# PREQIN QUARTERLY UPDATE: PRIVATE EQUITY & VENTURE CAPITAL Q3 2017

Insight on the quarter from the leading provider of alternative assets data

**Content includes:**
Fundraising
Funds in Market
Institutional Investors
Buyout Deals and Exits
Venture Capital Deals
Fund Performance and Dry Powder

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# FOREWORD - Christopher Elvin, Preqin

Q3 2017 has seen a slowdown in private equity fundraising compared to the previous quarter: the number of fund closures fell by 75 to 181, with a corresponding fall of $42bn in aggregate capital raised over this period. However, while the number of funds closed in Q3 2017 is 22% lower than in Q3 2016, the aggregate capital raised by these vehicles has risen 43% when compared to the previous year. Furthermore, the most established firms continue to account for the largest proportion of aggregate capital raised by funds closed: the five largest vehicles closed in Q3 2017 raised almost half (49%) of the $95bn secured by all GPs, and helped surpass Q3 2016 fundraising levels, despite 51 fewer fund closures.

Investor satisfaction with the private equity asset class remains high, and with capital distributions reaching a record high of $488bn as at December 2016, capital continues to flow into the asset class as LPs look to meet their allocations. There are 2,022 funds, targeting $706bn, now in market (188 more than at the start of the year).

Since the beginning of 2016, $731bn has been raised from private equity fund closures, which has pushed dry powder levels to a record-high of $954bn as at September 2017, almost $100bn higher than the amount recorded at the start of the year. However, buyout and venture capital deal activity figures are encouraging: despite fewer deals completed compared to the previous quarter, the aggregate value of buyout and venture capital deals remains at a similar level. Buyout exit activity fell for a fifth consecutive quarter, from 518 exits in Q2 2016 to 381 exits in Q3 2017, representing the lowest quarterly number of exits since Q3 2012. The aggregate value of these exits has also decreased by 26% since Q2 2016.

Despite exit activity slowing in recent quarters, heightened asset valuations are likely to continue to drive such activity going forward and, as GPs continue to secure significant sums of institutional capital, they will continue to face the challenge of putting their capital to work, while ensuring attractive returns for investors.

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.

# GP SUBSCRIPTION CREDIT LINES

## - Steve Standbridge, **Capstone Partners**

It is inevitable that as a capital market matures, practitioners develop innovative new products that create efficiencies within the market. Private equity as an asset class is a great example as it started as a cottage industry with a relatively small number of practitioners where terms were relatively opaque and investor liquidity was limited. As the asset class grew and more sophisticated investors entered the market, terms became more standardized and reporting, while not uniform across the industry, began to follow general guidelines. The evolution of the secondary market brought more efficiency as liquidity increased and investors can now dynamically manage their portfolios by selling out of or buying into LP positions. The latest innovation in the market, which is not really a new concept, is the rapidly expanding use of subscription credit lines. Over the last six months there have been several articles a week on their use and potential risks. I am obviously piling onto the myriad of press, but thought it would be worth providing a view from a neutral corner.

Subscription credit lines are not a new phenomenon, as sophisticated GPs have used them for many years as working capital lines to smooth capital calls and to bridge short-term deal funding needs. More recently the credit lines have become standard fare for most GPs, and increasingly we are seeing GPs use them to significantly delay capital calls to lessen J-curves, manage preferred return hurdles, and increase near term IRRs. There is some concern in the industry that this new application of the credit lines is introducing incremental risk to investments and they may be used to artificially boost IRRs resulting in higher carry payouts to GPs.

Financial risk is most commonly created by high levels of leverage on a structure and/or creating a situation where liquidity is compromised. Subscription lines, unlike leverage on a fund, do not provide incremental capital to invest and are just a temporary loan against expected LP capital calls, so GPs are not introducing higher levels of leverage to their structures. Liquidity issues could occur if specific LPs are unable, or refuse, to fund capital calls. Even in the depths of the Global Financial Crisis the level of defaults on capital calls was relatively immaterial and close to non-existent among institutional investors. Despite the limited risk, as part of their diligence LPs should ask questions about the expected use of credit lines and their structures as it relates to periodic paydown provisions and advance rates on LP commitments. Overall, if credit lines are structured prudently and disclosed properly, they should not create incremental risk to LPs.

Using credit lines to boost IRRs can be a potential issue for investors, but GPs that consistently abuse the use of credit will face the detrimental impact of overall lower distributions and the risk that LPs will not be supportive in future funds. LPs investing in private equity have thorough due diligence processes designed to underwrite a GP's ability to generate consistent returns by executing a differentiated strategy that creates value in their portfolio companies. Successful and responsible GPs that use credit lines to improve capital efficiency will be rewarded with LPs reupping to their funds. Those that need to use credit lines to, on the margin, exceed a hurdle rate to move into a carry situation will likely struggle to raise follow-on funds, not because they abused the availability of these lines, but rather because they failed to successfully execute their strategy.

Many LPs will welcome a lessening of the J-curve in a fund, but if a GP extends the use of a credit line for too long, there will be some backlash as investors have allocated capital to a GP with the expectation that their commitments will be drawn and generating returns. Higher IRRs on lower average capital deployed is problematic for most LPs as it forces them to contemplate over-commitment strategies, which have historically created other types of issues. Lastly, GPs that take a long-term approach to the business understand that any cash fees and interest expense paid to banks ultimately decreases the total amount of capital returned to the fund, which results in lower absolute dollars of carry. If interest rates should ever return to historical levels this impact becomes more acute and it is likely we will see the use of credit lines decrease.

The bottom line is that the proliferation of subscription credit lines is part of the natural evolution of private equity, and provided that transparency is maintained, the market will determine which managers are deserving of long-term support.

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# THE IMPORTANCE OF FUND ADMINISTRATION IN SUPPORTING PRIVATE EQUITY EXPENSE DISCLOSURE

## - Robert Wolfe, **Maples Fund Services**

While private equity has enjoyed significant growth due to its potential for long-term investment returns, there have been concerns in recent years about a perceived lack of transparency into investment operations and financials. The issue of fees, in particular, has been thrust into the spotlight with a number of high-profile institutional investors seeking greater transparency into the management fees, carried interest and other expenses paid to private equity General Partners (GPs).

The private equity industry has historically lacked clear protocols for fee and expense disclosure and tracking and verification has proven difficult for investors. This has led to speculation that institutional investors are unaware of what they are paying to managers and often unable to validate noted fees and expenses. Recently, there has been a notable increase in regulation and oversight of the private equity industry and thus, increased actions against private equity managers, including some of the industry's largest and most prominent firms. While this has served as a stark reminder to the private equity community that they have a fiduciary responsibility to ensure that investors fully understand the fees they are paying and how expenses are being applied, it has also sparked demand from investors for more transparency. Although private equity funds have historically been self-administered, an increasing number of funds are introducing an additional layer of independence in systems and processes to satisfy this growing investor demand.

