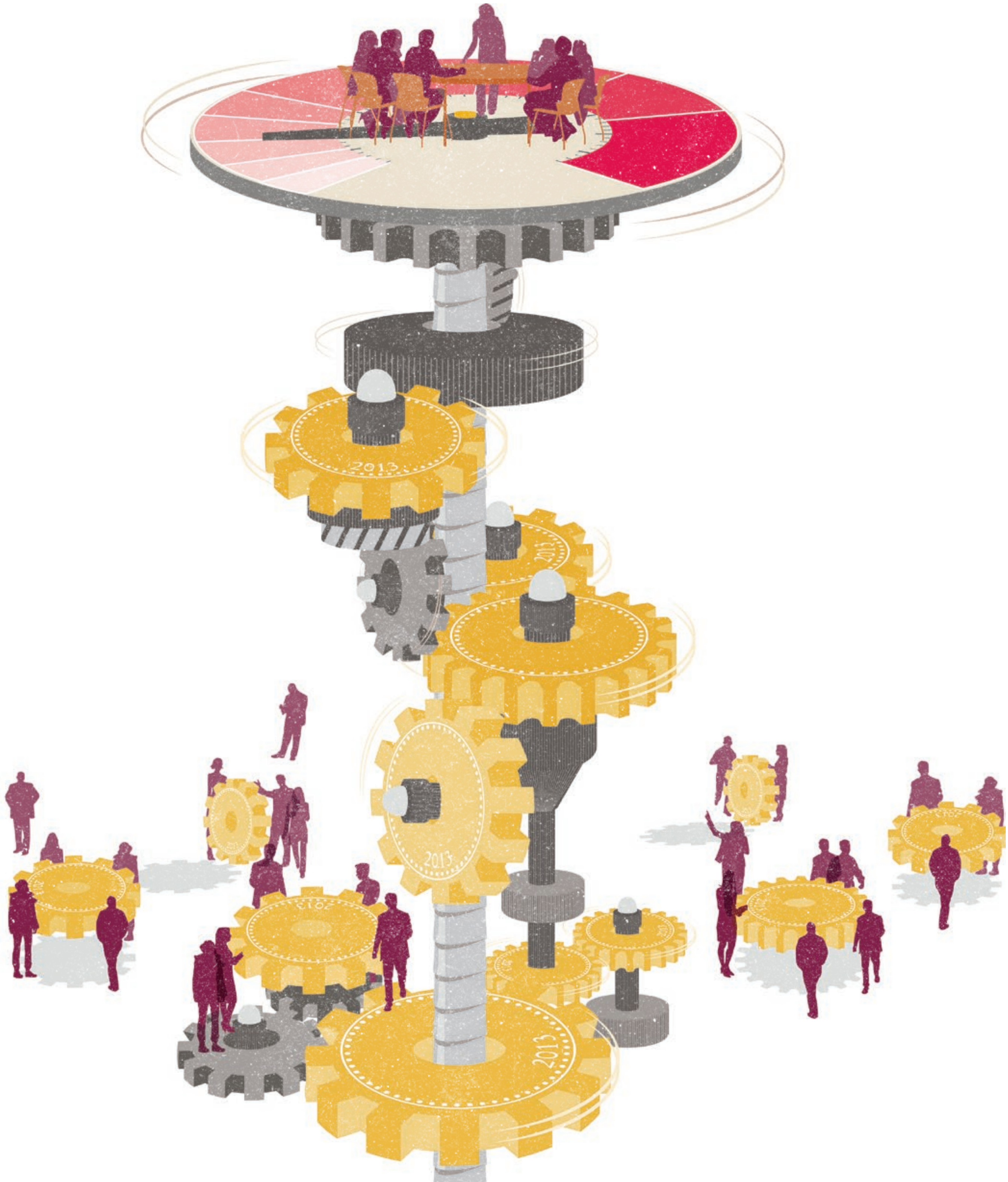
Grant Thornton

An instinct for growth™

GLOBAL PRIVATE EQUITY REPORT 2013/14

A time of challenge and opportunity



Between July and August 2013, 156 interviews were conducted with top executives from private equity firms around the world. Respondents included industry general partners from seven principal regions:

- Europe
- North America
- Asia Pacific
- Middle East & Africa
- India
- Latin America
- Russia/CIS

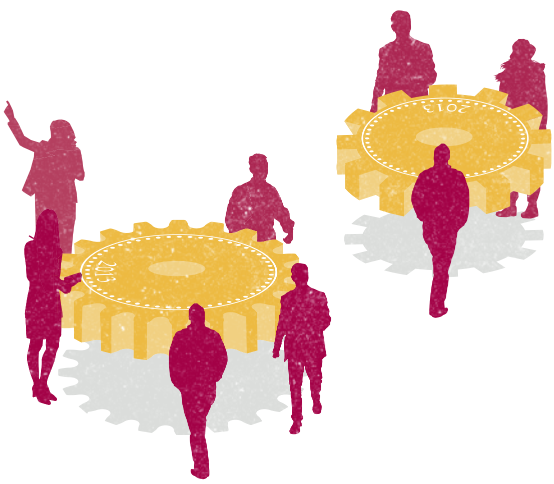
The full methodology can be found on page 40.

Glossary

ESG	Environmental, social and governance
GP	General partner
IPO	Initial public offering
IR	Investor relations
IRR	Internal Rates of Return
LP	Limited partner
M&A	Mergers and acquisitions
PE	Private equity
SWF	Sovereign Wealth Funds
TMT	Telecommunications, media and technology

Contents

This report provides a global snapshot of the opportunities and challenges within the private equity industry as seen from a practitioner's perspective. The differences in what it means to be an active player in specific global markets are examined, as are the key themes that resonate around the world.



Foreword

Martin Goddard
Global services line leader – transactions
Grant Thornton International Ltd

Encouraging outlook for investment

Whilst the results from our third annual global private equity survey indicate that numerous challenges facing the industry remain, there appear to be signs of growing optimism amongst respondents, suggesting that perhaps we are at the dawn of a new phase of increased activity, especially in the core private equity markets of North America and Western Europe.

With the continuing improvement in debt markets in North America and the potential follow on impact this may have globally, as well as the signs of positive economic news from Europe and sustained growth across the Asia Pacific region, there appears to be supporting evidence underpinning these early signs of returning confidence.

