PREQIN QUARTERLY UPDATE: PRIVATE EQUITY & VENTURE CAPITAL Q1 2017

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Content includes:

Fundraising
Funds in Market
Institutional Investors
Buyout Deals
Venture Capital Deals
Fund Performance and Dry Powder

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FOREWORD - Christopher Elvin, Preqin

Many trends from the private equity asset class in 2016 have persisted in 2017 so far. Fundraising has become even more competitive at the top end of the industry with the launch of Softbank's $100bn hybrid vehicle and participation from state-owned entities in the Asian market. Even discounting these large funds, GPs are attempting to raise capital in a saturated market; the number of funds seeking commitments has increased by 74 vehicles since the beginning of the year and stands at a record 1,908.

Furthermore, the dominance of the most established firms has continued: the five largest vehicles closed in Q1 raised 43% of the $89bn secured by all GPs and helped Q1 2017 match Q1 2016 fundraising levels, despite 60 fewer fund closures. Since the beginning of 2016, nearly half a trillion dollars have been raised for private equity investment, which has driven dry powder to record levels – as at March 2017, $842bn was available for investment.

High valuations, competition for transactions and a market awash with capital are influencing deal activity; the number of private equity-backed buyout deals in Q1 2017 was 8% lower than the previous quarter and represents the fewest quarterly deals since Q1 2015. The number of venture capital financings was 2% lower than Q4 2016 values and 15% lower than Q1 2016 figures. Quarterly exit activity in the buyout industry is also at its lowest point since Q1 2013, although offerings on the public market were up 17% on the previous quarter.

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. Since 2013, nearly $1.5tn has been returned to investors and distributions in the first half of 2016 ($257bn) suggest that the full-year figure will surpass the record $472bn from 2015. Despite the competition for investment, the majority of LPs are very liquid as a result of continuing distributions and are looking to maintain, if not increase, their exposure to the asset class.

We hope you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

VENTURE CAPITAL OPPORTUNITIES IN ASIA

- Dr. Finian Tan and Dr. Jeffery Chi, **Vickers Venture Partners**

Given the recent surge in appetite for private equity & venture capital, what in your opinion are the key factors that make a successful venture capital (VC) investor? What is the best course to attain these key factors?

FT: VC firms need to do just three things well. If I may use a fishing analogy, a good VC firm needs to have many boats going to different places where there are lots of fish or attract them to the boats somehow; have a good, well-designed net to catch the right types of fish; and know how to grow them for eventual sale. At Vickers, we have 15 investment professionals scouring all the regions of interest for deals allowing us to review more than 3,000 deals per year. From here we use our investment committee net, specially designed to select about 10 of the types of companies that we are looking for, and then we remove all stops to help them achieve their dreams. The good news is the better we do, the more deals come to us naturally, and the more experience we have, the more it allows us to refine our nets further and grow our companies better. So it becomes a virtuous cycle. I guess that is why the best VC firms remain the best for decades, while the median VC firms lose money.

What changes you have seen in the last year and what are the main macro trends that are driving your investment philosophy?

FT: The macro trends in the world are quite clear: Artificial Intelligence, Augmented Reality and the Internet of Things. In the developing world, Web 1.0 and 2.0 are still alive and kicking. Examples of this are: payment solutions, e-commerce, social networks and user-generated content. So there are opportunities galore and lots of money still to be made from harnessing the right business model to the right entrepreneur.

How do you view the VC markets globally?

JC: I always say that VC is generally a local business, but innovation is global. In order to stay ahead of the curve, one always needs to have a global view of innovation and technology. Technology has been a great enabler for businesses to launch globally so it becomes increasingly easy for a small company in Singapore to disrupt businesses of giants in faraway places. Asia has, and will, continue to increase its market share of VC globally.

How do you see Asian companies participating in this global marketplace?

JC: We have several companies in our portfolio that target global revenues. Matchmove Pay is a Singapore-based company that provides a platform as a service (PaaS) for mobile payments. Their largest market is now India, but they are increasingly attracting global customers from the US and Latin America. Jing Jin Electric is the only exporter of electric drivetrains for the electric vehicle market globally. We have also invested in several fintech companies in Singapore (MDAQ & Spark) in the forex space that has globalization built into their DNA.

As a global fund, what challenges do you face when investing within Asia and globally?

FT: Different countries and regions have different characteristics. For example, Chinese VC is very different from VC in the US. Many large foreign players are prevented from competing in China which allows domestic start-ups to thrive. But this is not the case in India and Indonesia. So we need different strokes for different folks. We find that you need a unique blend of transactional skillsets together with an intimate local knowledge to be able to succeed. At the same time, there are many experiences and knowledge that can be transferred from one region to another. For example, trends in technology from Silicon Valley to China, and then from China to Southeast Asia and India. So there needs to be a balance between having partners in the US sharing their experiences with the Asian partners and vice versa without hindering the local decision process. We need to be global and yet local at the same time.

Do you feel that foreign VC firms will be more proactive in Asian markets? If so, how you do see that affecting deal activity?

JC: Most definitely. The macroeconomic conditions of many Asian countries primes them for attractive VC markets. The growth in VC here over the last few years is testament to that. Asian VC as a market driven primarily by China and to a certain extent India, is quickly gaining market share vis-a-vis other regions globally. This is beneficial for deal activity. We will always see some volatility with respect to valuations and deal volume, but the general trend is stable growth for Asia

Where do you see the best investment opportunities in Asia in terms of geography and industry? Do you feel Southeast Asia has the potential to take a fair market share?