Convergence – a data, research and advisory firm providing trends and insights into the alternative asset management industry – conducted a proprietary analysis with Maples Fund Services of its database of private equity funds in May 2017 to illustrate the increased SEC oversight and enforcement while highlighting best practices regarding the administration of these funds. The data revealed that SEC sanctions and fines increased dramatically with the number of sanctions rising by more than 600% from just six in 2015 to 44 in 2017, and the sanction amounts increasing from approximately $30mn in 2015 to more than $488mn in 2017.

In addition, the analysis showed that from 2015 to 2017, a fund that is self-administered had a higher probability of receiving a qualified audit than one that uses a third-party administrator. In 2015, a fund that was self-administered had just a 6% increased probability of receiving a qualified audit than one that used a third-party administrator. This has grown year on year with self-administered funds having a 20% greater chance of a qualified audit than their third-party-administered peers in 2016 and a 42% increased probability of a qualified audit in 2017.

Furthermore, Convergence found that there has been a 79% increase in regulatory violations among self-administered funds from 2015 to 2017, compared with a 44% increase in violations among funds that use a third-party administrator.

"With pressure to deliver consistent performance returns in a tough and crowded market and calls for increased reporting and transparency by investors and regulators, managers face greater levels of organizational complexity," said John Phinney, Founder of Convergence and a former CFO and COO at many leading hedge fund and private equity advisers. "This research demonstrates that they need more help than ever from their administrators."

In May 2017, Maples Fund Services conducted a proprietary analysis of documents for over 120 funds to determine how fees and expenses have typically been applied. Notable expense items that may require additional attention included:

- **Organizational expenses:** These are noted in 100% of the reviewed documents, but less than 50% of funds include a cap on such expenses. The lack of a cap can cause concerns for Limited Partners (LPs), particularly where sufficient transparency into the underlying amounts is not tracked.
- **Advisor overhead expenses/ wrap fees:** The inclusion in fund documents of such fees saw a notable uptick of more than 30% from 2016 to 2017. While this is on an upward growth trajectory, this expense item could come under investor scrutiny if sufficient transparency is not provided, in particular since it could be argued that certain sub-categories of this fee should be covered by the management fee.
- **Data and data management/ licensing expenses/technology fees:** These are noted in less than 20% of documents but this expense item is being specifically and increasingly identified and passed on to the fund as it did not appear in any documents prior to 2016. LPs are wise to request transparency into fees as traditionally technology fees would be seen as a management fee.
- **Extraordinary expenses:** The inclusion of these fees in documents increased significantly, by more than 45%, from 2015 to 2017. An extraordinary item consists of gains or losses included on a company's income statement from events, which are unusual and infrequent in nature and thereby may be analyzed more

closely than others. A thorough review of the fees being included in this segment is recommended.

- **Communications/printing expenses:** These are noted in more than 75% of documents. Given the proliferation of technology in the industry and beyond, certain LPs are querying why the fund should absorb such costs incremental to the management fee.

Based on this analysis, many of these fees and expenses would typically fall within the scope of acceptability during a review but those that were applied less consistently over time and across funds could raise significant questions and concerns about their validity during a review.

The SEC has generally taken action against firms that have a history of multiple deficiencies and have shown inconsistency in disclosing expenses and applying best practices in their operations. As a result, the use of third-party administrators is on the rise. Of the more than 17,000 active private equity funds in existence, according to Convergence, approximately 42% are administered by third parties, up from 37% in 2015.

While engaging with a third-party administrator can benefit a fund in myriad ways – from allowing managers to focus on their core competencies to reducing costs and supporting enhanced client service – this can also promote consistency in the application of criteria for expenses within broadly defined categories and ensure independence in the expense approval process.

In the early phases of establishing a fund and creating the fund documents, it can be valuable to work closely with other service providers such as the administrator to review the documents from an operational perspective. This can uncover areas that may be subject to misinterpretation and may cause issues later in the life of the fund. Once a fund is launched, it is critical that the administrator leverages its unique perspective, acts in good faith and generally follows a prescribed system that can effectively support the GP. For example, subsequent close and late payment interest are commonly triggered in one of the private equity fund groups Maples Fund Services administers where different product managers were exercising different treatment of investors. While this is something that falls under the remit of the fund to oversee, a good administrator with a tight set of internal controls will always be mindful and draw attention to areas that may require further review or supporting documentation which, in this case, was well received by senior management resulting in greater standardization. This ensures that a fund can stand up to any potential queries from investors concerning being treated consistently.

Beyond providing a second set of eyes reviewing expenses for applicability to the documents, at its core, an independent administrator acts as a support function for the GP and can help alleviate some of the pressures that come with demonstrating compliance regarding the application of criteria for expenses. This can also provide LPs with comfort and peace of mind as to the legitimacy of the noted expenses. Such transparency will ultimately serve to foster a sense of trust between institutional investors and the managers they work with, acting as a catalyst for continued industry growth.

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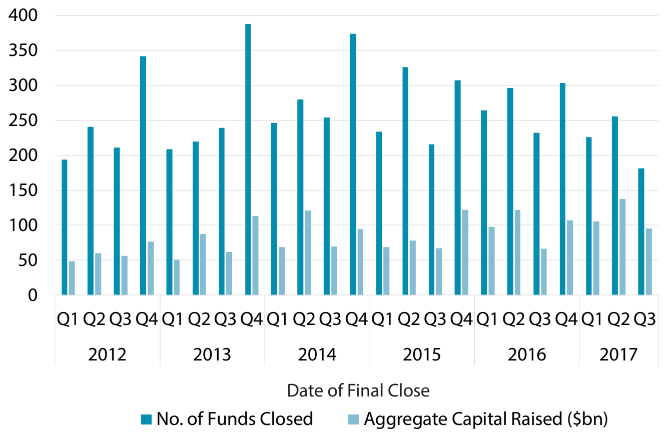
# FUNDRAISING

Q3 2017 saw a total of 181 private equity funds reach a final close, securing an aggregate $95bn in institutional capital (Fig. 1). Fundraising activity has slowed compared to the previous quarter, with 75 fewer funds reaching a final close and $42bn less in aggregate capital raised by these vehicles. However compared to Q3 2016, while this quarter saw 51 fewer funds hold a final close, it also saw $28bn more capital raised. First-time funds accounted for 24% of funds closed in Q3 2017, but just 8% of the aggregate capital raised, which may be an indication that investors are continuing to invest heavily with existing GPs.

