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2017 PREQIN GLOBAL PRIVATE EQUITY & VENTURE CAPITAL REPORT

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KEYNOTE ADDRESS

- Joseph Bae, **KKR**

Since launching in Asia over a decade ago, how has KKR's strategy evolved in the region?
Over the last 10 years, KKR has built a large regional footprint in Asia in a systematic and disciplined way. As a result, today we have one of the largest private equity platforms in Asia, with seven offices, more than 120 KKR executives and more than $10bn of capital deployed. In addition, 15 executives from KKR Capstone support our efforts. In fact, some of our best returns globally in private equity at the firm have come out of Asia.

While we have grown in size, our strategy has – at a high level – stayed the same: maintain highly localized teams that are fully integrated with our global platform. Asia is not one big market – it is a collection of different markets. By localizing our investment teams, executives can focus on unique origination channels in the local markets we want to do business in. At the same time, KKR's global network is critically important as it offers companies access to our operational capabilities, industry expertise and network of US or European contacts, all of which can help accelerate the growth of the local businesses we partner with.

In the next five years, do you see KKR's Asia strategy continuing to change?
We think there is an increasing advantage to having multiple pools of capital. To succeed in Asia long-term, it is not simply about how big your private equity fund is, but rather about the flexibility you have to partner with key entrepreneurs and stakeholders in the region. At KKR, we are fortunate to have many pools of flexible capital beyond private equity, whether through special situations, direct lending, real estate, or even our Firm's balance sheet. Our ability to take advantage of different investment opportunities up and down the capital structure will be a critical piece in how we continue to succeed in Asia.

Where are you seeing attractive risk/return opportunities in Asia in light of emerging market declines and the general concern about Asia's slowdown?
The current macro growth environment is very different from when we first entered the market in 2005. In certain emerging markets, like China, we are seeing a deceleration of growth and a slowdown in global trade overall. Given these headwinds, we are most inclined to buy complexity and sell simplicity.

Particularly in China, we want to invest behind opportunities where our differentiator is not our capital but rather our ability to provide a solution. For example, we have made multiple investments in Chinese agricultural companies that focus on food safety and security for everything from poultry to milk, beef to feed. As the government works to ensure the country's food safety practices keep pace with economic expansion, gaps in operations and quality control have led to a number of large, food-related incidents in the country, shaking consumers' confidence in the safety of their food. In the aftermath of such events, companies are looking for a partner who can add value and help them implement global best practices to emerge even stronger and safer than before. This is one way we have integrated Environmental, Social and Governance (ESG) principles into our investment process.

We also see unique opportunities in markets such as Japan, Korea and Australia where we believe we can create large-scale corporate carve-outs, taking our operational approach to investing and helping drive meaningful improvements at the companies we invest behind. In emerging markets such as India, we see a shift to more control-oriented opportunities and, therefore, do not focus on small minority growth deals. Instead, we are looking to invest in larger-scale opportunities which might be more complex operationally, but where we are able to provide a solution in addition to supplying capital.

Where do you see the best investment opportunities in Asia in terms of geography?
From a pipeline standpoint, one of our busiest markets today is Japan and there are a number of reasons for that. The country's focus on corporate governance, on corporate reform and the divestiture of non-core assets is creating significant opportunities for firms like us to partner with leading Japanese corporates and acquire non-core businesses to fundamentally reposition their growth trajectory. Our carve-out of Panasonic's healthcare business and its subsequent acquisition of Bayer's global diabetes care business is a prime example of this.

Japan is also interesting in that valuations on a relative basis are quite low in comparison to other mature markets, such as the US and Europe. The financing markets are among the most liquid in the world for Japanese banks and the potential for operational improvement is high. Finally, the competitive landscape within private equity is much more limited in the area given how difficult it is to penetrate the Japanese market. The combination of these factors – and the way KKR's franchise is uniquely positioned in the region – makes Japan an attractive geography for us.

And with regards to sector?
We continue to be attracted to sectors tied to domestic consumption in emerging markets. This includes longer-term trends around a rising middle class, urbanization, services and consumption, and means we are spending a lot of time in healthcare, food, consumer and financial services sectors. Nonetheless, a lot of those sectors today are overvalued, so we need to be quite disciplined about how we deploy capital into them. More recently, we have started investing in markets like Indonesia

– where we made our first two private equity investments this year – because we can get access to very significant domestic consumption trends at a much more interesting valuation than we can in markets like China and India.

Are you seeing more buyout and control deals across Asia-Pacific?
Absolutely. In markets like Korea and Japan, that has always been our core target deal. In India, there has been a meaningful shift in opportunity to do interesting control deals and we are hoping to see more buyout and control deals becoming available in China, especially given the succession issues entrepreneurs are facing in the region and the slowing growth environment.

We are seeing a record level of cross-border M&A activity from companies from markets such as China. What is driving this activity, and what opportunities are you seeing?
One of the distinct developments in the global M&A market over the last five years is the emergence of Asian strategic buyers. Of all cross-border M&A deals today, approximately 25% involve Chinese buyers and 11% involve Japanese buyers. So, over one-third of today's global M&A market is being dominated by Chinese and Japanese buyers. A big reason for this is the excess liquidity on-shore and companies' fundamental desire to gain access to technologies, customers and new channels of growth abroad. This is especially true in the manufacturing sector, where Chinese companies want to migrate to higher value-added manufacturing and away from commodity manufacturing.

This is an opportunity for global firms like ours that are integrated across the US, Europe and Asia. For example, in the last year we executed on transformational cross-border deals with two of our portfolio companies: Haier, which acquired GE's global home appliance business, and Panasonic Healthcare, which acquired Bayer's global diabetes care unit. These acquisitions repositioned the companies as dominant global businesses and helped fulfil a long-term strategic desire of the management teams to expand abroad. Being able to connect buyers and sellers from around the world has also been a big reason for our achieving of premium prices for assets we are selling out of our portfolio.

What is your approach to deal sourcing in Asia?
First and foremost, it is being positioned in the market as solutions providers, and not simply as financial investors. We want to be chosen as a partner in order to fundamentally help improve companies and grow businesses.

We have a highly localized approach to deal sourcing. Maintaining a deep local network of relationships and teams is a key element of how we source deals. In the last decade, the majority of what we have done in Asia has been on a proprietary basis, participating in very few secondaries and auctions. We also try to develop a specialized expertise in certain areas, such as food safety and specialty agriculture, to differentiate ourselves in terms of industry knowledge.