Additionally, with a number of successful large fundraisings, such as those achieved by Apollo and Advent, as well as the hint that the mega buy-outs may be returning, with the Heinz and potential Dell transactions, there are indicators from within the industry signifying that there is a level of confidence returning that has been absent for a number of years.

Private equity coming home

Over the past few years, there has been substantial interest in, and movement towards, high growth and emerging markets. Firms have either set up offices, followed portfolio companies or raised funds to access these markets. Indeed, last year's report focused on the next frontier markets that the industry was attracted to, including Myanmar, Peru and Tanzania.

Whilst there remains interest in these markets, what has emerged from this year's results indicates a shift of focus in the industry back to home markets.

With apparent improving conditions in markets with a history of private equity, the slowing down of some high growth economies, as well as the apparent lack of deal flow and exit opportunities in some of these markets, many firms have started to refocus on the markets they trust and understand the most, leaving their portfolio companies seeking growth opportunities further afield.

The major obstacle to this confidence translating into higher activity levels is the continuing limited availability of high quality acquisition opportunities. The 'feel good factor' has yet to filter through to potential vendors who appear to be awaiting an uplift in multiples.

A new 'road map' for fundraising

The private equity industry, having been subject to numerous changes and increased regulation in the wake of public demand, media scrutiny and government pressure, now appears to have reconciled itself to a new environment and a set of demands from the investment community when fundraising.

Whilst fundraising is obviously the lifeblood of the industry, regulatory compliance, disclosure demands and the increasing power of limited partner (LP) investors has led to firms having to adapt in order to succeed. This evolution has effectively created a new road map for a successful fundraise.

There is an over-riding sense that private equity (PE) firms are having to be more flexible in order to maximise their chances of accessing capital. Firms appear to have now accepted new and tighter fee structures demanded by investors. There is also wider acceptance of LPs' changing investment structures and terms, with an increasing number of firms conceding co-investment rights to LPs.

Against this backdrop, the investor community itself remains in a state of change. Some long-standing PE investors are continuing to concentrate on relationships with greater focus on performance and the underpinning strategies, whilst also bearing down heavily on costs. Others are becoming direct investors themselves, such as some Canadian pension funds, whilst a few have exited the asset class altogether. Conversely, new capital continues to flow into the industry, with family offices and Sovereign Wealth Funds (SWF) in particular increasing their exposure.

Ultimately, the fundamentals of fundraising remain a pre-requisite, a good track record of returns, a quality team with a credible and sustainable strategy. There is an increasing pressure from LPs to disclose more information, to share details of investment pipelines and to reduce the lead times in the deployment of investment funds.

Momentum is key

Within this changed operating environment, momentum remains fundamental to the success of firms and indeed the industry as a whole. Fundraising, the focus of this year's report, perfectly illustrates this.

PE firms that can generate momentum in their fundraising, comply with the new roadmap and satisfy the demands of LPs, such that they manage to achieve an early first close, tend to go from strength to strength and attract further investors who note and follow their success.

On the flip side, those who struggle to meet the demands imposed upon them consequently lose time and suffer inertia. Those who have been able to access LP capital and raise successfully will define the shape of the industry for the next cycle. Inevitably, the growing trend of the survival of the fittest can be expected to continue.

There is an over-riding sense that PE firms are having to be more flexible in order to maximise their chances of accessing capital.

Challenges remain

Whilst there is a level of optimism that can be drawn from this year's results and comments, there remain some key challenges fundamental to the industry – fundraising, regulation and deal flow.

The desire to put money to work remains very strong globally, both amongst the PE firms themselves and their investors. Whilst there is also slowly improving confidence year-on-year that PE deal flow will increase, deal flow is highlighted globally as a particular challenge. Competition from within the industry, cash rich corporates and other institutional funds are the major reasons for this. With the macro environment encouraging PE houses to focus on 'quality' businesses, the supply of such businesses together with the competitive environment is limiting the ease with which firms are able to deploy their capital.

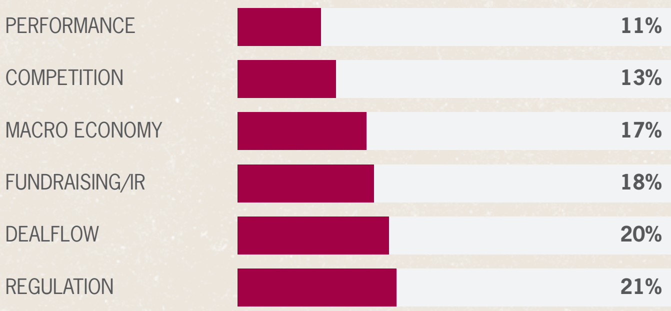
This challenge is further underpinned by the fact that the returning feel good factor has yet to filter through to vendors and the multiples that they can achieve.

There also remains a growing view that the ever increasing burden of regulation has the potential for harm. Much of this is being driven by pressures from governments and many respondents note the impact of local and regional political situations on their markets. Uncertainty, arising from the build up to elections in India and Australia for example, is noted by some.

At the portfolio level, even in mature business markets like Europe, governance-related advice is noted as a particular area in which PE firms can assist their investees, highlighting both the red-tape being experienced by businesses and the need to address areas of investee concern.

KEY CHALLENGES FACING THE PRIVATE EQUITY INDUSTRY

TOP SIX CHALLENGES



Improving image

One notable result from last year's report was the number of respondents that saw the image of private equity deteriorating. Interestingly, the results from this year's report show a material improvement in how PE firms view the industry. Notably, there has been a significant change in the view from North America, which is far more positive even in the wake of Mitt Romney's Presidential campaign, which a number of respondents note as continuing to have a negative impact on the industry's image.

The industry appears to be adapting to increased media interest and, as many commented, firms and the industry as a whole are now far more media savvy, being better equipped and prepared for questions about the benefits of the industry. There appears to be a growing acceptance that the industry has to make itself publicly accountable for its actions.

Conclusion

Overall, private equity as an asset class remains as attractive as ever to investors. There remains a deep focus on driving value through business performance and finding companies where the growth is not linked just to arbitrage or market developments. With investors having increased power and options, private equity fundraising remains the key indicator to the current and future health of the industry.