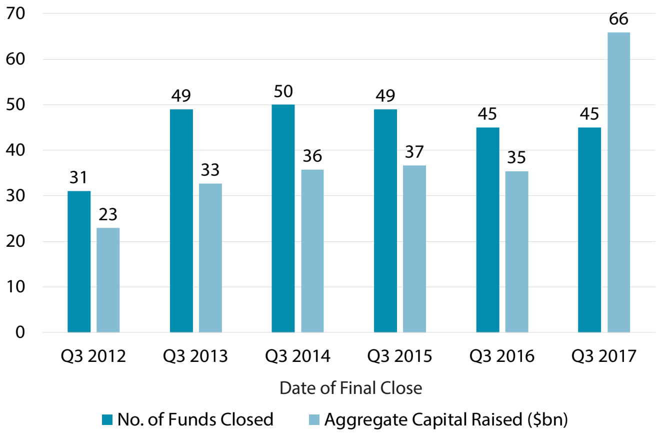
Venture capital funds accounted for 44% of all private equity funds reaching a final close in Q3 2017, while buyout funds secured 69% of aggregate capital raised by these vehicles (Fig. 2). The same number of buyout funds reached a final close in

### Fig. 1: Private Equity Fundraising, Q1 2012 - Q3 2017



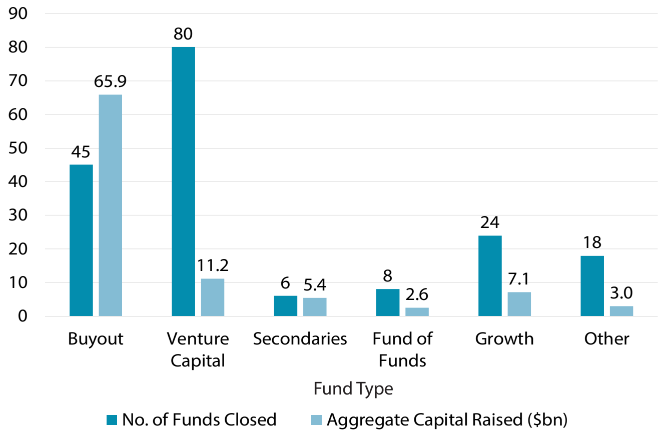

*Source: Preqin Private Equity Online*

### Fig. 2: Q3 Buyout Fundraising, 2012 - 2017



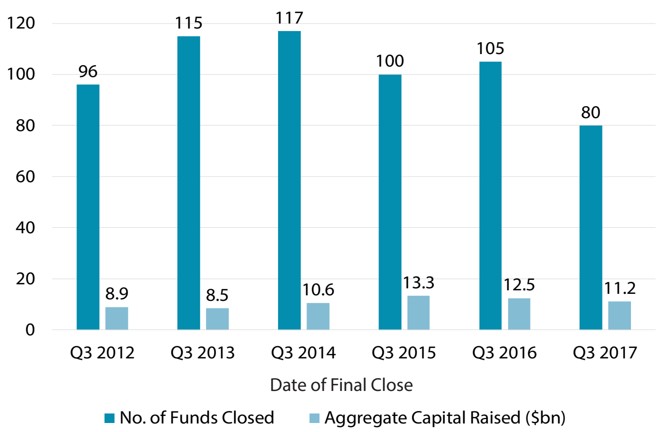

*Source: Preqin Private Equity Online*

### Fig. 3: Private Equity Fundraising in Q3 2017 by Fund Type



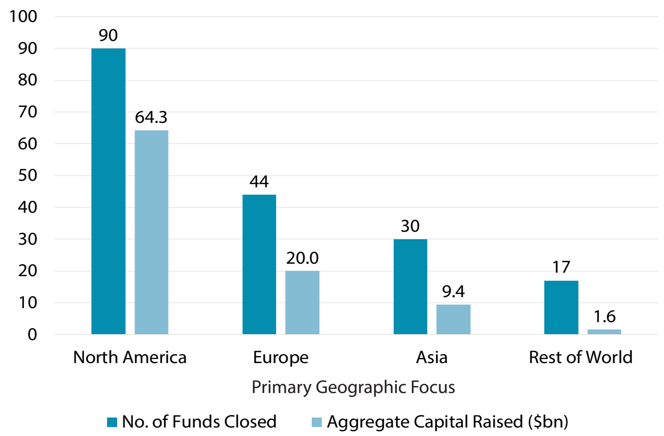

*Source: Preqin Private Equity Online*

### Fig. 4: Q3 Venture Capital Fundraising, 2012 - 2017




*Source: Preqin Private Equity Online*

### Fig. 5: Private Equity Fundraising in Q3 2017 by Primary Geographic Focus



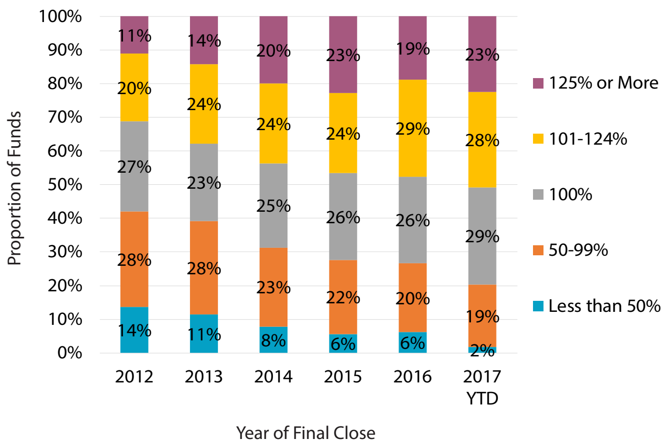

*Source: Preqin Private Equity Online*

Q3 2017 than in Q3 2016; however, the aggregate capital raised ($31bn) was 86% higher in this quarter (Fig. 3). Contrastingly, 25 fewer venture capital funds reached a final close in Q3 2017 compared to the previous year, with a near $2bn fall in institutional capital secured by these vehicles in this quarter (Fig. 4).

The number of North America-focused funds closed fell by 27% from Q3 2016, while the aggregate capital raised by these funds rose 63% over the same period (Fig. 5). The difference in capital raised follows the closure of Apollo Investment Fund IX on $24.7bn (the largest buyout fund to reach a final close to date) and Bain Capital Fund XII on $9.4bn. Europe-focused funds closed in the quarter secured $4.0bn (25%) more capital than the previous year from one more fund closure, while the number of Asia-focused vehicles fell by almost a third (32%), yet raised a further $2.0bn over the same period. Similarly to other private capital asset classes, the trend towards capital concentration continues.

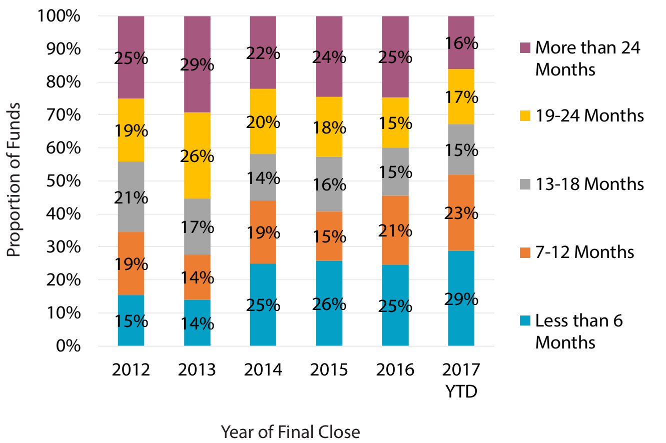
LP liquidity is continuing to drive fundraising this quarter as illustrated by the success and speed at which fund managers are raising capital. The proportion of vehicles reaching a final close annually that exceeded their target size has risen from 31% in 2012 to 51% in 2017 (Fig. 6). On average, private equity funds closed in 2017 YTD have achieved 106% of their initial target size. Private equity funds are also spending less time in market: over half (52%) of vehicles closed so far this year have spent 12 months or less fundraising, compared to 46% of funds that closed in 2016 (Fig. 7).