Valuations in Asia have only corrected to a moderate extent in light of market uncertainty. How do you source deals in this environment?
Equity markets have performed very differently in emerging markets over the last five years than they have in the US and Europe. While valuations in those regions are very high, Asia has been in a 72-month downturn in equities. This is mostly driven by concerns around a slowdown in China as well as weakness in foreign currency with the expectation that the US dollar will rise. We believe we are close to where we think the market is stabilizing in the emerging markets. Therefore, now is an interesting vintage for us to be more aggressive in deploying capital as we believe we are closer to the bottom of the cycle than the top.

With the low valuation environment in Asia today, how difficult has it been to monetize your investments at attractive prices?
In the last 10 years, we have invested \$10bn and returned over \$11bn back to our investors, with \$9bn being returned in the last five years alone. We have found that if you have a high-quality business in Asia that is growing, the exit will likely take care of itself, either through the IPO market or through a strategic sale of the business. The key is being nimble, flexible and ensuring you hit the windows for exit at the right time.

What are the main challenges heading into 2017 and what is your advice to navigate these?
Given the global political movement towards populism, I expect to see more volatility in addition to continued headwinds facing global trade. Another challenge would be the significant structural changes needing to take place in the Chinese markets to rebalance their economy. To navigate these properly, I would stress the need to be flexible, opportunistic and focused on the risk-reward you are looking to take in the marketplace. Investing across Asia today is not a simple bet. To succeed, you must have a very specific strategy in terms of how you are going to create value above and beyond what the macro market is doing.

KKR
Founded in 1976, KKR is a leading global investment firm that invests in multiple asset classes. In our private equity business, we invest our own capital alongside third-party capital through a group of private equity funds and co-investment vehicles, for long-term appreciation, generally through controlling ownership of a company or strategic minority positions. In our investments, we aim to grow and build long-term value, which we believe ultimately benefits our fund investors as well as the companies in which we invest, their employees, and the communities in which the companies operate.

JOSEPH BAE
Mr. Bae has been with KKR for over 20 years and is the Managing Partner of KKR Asia and the Global Head of KKR's Infrastructure and Energy Real Asset businesses. He is the Chairman of KKR's Asia Private Equity Investment Committee. He also serves as a member of KKR's Americas and European Private Equity Investment Committees and KKR's Energy, Infrastructure and Special Situations Investment Committees.

www.kkr.com

PRIVATE EQUITY: 2016 IN NUMBERS

THE INDUSTRY IS LARGER THAN EVER

$2.49tn
Private equity assets under management as of June 2016, an all-time high.

$820bn
Dry powder held by private equity funds as of December 2016, up from $755bn at the end of 2015.

ANOTHER ROBUST YEAR FOR FUNDRAISING

$347bn
Aggregate capital raised by 830 private equity funds closed in 2016.

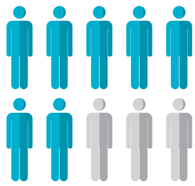
$10.8bn
Ardian raised the largest secondaries fund ever closed, Ardian Secondary Fund VII.

CAPITAL IS INCREASINGLY CONCENTRATED

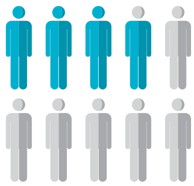
$471mn
Average size of private equity funds closed in 2016, an all-time high.

26%
of aggregate capital raised was secured by the 10 largest funds closed in 2016, up from 19% in 2014.

HIGH VALUATIONS ARE A CONCERN

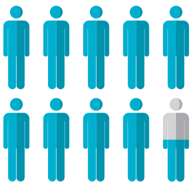


70%
of investors consider valuations to be one of the key issues facing the private equity industry.



38%
of fund managers believe that pricing for portfolio companies is higher than 12 months ago, compared to 19% that believe pricing is lower.

STRONG RETURNS AND DISTRIBUTIONS



95%
of investors believe that their private equity portfolios have met or exceeded performance expectations over the past 12 months, up from 81% in December 2011.

$257bn
Total capital distributions in H1 2016, following the record $472bn distributed in 2015.

LP APPETITE REMAINS HEALTHY

84%
of investors have a positive perception of private equity, the greatest proportion among alternative asset classes.

48%
of investors plan to increase their allocation to private equity over the long term, compared with only 6% that plan to decrease exposure.

PRIVATE EQUITY IN 2017

- Christopher Elvin, **Preqin**

2016 was another stellar year for private equity and the total AUM for the industry now stands at $2.49tn as of June 2016 (the latest data available), an all-time high. The question on many people's minds is 'how much longer will it continue?' While the reality is that only time will tell, private equity is well positioned for another strong year in 2017, despite continuing economic concerns and wider political volatility.

PRIVATE EQUITY CONTINUES TO DELIVER FOR INVESTORS

In the three years to June 2016, private equity investors have seen annualized returns of 16.4%, the highest among private capital strategies. As a result of this strong performance, investors have continued to see distributions significantly surpass capital calls: $257bn was distributed in the first half of 2016 compared with $129bn in capital calls – so a net cash flow of $128bn back to LPs. The trend of capital distributions surpassing capital calls is now in its sixth year, and it is the third year in which net cash flows to investors have been well in excess of $100bn.

Fifty-seven percent of institutional investors now have an allocation to private equity, and as a result of high distribution levels, investor satisfaction is at an all-time high – 95% of investors recently surveyed (see pages 85-87) stated that private equity had met or exceeded their expectations in the past year; 48% of respondents plan to increase their allocations to private equity over the long term, while a further 46% will maintain their allocations. Similarly, 49% of LPs are looking to invest the same amount of capital and 40% are looking to invest more capital in private equity in the next 12 months than they did during 2016.

A THRIVING FUNDRAISING ENVIRONMENT

Driven by LP demand and liquidity, 2016 was the fourth consecutive year in which private equity fundraising surpassed $300bn. However, there is a clear trend towards greater concentration of capital among fewer funds – 12% fewer funds closed in 2016 than in 2015, resulting in the average fund size increasing to $471mn, an all-time high. Private equity accounted for 57% of all private capital raised in 2016, up from 52% the previous year.

Perhaps the greatest indication of the liquidity LPs currently have, as a result of the wave of distributions they have received over the past few years, is the fact that 76% of private equity funds closed in 2016 met or exceeded their target size. This represents the largest proportion of funds meeting or exceeding their target size in any year over the period 2009-2016, with the proportion failing to meet their target decreasing from 63% in 2009 to 25% in 2016.

STILL A SELLER'S MARKET

While the volume of private equity backed buyouts in 2016 (3,986) is expected to surpass the record number of transactions seen in 2014 (4,006) as more data becomes available, aggregate deal value ($319bn) was 25% lower than in 2015 and reached the lowest level seen since 2013 ($313bn). Venture capital deal flow in 2016 saw the opposite trend: 9,719 deals were recorded during the year, the lowest number since 2013, but the aggregate value of deals reached $134bn, just behind the record amount achieved in 2015 ($140bn).

