improvement in economic activity and credit markets[4].
- Our outlook remains positive for private equity markets. Despite rich valuations, buyouts offer a better relative entry value than public stocks, and the valuation gap between private and public markets widened in favor of private markets[5].

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

5 Capital Dynamics research based on Bloomberg and S&P Capital IQ

US buyout

In brief

- During the first half of 2015, US buyout deal activity was driven by the highest levels of add-on acquisition and merger activity as PE firms focused on augmenting growth across existing portfolios. LBO deal-making was down, while exits remained strong due to strategic acquirers and receptive public markets. LPs continued to reinvest high levels of distributions, with fundraising being well on track to reaching its sixth year of consecutive growth.

Table: US buyout market data

USD billion	H114	H115	Q214	Q115	Q215	Dy/y	Dq/q
Fundraising	98.0	**122.6**	56.2	53.1	**69.5**	25%	31%
Investments	89.5	**112.1**	40.9	65.6	**46.6**	25%	(29%)
Exits	177.1	**137.9**	103.0	56.1	**81.8**	(22%)	46%

Notes: Dq/q is the comparison of Q2 2015 vs. Q1 2015. Dy/y is the comparison of H1 2015 vs. H1 2014.
Source: Thomson ONE, Preqin, S&P Capital IQ, Bloomberg, as of August 5, 2015.

Fundraising

- **Fundraising is the strongest since 2008**

US fundraising continued to build momentum, with private equity firms raising USD 70 billion during the second quarter, the highest quarterly total since Q2 2008. Halfway through 2015, investor commitments increased by 25% year-over-year to USD 123 billion. Buyout funds attracted USD 61 billion, the largest share among all investment stages. However, the increase was mainly attributable to a single fund, with Blackstone raising USD 17 billion for its Fund VII. Investors continued to back energy funds to exploit opportunities in the down turned commodity sector, with such funds raising USD 24 billion during the first half of 2015, following the record-breaking fundraising levels of 2014 when investors committed USD 34 billion. EnCap Energy Capital Fund X raised USD 6.5 billion, the largest energy fund of the first half.

Investments

- **Add-on acquisitions drove investment activity**

During the first half, deal volume rose 25% to USD 112 billion, lifted by a USD 40 billion merger of PE-backed Heinz and Kraft Foods during the first quarter. In the second quarter, large deals were rare. The USD 5.3 billion take private of Informatica by Permira Advisors was the largest buyout deal of the second quarter. Overall, US buyout deal activity was accentuated by a surge of add-on deals and a slowdown in platform buyouts. The number of add-on deals increased 11% to 382, with the ratio of add-on deals to LBO deals rising to the highest level on record. In contrast, the number of platform buyouts declined 17% to 265 deals compared to the first half of last year, according to Preqin data. High valuations appeared to weigh on platform buyout deal-making. The purchase price multiples averaged a 9.70x EBITDA in the first half of 2015, up from 8.88x compared to a year ago, according to S&P Capital IQ.

Exits

- **Trade buyers bolstered exits**

Exit activity remained robust due to vibrant M&A activity from strategic buyers. During the second quarter, exit volume increased by 46% quarter-on-quarter to USD 82 billion. The second quarter boasted a number of large trade exits, such as the USD 9.1 billion sale of Suddenlink Communications by BC Partners and CPPIB to Altice and the USD 8.1 billion sale of Par Pharmaceutical by TPG Capital to Endo Pharmaceuticals. IPOs rebounded in the second quarter, registering 22 PE-backed offerings, 14 more than in the first quarter. Aggregated exit volume declined 22% year-over-year to USD 138 billion as both IPO and dividend recap proceeds still trailed the first half of 2014. Nevertheless, strong IPO activity during the last two years provided a solid platform for post-IPO disposals, with GPs selling public holdings worth USD 35 billion during the first half, eclipsing the prior year's period benchmark by 31%, according to Bloomberg.

Outlook

- **PE offers better entry value than stock markets**

Our outlook remains positive for US private equity. Despite rich valuations, buyouts offer a better relative entry value than public stocks, and the valuation gap between private and public markets has recently widened in favor of private markets, according to our research. Savvy investors maintain consistent investment pace focusing on managers with distinctive sourcing and selection ability, operational value creation skills and investments with substantial growth opportunities and cash generation potential.