### Fig. 6: Private Equity Funds Closed by Proportion of Target Size Achieved, 2012 - 2017 YTD




*Source: Preqin Private Equity Online*

### Fig. 7: Time Spent in Market by Private Equity Funds Closed in 2012 - 2017 YTD




*Source: Preqin Private Equity Online*

### Fig. 8: 10 Largest Private Equity Funds Closed in Q3 2017

| Fund | Firm | Fund Size (mn) | Fund Type | Geographic Focus |
|---|---|---|---|---|
| Apollo Investment Fund IX | Apollo Global Management | 24,714 USD | Buyout | North America, West Europe |
| Bain Capital Fund XII | Bain Capital | 9,400 USD | Buyout | Global, North America |
| New Mountain Partners V | New Mountain Capital | 6,150 USD | Buyout | North America |
| Partners Group Direct Equity 2016 | Partners Group | 3,000 EUR | Buyout | Global |
| Lexington Middle Market Investors IV | Lexington Partners | 2,660 USD | Secondaries | North America |
| Oak Hill Capital Partners IV | Oak Hill Capital Partners | 2,650 USD | Buyout | North America |
| Waterland Private Equity Fund VII | Waterland Private Equity Investments | 2,000 EUR | Buyout | Europe |
| Asia Alternatives Capital Partners V | Asia Alternatives Management | 1,800 USD | Fund of Funds | Asia, Australasia |
| Institutional Venture Partners XVI | Institutional Venture Partners | 1,500 USD | Expansion/Late Stage | North America |
| Core Equity Holdings I | Core Equity Holdings | 1,000 EUR | Buyout | Europe |

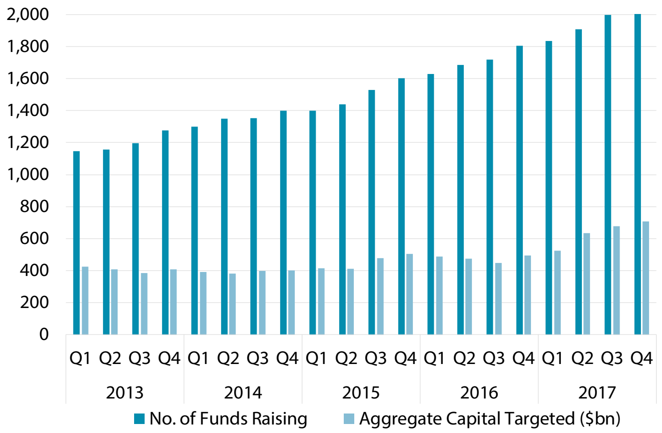
*Source: Preqin Private Equity Online*

# FUNDS IN MARKET

The number of private equity funds in market continued to grow in Q3 2017. A record 2,022 funds are now on the road at the beginning of Q4 2017, targeting $706bn in institutional capital (Fig. 9). This represents a 10% rise in the number of funds raising capital since the start of 2017, and marks a 34% ($180bn) increase in the aggregate capital targeted by these vehicles. This increase can largely be explained by SB Investment Advisers' SoftBank Vision Fund, which is seeking $100bn – the largest amount ever targeted by a private equity fund – which held a first close in May 2017 on $93bn.

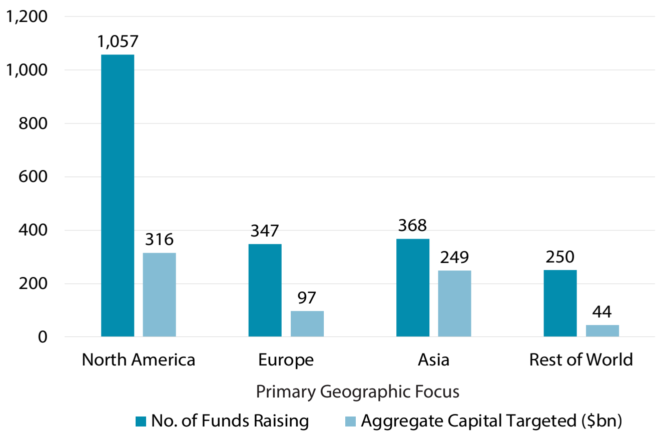
Over half (52%) of all funds in market are targeting investment opportunities in North America (Fig. 10), and these vehicles account for just under half (45%) of all institutional capital being targeted. While there are 12 fewer Asia-focused funds in market when compared with the previous quarter, the aggregate capital targeted by these vehicles has increased by 30% over the same period. The difference in capital targeted can largely be explained by the CNY 664bn ($99bn) being targeted by three of the five largest funds in market, which together represents 40% of all capital targeted by Asia-focused funds (Fig. 12). Among these vehicles, all of which are state-owned entities, is China Structural Reform Fund, which held a first close in September 2016, securing CNY 131bn ($20bn) in investor capital commitments.

**Fig. 9: Private Equity Funds in Market over Time, Q1 2013 - Q4 2017**



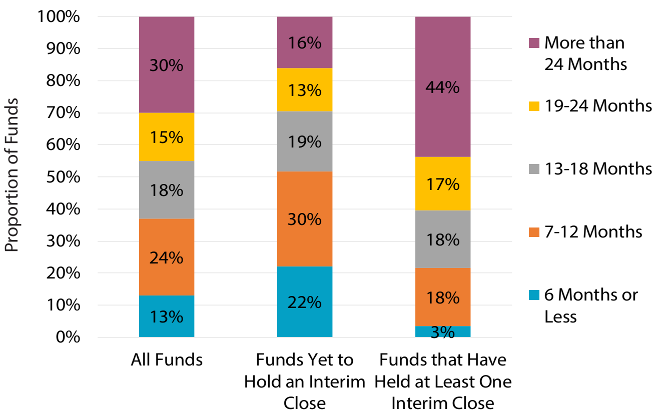

*Source: Preqin Private Equity Online*

**Fig. 10: Private Equity Funds in Market by Primary Geographic Focus**




*Source: Preqin Private Equity Online*

**Fig. 11: Time Spent on the Road by Private Equity Funds in Market**




*Source: Preqin Private Equity Online*

**Fig. 12: Five Largest Private Equity Funds in Market**

| Fund | Firm | Target Size (mn) | Fund Type | Geographic Focus |
|---|---|---|---|---|
| SoftBank Vision Fund | SB Investment Advisers | 100,000 USD | Hybrid | Global |
| China Structural Reform Fund | CCT Fund Management | 350,000 CNY | Fund of Funds | China |
| China State-Owned Capital Venture Investment Fund | China Reform Fund Management | 200,000 CNY | Venture Capital | China |
| State-Owned Enterprise National Innovation Fund | China Aerospace Investment Holdings | 113,900 CNY | Growth | China |
| Asian Institutional Investor Joint Overseas Investment Fund | China Minsheng Investment Group | 15,000 USD | Buyout | ASEAN, Asia, Central Asia, China, Middle East, South Asia |