Fund managers are clearly finding it tough going due to the current high entry prices for assets. They are also clearly seeing more competition for assets: Preqin's latest survey found that 42% of fund managers feel that there is currently more competition for transactions, and 38% of respondents feel that pricing for portfolio companies is higher than it was 12 months ago.

Despite 2016 being the second consecutive year in which both buyout and venture capital exit activity has fallen (see pages 114 and 130), it is still very much a seller's market, and exit activity is higher than all years prior to 2013. Thirty percent of fund managers expect exit activity to increase in 2017, and a further 46% expect it to remain at current levels.

OUTLOOK FOR 2017

The private equity model is working and in a low interest rate environment the asset class will continue to appeal to investors looking for high absolute returns and portfolio diversification.

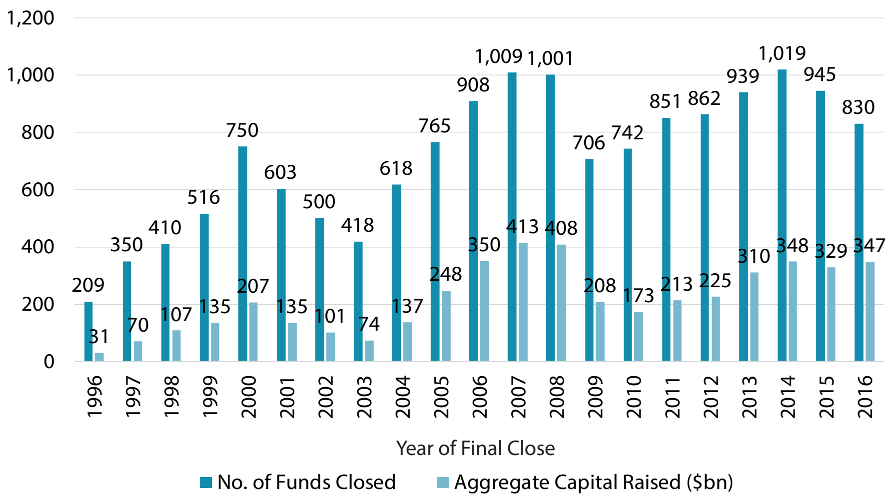
A record number of private equity funds are currently in market: 1,829 funds are seeking an aggregate $620bn. This will bring challenges, particularly for first-time and emerging markets managers, in competing for investor capital as well as in meeting the demands of an increasingly sophisticated investor community. However, with the majority of LPs sitting very liquid as a result of continuing distributions and looking to maintain, if not increase, their exposure to the asset class, fundraising has rarely looked so appealing.

A significant proportion of assets invested prior to the Global Financial Crisis (GFC) are yet to be realized, so should market conditions remain favourable it is likely that the fervent exit activity will continue in 2017. While pricing remains a very real concern, fund managers have record levels of capital available to them and our survey results indicate that many are looking to increase the amount of capital they deploy over the next 12 months.

2016 FUNDRAISING MARKET

An aggregate $347bn was raised by 830 private equity funds closed in 2016, marking the fourth consecutive year in which fundraising has surpassed $300bn (Fig. 4.1). This figure is likely to increase as more data becomes available, and the fundraising total for 2016 is expected to exceed the level seen in 2014 ($348bn), therefore representing the largest amount of capital raised since the GFC. Private equity accounted for 57% of all private capital raised in 2016, up from 52% the previous year. The increased demand has been supported by continued high net distributions (see page 26), which have caused LPs to reinvest capital back into private equity in order to maintain their allocations.

Fig. 4.1: Annual Global Private Equity Fundraising, 1996 - 2016



Source: Preqin Private Equity Online

Alongside the large sums of capital being invested through traditional fund structures, a substantial amount of capital is being invested via alternative structures such as co-investments and separate account mandates. Among LPs profiled on Preqin's **Private Equity Online**, 42% actively make co-investments and a further 12% are considering doing so; 30% make use of separate accounts, with 9% considering this route.

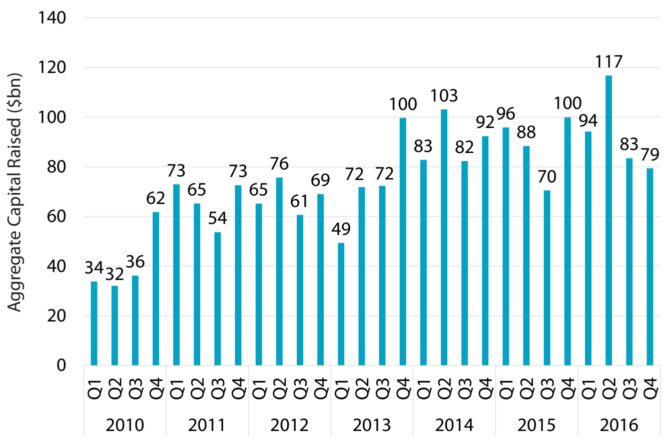
QUARTERLY FUNDRAISING

The flow of capital into private equity funds is presented in Fig. 4.2, which shows the capital raised each quarter via interim and final closes, highlighting the strong fundraising in recent quarters. The methodology to calculate this involves analyzing the capital raised for each close that takes place in each quarter; only fresh capital is counted, with capital that has been raised via previous closes held in an earlier quarter excluded. The second quarter of 2016 was a particularly successful period, with $117bn secured, the largest sum of capital raised in a single quarter since Q2 2008, when $137bn was raised.