With hints of optimism running through this year's results and the general sense of improving economic conditions, there is evidence that momentum is being slowly built ensuring the longevity and success of the private equity industry, albeit within a new framework of accepted practice and regulation in place.

Market forces are driving change to size, structure and practice but, with an improving economic environment, returning confidence and a regenerating General Partner (GP) base, the industry is right to feel optimistic about its future as we approach the start of a potentially exciting new phase of private equity growth.

"Now that the elections are out of the way here, things have somewhat got back to normal. It had become the case that the image of private equity was being highly distorted, with issues from way back being brought into play and it did feel for a time like there was a daily attack on the industry."

USA

A new road map for fundraising

The percentage of respondents stating the environment as positive is up in many of the regions.

The fundraising environment

Whilst the global fundraising environment continues to be seen as tough by GPs (almost half characterise it as "negative" or "very negative"), this reflects an improvement in sentiment from 12 months ago, when almost 90% of GPs saw the fundraising environment as "neutral" or "worse". Indeed, 29% of respondents stated that the environment is positive compared to only 11% last year.

This positive sentiment is virtually a global phenomenon. The percentage of respondents stating the environment as positive is up in many of the regions with North America (up from 20% to 45%), Asia Pacific (up from 4% to 20%), Middle East & North Africa (up from 13% to 47%) and even European respondents (up from 10% to 16%) all indicating that the shackles may be loosening.

Interestingly, the one market where continuing negative responses have arisen is India, seen as the toughest fundraising market by domestic GPs. Although even there the level of negativity has eased somewhat with 60% of respondents feeling the market is very negative for fundraising (89% in 2012).

Perhaps sentiment in India has been heavily influenced by the major depreciation of the Rupee, volatility of capital markets and the upcoming elections. There are, however, positive signs with a move into the buy-out market and a number of successful fundraises.

Within each market, the picture is often mixed. There are some GPs that have enjoyed high levels of performance and good LP relationships leading to efficient and effective fundraising. However, for most, there is a realisation that raising a new fund will not be easy with an increasing amount of work and preparation required.

"It's definitely improving. Up until last year it was very difficult and foreign LPs wanted nothing to do with Japan. But recently we have been talking to all kinds of investors, who have started to contact us to try and test the lay of the land."

Japan

"I think there is a lot more pre-marketing and soft marketing – it's more 'non-stop fundraising'; whether you're specifically raising a fund or not, you're looking to continuously bring in new investors, getting people comfortable."

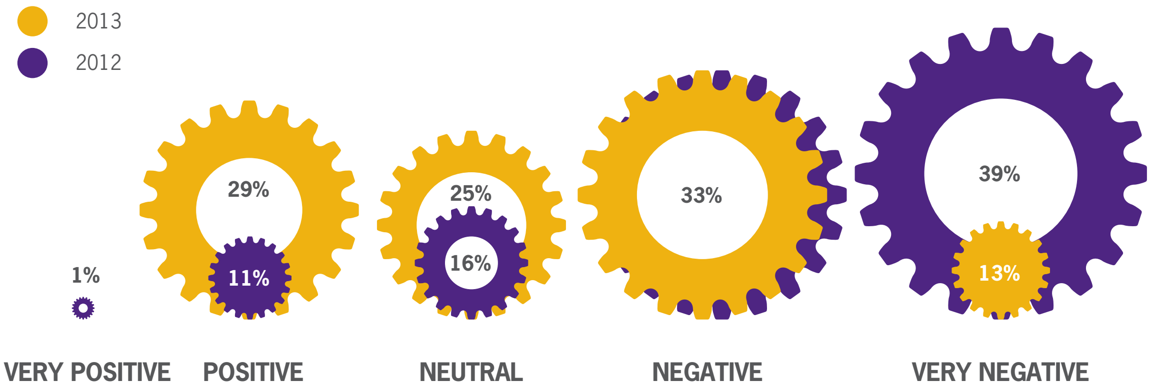
UK

“It is very much the difference between the ‘haves’ and the ‘have nots’ in terms of track record. LPs are reducing their allocations to many funds, although they are sticking with the firms they trust – it is not all about returns nowadays.”

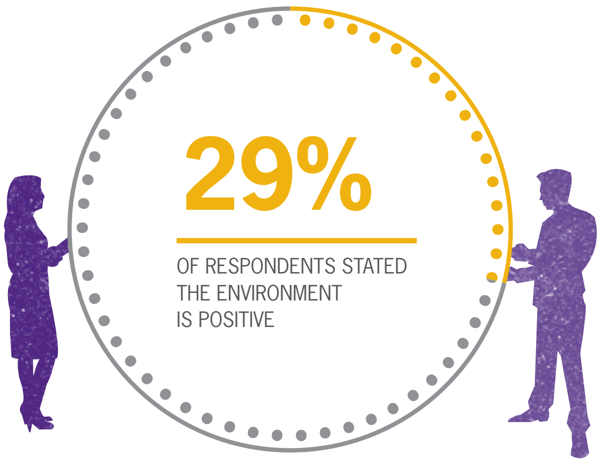
USA

Against this backdrop, however, the fundraising trail looks set for a busy period.

FUNDRAISING ENVIRONMENT



Indeed, the process itself is now far more comparable across the world with firms in the emerging markets being put through a far more conventional process, similar to that of the western markets. Previously these markets were seen as a new asset class and a way to diversify, but they are now seen as ‘just another private equity market’.



Against this backdrop, however, the fundraising trail looks set for a busy period. Globally, 65% of GPs expect to be fundraising over the next 12 months, around the same figure as 2012 (62%). The markets with the greatest proportion of GPs expecting to be fundraising over the next 12 months are Asia Pacific, Russia and North America. Notably, in China, low levels of exit activity has meant that newer local players have found it harder to raise Renminbi funds than some international funds.

“Many think raising a new fund in Africa is relatively easy, but investors are scrutinising new funds closely. The fundamentals of a track record, experience and local presence are vital, perhaps even more so in such a new PE market.”

Kenya

Experiences on the fundraising trail

Whilst the general fundraising market seems to be easing, the actual process itself has become more onerous and costly for the respondents.