*Source: Preqin Private Equity Online*

# INSTITUTIONAL INVESTORS

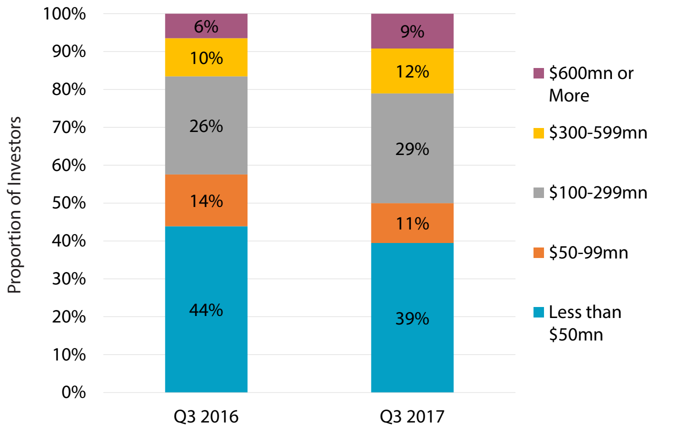
Institutional investors continue to invest heavily in private equity; among the investors surveyed by Preqin in June 2017, 35% plan to invest more capital in the asset class over the next year than they did in the past 12 months, compared with just 19% that expect to invest less.

As of Q3 2017, the proportion of investors planning to commit at least $100mn to the asset class in the next 12 months has increased from 42% in Q3 2016 to 50%, and the proportion planning to commit $600mn or more has increased from 6% to 9% (Fig. 13). Although institutions are targeting a similar number of vehicles, the proportion planning to commit to 10 or more fund has increased from 16% to 20% (Fig. 14).

Buyout funds remain the most targeted strategy, with 71% of fund searches issued on Preqin's **Private Equity Online** in Q3 targeting these funds (Fig. 15). Growth vehicles have witnessed the greatest increase in appetite (nine percentage points) over the past 12 months, with 51% of investors planning new investments targeting these vehicles, the same proportion for venture capital funds.

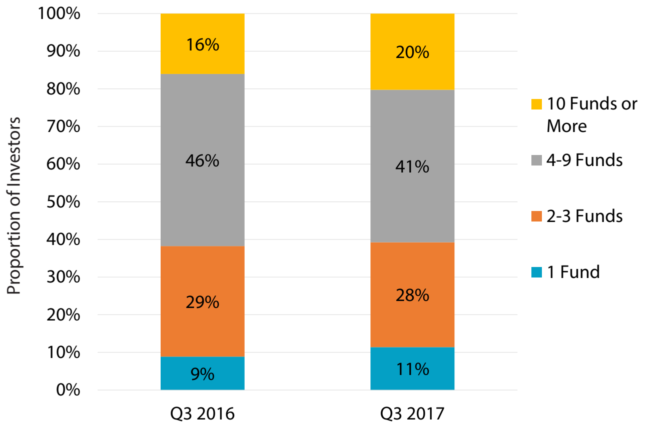
Regional preferences are largely similar to this time last year with North America- and Europe-focused vehicles remaining the most favoured (Fig. 16). The proportion of investors targeting vehicles with a global mandate has increased from 35% to 41% in the past year.

### Fig. 13: Amount of Capital Investors Plan to Commit to Private Equity Funds in the Next 12 Months, Q3 2016 vs. Q3 2017



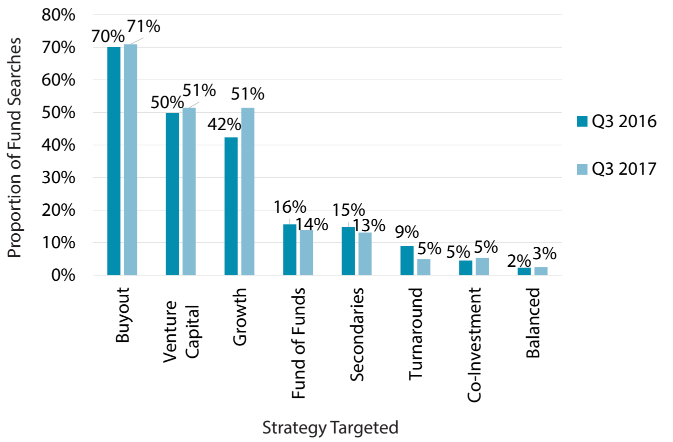

*Source: Preqin Private Equity Online*

### Fig. 14: Number of Private Equity Funds Investors Plan to Commit to in the Next 12 Months, Q3 2016 vs. Q3 2017



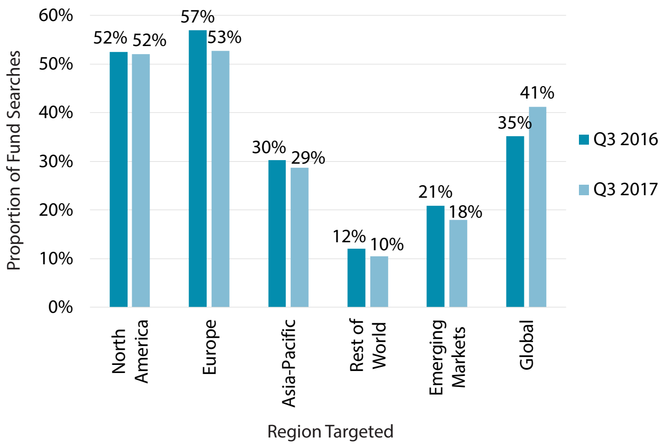

*Source: Preqin Private Equity Online*

### Fig. 15: Strategies Targeted by Private Equity Investors in the Next 12 Months, Q3 2016 vs. Q3 2017




*Source: Preqin Private Equity Online*

### Fig. 16: Regions Targeted by Private Equity Investors in the Next 12 Months, Q3 2016 vs. Q3 2017




*Source: Preqin Private Equity Online*

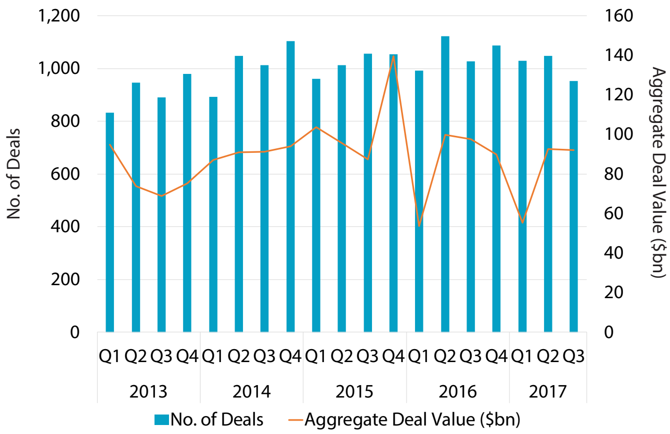
# BUYOUT DEALS AND EXITS

Q3 2017 saw 953 private equity-backed buyout deals announced or completed globally, worth an aggregate $92bn (Fig. 17). This represents a 9% decrease in the number of deals completed compared to the previous quarter, although it is the same amount of capital. However, the number of deals and aggregate deal value are 7% and 6% lower respectively compared to Q3 2016, which could be attributed to increased asset pricing making it difficult for GPs to source attractive investment opportunities.