JC: Our offices in Asia are focused on targeting investments in China and Southeast Asia. China will continue to be a large source of opportunity, as it not only has a market that is still seeing strong economic growth but also a government that is supportive and a strong talent base. We are also very bullish on Southeast Asia. The market has already grown tremendously in the last five years but there is a saying that "you ain't seen nothing yet". We saw this explosive growth in China and expect to see it in Southeast Asia once we start seeing a wave of liquidity events happening in the market.

Tell us a little about your outlook for VC and what you see as your legacy in the sector.

FT: We have been gradually climbing up the Preqin ladder across all our funds; we were ranked the 11th (equal) most consistent VC performer in Preqin's 2017 Global Private Equity & Venture Capital Report, as well as being the highest ranked Asian VC, and our Fund IV currently has the highest multiple of all 2012 vintage VC funds.

More importantly though is the succession planning at Vickers. At the managing director level, seven out of nine of us are in our fifties. At the end of Fund V, we will all be in our sixties. So we have hired 10 new promising young investment professionals over the past 12 months, all in their twenties and thirties, so that there is depth and breadth in the firm. This has allowed us to keep the team youthful, which is important in our business of predicting the future, yet we have enough grey hairs to share our sad and happy experiences so that predictable pitfalls can be avoided. A bigger team has also allowed us to increase our specialist knowledge, especially in the area of biotech, which is growing so fast and requires more hard science capabilities than most other sectors. We have also opened offices in New York and Hong Kong in order to have more local coverage, and plan to open our third US presence in the Valley next year.

VICKERS VENTURE PARTNERS

Vickers was founded in 2005 by Dr. Finian Tan and his three partners with offices in Shanghai, Hong Kong and Singapore and a presence in San Diego. Vickers seeks to create long term value for its investors by investing in and building a stable of companies with large growth potential. Its portfolio covers life sciences, technology, media, and telecommunications as well as consumer and financial services.

DR. FINIAN TAN

Dr. Finian Tan founded Vickers in 2005 and is the Chairman of the investment committee for Fund V (the "Investment Committee"). He is based in Singapore and travels frequently to all the cities in which Vickers has a presence, especially San Diego, California, where Samumed (NAV at 34.4x for Fund IV), the largest Vickers' portfolio company, is based and for which Dr.Tan was a co-sponsor of the deal. He identified and played major roles in several of the Vickers' portfolio companies including Cambridge Industrial Trust Management as Chairman of the board (exit at 26x for Fund I), Asia Food Channel as Founding Chairman of the board (exit at 5x entry price for Fund I) and M-DAQ (NAV at 2x for Fund IV). He is currently actively serving on the boards of Matchmove as Chairman (NAV at 9.8x entry price for Fund III) and Mainspring (NAV at 3.8x entry price for Fund IV). Before he started Vickers, Dr. Tan was Managing Director and head of the Credit Suisse First Boston ("CSFB") group of banks in Singapore and Malaysia.

Dr. Tan currently serves on numerous boards and committees all around the world, such as ST Electronics Ltd (Parent ST Engineering listed on Singapore Exchange), California Intercontinental University (USA, Chairman), Real Time Gaming Asia Pte Ltd (Singapore), The Wellness Group Pte Ltd (Co-owner of TWG Tea), Matchmove Global (Singapore, Chairman), Spicy Horse (China) and Mainspring Technology (Indonesia), W Residence Council (Singapore, Chairman) and the Sentosa Cove Owners' Council (Singapore).

DR. JEFFERY CHI

Dr. Jeffrey Chi is a Managing Director of Vickers Venture Partners, Vice Chairman of Vickers Capital Group and a member of its Investment Committee. He is also currently Chairman of the Singapore Venture Capital & Private Equity Association.

Dr Chi has investments in China & SE Asia in online games, education, online travel, e-commerce and financial services (including fintech). He is a member of the board of directors of Jing Jin Electric, Matchmove Pay, Alo7.com, Cardvalue, Roomorama, Tenfen Technology and CoAssets. Dr. Chi's experience covers a variety of industries including information technology, healthcare and media. Formerly a corporate finance specialist with and Executive Director at Pegasus Capital, he has managed engagements for large and small clients in both the public and private sectors. Prior to Pegasus Capital, Dr. Chi was a senior consultant with the Monitor Group. Dr. Chi's operational background includes seven years on the management team of an engineering group with operations in Singapore, Malaysia, Taiwan, China and Indonesia. As its Managing Director, he led the group into the Enterprise 50 in 1997 in Singapore.

Dr. Chi is a C.F.A. Charter holder and graduated from Cambridge University with 1st Class Honours in Engineering. He earned his PhD from the Massachusetts Institute of Technology in organizational knowledge and information technology.

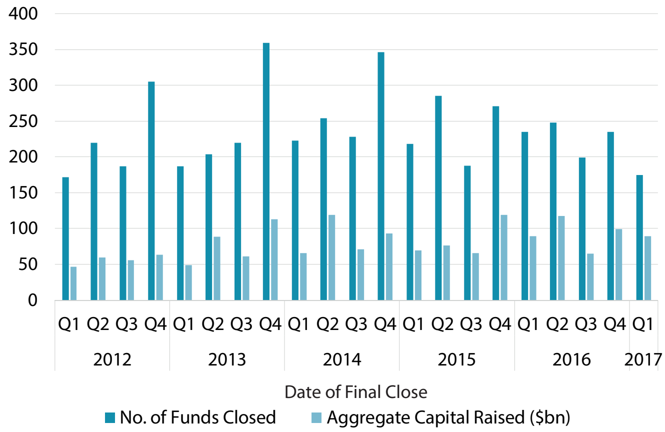
www.vickersventure.com

FUNDRAISING

Q1 2017 saw 175 funds reach a final close, securing $89bn in aggregate capital commitments, approximately the same level secured by funds in Q1 2016 ($90bn) despite 60 fewer fund closures (Fig. 1). Buyout fundraising, the largest contributor to the quarterly total (61%), was up on Q1 2016 levels: 44 buyout vehicles held a final close in Q1 2017, securing an aggregate $54bn, $4.3bn more than the previous year (Fig. 2). However, more than a quarter of buyout capital raised in Q1 came from just one fund, KKR Americas Fund XII, which raised $13.9bn. Furthermore, highlighting the dominance of a select pool of managers, 43% of all capital raised in Q1 2017 came from just five fund closures.