CAPITAL CONCENTRATION

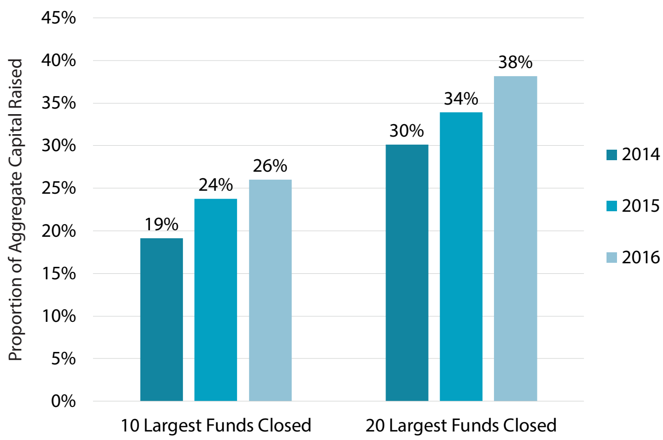
The trend towards greater concentration of capital among fewer funds continued in 2016: 12% fewer funds closed than in 2015, resulting in the average fund size increasing to $471mn, an all-time high. LPs appear to be investing more capital with a smaller number of proven and well-known GPs, with the largest funds accounting for a greater proportion of overall fundraising. The 10 largest private equity funds closed in 2014 accounted for 19% of overall fundraising for that year; in 2016, the figure is 26%. Similarly, the proportion of capital accounted for by

Fig. 4.2: Quarterly Global Private Equity Fundraising (Includes Final and Interim Closes), Q1 2010 - Q4 2016



Source: Preqin Private Equity Online

Fig. 4.3: Proportion of Aggregate Capital Raised by Largest Funds Closed, 2014 - 2016

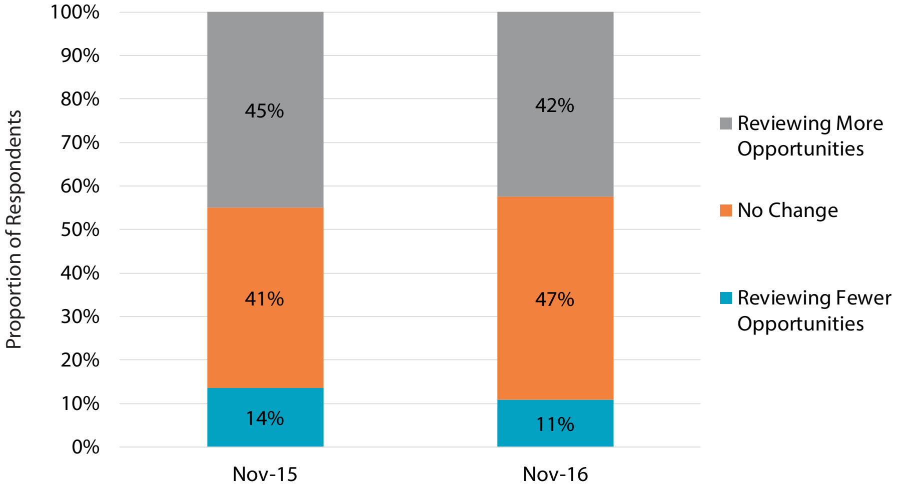


Source: Preqin Private Equity Online

private equity assets over 2016 (Fig. 5.4). Furthermore, GPs were asked about the level of competition in distinct parts of the market:

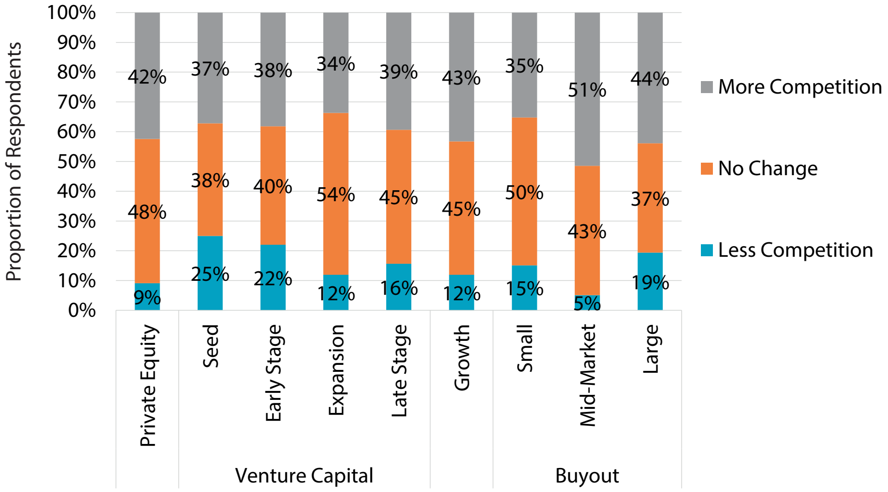
- **Venture Capital:** an average of 37% of surveyed GPs saw an increase in competition across all stages of venture capital investment over 2016, although the largest proportions across every stage had seen no change. Larger proportions of GPs are seeing less competition in earlier stages (seed: 25%; early stage: 22%), a reflection of the large pool of start-up companies these firms look to target.
- **Growth:** more GPs have observed increased competition for growth investments than for venture capital, making growth one of the most competitive markets in private equity; while 45% of respondents saw no change in competition over 2016, 43% witnessed more, behind only mid-market (51%) and large (44%) buyouts.
- **Buyout:** as expected, GPs face the most competition for mid-market opportunities, where surveyed investors see the best opportunities at present (see page 87). More than half of respondents active in the area saw an increase in competition for mid-market assets over 2016. Significant levels of capital secured by the largest private equity firms at the higher end of the market mean that competition for large buyout transactions has intensified.

Fig. 5.3: Fund Manager Views on the Number of Opportunities Reviewed per Investment Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, November 2015 - November 2016

Fig. 5.4: Fund Manager Views on the Level of Competition for Transactions Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, November 2016

The low interest rate environment has reduced the cost of borrowing for GPs: 85% of firms surveyed have seen the terms of debt financing for private equity investments remain the same or improve over 2016. Combined with greater levels of capital raised annually and record levels of dry powder available for investment (see pages 24-26), this has pushed valuations up: 38% of surveyed GPs have seen an increase in pricing over the past 12 months, with only 19% witnessing lower entry prices. This puts pressure on GPs that usually have three- to five-year investment periods before exiting investments. However, respondents are confident in the exit opportunities available in the year ahead: while the largest proportion believe exit activity will remain the same over 2017, more respondents predict exit activity will increase than decrease. Thirty-five percent of fund managers surveyed believe there will be greater activity in the venture capital exit market over 2017, compared with 24% that believe there will be less; for exits in the rest of the private equity market, 30% believe there will be more activity in the year ahead compared to 23% that believe there will be less.

MORE INVESTMENT IN THE YEAR AHEAD

Despite more than half of GPs stating that there has been no change in the level of difficulty in finding attractive opportunities over 2016, the majority of surveyed managers across all regions expect to increase the amount of capital they deploy in private equity assets over the next 12 months (Fig. 5.5). This includes more than a quarter of respondents based in each of North America and Europe,

FUND MANAGER VIEWS ON PRICING FOR PORTFOLIO COMPANIES COMPARED TO 12 MONTHS AGO

FIRST-TIME FUND MANAGERS

The private equity industry continues to grow as new entrants emerge and market their funds to investors. Strong investor appetite for the asset class as well as recent high distributions have encouraged LPs to invest large sums of capital back into the industry in order to meet their target allocations. Despite this demand, there are signs that the market is bifurcating, making it more difficult for emerging managers launching their first fund as many investors seek out established managers with a proven track record. Only 195 first-time funds closed in 2016, the lowest number of emerging funds closed since 2010, raising $25bn in aggregate capital (Fig. 5.11).