Deal value in Q3 2017 for Asia is up 274% from the previous quarter. In contrast, the aggregate value of North American deals fell 42% over the same period. While the aggregate deal value for Rest of World remains unchanged over this period, overall it has decreased by 62% since Q3 2016. This difference in value for Asian deals is largely attributed to the acquisition of Toshiba Memory Corporation by a consortium led by Bain Capital for a total value of JPY 2tn; this is the largest private equity-backed buyout deal since 2015.

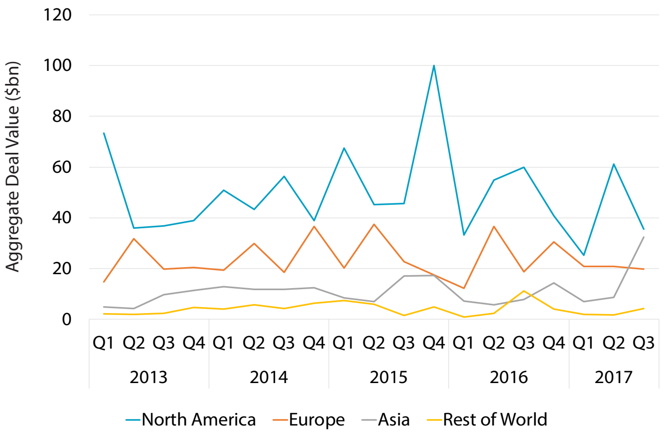
Exit activity fell for a fifth consecutive quarter, with 381 private equity-backed buyout exits in Q3 2017 for an aggregate $65bn – the lowest number of exits in a quarter since Q3 2012. Trade sales did increase their share by 13% from the previous quarter, but the number of IPOs & follow-ons, sale-to-GP and restructuring exits decreased over the same period by 53%, 12% and 70% respectively.