US venture

In brief

- Halfway through 2015, US venture was on track to surpassing last year's multi-year high in funding. While the overall number of deals has slightly declined, companies that had already reached billion-dollar valuations attracted the bulk of invested capital from unconventional investors at frothy valuations. Exits remained relatively robust, although trailed the banner 2014.

Table: US buyout market data

USD billion	H114	H115	Q214	Q115	Q215	Dy/y	Dq/q
Fundraising	18.2	**17.9**	8.1	7.3	**10.6**	(2%)	45%
Investments	27.9	**35.9**	15.4	16.7	**19.2**	29%	15%
Exits	36.0	**26.3**	14.9	13.9	**12.4**	(27%)	(11%)

Notes: Dq/q is the comparison of Q2 2015 vs. Q1 2015. Dy/y is the comparison of H1 2015 vs. H1 2014.
Source: Dow Jones VentureSource, as of August 5, 2015.

Fundraising

- **Fundraising was the strongest since 2001**

Improved liquidity and performance among venture funds has translated into elevated levels of investor commitments. In the second quarter of 2015, commitments to US venture capital increased 45% quarter-on-quarter to USD 10.6 billion. Within the first half of 2015, 143 venture funds collected USD 18 billion and, on an annualized basis, were on track to reaching the highest level since 2001. The second quarter saw final closes from two billion-dollar funds: New Enterprise Associates closed the largest ever early-stage venture fund collecting USD 2.8 billion for its 15th fund and Institutional Venture Partners raised USD 1.4 billion for its late-stage Fund XV.

Investments

- **Unicorns fuelled a surge in invested capital**

VC-backed companies continued to thrive attracting large funding from unconventional investors such as mutual funds, hedge funds and sovereign wealth funds. As a result, invested capital soared 15% quarter-on-quarter to USD 19 billion during the second quarter, bringing the first half total to USD 36 billion, up 29% from a year ago. Halfway through 2015, VC-backed companies attracted as much capital as in the entire 2013. The bulk of investor capital was allocated to companies that had already reached at least billion-dollar valuations, so called "unicorns". During the first half, 42 unicorns received USD 10 billion from private investors or 29% of total capital raised by all VC-backed companies. During the first half, two companies received billion-dollar financing: a consortium of investors led by General Atlantic, Hillhouse Capital Management and Tiger Global Management invested USD 1.5 billion in Airnbnb, while Google invested USD 1 billion in Space Exploration Technologies. With these financing rounds, both companies joined a group of 6 VC-backed companies with at least USD 10 billion valuations.

Exits

- **IPO and M&A exits declined after record 2014**

Exits continued at a strong level, albeit at a slower pace after a dramatic upturn last year. In the first half of the year, 32 IPOs raised USD 3.4 billion in initial proceeds, representing a 37% drop in the number of offerings and a 30% decline in proceeds. Availability of large funding and partial liquidity at lofty valuations given by private investors to founders and early investors appear to delay potential IPOs. Fitbit completed the largest IPO and was valued at USD 4.1 billion. Likewise, M&A exits trailed the prior year's pace, with the number of exits declining 18% to 275 deals and exit values dropping 36% to USD 23 billion. Small companies dominated the exit landscape, with only two exits surpassing the billion-dollar mark. Linda.com, a provider of online learning solutions, was sold by Accel Partners and a consortium of investors for USD 1.5 billion to LinkedIn in the largest M&A exit.

Outlook

- **Non-VC investors are expected to continue driving deal volume**

2015 is heading towards another strong year. Funding for VC-backed companies is expected to continue growing as unconventional investors remain keen to participate in the upside before companies achieve liquidity. Many VC-backed companies continue to expand at a quick pace. However, a rapid rise of unicorns and the likelihood of monetization of those assets raise concerns. We believe VC funds that invest in market disruptive companies at fair valuations can withstand market volatility.

EU buyout

In brief

- European buyouts reached their strongest level since 2007 due to the continued improvement in economic activity and credit markets. Deal activity gained traction across all major regions, notably in Southern Europe and France. Exits surged to a record-breaking level in the first half of the year fuelled by trade buyers and strong valuations in stock markets.