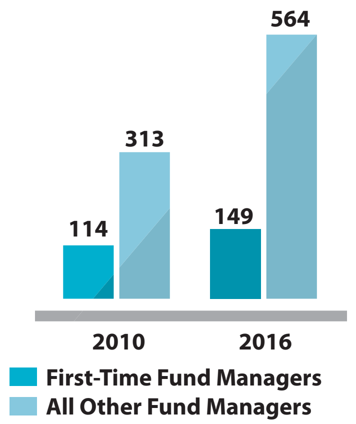
FUNDRAISING

The recent lower levels of first-time funds reaching a final close reflect a broader trend in which fundraising by emerging managers as a proportion of the total private equity industry has decreased. Where first-time funds made up 27% of funds closed in 2009, they represented 23% in 2016 (Fig. 5.12). Although the proportion of capital raised by emerging managers has varied, it has generally followed the same trend, with the 2016 proportion (7%) lower than that of 2009 (12%) and significantly below the recent peak of 20% in 2011.

Furthermore, there is a widening division between the average size of funds raised by first-time and established fund managers. Although historically experienced fund managers have on average been able to raise greater sums of capital than first-time managers, the difference has increased in recent years. The average size of a first-time fund closed in 2010 was $114mn, compared with $313mn for non-first-time funds; for funds closed in 2016 the first-time average has increased to $149mn, whereas the average size for established managers has jumped to $564mn.

There are other advantages to coming to market from an experienced position, as can be seen in the proportion of funds exceeding their target size. In 2016, 54% of closed non-first-time funds exceeded their target size, with 23% coming in under target; by comparison, only 35% of first-time funds exceeded their target size and 30% fell short. Additionally, the need to persuade investors of the benefits of a first-time fund and conduct the necessary due diligence means that first-time funds typically spend longer in market before reaching a final close: first-time funds closed in 2016 had spent an average of 15 months raising capital, compared to 14 months for their established peers.

AVERAGE FUND SIZE ($mn): 2010 vs. 2016

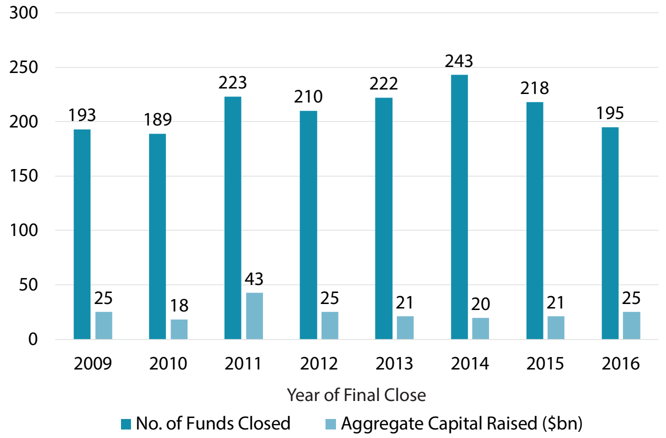


PERFORMANCE

Although emerging manager funds have generally found it more difficult to attract investor capital, they have tended to deliver better returns to investors. Fig. 5.13 shows that first-time funds have higher median net IRRs across most vintages since 2000, with a significant difference (of at least three percentage points) for 2000-2003 vintage and 2010-2012 vintage funds. The outperformance can be seen particularly in terms of quartile rankings: when compared to similar funds, 31% of first-time funds fall in the top quartile, with a further 23% in the second.

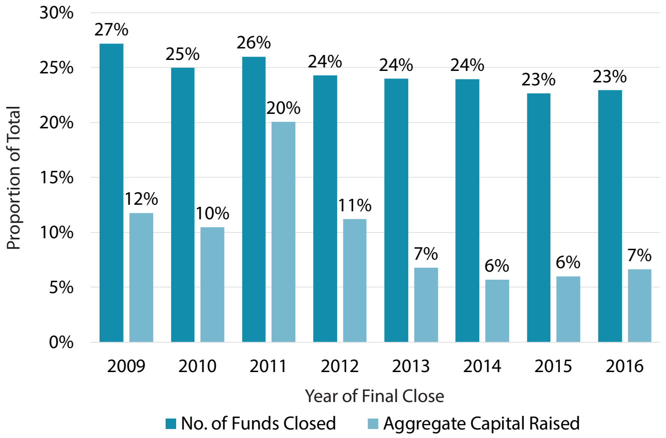
Fund selection remains important, however, as there are considerable

Fig. 5.11: Annual First-Time Private Equity Fundraising, 2009 - 2016



Source: Preqin Private Equity Online

Fig. 5.12: First-Time Fundraising as a Proportion of All Private Equity Fundraising, 2009 - 2016



Source: Preqin Private Equity Online

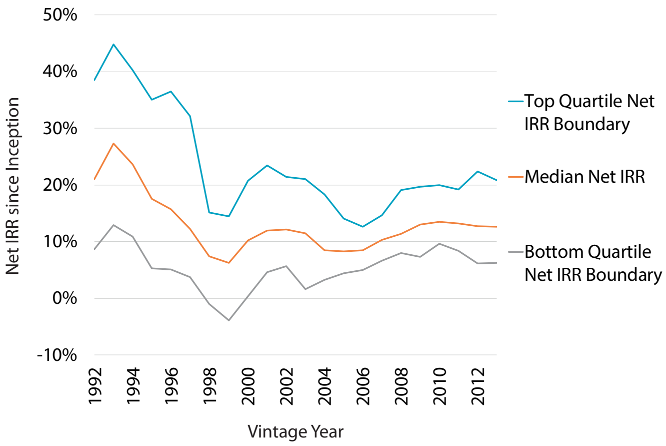
PRIVATE EQUITY PERFORMANCE BENCHMARKS

FUND STRATEGY: All Private Equity **GEOGRAPHIC FOCUS:** All Regions **AS AT:** 30 June 2016