Interestingly, many note how the distinction between 'fundraising' and 'investor relations' has increasingly blurred over recent years. Firms are now seen to be in constant fundraising mode, building and strengthening relationships with investors and providing more up to date information on a more regular basis, even at the times when they are not formally raising a new fund.

GPs indicate greater intensity across all aspects of the fundraising process. The main difference from previous fundraisings noted by the research being the extent of LP due diligence required, with 53% of respondents identifying this as the main variance to previous processes.

With GPs expecting a higher degree of 'churn' amongst their LP investor base, a trend that is increasing year on year, more time and effort is also being put into both qualifying the likelihood of re-ups from existing investors alongside the longer term process of warming up target investors and identifying those most likely to commit to a new fund.

As recently as two years ago, the role of the placement agent was being questioned. However, in the current environment, there is evidence of GPs, even in established markets such as Europe, using their services – sometimes for the first time. This reflects both the need to identify new sources of capital overall, and sometimes the fact that this requires international relationships that the GP itself may not have.

53%

EXTENT OF LP DUE DILIGENCE (DEMAND FOR INFORMATION, FORWARD PIPELINE VISIBILITY, LP PORTFOLIO VISITS, DATAROOM STRATEGY, ETC)

"There is more pre-marketing to qualify the LPs. But pre-marketing today is something you do on an on-going basis. It is not just something you do six months before the fundraising, it is something you have to do forever."

France

"Brutal is the word. It is an incredibly tough market: multiple meetings, huge amounts of due diligence questionnaires, very sceptical LPs, low conversion rates."

USA

Momentum is widely understood as a pre-requisite for a successful fundraising, with an early first close on a good proportion of the target often seen as key in terms of how the process is perceived and, therefore, whether other LPs will feel confident enough to come on board.

Much of the drive for momentum is rooted in extended LP pre-qualification and pre-marketing phases, as well as ensuring likely information requirements are prepared for ahead of the 'official' launch. Alongside these fundraising-specific processes, the focus on both the track record of deploying capital (a particular challenge highlighted by GPs) and exiting investments is stronger than ever – a challenge in some of the established markets that have struggled, as well as in emerging markets where many GPs have yet to develop long term exit track records.

Momentum is widely understood as a pre-requisite for a successful fundraising.

PREPARING TO FUNDRAISE

IN THE CONTEXT OF YOUR MOST RECENT FUNDRAISE, HOW DIFFERENT WAS YOUR INITIAL PREPARATION COMPARED TO PREVIOUS FUNDRAISING CAMPAIGNS?

EXPANSION/CREATION OF DEDICATED FUNDRAISING TEAM

CLARIFICATION OF POSITIONING MESSAGING

USE OF PLACEMENT AGENT

LP PRE-QUALIFICATION

DATAROOM INFORMATION

"We were extremely meticulous in our preparation. We left absolutely no stone unturned. Everything – messaging, targeting, information materials, preparing for good questions and nasty questions, planning when information would be released, etc. Fundraising is all about creating and maintaining momentum. If you get it wrong you have a very tough ride."

Sweden

"We last raised in 2007/8, so that was the perfect time – now is the exact opposite. It's a lot more work on every front. LPs demand to see more of the pipeline, and get a bit more involved to see how the team work together; they want to see value adding is not just on paper, they want to see what you actually do."

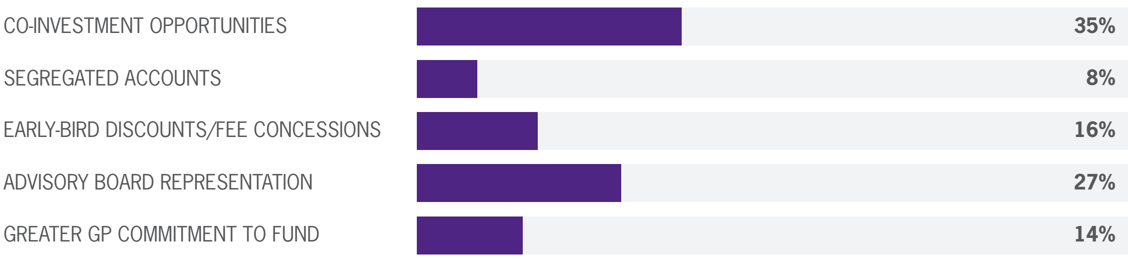
China

“If you speak to family offices, they are into getting co-investment deals. If you talk to the pension funds, they want to get their fee down; if you talk to the Europeans, then certainly environmental, social, governance (ESG) is higher on their agenda.”

China

ATTRACTING LPs

WHICH OF THE FOLLOWING STRATEGIES ARE YOU CONSIDERING USING AS PART OF YOUR NEXT FUNDRAISING TO HELP ATTRACT INVESTORS?



Co-investment rights are widely being asked for by LPs at fundraise.

LPs have adopted a more forensic approach to due diligence in order to understand performance expectations, costs and strategy in more detail. This highlights the fact that the effort put into the preparation of data and materials pre-fundraising is seen as important time well spent.

With the power shifted to the LP, GPs are reconciled to accepting new demands or offering incentives and concessions (fee discounts, advisory board seats, co-investment rights, etc) to encourage LPs to commit, especially ahead of the important first close. GPs appear least likely to consider these options in North America and India.

Co-investment rights are being widely sought by LPs at fundraise (60% of GPs noting their significance in encouraging LPs to commit), although GPs report that LPs are not always able to follow through, or are indeed interested, come the deal. While advisory board seats have long been given to larger influential investors, in some cases these are also being used strategically. It is noted by some, however, that these should be viewed as a finite resource to avoid large unwieldy (and ineffective) advisory boards.

“A lot of the LPs, especially in North America, want to know why your market is better than theirs. If they can get good returns there, why should they come to my market?”

South Africa

“The tough questions are about India. It’s more to do with macro issues – the promise of 8% economic growth, versus the recent record of growth rates more around the 5% mark. What will it take for India to really outperform again?”