Table: European buyout market data

EUR billion	H114	H115	Q214	Q115	Q215	Dy/y	Dq/q
Fundraising	30.8	**26.3**	15.5	12.0	**14.4**	(15%)	20%
Investments	32.7	**49.9**	20.1	17.0	**33.0**	53%	94%
Exits	66.3	**81.9**	44.5	42.3	**39.6**	23%	(6%)

Notes: Dq/q is the comparison of Q2 2015 vs. Q1 2015. Dy/y is the comparison of H1 2015 vs. H1 2014.
Source: Thomson ONE, Preqin, Bloomberg, as of August 5, 2015.

Fundraising

- **Fundraising trails 2014**

European fundraising continued to trail the 2014 pace. During the first half, fewer funds (57) held closings compared with the same period a year ago, while commitment volume declined by 15% to EUR 26 billion. However, experienced managers continued to raise multi-billion Euro funds. Bridgepoint Capital closed its fifth European buyout fund at EUR 4 billion, the largest fund during the first half. Other notable buyout fund closings were held by PAI Partners, Equistone Partners Europe and Waterland Private Equity Investments. Funds targeting credit opportunities appear to be in demand, with ICG and Park Square Capital raising EUR 2.5 billion and EUR 2.1 billion, respectively.

Investments

- **Investments surge in the second quarter**

European buyout investment activity gained traction in the first half of 2015. Investment volume increased 53% year-over-year to EUR 50 billion. Investment activity was particularly buoyant in the large-cap segment supported by improving economic activity, continued robust credit markets and a strong flow of secondary buyout opportunities. The second quarter saw 11 billion-Euro deals, the highest number since the second quarter of 2007. Encouragingly, average purchase price multiples paid for European buyouts during the last twelve months declined to an 8.8x multiple of EBITDA from 9.5x in 2014. Throughout the first half, the UK continued to dominate deal flow, while France claimed the highest deal volume in improving macroeconomic environment, with the country reporting the strongest growth in two years. In the largest buyout deal of the first half, Apollo Management agreed to buy Verallia, the glass bottling unit of a French conglomerate Saint-Gobain, for EUR 2.9 billion. Buyout investments continued to increase in Spain and Italy, with both markets registering growth in the number of deals and deal volume halfway through 2015. Spain saw its largest-ever PE transaction as Santander Asset Management agreed to merge with Pioneer Investments, with existing investors Warburg Pincus and General Atlantic investing additional equity into the EUR 5.3 billion merger. Italy recorded its largest buyout since 2006 as Advent International, Bain Capital, and Clessidra agreed to acquire Istituto Centrale delle Banche Popolari Italiane for EUR 2.2 billion.

Exits

- **Trade buyers and IPO bolstered exits**

European exit activity reached new heights and was well on track to having the strongest-ever exit year. During the first half, exit volume increased 23% year-over-year to EUR 82 billion. Active trade buyers and valuation-rich public markets were the preferred exit routes accounting for 41% and 35% of overall exit volume, respectively. Terra Firma and CPPIB agreed to sell a portfolio of AWAS Aircraft to Macquarie Group for EUR 3.7 billion in the largest exit of the first half. Europe saw 43 IPOs from PE-backed companies collectively raising EUR 15 billion in initial proceeds and numerous follow-on sales totaling EUR 14 billion. The UK publisher Auto Trader, backed by Apax Partners, had the largest IPO of the first half raising EUR 2.1 billion.

Outlook

- **Macro conditions could aid PE acceleration**

Looking ahead, recovery in PE activity could accelerate in line with improving macro conditions across Europe. Existing and new investments could benefit from a weaker Euro supporting export-oriented businesses, while lower energy prices improve margins and boost consumer demand.

European venture

In brief

- The European venture market continued to strengthen during the first half of 2015. VC-backed companies, particularly in the late stage of development, attracted much higher levels of funding from venture as well as other private investors compared to a year ago. A buoyant IPO and M&A environment resulted in an elevated level of exit activity driven by large M&A exits in biotech and consumer internet sectors.