Vintage	No. of Funds	Median Fund			Net Multiple Quartiles (X)			Net IRR Quartiles (%)			Net IRR Max/Min (%)	
		Called (%)	Dist (%) DPI	Value (%) RVPI	Q1	Median	Q3	Q1	Median	Q3	Max	Min
2016	74	9.1	0.0	92.8	1.00	0.93	0.84	n/m	n/m	n/m	n/m	n/m
2015	150	21.0	0.0	96.0	1.07	0.97	0.87	n/m	n/m	n/m	n/m	n/m
2014	154	40.9	0.0	98.7	1.20	1.04	0.95	n/m	n/m	n/m	n/m	n/m
2013	155	59.7	5.2	103.0	1.27	1.16	1.02	20.8	12.6	6.3	74.8	-38.2
2012	148	76.8	11.1	101.3	1.44	1.24	1.05	22.4	12.7	6.2	284.9	-33.6
2011	156	84.0	22.7	104.0	1.60	1.31	1.18	19.2	13.2	8.4	90.1	-32.4
2010	100	93.5	50.0	97.3	1.76	1.49	1.28	20.0	13.5	9.6	80.3	-27.1
2009	81	94.3	55.4	80.4	1.74	1.45	1.24	19.7	13.0	7.3	55.7	-14.4
2008	189	95.0	79.5	71.1	1.82	1.51	1.28	19.1	11.4	8.0	52.1	-31.2
2007	198	96.3	88.6	57.5	1.85	1.55	1.31	14.7	10.3	6.6	53.7	-34.0
2006	213	96.0	106.6	46.0	1.85	1.56	1.28	12.6	8.5	5.0	41.0	-25.1
2005	179	98.1	110.3	29.0	1.81	1.48	1.17	14.1	8.3	4.4	105.5	-22.9
2004	100	98.0	122.1	15.0	2.01	1.56	1.18	18.3	8.5	3.3	89.2	-79.2
2003	89	100.0	139.9	4.0	2.12	1.56	1.08	21.0	11.5	1.6	239.8	-49.9
2002	81	97.7	151.7	0.2	1.97	1.68	1.27	21.4	12.1	5.7	93.0	-47.2
2001	126	100.0	152.5	1.3	2.17	1.66	1.20	23.4	12.0	4.6	64.4	-25.1
2000	184	99.0	141.9	0.0	2.07	1.46	0.94	20.7	10.2	0.4	52.9	-96.0
1999	144	100.0	127.7	0.0	1.81	1.29	0.66	14.5	6.3	-3.9	154.7	-43.4
1998	152	100.0	137.7	0.0	1.84	1.39	0.90	15.1	7.4	-1.0	514.3	-100.0
1997	143	100.0	153.3	0.0	2.36	1.54	1.15	32.1	12.2	3.7	267.8	-30.0
1996	89	100.0	183.2	0.0	2.51	1.87	1.13	36.5	15.7	5.1	188.4	-33.3
1995	86	100.0	190.1	0.0	2.75	1.90	1.21	35.0	17.6	5.3	447.4	-22.0
1994	90	100.0	198.8	0.0	3.23	1.99	1.49	40.2	23.6	10.9	318.0	-22.6
1993	74	100.0	247.4	0.0	3.52	2.48	1.59	44.8	27.3	12.9	105.7	-29.1
1992	65	100.0	197.8	0.0	3.17	1.98	1.35	38.5	21.0	8.7	110.4	-49.9

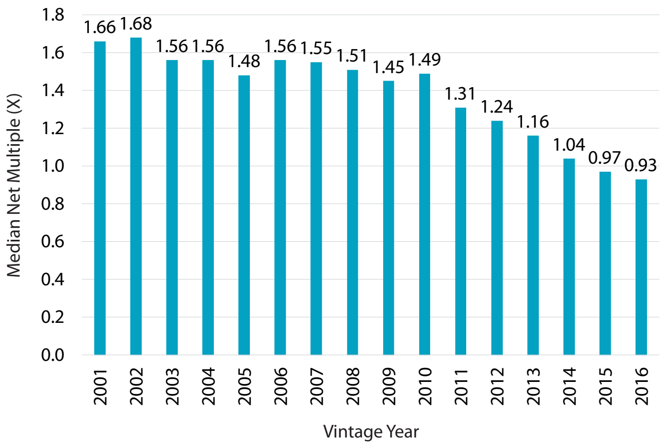
Source: Preqin Private Equity Online

Fig. 7.16: All Private Equity - All Regions: Median Net IRRs and Quartile Boundaries by Vintage Year (As at June 2016)



Source: Preqin Private Equity Online

Fig. 7.17: All Private Equity - All Regions: Median Net Multiples by Vintage Year (As at June 2016)



Source: Preqin Private Equity Online

fallen short of expectations over the past year, while only 16% feel that they have exceeded expectations.

There are signs that the continued strong performance of private equity funds may be making investors more ambitious in their return targets: the proportion of investors targeting returns of 4.1% or more above public markets has increased to 49%, up from 37% two years ago (Fig. 8.12). However, the figure remains down from the 63% of investors that targeted returns of this level in December 2011.

KEY ISSUES FACING INVESTORS

Going into 2017, valuations remain the greatest concern among institutional investors, cited by 70% of respondents (Fig. 8.13). With high company valuations, record levels of dry powder and stiff competition for assets, investors are increasingly concerned about the impact high pricing will have on returns in the future. The proportion of investors concerned about the exit environment is also significant and has jumped from 24% of investors at the end of 2015 to 51% in 2016.

Investors are also concerned about the pipeline of available portfolio companies: 41% see deal flow as a concern, up from 34% at the end of 2015. This may be related to investors' concerns about valuations, as it is becoming harder for GPs to find assets at attractive prices. Nevertheless, the degree to which investors are concerned about performance has lessened slightly compared to the end of 2015, from 40% to 33% in 2016, possibly due to strong returns over the past year.

Although there has been a long-running debate between investors and fund managers over the appropriate level and way to charge fund fees, these issues have attracted particular attention recently, with the SEC launching high-profile investigations of GPs that are believed to have given insufficient disclosure to investors about the fees they charge. This has resulted in many LPs now paying closer attention to their fee arrangements: the proportion of investors citing fees as one of the major issues facing the private equity industry has more than doubled from 19% in 2015 to 39%.