India

LP pressure

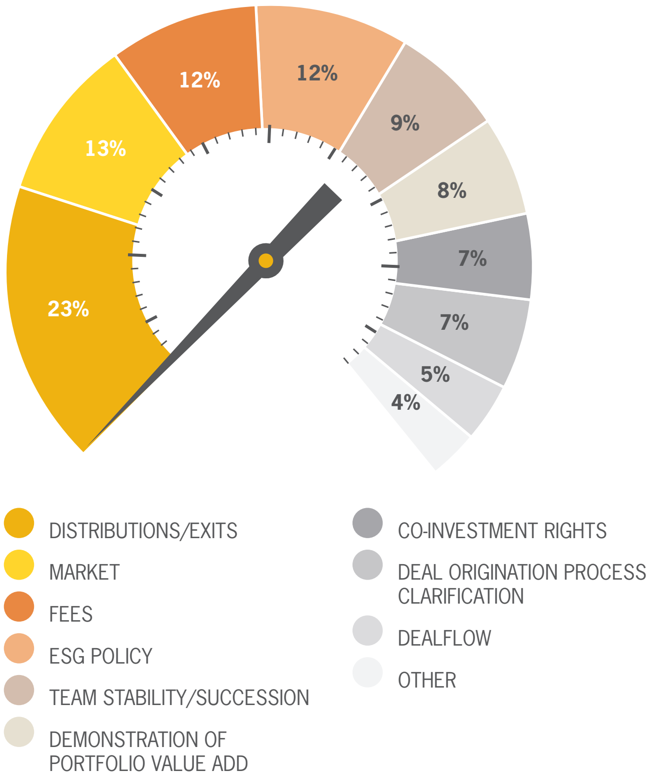
An underlying theme across the fundraising story is evidence of the changing approach that LPs are taking as they attempt to leverage their increased power in the GP/LP relationship. LPs continue to squeeze GPs to ensure that their returns are maximised and costs minimised, which continues to have a knock on impact on the GPs.

But whilst factors such as fees, structure and co-investment rights are important, ultimately performance is the key to a successful fundraise and LPs are investing more time and effort to seek out those with the best historic track records, to understand which markets hold the greatest potential and to identify those with the teams and strategies in place to enable a successful investment outcome for the LP.

As slowing economic growth rates and some political instability impacts on the high growth and emerging markets, LPs have refocused back on core markets such as North America, which are perceived to be more stable and ones that they understand more readily.

AREAS OF LP PRESSURE

IN WHAT AREAS HAVE YOU BEEN FEELING THE MOST PRESSURE FROM INVESTORS RECENTLY?



"ESG is something LPs are very hot on. They like to tick the box for their own PR for their investors."

UK

"What LPs want to talk about is: consistency of team, deal pipeline and whether or not any US investors will be in the fund – a lot of investors don't want to be in a fund that will have to bear a lot of the cost of compliance that would be necessary with US institutions."

Thailand

"LPs are more judicious; there is a lot more due diligence and we are using a placement agent for some regions. We do find that the process takes longer."

USA

"I think a lot of the big battle was won with deal fees. Certainly in Europe, the battle on whole fund carry is won. I think there will be a continuing focus on claw-back; I think in Europe we have used the excuse of whole fund carry to not have to do a lot of the claw-back and guarantee arrangements that you have in the US, where with the deal-by-deal structure you need them. European managers are having to get used to investors saying if you have a whole fund carry then the numbers should be fine, you shouldn't mind putting a guarantee behind that."

UK

Although the main focus remains on track record, additionally, LPs are exerting pressure across a wide range of factors designed to improve returns. These include:

1) Fees pressure

The battle over fees has been ongoing for some time, with GPs feeling it has largely been lost to the LPs, with it now generally considered normal practice for fees to be returned to the fund, rather than the GP. With suggestions that returns will fall below the peaks of the past, squeezing fees is seen as a counter-balance to ensure net returns do not fall in line.

The caveat is that mid-market PE firms highlight the difference in their fund sizes and economics compared to large buy-out funds, as fees were never part of their 'remuneration' (as some see is the case for large funds). Further fee pressure on mid-market funds is seen as potentially having a material impact and whilst the new rates and rules have been accepted, there appears to be limited scope for GPs to concede much more.

2) Flexible structures

A key factor in the difficulties faced by fund-of-funds has been LPs' desire not to pay the 'double layer' of fees. As the largest funds-of-funds migrate to an investment manager model, some GPs note that they do remain a conduit for similar amounts of LP capital, although the split between blind pool capital and LP-specific segregated accounts is changing.

Co-investment has already been noted as a significant area of LP interest. This is highlighted both as a way for LPs to get more money into the ground faster and in a manner that avoids the level of fees associated with the LP blind pool. The caveat is that GPs note co-investment rights are often not exercised in reality, with LPs not sufficiently investment-ready to make commitments when needed.

"LPs are sat on investments where they are paying fees to managers who are not delivering investments, so they are very focused on your ability to deploy."

UK

"The two areas that LPs are definitely looking much harder at are performance attribution and the P&L of the GPs themselves. The LPs want to be convinced that the GPs are not making money just from managing the assets and that the alignment is towards the carry and not the management fees."

Singapore

3) J-curve manipulation: The forward deal pipeline

Deal flow pipeline is a topic that LPs 'always ask about'. However, for the most part, GPs note that the 'pipeline' is inherently fluid and changes from day to day; in reality, therefore, it is of limited use to LPs.