Venture capital vehicles represent nearly half of funds closed in Q1 2017, although the $10bn secured is just 11% of the aggregate capital raised in the quarter (Fig. 3). Conversely, with Strategic Partners Fund VII reaching a final close on $7.5bn, making it the second largest fund closed in Q1 and the fourth largest secondaries fund of all time, secondaries funds represented 15% of capital raised by funds closed in Q1 2017, despite accounting for only 3% of vehicles closed.

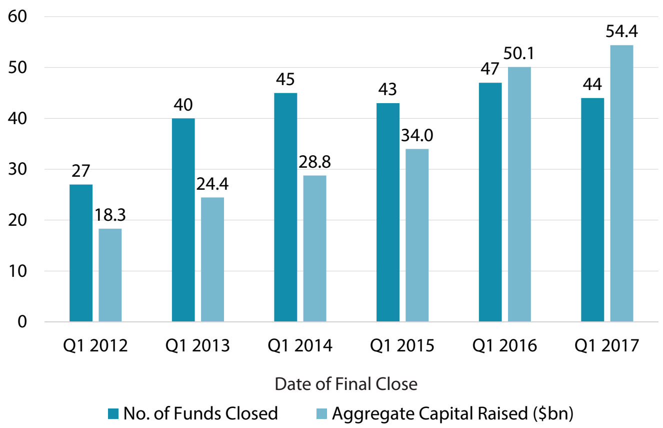
Fig. 1: Private Equity Fundraising, Q1 2012 - Q1 2017



Source: Preqin Private Equity Online

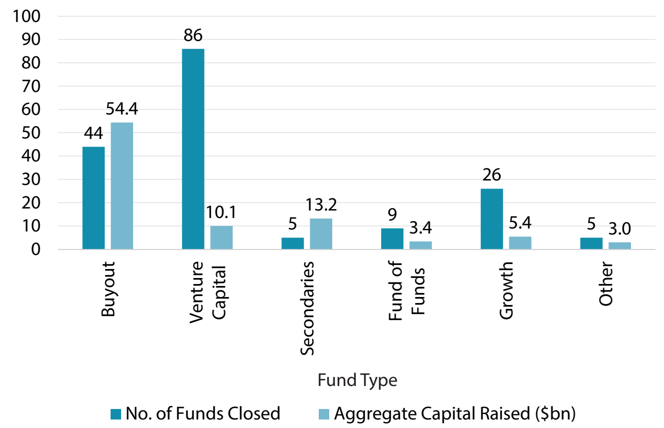
Guoxin Fund I, the third largest fund to close in Q1, is the only primarily Asia-focused fund in the top five (Fig. 4), targeting buyout opportunities in the consumer discretionary sector within China. The rest of the five largest vehicles all primarily target investment opportunities in North America.

Fig. 2: Q1 Buyout Fundraising, 2012 - 2017



Source: Preqin Private Equity Online

Fig. 3: Private Equity Fundraising in Q1 2017 by Fund Type



Source: Preqin Private Equity Online

Fig. 4: Five Largest Private Equity Funds Closed in Q1 2017

Fund	Firm	Fund Size (mn)	Fund Type	Geographic Focus
KKR Americas Fund XII	KKR	13,900 USD	Buyout	North America, Latin America
Strategic Partners Fund VII	Strategic Partners Fund Solutions	7,500 USD	Secondaries	US, West Europe
Guoxin Fund I	Sfund	50,000 CNY	Buyout	China
Platinum Equity Capital Partners Fund IV	Platinum Equity	6,500 USD	Buyout	Global
Veritas Capital Fund VI	Veritas Capital	3,550 USD	Buyout	US

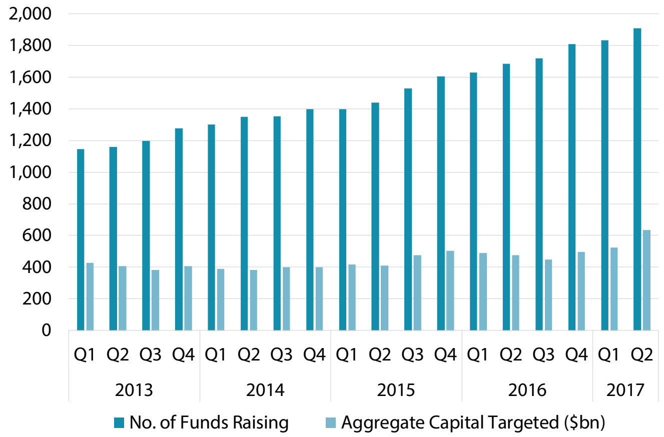
Source: Preqin Private Equity Online

FUNDS IN MARKET

The number of private equity funds seeking capital has continued to grow, with a record 1,908 funds in market at the beginning of Q2 (up from 1,834 at the start of the year), targeting an aggregate $635bn in capital commitments (Fig. 5). Much of the increase in capital comes from the launch of the $100bn hybrid vehicle Softbank Vision Fund, which, if it reaches a final close, would be the largest private equity fund of all time. However, even without this fund, other large vehicles such as China State-Owned Capital Venture Investment Fund (CNY 200bn/$29bn) and Apollo Investment Fund IX ($20bn) mean that aggregate capital targeted comfortably surpasses the previous records in Q4 2015 and Q1 2017.