### Fig. 17: Private Equity-Backed Buyout Deals, Q1 2013 - Q3 2017



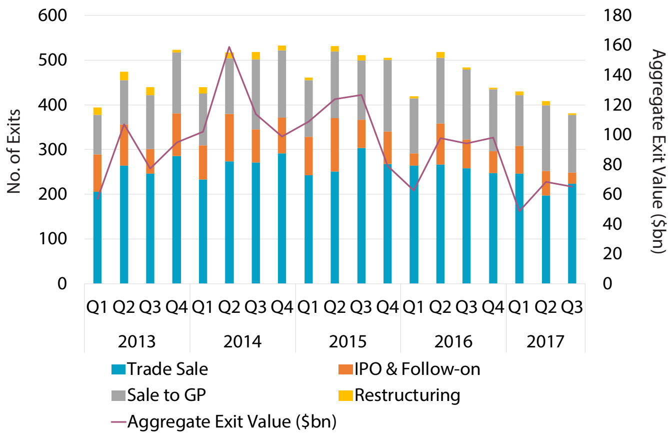

*Source: Preqin Private Equity Online*

### Fig. 18: Aggregate Value of Private Equity-Backed Buyout Deals by Region, Q1 2013 - Q3 2017




*Source: Preqin Private Equity Online*

### Fig. 19: Private Equity-Backed Buyout Exits by Type and Aggregate Exit Value, Q1 2013 - Q3 2017

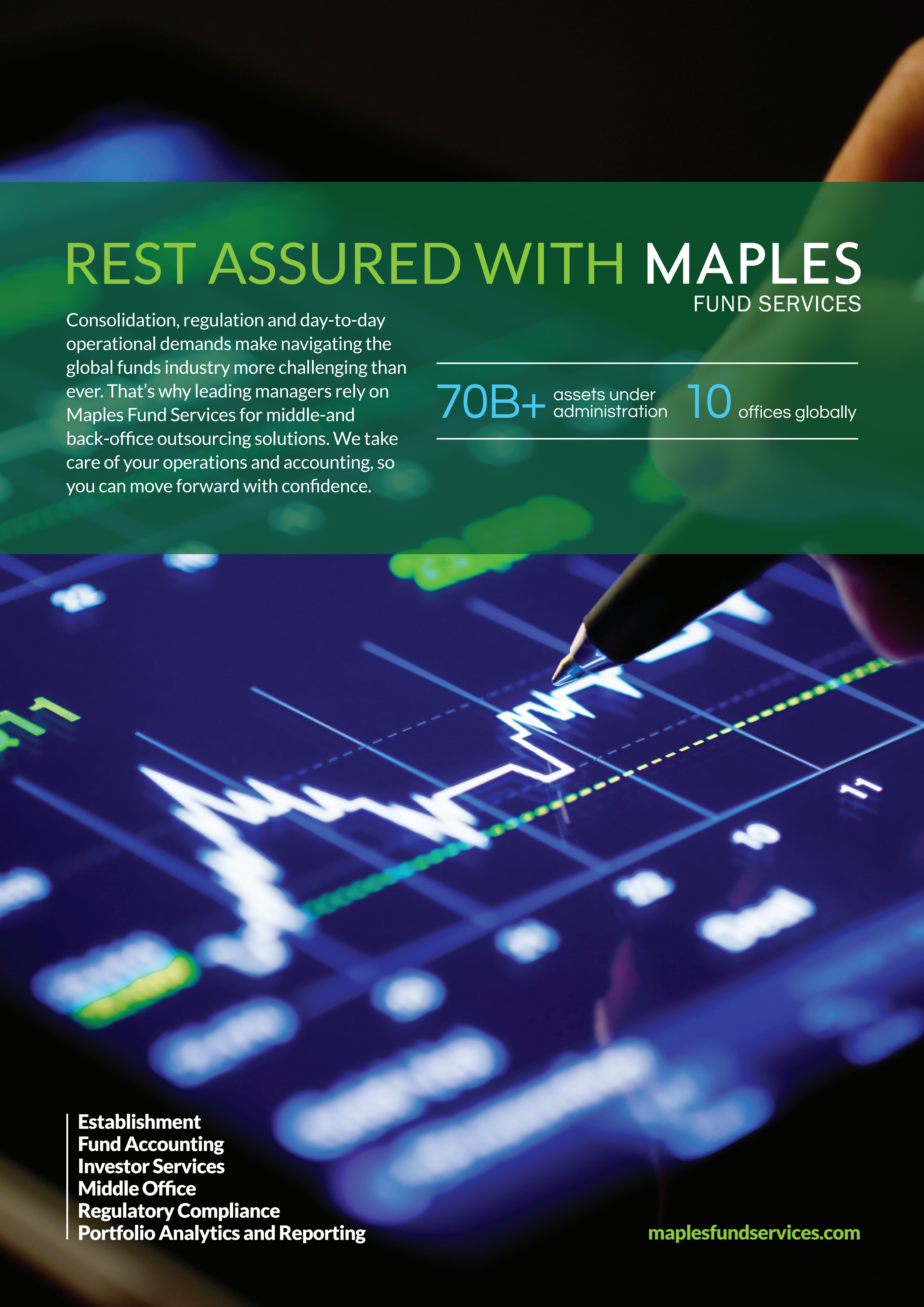



*Source: Preqin Private Equity Online*

### Fig. 20: Largest Private Equity-Backed Buyout Deals Announced in Q3 2017

| Portfolio Company | Investment Type | Deal Date | Deal Size (mn) | Investor(s) | Bought from/ Exiting Company | Location | Primary Industry |
|---|---|---|---|---|---|---|---|
| Toshiba Memory Corporation | Buyout | Sep-17 | 2,000,000 JPY | Apple Inc., Bain Capital, Dell Inc., Hoya Corporation, Kingston Technology Company, Inc., Seagate Technology Holdings, SK Hynix, Toshiba Corporation | Toshiba Corporation | Japan | Electronics |
| Global Logistic Properties Limited | Public-to-Private | Jul-17 | 16,000 SGD | Bank of China Group Investment, China Vanke Co. Ltd., Hillhouse Capital Management, Hopu Investment Management, Schwartz-Mei Group Limited | - | Singapore | Logistics |
| Calpine Corporation | Public-to-Private | Aug-17 | 5,600 USD | Access Industries, CPP Investment Board, Energy Capital Partners | - | US | Energy |

*Source: Preqin Private Equity Online*



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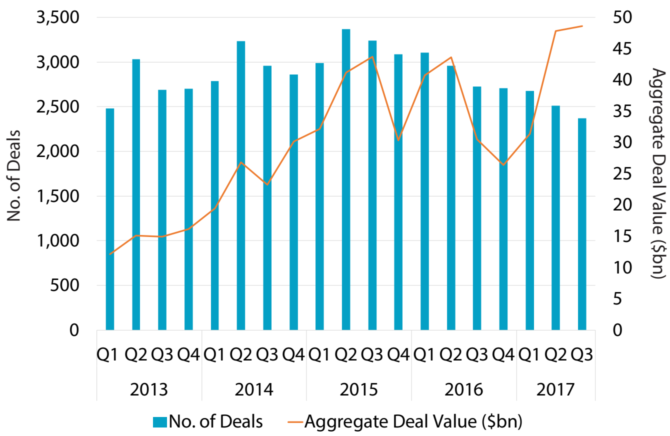
# VENTURE CAPITAL DEALS

In Q3 2017, 2,369 venture capital financings were announced globally; this is a five-year low, marking a 6% decline from the previous quarter and a 13% decrease from the 2,728 financings in Q3 2016 (Fig. 21). Despite fewer transactions, the aggregate value ($49bn) of venture capital deals in Q3 2017 was the highest since 2010, 59% higher than in Q3 2016. Ten venture capital deals that surpassed $1bn were announced in Q3 2017, notably Grab Holdings and Toutiao's $2bn funding rounds among them.

The number of venture capital deals in North America fell for the ninth consecutive quarter, showcasing the lowest figures for any quarter since 2010 (Fig. 22). Despite this, the 941 finances represent the largest proportion (40%) of deals in any single market. In terms of value, North America's share of the market equates to $19bn (40%), with Greater China's 534 financings accounting for 32%. Deal flow slowed in Europe, India and Israel compared to Q2 2017, although Greater China saw the greatest decline (12%) in aggregate deal value over this period.

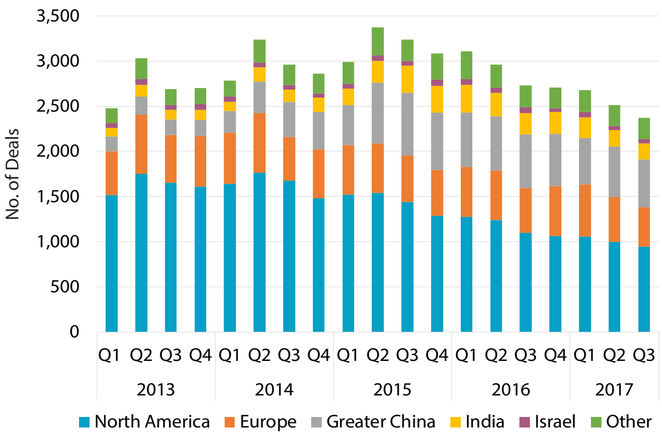
Series A/Round 1 was the most common stage of financing, accounting for 30% of the total number of deals in Q3 2017 (Fig. 23). However, these financings only accounted for 15% of global aggregate value, while the 331 Series B/Round 2 financings represented the largest proportion (25%) of global venture capital transaction value over the same period.

Fig. 21: Venture Capital Deals*, Q1 2013 - Q3 2017



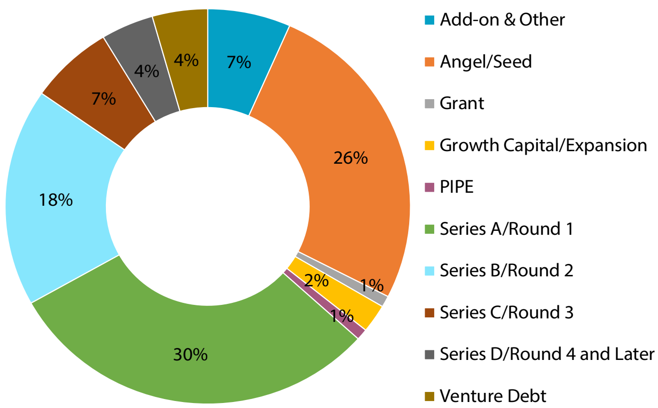

*Source: Preqin Private Equity Online*

Fig. 22: Venture Capital Deals* by Region, Q1 2013 - Q3 2017




*Source: Preqin Private Equity Online*

Fig. 23: Venture Capital Deals in Q3 2017 by Stage




*Source: Preqin Private Equity Online*

Fig. 24: Five Largest Venture Capital Deals* in Q3 2017

| Portfolio Company | Stage | Deal Date | Deal Size (mn) | Investor(s) | Location | Primary Industry |
|---|---|---|---|---|---|---|
| Grab Holdings | Unspecified Round | Jul-17 | 2,000 USD | Didi Chuxing, SoftBank | Singapore | Telecoms |
| Toutiao | Unspecified Round | Aug-17 | 2,000 USD | General Atlantic | China | Telecoms |
| WeWork Companies Inc. | Unspecified Round | Aug-17 | 1,940 USD** | SB Investment Advisers, Softbank Capital | US | Hotels and Offices |
| Ready-Go | Series B/Round 2 | Jul-17 | 11,118 CNY | Beijing Automotive Group Co., Ltd, China Cinda Asset Management, Guoxuan Investment, Zhongji Investment | China | Internet |
| Flipkart Internet Private Limited | Unspecified Round | Aug-17 | 1,500 USD*** | SB Investment Advisers | India | Internet |