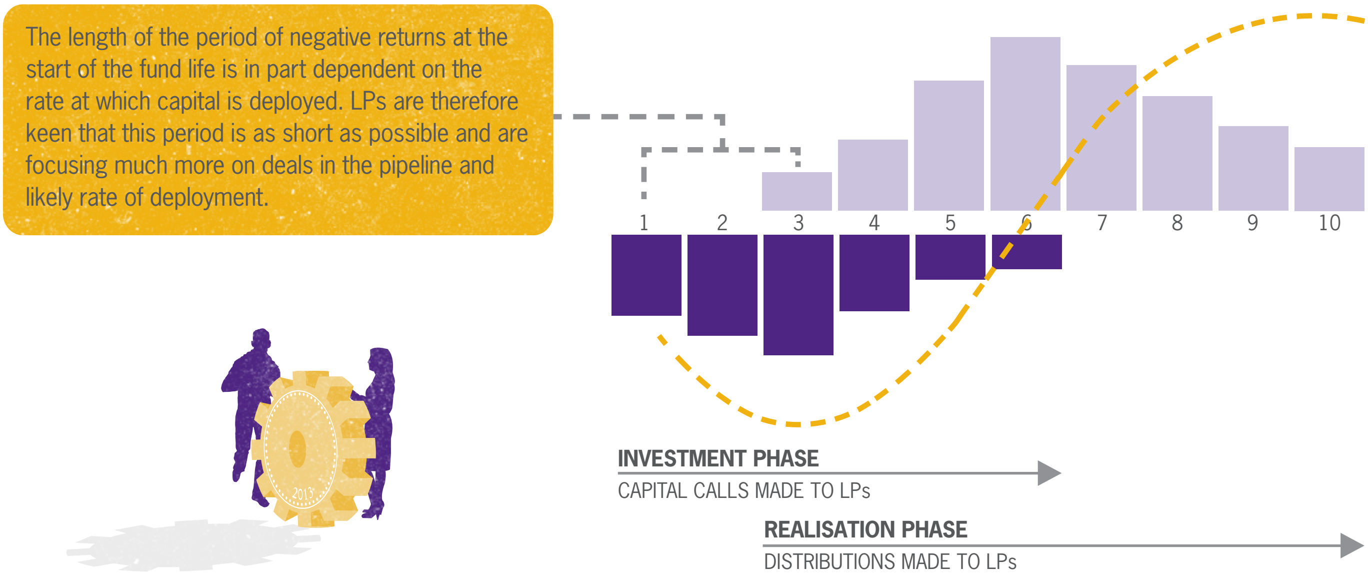
However, in a minority of cases, GPs report LPs wanting to gain comfort that deals are imminent or even that the fund already has deals in it via a cornerstone investor before they themselves commit.

In effect, the LPs are seeking to control the J-curve, minimising the investment phase and the initial dip in distributions as far as possible as well as ensuring that capital is being deployed as soon as possible after the fee stream is instigated.

This approach is echoed by the desire for co-investment, which is also seen as a means to deploy capital quickly, rather than have it committed to a fund pool, but uninvested. This trend serves to exacerbate the challenge of securing LP commitments for an early first close.

THE PRIVATE EQUITY J-CURVE

DEPLOYMENT OF CAPITAL V REALISED RETURNS



"If you can present a fund with a couple of deals already in it, either because you have got someone to cornerstone you or you can show them a pipeline and say there are two that are about to happen and you can have a piece of them, I think people like that a lot. It is almost like you are investing in a secondary opportunity, but it is really a primary."

UK

"There will be more pressure on fees and for carried interest to follow the European waterfall."

USA

"I think LPs are looking to reduce the J-curve. They are looking for ways to reduce the negative returns period in the first few years of the fund by reducing fees or by taking fees from portfolio companies."

Israel

“People are trying to find solutions whereby they can offer investors exposure on a deal-by-deal basis, or via co-investment models.”

Hong Kong

“It is very likely that you will see some experimentation with the model – for instance in the way that wealth managers might be able to give their clients access to the asset class more efficiently.”

Germany

Evolving fund structures

The Limited Partnership is one of a number of ways to invest in PE and it has long defined the industry. PE practitioners expect this will remain so, citing fund lifespan and the certainty of capital availability, together with the alignment with investors, as being suited to the long-term nature of PE.

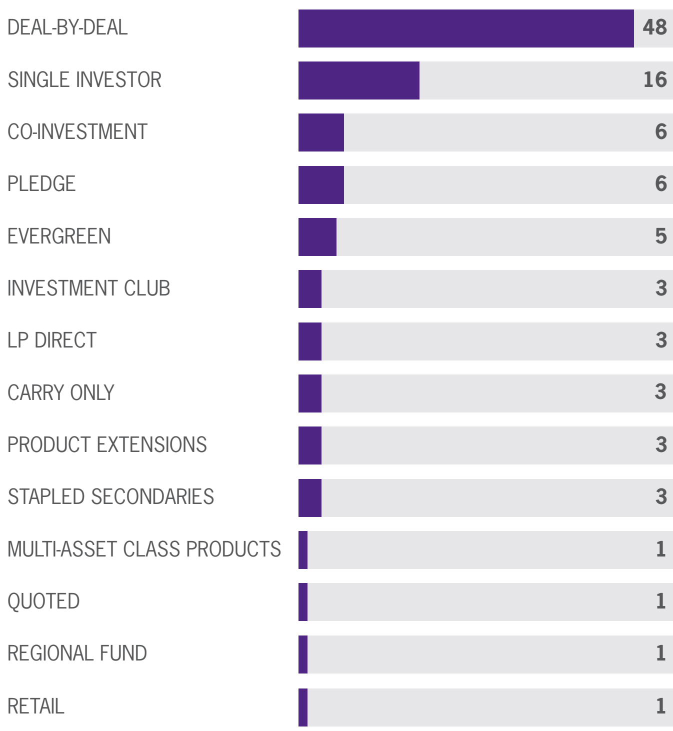
Although the dominance of the Limited Partnership structure is expected to continue, over half of GPs believe that the use of alternative structures will increase at the fringes as a result of, on the one hand, tough fundraising conditions meaning some can’t raise conventional funds and, on the other, market dynamics meaning alternatives are more attractive in certain situations.

Some GPs note, for example, that while there are disadvantages to most fund structures, alternatives to the Limited Partnership can provide a means to: tailor programmes to an individual LP’s needs; adopt a flexible approach to match market circumstances, for GPs to access carry more quickly than via a 10 year fund; make investments in areas out of favour with LPs and which therefore would not fit in a blind pool model.

In the majority of cases, GPs point to deal-by-deal fundraising as being the most common alternative to the Limited Partnership. However, other structures highlighted as potentially being favourable to LPs looking to deploy money quickly and minimise their costs are annual/evergreen funds, co-investment funds, segregated accounts and pledge funds.

For GPs, the current low returns environment is also raising questions as to what structure is required to incentivise PE teams going forward. While deal-by-deal structures, awarding stock options or bonus payments are noted as potentially useful, there remains a sense that it will be a case of having to fight harder for personal reward in the future for many.

WHAT ALTERNATIVE STRUCTURES DO YOU EXPECT TO SEE AN INCREASE IN FOR PRIVATE EQUITY (IE NOT A LIMITED PARTNERSHIP) OVER THE NEXT THREE YEARS?



“Every single investor you meet talks at length about co-investment opportunities. It’s one of the first things that rolls off their tongues in fundraising meetings in terms of what they are looking for.”