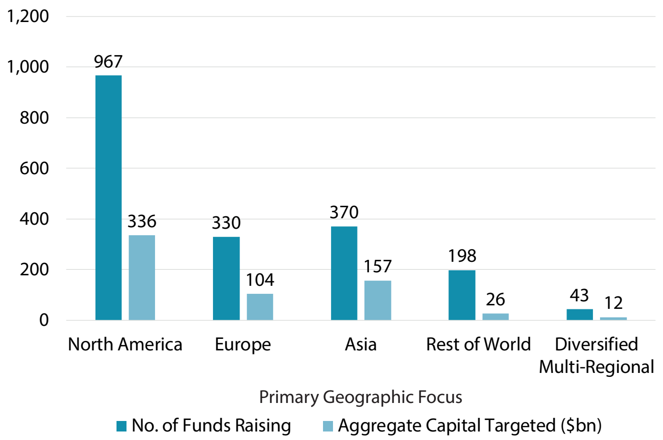
North America remains the most targeted region, representing more than half of funds in market and aggregate capital targeted (Fig. 6). Asia has overtaken Europe as the second most targeted region for private equity investment, representing a fifth of funds in market and a quarter of the aggregate capital targeted, above the 17% and 16% of funds in market and capital targeted by Europe-focused vehicles respectively. In part, this reflects the participation of state-owned entities, particularly from China, raising large funds; three of the largest five private equity funds raising capital are managed by Asia-based firms.

Fig. 5: Private Equity Funds in Market over Time, Q1 2013 - Q2 2017



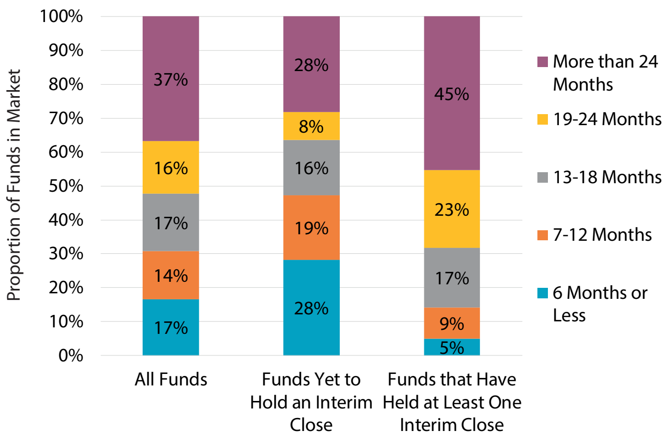
Source: Preqin Private Equity Online

Fig. 6: Private Equity Funds in Market by Primary Geographic Focus



Source: Preqin Private Equity Online

Fig. 7: Time Spent on the Road by Private Equity Funds in Market



Source: Preqin Private Equity Online

Fig. 8: Five Largest Private Equity Funds in Market

Fund	Firm	Target Size (mn)	Fund Type	Geographic Focus
Softbank Vision Fund	Softbank Vision Advisers	100,000 USD	Hybrid	Global,
China State-Owned Capital Venture Investment Fund	China Reform Fund Management	200,000 CNY	Venture Capital	China
Apollo Investment Fund IX	Apollo Global Management	20,000 USD	Buyout	North America, West Europe
Sino-Singapore (Chongqing) Connectivity Private Equity Fund	UOB Venture Management	100,000 CNY	Growth	China, Singapore
The China Internet Investment Fund	China Ministry of Finance	100,000 CNY	Growth	China

Source: Preqin Private Equity Online

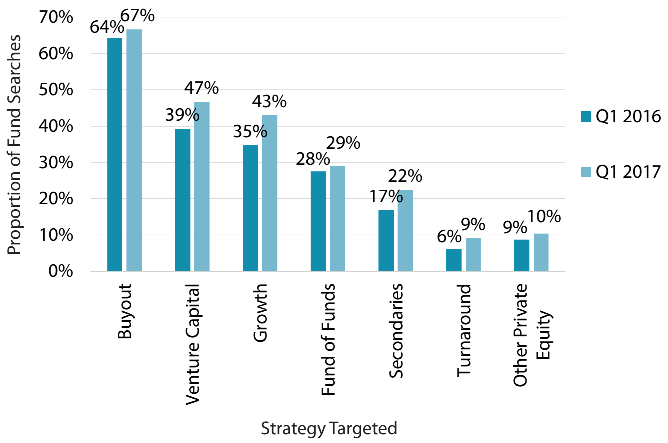
INSTITUTIONAL INVESTORS

As at Q1 2017, buyout funds remain the most targeted private equity strategy among institutions looking to invest in the asset class over the next 12 months: 67% of investors with active fund searches and mandates will target these funds, a three-percentage-point increase from Q1 2016 (Fig. 1). As in Q1 2016, venture capital and growth vehicles are the next most sought-after fund types, and furthermore, have seen the greatest increase in appetite over the past 12 months (up eight percentage points each). A good sign for fund managers seeking capital, all strategies have seen an increase in investor appetite from Q1 2016 to Q1 2017.

Uncertainty over political conditions may have contributed to the decrease in the proportion of investors seeking European opportunities over the past year; 39% of active fund searches are for Europe-focused funds, compared with 56% one year ago (Fig. 10). All single markets witnessed a decrease in appetite from a year ago, with investors preferring to invest globally for their commitments over 2017.