> ***"Forty percent of investors surveyed by Preqin intend to invest more capital in private equity over the next 12 months than in the last 12 months***

INVESTORS' INTENTIONS FOR THEIR PRIVATE EQUITY ALLOCATIONS

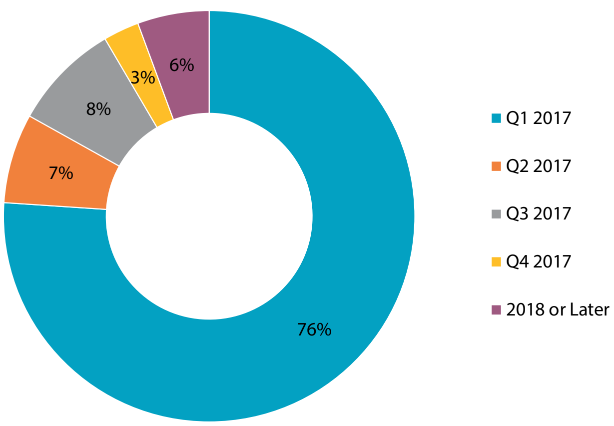
Despite these concerns, investors remain attracted to private equity and continue to plan further investment. Forty percent of investors surveyed by Preqin intend to invest more capital in private equity over the next 12 months than in the past 12 months, compared with only 11% that plan to invest less. When asked about their next commitment to the asset class, 76% stated that they plan to make their next commitment in Q1 2017, while a further 18% will do so later in the year; only 6% plan to wait until 2018 or later for their next commitment (Fig. 8.14).

Almost half (48%) of respondents plan to increase their allocations to private equity over the longer term, while a further 46% will maintain their allocations – these are some of the highest levels seen over the past six years (Fig. 8.15). With net distributions of capital from GPs to LPs over the past year, investors will need to reinvest considerable sums of capital back into the asset class in order to meet these targets. Finding a home for this capital may prove to be a challenge, as the most in-demand managers often find their funds oversubscribed: 45% of investors reported that it is harder to identify attractive investment opportunities in private equity compared to a year ago, while only 5% believe it is easier.

RE-UPS AND NEW RELATIONSHIPS

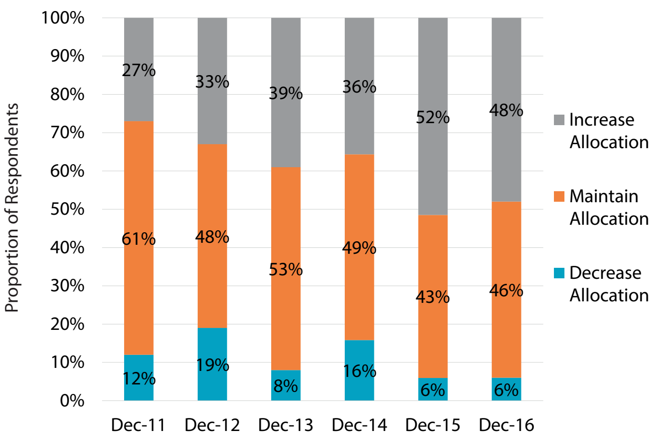
Although there has been some discussion of larger investors looking to reduce the number of managers in their portfolios in recent years, the significant sums of capital being allocated to private equity mean that a much larger proportion of investors are looking to increase the number of fund managers they work with. Forty-one percent of investors expect the number of fund managers in their portfolios to increase over the next two years,

Fig. 8.14: Timeframe for Investors' Next Intended Commitment to a Private Equity Fund



Source: Preqin Investor Interviews, December 2016

Fig. 8.15: Investors' Intentions for Their Private Equity Allocations over the Long Term, 2011 - 2016



Source: Preqin Investor Interviews, December 2011 - December 2016

LARGEST BUYOUT DEALS AND EXITS

Fig. 11.41: 10 Largest Private Equity-Backed Buyout Deals in 2016

Portfolio Company	Investment Type	Deal Date	Deal Size (mn)	Deal Status	Investor(s)	Bought from/ Exiting Company	Location	Industry
ADT Security Services, Inc.	Merger	Feb-16	15,000 USD	Completed	Apollo Global Management, Koch Equity Development LLC, Protection 1 / ASG Security**	-	US	Electronics
Supercell Oy	Buyout	Jun-16	8,600 USD	Announced	AVIC Capital, CITIC Capital, Pagoda Investment, Shanghai Pudong Development Bank, Sino-Rock Investment Management, Tencent**, Zheng Hong Capital	Softbank Capital	Finland	Gaming
MultiPlan, Inc.	Buyout	May-16	7,500 USD	Completed	GIC, Hellman & Friedman, Leonard Green & Partners	Ardian, Partners Group, Starr Investment Holdings	US	Healthcare IT
Team Health Holdings, Inc	Public-to-Private	Oct-16	6,100 USD	Announced	Blackstone Group	-	US	Healthcare
Cabela's Inc	Add-on	Oct-16	5,500 USD	Announced	Bass Pro Shops**, Goldman Sachs Merchant Banking Division, Pamplona Capital Management	-	US	Retail
Playtika Ltd	Buyout	Jul-16	4,400 USD	Announced	CDH Investments, China Minsheng Trust, China Oceanwide Holdings Group, Giant Interactive Group, Hony Capital, YF Capital	Caesars Entertainment Corporation	Israel	Gaming
Rackspace Hosting, Inc.	Public-to-Private	Aug-16	4,300 USD	Completed	Apollo Global Management**, Searchlight Capital Partners	-	US	IT
Ultimate Fighting Championship Ltd	Buyout	Jul-16	4,000 USD	Announced	KKR, MSD Capital, Silver Lake, William Morris Endeavor Entertainment, LLC**	-	US	Media
Vertiv	Buyout	Aug-16	4,000 USD	Completed	Platinum Equity**	Emerson	US	IT Infrastructure
Air Products' Performance Materials Operations	Add-on	May-16	3,800 USD	Announced	CVC Capital Partners, Evonik Industries AG**	Air Products & Chemicals	US	Chemicals

Source: Preqin Private Equity Online

Fig. 11.42: 10 Largest Private Equity-Backed Buyout Exits in 2016

Portfolio Company	Investment Date	Investment Type	Deal Size (mn)	Investor(s)	Exit Date	Exit Type	Exit Value (mn)	Acquiror (Exit)	Location	Industry
MultiPlan, Inc.*	Feb-14	Buyout	4,400 USD	Ardian, Partners Group**, Starr Investment Holdings**	May-16	Sale to GP	7,500 USD	GIC, Hellman & Friedman, Leonard Green & Partners	US	Healthcare IT
Hilton Worldwide*	Jul-07	Public-to-Private	26,000 USD	Blackstone Group**	Oct-16	Trade Sale	6,500 USD	HNA Group**	US	Leisure
Quirónsalud	Jan-11	Buyout	900 EUR	CVC Capital Partners**	Sep-16	Trade Sale	5,760 EUR	Fresenius Medical Care AG**	Spain	Healthcare
Capsugel	Apr-11	Buyout	2,375 USD	KKR**	Dec-16	Trade Sale	5,500 USD	Lonza Group Ltd**	US	Pharmaceuticals
Blue Coat Systems, Inc.	Mar-15	Buyout	2,400 USD	Bain Capital**	Jun-16	Trade Sale	4,650 USD	Symantec Corp**	US	IT Security
The Sun Products Corporation	Jul-08	Buyout	2,600 USD	Vestar Capital Partners	Jun-16	Trade Sale	3,600 USD	Henkel AG**	US	Consumer Products
Epicor Software	Apr-11	Public-to-Private	976 USD	Apax Partners**	Jul-16	Sale to GP	3,300 USD	KKR**	US	Software
Metaldyne Performance Group Inc.	Aug-14	Merger	-	American Securities, Grede Holdings LLC**, Hephaestus Holdings Inc.**, Metaldyne**	Nov-16	Merger	3,300 USD	American Axle & Manufacturing**	US	Manufacturing
Vogue International	Jan-14	Buyout	-	Carlyle Group**	Jun-16	Trade Sale	3,300 USD	Johnson & Johnson**	US	Manufacturing
BATS Global Markets, Inc.	Aug-13	Buyout	-	Spectrum Equity, TA Associates	Sep-16	Trade Sale	3,200 USD	CBOE Holdings, Inc.**	US	Financial Services