UK

"An investor asked me recently 'why wouldn't you raise a fund?'. And there are various reasons: one, I don't want to be forced into a position where I have to invest the money; two, I don't want to wait 10 or 15 years before I see any carry coming out of that fund. I'm not interested in getting fat out of a salary out of the fund and paying high levels of income tax. I'd far rather get into a deal-by-deal or annual vintage where we are subject to capital gains tax and our interests are aligned."

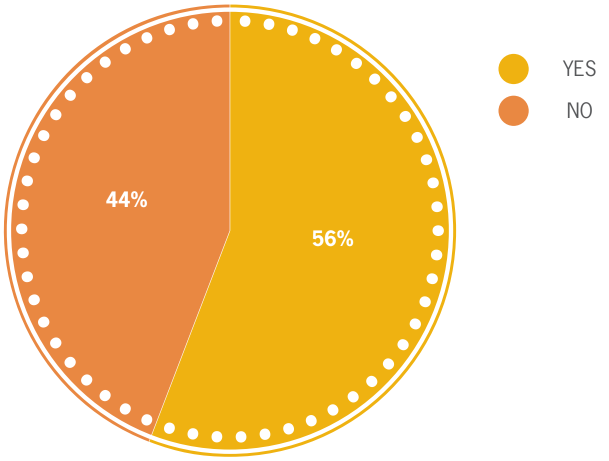
UK

The evolution expected is in the detail. For the most part, changes in fee structures have already happened and are now considered engrained. While some GPs suggest hurdle rates, set in different economic circumstances, should perhaps be revisited, particularly in markets with low interest rates and returns expectations, few have the appetite to seek such changes given LP sentiment and performance expectations.

Some GPs report a shift in the level of commitment they themselves are required to make to a fund, with this rising from around 1% previously to 2% or 3% now as the norm.

ALTERNATIVE FUND STRUCTURES

DO YOU EXPECT TO SEE AN INCREASE IN THE USE OF ALTERNATIVE FUND STRUCTURES FOR PRIVATE EQUITY?



"Managed accounts or deal-by-deal pools is what we spend most of our time talking with investors about. It's about the special relationships with institutions and the fact that they can get better economic terms as well having a much greater say about which companies they invest in. The classical structure is not as well suited for the Russian market where investors will put a lot more emphasis on downside protection and accept longer term investments."

Russia

"There is a real theme going on. You'll often meet the LP's direct investment team and there will be another guy in the room: their co-investment team manager. They are very up front about the need to feed their co-investment teams. I don't know whether they have quite got to the point of saying to their GPs 'unless you give me co-investments, I won't invest in your fund', but it's getting quite close to that. There is a big focus on how do we put money away in a more cost effective manner."

UK

CASE STUDY

Market

Global large cap buy-out

Private equity firm

Apollo Global Management

Latest fundraising

2013 (on-going): Apollo Investment Fund VIII
$15 billion target

Previous fund

2008: Apollo Investment Fund VII
$14.7 billion

Key fundraising differences

- The fund mix remains similar to that of past funds with a strong US domestic LP base, although there is an increased percentage raised from international LPs
- Apollo note that terms in the market are moving towards those achieved in previous fundraisings although they do mention one notable change from a 68% fee offset to a 100% fee offset

Key reasons for success

- Apollo is a substantial global investment business with its PE business having around $40 billion of assets under management as of June 2013. The strength of its brand, scale and global reach provides attractive options to global investors
- It has a long, successful track record and a definitive investment strategy that is clearly communicated, which is of vital importance, being a publicly traded investment company
- The success of Apollo's last fund has generated gross and net IRRs of 37% and 28% and recent investment activity with $200 million capital deployed in Q2 2013, as well as its current portfolio appreciation in value (5% increase in Q2 2013)
- During Q2 2013, PE fund exits resulted in aggregate distributions of $5.7 billion

Apollo view

"It is definitely a better market for selling than it is for buying. But, on the other hand, we continue to believe that given the way we source transactions and the off-the-beaten path nature of what we look for, we can find quality investment opportunities. Whilst from an investment point of view it's been more challenging to put capital to work, we still have confidence in that if you're disciplined and have proprietary origination, there are areas to put capital to work. On the larger question of the opportunities, natural resources continue to be a very interesting area for us. Our results for the second quarter of 2013 reflect the continued strength of Apollo's integrated global platform and value-oriented investment approach. During the quarter we raised nearly $7 billion of new capital across all of our business segments, and we generated more than $7 billion of realisations for our investors."

Grant Thornton comment

With over 20 years of global investment expertise, a clear investment strategy and sector focus, it is unsurprising that Apollo continues to succeed in raising substantial funds and has already received commitments of circa $8.4 billion for Fund VIII. The momentum such funds can generate through a clear strategy, on-going deal activity and successful exits appear to lead to a virtuous circle for fundraising, although it is interesting to note that even this global giant is attracting new investors from other regions.

What is noteworthy, is the level of dry powder Apollo now has and this will rise by the time this fundraising closes. With $13 billion (at June 2013) of funds to be invested and more funds being raised, Apollo will experience significant pressure to deploy this capital, but at the same time is well placed to benefit from the resurgence in deal activity which is predicted.

Investor churn on an upward trend

The need to focus attention on pre-qualifying LPs ahead of fundraising is born out of the fact that over 40% of GPs expect at least half the investors in their next fund to be new investors. Expectations for levels of LP churn have been gradually increasing over the last three years. In 2011, only a quarter of GPs expected the level of churn to be 50% or more of their LP base.

While the global nature of the industry and broad fundraising market go some way towards explaining the trend, regional markets often still reflect local circumstances. The longer established PE markets of North America and Europe show marginally lower levels of churn, and are the only markets where some GPs expect to see no churn. Conversely, in Australia, changes in superannuation schemes have meant that domestic GPs have been going off-shore for new capital, often for the first time, and are therefore reporting high levels of churn.