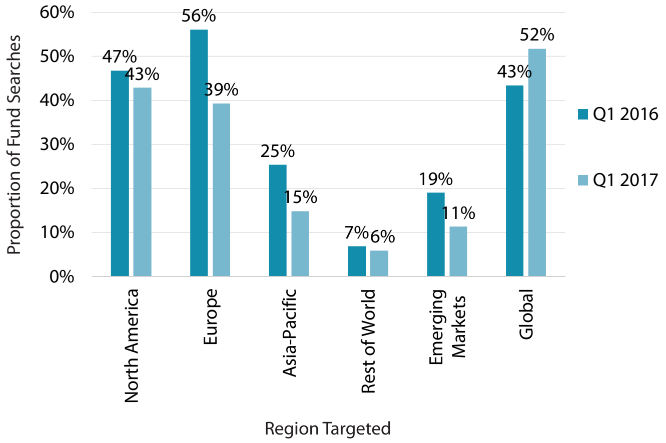
As seen in Fig. 11, there has been an increase in the proportion of investors targeting larger capital commitments to the asset class: 27% of investors are looking to commit $300mn or more to the asset class in the next 12 months, including 12% that are targeting a commitment of $600mn or more, an increase from 21% and 9% respectively in Q1 2016. Investors plan to distribute this capital across several funds, with 42% targeting 4-9 funds and 15% looking to commit to 10 or more vehicles (Fig. 12).

Fig. 9: Strategies Targeted by Private Equity Investors in the Next 12 Months, Q1 2016 vs. Q1 2017



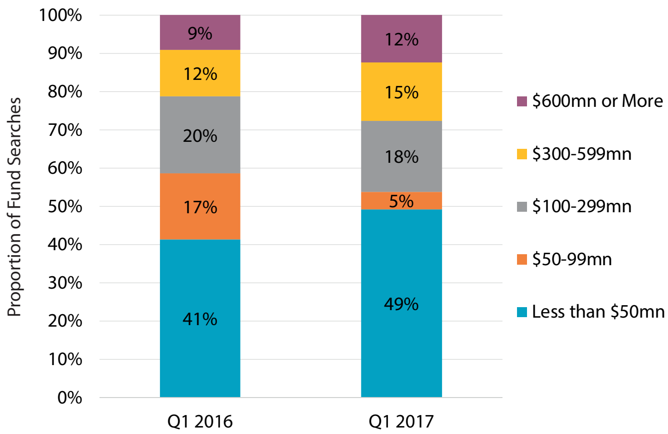
Source: Preqin Private Equity Online

Fig. 10: Regions Targeted by Private Equity Investors in the Next 12 Months, Q1 2016 vs. Q1 2017



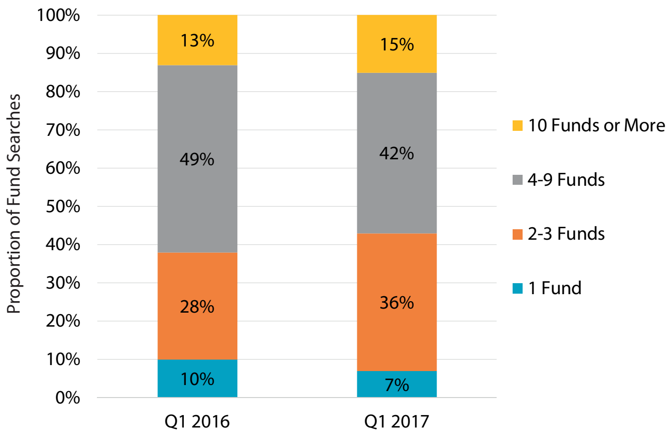
Source: Preqin Private Equity Online

Fig. 11: Amount of Capital Investors Plan to Commit to Private Equity Funds in the Next 12 Months, Q1 2016 vs. Q1 2017



Source: Preqin Private Equity Online

Fig. 12: Number of Private Equity Funds Investors Plan to Commit to in the Next 12 Months, Q1 2016 vs. Q1 2017



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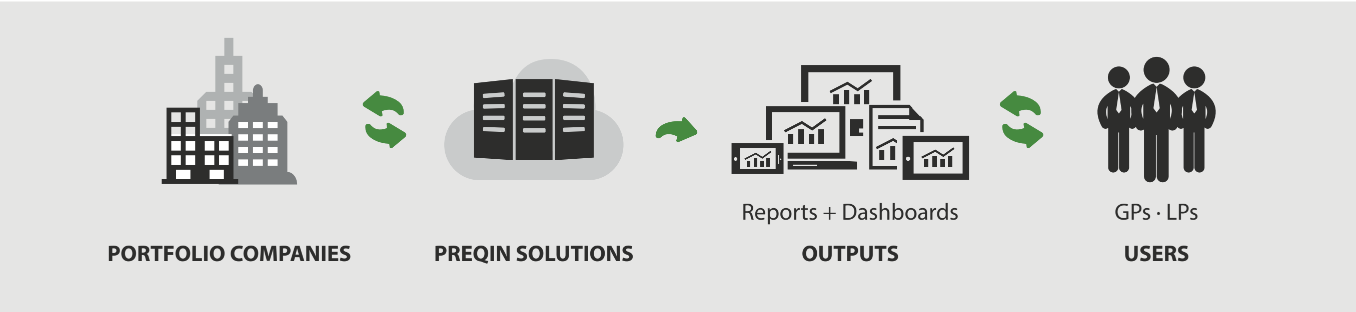