*Source: Preqin Private Equity Online*

**Figures exclude add-ons, mergers, grants, secondary stock purchases and venture debt.*
***Part of a $4.4bn transaction, whereby $3bn was invested in WeWork Companies Inc. directly and the remaining $1.4bn was invested in WeWork China, Japan and Pacific.*
****Part of a $2.5bn transaction, whereby $1bn was a secondary stock purchase from SB Investment Advisers.*

# FUND PERFORMANCE AND DRY POWDER

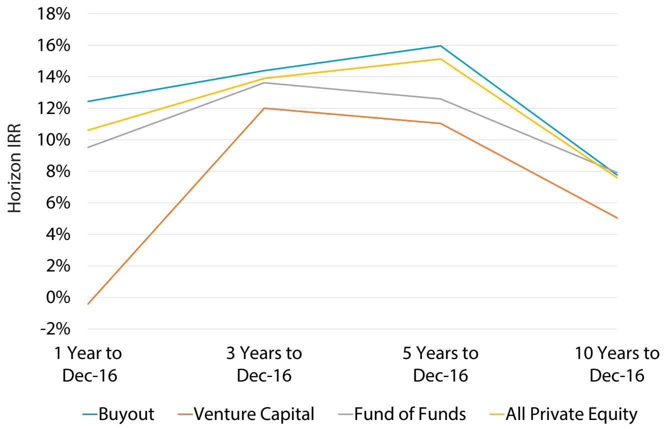
Private equity funds have continued to deliver for investors: of the investors interviewed by Preqin in June 2017, 89% reported that private equity funds have either met or exceeded their expectations over the past year.

In terms of horizon IRRs, the Preqin All Private Equity Benchmark has performed strongly over both one- and three-year periods: the one-year horizon IRR of private equity funds to December 2016 (the most recent performance date available) is 10.6% which increases to 13.9% and 15.1% over a three- and five-year period (Fig. 25). Among individual fund types, buyout funds have generated the highest returns across one-, three- and five-year horizons. Venture capital funds have performed poorly over a one-year horizon (-0.4%) but have posted stronger returns over a three- (12.0%) and five-year (11.0%) period.

When looking at median net IRRs and quartile boundaries by vintage year, 2009-2013 funds have tended to perform better than those that began investing in the years leading up to the Global Financial Crisis (vintage 2005-2008, Fig. 26). However, the gap between better and worse performing funds has also widened, particularly for vintage 2012-2013 funds.

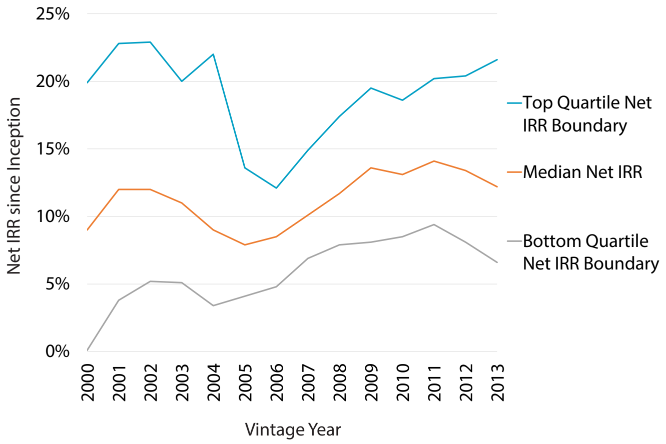
Private equity funds continue to distribute significant sums of capital to investors: net cash outflows from private equity funds reached $247bn in 2016, as fund managers returned capital faster than they were able to call capital (Fig. 27). With many investors looking to re-invest this capital to maintain their allocations, and others allocating fresh capital to the asset class, the record levels of dry powder held by private equity fund managers has continued to grow, reaching $954bn as of September 2017 (Fig. 28). Buyout funds account for the majority (64%) of this dry powder, and have also seen the greatest increase (18%) over the year.

**Fig. 25: Private Equity: Horizon IRRs by Fund Type (As at December 2016)**



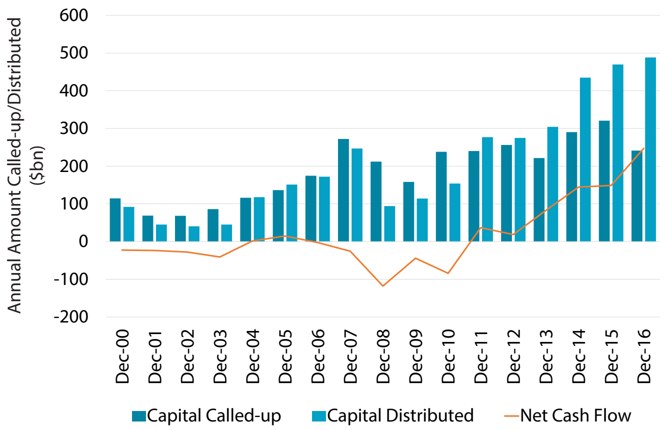

*Source: Preqin Private Equity Online*

**Fig. 26: Private Equity: Median Net IRRs and Quartile Boundaries by Vintage Year**



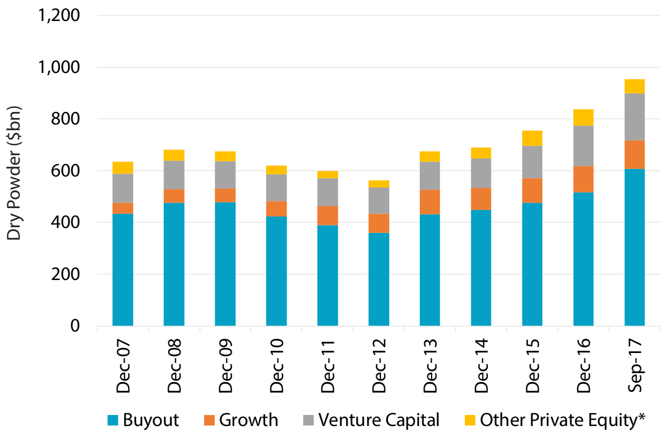

*Source: Preqin Private Equity Online*

**Fig. 27: Private Equity: Annual Amount Called-up, Distributed and Net Cash Flow (As at December 2016)**




*Source: Preqin Private Equity Online*

**Fig. 28: Private Equity Dry Powder by Fund Type, 2008 - 2017**




*Source: Preqin Private Equity Online*

**Other Private Equity includes balanced, co-Investment, co-Investment multi-manager, direct secondaries and turnaround funds.*