Table: European venture capital market data

EUR billion	H114	H115	Q214	Q115	Q215	Dy/y	Dq/q
Fundraising	1.83	**2.00**	1.12	0.90	**1.10**	9%	23%
Investments	3.88	**5.77**	2.27	2.72	**3.05**	49%	12%
Exits	4.06	**8.67**	1.63	5.20	**3.47**	114%	(33%)

Notes: Dq/q is the comparison of Q2 2015 vs. Q1 2015. Dy/y is the comparison of H1 2015 vs. H1 2014.
Source: Dow Jones VentureSource, as of August 5, 2015.

Fundraising

- **Fundraising is on the recovery path**

European venture fundraising has been on the recovery path since it hit the lowest point in the second half of 2014. During the first half of 2015, European VC funds raised EUR 2.0 billion across 26 funds, up 9% year-over-year. The number of funds raised remained stable over the year, while the increase in committed capital was driven primarily by the EUR 650 million closing of Index Ventures Growth III fund. The supply of venture funds appears to be on the rise. According to Preqin, about 100 venture funds are on the market targeting to raise EUR 9 billion, thrice as much capital raised compared to the previous year.

Investments

- **Europe follows the US trend in deal-making**

VC-backed companies continued to attract capital from various investor sources at favorable terms, supporting growth in the recovering macroeconomic environment. During the first half, invested capital in European start-ups surged 49% year-over-year to EUR 5.8 billion. Europe follows the US venture trend of increased funding of companies in late stage of development. This is a positive change as Europe lacked late-stage investors in the past. While many European venture firms don't have adequate dry powder for bigger deals, funding is increasingly provided by US venture capital funds, corporate venture arms and other private investors. The presence of 13 deals exceeding EUR 100 million contributed to a surge in invested capital. European unicorns Delivery Hero and Spotify received sizeable support for further expansion. Delivery Hero attracted EUR 639 million in various rounds, mainly from Rocket Internet and lately from the US-based private investor Anchorage Capital Group, while Spotify received EUR 437 million from a broad consortium of investors.

Exits

- **Exit volume doubled driven by large M&As**

European VC exit volume increased sharply during the first half. Corporations investing in consumer technology and IT as well as large pharmaceuticals companies acquiring start-ups with promising product pipelines accounted for more than doubling exit volume to USD 9 billion. The sale of consumer internet and biotech companies made up half of the total M&A exit volume. The expansion of Delivery Hero into the Turkish market resulted in the EUR 526 million exit from a local market player for General Atlantic and co-investors. Roche acquired the French developer of innovative therapeutics, Trophos, for EUR 470 million in the largest biotech M&A exit. IPOs of VC-backed companies continued at a robust pace. The first half witnessed 27 offerings raising EUR 950 million with the EUR 170 million IPO of Adaptimmune Therapeutics commanding a market capitalization of EUR 1.5 billion.

Outlook

- **VC to benefit from improved deal environment**

European venture continues to advance. The globalization of VC investments, benign valuations of European targets and an emergence of venture hubs in London and Berlin will be drivers of venture activity in Europe. We expect experienced managers to seize opportunities to invest as well as gain liquidity in the buoyant IPO and M&A environment. We also expect increased M&A activity from well-funded VC-backed companies aiming to consolidate fragmented European markets.

Asia-Pacific private equity

In brief

- Asia-Pacific investment volume had a strong first half, boosted by large buyouts. Trade exits rebounded, while PE firms were active to take companies public or sell down public holdings in robust public markets, particularly in China. The outlook has become clouded as the recent public market turmoil in China can impact exit and fund-raising activities in the region.

Table: Asia-Pacific private equity market data

USD billion	H114	H115	Q214	Q115	Q215	Dy/y	Dq/q
Buyout fundraising	10.8	**2.6**	7.8	1.8	**0.8**	(76%)	(53%)
Growth fundraising	20.5	**19.6**	10.0	12.8	**6.8**	(4%)	(47%)
Buyout investments	15.8	**20.9**	7.9	10.2	**10.7**	32%	5%
Growth investments	26.8	**33.7**	12.2	10.1	**23.6**	26%	134%
M&A exit values	30.5	**19.5**	16.0	7.3	**12.2**	(36%)	68%
IPO exit values	18.0	**25.3**	8.3	6.3	**19.0**	40%	203%

Notes: Dq/q is the comparison of Q2 2015 vs. Q1 2015. Dy/y is the comparison of H1 2015 vs. H1 2014.
Source: AVCJ, as of August 5, 2015.