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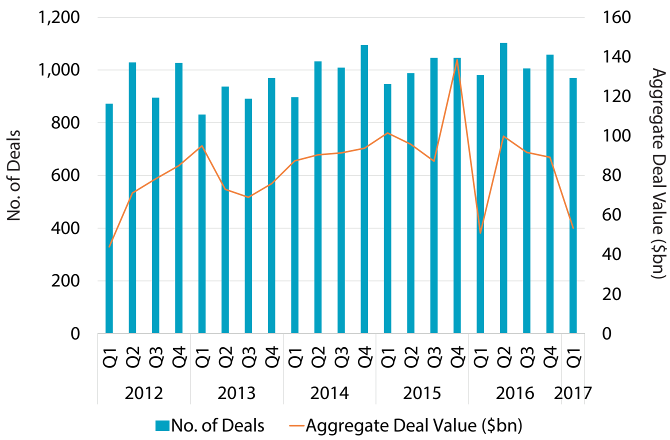
BUYOUT DEALS AND EXITS

The first quarter of 2017 saw 970 private equity-backed buyout deals announced or completed globally, worth an aggregate $53bn (Fig. 13). While the value is $36bn lower than Q4 2016, figures are in line with Q1 2016 levels. The number of deals announced in Q1 2017 was 8% lower than the previous quarter and represents the lowest number of quarterly deals since Q1 2015.

Across all regions, the value of deals in Q1 2017 was lower than in Q4 2016, with deal value in North America down 40%, Europe by 35%, Asia by 43% and deal value in all other regions down 74% (Fig. 14). Four of the five largest buyout deals of Q1 2017 were for portfolio companies in North America, although the largest transaction was an announcement by Blackstone Group to acquire a UK firm, Aon Corporation's Employee Benefits Outsourcing Unit, for $4.8bn (Fig. 16).

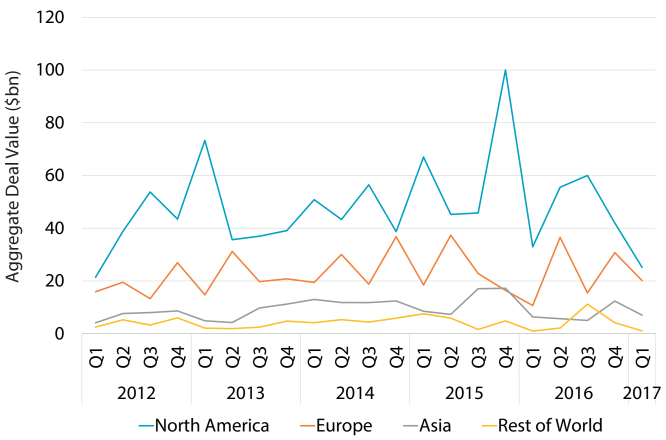
Fig. 13: Private Equity-Backed Buyout Deals, Q1 2012 - Q1 2017



Source: Preqin Private Equity Online

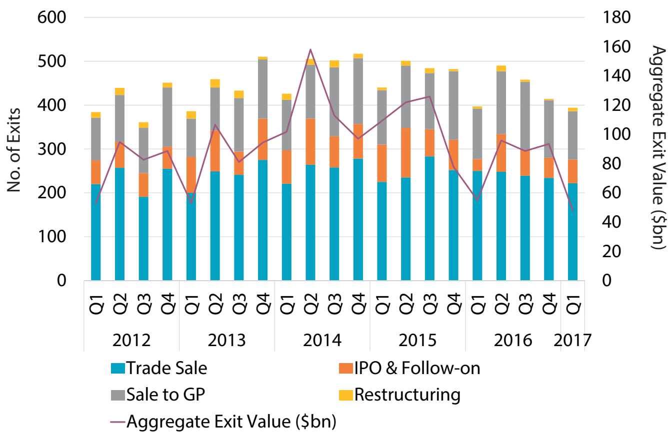
Furthermore, there was also a decline in exit activity from Q4 2016, with 394 (-5%) private equity-backed exits in Q1 2017 for $48bn (-49%), representing the lowest quarterly number of exits since Q1 2013 (Fig. 15). Despite this, the number of IPO & follow-on exits in Q1 2017 was 17% higher than the previous quarter, although the most common exit routes – trade sales and sales to GPs – were 5% and 16% fewer respectively.

Fig. 14: Aggregate Value of Private Equity-Backed Buyout Deals by Region, Q1 2012 - Q1 2017



Source: Preqin Private Equity Online

Fig. 15: Private Equity-Backed Exits by Type and Aggregate Exit Value, Q1 2012 - Q1 2017



Source: Preqin Private Equity Online

Fig. 16: Five Largest Private Equity-Backed Buyout Deals Announced in Q1 2017

Portfolio Company	Investment Type	Deal Date	Deal Size (mn)	Investors	Bought from/ Exiting Company	Location	Primary Industry
Aon Corporation's Employee Benefits Outsourcing Unit	Buyout	Feb-17	4,800 USD	Blackstone Group	Aon Hewitt LLC	UK	Outsourcing
USI Holdings Corporation	Buyout	Mar-17	4,300 USD	CDPQ, KKR	Onex Corporation	US	Insurance
DH Corporation	Public-to-Private	Mar-17	4,800 CAD	Vista Equity Partners	-	Canada	Financial Services
Diversey, Inc.	Buyout	Mar-17	3,200 USD	Bain Capital	Sealed Air	US	Consumer Products
Air Methods Corporation	Public-to-Private	Mar-17	2,500 USD	American Securities	-	US	Transportation