*Denotes a partial exit.
**Indicates lead investor(s)/acquiror(s).

Source: Preqin Private Equity Online

VENTURE CAPITAL DEALS

In 2016, 9,719 venture capital deals were announced globally, valued at a total of $134bn (Fig. 12.13). While this represents the lowest number of deals in any year since 2013, 2016 saw the second highest aggregate deal value on record.

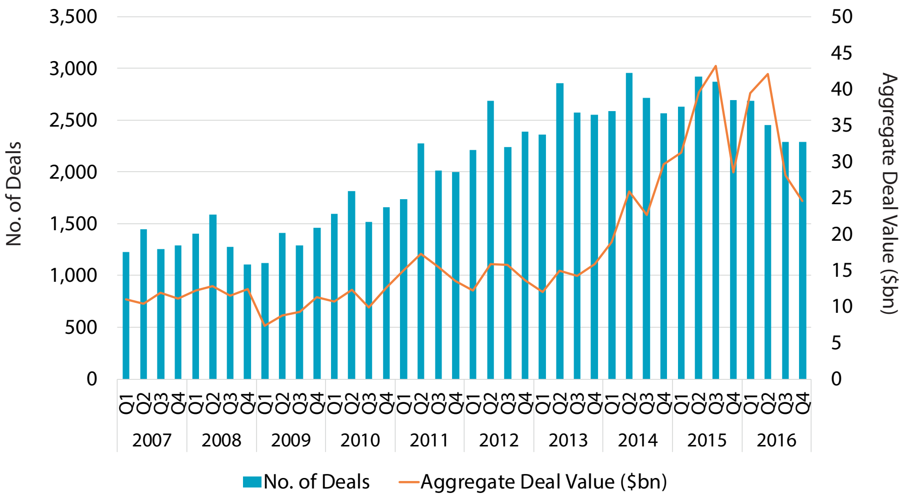
Key Findings:

- The rise in value was driven by a high number of $1bn+ transactions, including six of the top 10 largest deals in the period 2007-2016.
- High valuations have seen average deal size rise nearly 2.5x since 2013 for transactions at Series B and later stages (see pages 128-129).
- Q2 2016 had the second highest aggregate deal value of any single quarter at $42bn, trailing only Q3 2015 ($43bn).

2016 IN CONTEXT

2016 saw a 13% drop in the number of financings from 2015, reversing the upward trend of the previous six years. However, it is important to note that 2015 was a record year for venture capital deal activity with 11,115 financings, and aggregate deal value was only 6% lower in 2016 than in 2015.

Fig. 12.13: Number and Aggregate Value of Venture Capital Deals* Globally, Q1 2007 - Q4 2016



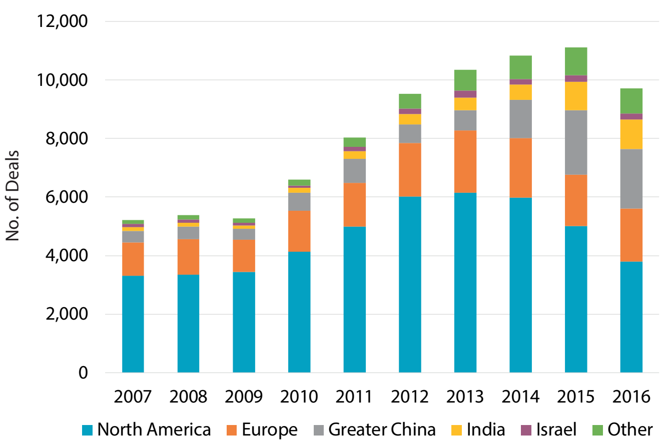
Source: Preqin Private Equity Online

CHINA'S EMERGENCE AND REGIONAL SHIFTS

2016 saw a continuation of the shift in venture capital activity from North America to Greater China, as shown in Figs. 12.14-12.18:

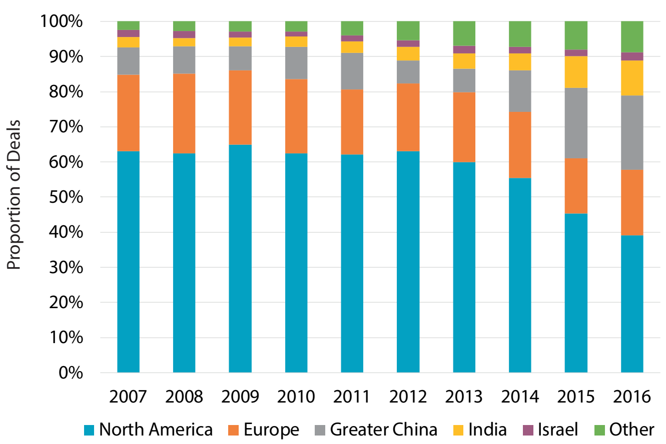
- The number of financings in North America in 2016 (3,793) was substantially lower than the previous year (5,013), causing the region's market share to decline by six percentage points over the period to 39%, substantially off its historical 62% average (2007-2014).
- While there were fewer financings in Greater China in 2016 than in 2015 (2,047 vs. 2,202 respectively), its share of the market increased for the fourth consecutive year to represent 21% of transactions, well above the historical average (8%, 2007-2014).
- Venture capital-backed financings in North America amounted to $61bn in 2016 (down 15% from 2015),

Fig. 12.14: Number of Venture Capital Deals* by Region, 2007 - 2016



Source: Preqin Private Equity Online

Fig. 12.15: Proportion of Number of Venture Capital Deals* by Region, 2007 - 2016



Source: Preqin Private Equity Online

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

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