Fundraising

- **Muted buyout fundraising weighed on volume**

The Asia-Pacific fundraising declined 29% year-over-year to USD 21 billion during the first half of 2015. The drop-off was mainly driven by a lack of buyout fund closings. However, buyout fundraising is likely to increase in the upcoming quarters as large-cap funds managed by RRJ Capital, PAG Capital Asia, Bain Capital and Carlyle Japan are currently in fundraising. Large Chinese infrastructure RMB funds raised by Green Silk Road Fund and Sunvision Capital elevated the headline fundraising figures during the first half. Fundraising activity suggests that LP sentiment regarding India is changing in tandem with macroeconomic developments as the country's growth hit the four-year high, exceeding growth in China. Commitments to India-focused funds increased 41% year-over-year to USD 2.4 billion. India Value Fund raised USD 500 million for its fifth fund during the first half and closed the fund at USD 700 million in July.

Investments

- **Continued strong buyout and growth investing**

Buyout investment deal flow continued at a steady pace. However, a rise of large buyouts helped propel the 32% growth year-over-year in investment volume to USD 21 billion during the first half. In particular, Australian buyouts got a tailwind from a downturn in energy prices and a historically low interest rate environment, with the benchmark interest rate decreasing further in May 2015. The country boasted three out of the four billion-dollar buyout deals made in Asia-Pacific. All three deals have exposure to the interest rate and commodity prices, including the largest-ever buyout deal of the region - the USD 6.3 billion acquisition of the consumer lending business of GE Capital by KRR. Two more deals were announced in the energy and infrastructure sectors. A consortium led by Macquarie agreed to acquire the Australian unit of wireless towers from Crown Castle for USD 1.6 billion, while Macquarie and Brookfield Asset Management acquired Apache Energy for USD 1.5 billion as oil corporations started to shed assets in non-core markets.

Exits

- **PE firms took advantage of public markets**

PE firms took advantage of frothy stock markets, with open market sale and IPO volume surpassing M&A exit values by a large margin. During the second quarter, the capital raised by 89 floated companies tripled quarter-on-quarter to USD 19 billion. IPOs of two PE-backed companies, Huatai Securities and GF Securities, raised USD 4.5 billion and USD 4.1 billion, respectively. Additionally, Hony Capital sold CSPC Pharmaceutical shares worth USD 1.3 billion in the open market. After a slow take-off, M&A exits recovered in the second quarter. The USD 1.2 billion sale of FCE Asia by Bain Capital to Amphenol lifted the quarterly M&A exit volume to USD 12 billion.

Outlook

- **Market turmoil in China can impact PE exits**

The recent public market turmoil in China and uncertainty arising from government policies and economic outlook are expected to weigh on private equity exit and fundraising activities in the region. However, such market dislocations present good investment opportunities for PE funds.

Emerging Markets (ex. Emerging Asia)

In brief

- Private equity fundraising continued to be strong across Emerging Markets in H1 2015 with the exception of the Turkey/Russia/CEE/CIS region, where the market remained relatively muted.
- Investment activities declined across markets excluding the CEE & CIS region. Generally, the growth in investment activities across Emerging Markets was not sufficient to catch up to the faster growth in fundraising.
- Despite lingering concerns, both a recent private equity investor survey and fundraising figures indicate improved overall investor confidence in Emerging Markets, although outlook varies across sub-regions.