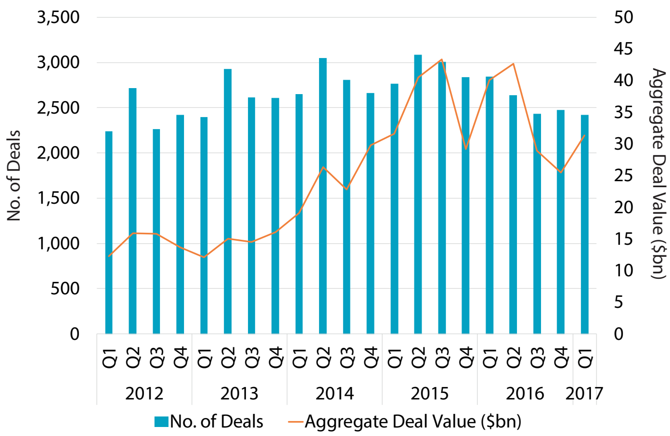
Source: Preqin Private Equity Online

VENTURE CAPITAL DEALS

In Q1 2017, 2,420 venture capital financings were announced globally, 2% fewer than the previous quarter and representing a 15% decline from the same period in 2016 (Fig. 17). Despite fewer transactions, the aggregate value ($31bn) of venture capital transactions in Q1 2017 was 23% higher than Q4 2016 ($26bn) and represents the sixth highest quarterly figure since 2009. Two deals were announced that surpassed $1bn: Zhejiang Koubei Network Technology Co., Ltd.'s $1.1bn and Flipkart Internet Private Limited's $1bn funding rounds (Fig. 20).

The number of deals in North America fell for the seventh consecutive quarter, although the 946 financings represented the largest proportion (39%) of deals in any single market (Fig. 18). Furthermore, in terms of value, the region's share of the market is greater, with the $17bn in financings accounting for 47% of the global total, and higher than the $14bn in Q4 2016. Only Europe (+7%) and Israel (+18%) recorded increases in the number of deals in Q1 2017 when compared to Q4 2016. India recorded its second highest quarterly aggregate value ($2.7bn) on record, over 4x the $618mn recorded in Q4 2016.

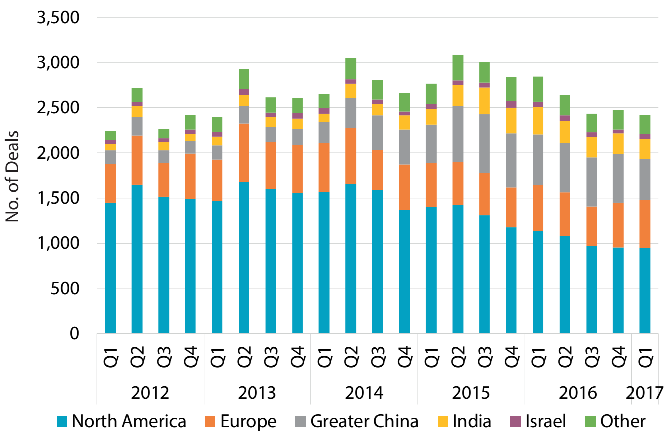
Fig. 17: Venture Capital Deals*, Q1 2012 – Q1 2017



Source: Preqin Private Equity Online

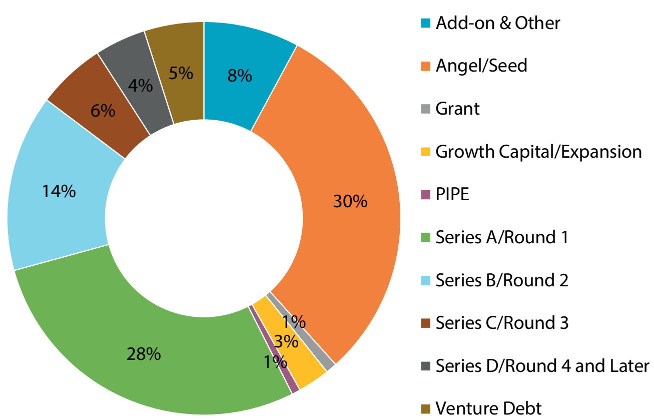
Angel/seed financing remained the most common stage of financing, accounting for 30% of the total number of deals in Q1 2017 (Fig. 19); however, this only contributed to 2% of the global aggregate value, due in part to the low average deal size ($1.6mn) at this stage.

Fig. 18: Venture Capital Deals* by Region, Q1 2012 – Q1 2017



Source: Preqin Private Equity Online

Fig. 19: Venture Capital Deals in Q1 2017 by Stage



Source: Preqin Private Equity Online

Fig. 20: Five Largest Venture Capital Deals* in Q1 2017

Portfolio Company	Stage	Deal Date	Deal Size (mn)	Investors	Location	Primary Industry
Zhejiang Koubei Network Technology Co., Ltd.	Unspecified Round	Jan-17	1,100 USD	CDH Investments, Primavera Capital, Silver Lake, YF Capital	China	Telecoms
Flipkart Internet Private Limited	Unspecified Round	Mar-17	1,000 USD	eBay Inc., Microsoft, Tencent	India	Internet
GRAIL, Inc.	Series B/Round 2	Mar-17	900 USD	ARCH Venture Partners, Bristol-Myers Squibb, Johnson & Johnson Innovation	US	Biotechnology
Verily Life Sciences LLC	Unspecified Round	Jan-17	800 USD	Temasek Holdings	US	Life Sciences
Ucar	Unspecified Round	Mar-17	4,600 CNY	China UnionPay, Shanghai Pudong Development Bank	China	Telecoms

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

Source: Preqin Private Equity Online

FUND PERFORMANCE AND DRY POWDER

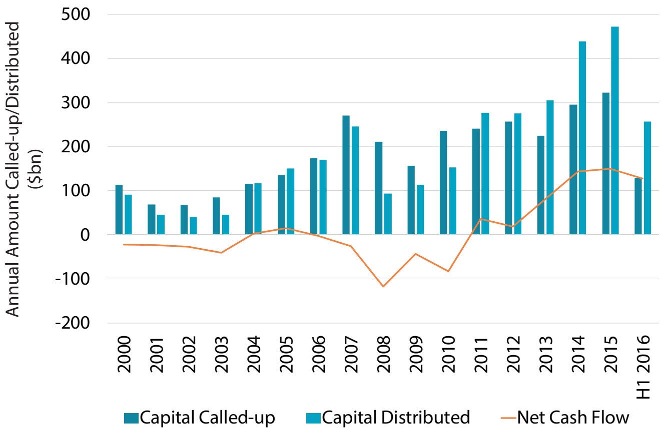
The high level of distributions from private equity fund investments has been driving LP satisfaction with the asset class in recent years. Since 2013, nearly $1.5tn has been returned to investors and distributions in the first half of 2016 ($257bn) are on track to surpass the record $472bn from 2015 (Fig. 21).

Dry powder has increased by more than $20bn over the past quarter, with $842bn available for investment as at March 2017, a new industry record (Fig. 22). Buyout dry powder remains the source of the majority (63%) of available capital, although this figure has declined by $5bn since December 2016. The amount of dry powder available to venture capital fund managers experienced the largest percentage growth during Q1 2017, increasing by 14% to reach $159bn at the end of March.

Fig. 23 illustrates the importance of fund selection, with a large range between the top and bottom quartile boundaries of recent vintages. Vintage 2011 and 2012 funds have the highest median net IRR (+14.1% and +14.0% respectively) of vintages examined.

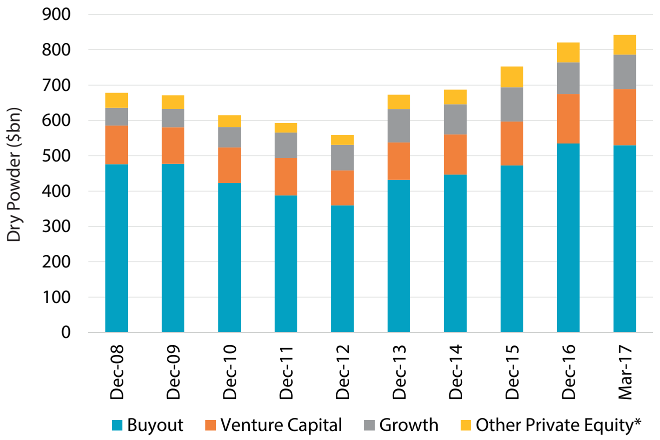
Buyout funds have the highest horizon IRRs across every period, posting returns of 9.2%, 17.5%, 14.1% and 11.0% in the one-, three-, five- and 10-year horizons respectively (Fig. 24). While short-term performance of venture capital funds has been relatively poor (+0.03% in the year to June 2016), the fund type has posted relatively strong returns over both three- (+16.7%) and five-year (+10.8%) horizons.

Fig. 21: Private Equity - Annual Amount Called-up, Distributed and Net Cash Flow (As at June 2016)



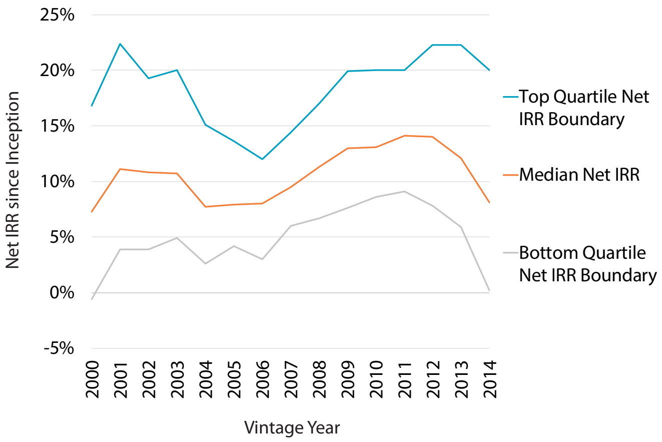
Source: Preqin Private Equity Online

Fig. 22: Private Equity Dry Powder by Fund Type, 2008 - 2017



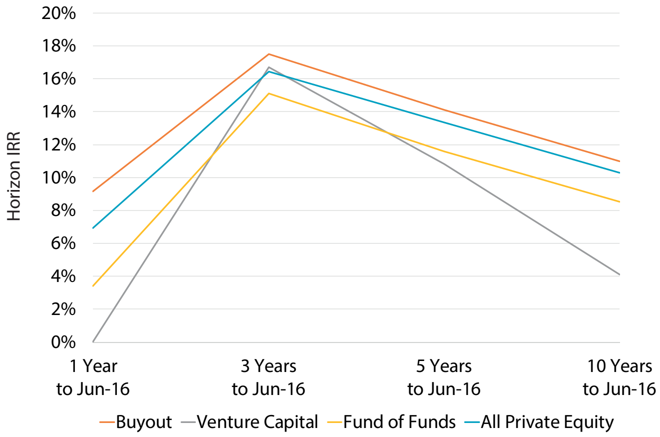
Source: Preqin Private Equity Online

Fig. 23: Private Equity - Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin Private Equity Online

Fig. 24: Private Equity - Horizon IRRs by Fund Type (As at June 2016)



Source: Preqin Private Equity Online

**Other Private Equity includes Balanced, Co-Investment, Co-Investment Multi-Manager, Direct Secondaries and Turnaround funds.*