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

USD million		H114	H115	Q214	Q115	Q215	Dy/y	Dq/q
MENA	Fundraising	146	**465**	100	351	**114**	219%	(68%)
	Investments	412	**290**	267	240	**50**	(30%)	(79%)
	Number of deals	35	**26**	15	14	**12**	(26%)	(14%)
SSA	Fundraising	2,151	**2,733**	1,629	1,895	**839**	27%	(56%)
	Investments	1,464	**609**	607	321	**288**	(58%)	(10%)
	Number of deals	60	**44**	22	21	**23**	(27%)	10%
CEE & CIS	Fundraising	1,480	**177**	24	123	**54**	(88%)	(56%)
	Investments	622	**687**	219	173	**514**	11%	197%
	Number of deals	89	**51**	39	24	**27**	(43%)	13%
Latin America & Caribbean	Fundraising	1,021	**2,755**	606	1,349	**1,406**	170%	4%
	Investments	2,520	**1,582**	828	447	**1,135**	(37%)	154%
	Number of deals	69	**66**	36	28	**38**	(4%)	36%
Emerging Markets (Ex. Em. Asia)	**Fundraising**	4,798	**6,131**	2,359	3,718	**2,413**	28%	(35%)
	Investments	5,018	**3,168**	1,921	1,181	**1,987**	(37%)	68%
	Number of deals	253	**187**	112	87	**100**	(26%)	15%

Notes: Dq/q is the comparison of Q2 2015 vs. Q1 2015. Dy/y is the comparison of H1 2015 vs. H1 2014.
Source: EMPEA, as of August 5, 2015.

Latin America

- **Strong fundraising and investment activities continued in the first half of 2015 despite the region's macroeconomic challenges**

The positive sentiment in Latin America during 2014 continued into the first half of 2015. Private equity funds in the region raised USD 8.6 billion in 2014 and nearly USD 2.8 billion in H1 2015, showing continued momentum in the region despite numerous macroeconomic challenges and political uncertainty. Even with currency depreciation and declining growth, Brazil dominated fundraising and investment activities in Latin America. In fact, Brazil recorded two of the most notable fund closings in the region: Patria Investimentos's P2Brasil Private Infrastructure Fund III and BTG Pactual's BTG Pactual Brazil Timberland Fund I raised USD 1.6 billion and USD 860 million, respectively. Subsequently, Patria Investimentos deployed USD 100 million by investing into Brazilian industrial transportation company Hidrovias do Brasil.

However, the largest deals were made by international investors. Carlyle Group invested USD 592 million in Rede D'Or São Luiz (Rede D'Or), the largest private hospital operator in Brazil. Investment was funded by Carlyle Partners VI and Carlyle's South American buyout funds, including its second local Brazilian fund, Fundo Brasil de Internacionalizacão de Empresas FIP II. The second largest investment was the USD 373 million acquisition of Allied S.A., the independent marketer and provider of technology products in Brazil, by Advent International from One Equity Partners (OEP) and other minority shareholders.

Middle East and North Africa (MENA)

- **Private equity fundraising remained strong, while investments slowed down**

Strong fundraising activity in MENA continued in the first half of 2015 with managers raising a total of USD 465 million in the region. More than two-thirds of capital was raised by two funds. Duet Group's Duet-CIC Egypt Opportunities Fund and Berytech's venture capital fund focusing on deals in Lebanon raised USD 300 million and USD 51 million, respectively.

In contrast, investment activity slowed down after a bright start into 2015. The invested capital declined 30% year-over-year to USD 290 million. As with other emerg-ing markets, investors in the region view the consumer sector to be the most attractive given the rapidly growing middle class population and their income level. Healthcare is also considered to be a promising sector. The Abraaj Group's investment of USD 145 million in North Africa Hospital Holdings Group, the largest investment in the region during the first half of 2015, exemplifies the attractiveness of the healthcare sector, which can serve, to some extent, as hedge against political risks. While political instability has created challenges for many MENA private equity managers, there is some positive news, such as the opening of the Tawadul, Saudi Arabia's stock exchange, to qualified foreign institutional investors in June 2015.

Sub-Saharan Africa (SSA)

- **SSA became a fast growing market with larger funds raised supported by positive LP sentiment. However, managers need to be more active to deploy the capital**

SSA fundraising is an example of the remarkable growth in investor interest within the region. Private equity fundraising reached a record high of USD 2.7 billion in H1 2015, only slightly below that of Latin America & the Caribbean. Most notably, the first half saw the three largest funds ever raised in Sub-Saharan Africa; Helios Investment Partners' Helios Investors III at USD 1.1 billion, the Abraaj Group's Abraaj Africa Fund III at USD 990 million and Development Partners International's African Development Partners II at USD 725 million. As demonstrated by the EMPEA's 2015 Global Limited Partners Survey, LP sentiment towards Sub-Saharan Africa remains positive. It was ranked as the third most attractive emerging market destination for PE fund investments and the highest for indication of increased exposure to the region by LPs participating in the survey.

However, investment activity has yet to follow the same upward trend as fundraising. During the first half of 2015, invested capital totaled USD 609 million, less than half of the amount of the same period in 2014. The largest investment was the UK-listed Actis's launch of a pan-African renewable energy generation platform, Lekela Power, alongside Mainstream Renewable Power, the global wind and solar developer. There were two more large deals in the region; Ethos Private Equity's USD 133 million investment in South Africa's Nampak's Tissue (corrugated and sacks division) and Helios Investment Partners's USD 100 million investment in Kenya's oil & gas producer Africa Oil Corp.

Looking ahead, the recent large fund closes within the region will likely add more activity and greater diversity to Sub-Saharan Africa's investments, which has historically been dominated by small deals below USD 25 million in size.

Turkey and Russia/CEE/CIS

- **CEE and Turkey demonstrated a significant decrease in fundraising as investors continued to be concerned about the region's political risks and macroeconomic vulnerability, while investment activities picked up**

Various political and economic challenges, including international sanctions and currency fluctuations, resulted in a significant decline in fundraising activities in the region during the first half of 2015 compared to the prior year. Only USD 123 million was raised in the region in the first quarter of 2015, the lowest first quarter total since 2011. The second quarter was even more muted, adding a mere amount of USD 54 million. LP perceptions remained negative and many investors have considered the region's political risk as a factor likely to deter their allocation to the region.

Despite slow fundraising, there was a silver-lining in investment activities as GPs continued to find opportunities in the CEE region and in Turkey despite numerous challenges. In the largest deal of the first half, Apollo Global Management invested USD 224 million in Slovenia's second-largest bank Nova KBM. There were two more deals at or above USD 100 million. Mid Europa Partners invested USD 192 million in Serbian food producer Danube Foods Group and Abraaj Group invested USD 100 million in Hepsiburada, a Turkish market leader in the online retail sector.

Private equity secondary

In brief

- The secondary market deal flow remained robust in the stable pricing environment during the first half of 2015. We expect to see increased deal flow in the second half of the year and continue to discover attractive opportunities in the smaller segment of the market.

Based on half year data, 2015 has started off to be a robust year for deal volumes. Greenhill Cogent estimated the total secondary transaction volume in the first half of 2015 to be in excess of USD 15 billion, slightly below the first half of 2014, which saw volumes at USD 16 billion. While traditional sales of portfolio interests accounted for the majority of the volume, there is a significant increase in the demand for non-traditional deals, including GP fund restructurings and spinouts. Seller diversity continues to increase as investors of all types are looking to reduce their non-core holdings, including traditional secondary buyers and fund of funds. As the secondary market matures and buyers and sellers become more experienced, transactions are being completed faster than ever.

Pricing remained near historic highs in the first half of 2015 driven by record fundraising, increased distribution activity and strong public market performances. Based on the secondary market trends report issued by Greenhill Cogent in July 2015, secondary pricing across all strategies increased slightly from 91% to 92% of NAV from the second half of 2014 to the first half of 2015, with buyout pricing at 95% of NAV and venture capital at 82% (H1 2014: 96% and 81% respectively). In our view, pricing will remain elevated throughout the next few quarters as we expect GP valuations and exits to remain strong in both the buyout and venture spaces given the robust IPO markets and an abundance of primary capital raised during the last few years.

Looking forward, we expect to see increased deal flow going into the second half of 2015 across the secondary market compared to the first half of the year with sellers of all types looking to reposition their portfolios. Financial institutions will represent a smaller portion of the sellers market, due to the extension of the Volker compliance deadline. Further non-traditional sales will comprise a greater share of the overall market and mega deals will resume. While competition from large secondary funds is expected to cause upward pressure on prices within the larger end of the market, we expect continued opportunities in the small and medium sectors. We will continue to target attractive returns for investors by investing in smaller deals with a focus on quality assets, especially in non-traditional transactions with more complex structures.

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