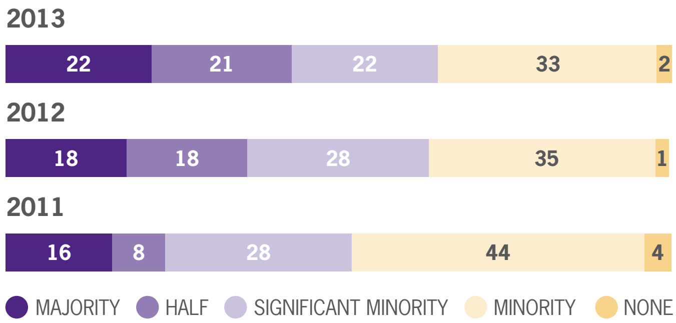
Regarding sources of capital, there are concerns about organisations moving out of private equity, such as banks and fund-of-funds leading to GPs often looking further afield, noting an increased level of family office and SWF activity in particular.

> "The big thing in Australia is how the focus of fundraising has shifted offshore. It's been a dramatic change. Medium sized PE funds that would have been raising less than 10% of their money from offshore sources are now raising 60% from them. At the bottom end of the market nothing is being raised locally. "

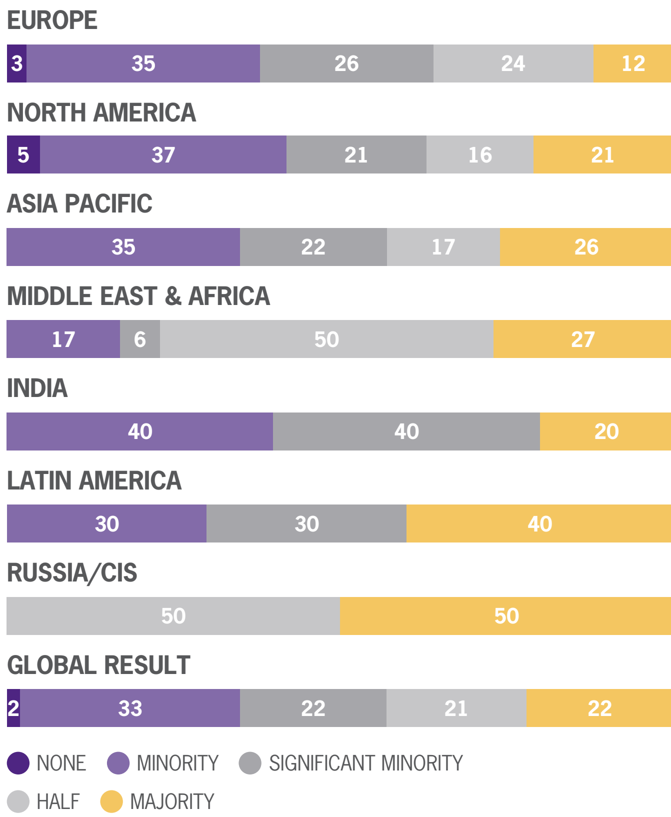
Australia

FIRST TIME FUND INVESTORS

WHAT PROPORTION (%) OF YOUR NEXT FUND DO YOU EXPECT TO BE FIRST TIME INVESTORS WITH YOU?



FIRST TIME FUND INVESTORS (REGIONAL BREAKDOWN)



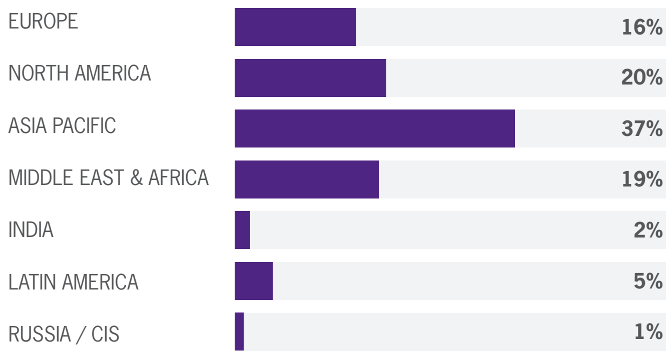
Asia Pacific, the Middle East and North America are cited as amongst the most important sources of capital geographically for PE firms seeking new capital.

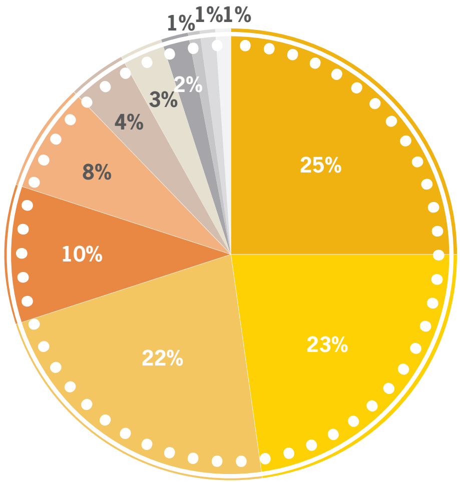
The challenge is that many of these sources of funds, be it by type or geography, are not always accessible to mid-market GPs. For example, it is pointed out that some large Asian institutions entering the industry have a desired size for a fund that precludes them from investing in most mid-market vehicles.

GPs now appear to expect a significant level of churn with the challenge being not only to find interested LPs, but those in a position to invest. Whether levels of churn of 50% are now the norm, remains to be seen, but certainly for those raising in the current climate, seeking new sources of capital by type or geography, it will be critical to their success on the road.

WHERE DO YOU ENVISAGE TO BE THE MOST SIGNIFICANT NEW SOURCES OF LP CAPITAL OVER THE NEXT 2–3 YEARS FOR PRIVATE EQUITY FUNDS IN GENERAL?

TARGET REGION





“Some of the new pools of capital that are looking for homes are so big that, frankly, they can’t access the mid-market or the lower mid-market. If they are trying to write things where there is a minimum cheque size of $200 million or $250 million, that’s a $2.5 billion fund by default.”

UK

LP TYPE

- SWFs
- PENSION
- FAMILY OFFICES
- HNWs
- ENDOWMENTS
- FUND OF FUNDS
- INSURANCE
- DEVELOPMENT AGENCY
- CORPORATE
- BANKS
- PHILANTHROPY

“The biggest pressure for us will be ticket size: it’s only going to be a $200 million fund so it’s relatively small for some LPs.”

Colombia

CASE STUDY

Market

UK mid-market

Private equity firm

Dunedin

Latest fundraising

2013: Dunedin Buyout Fund III
£300 million (target £250 million)

Previous fund

2006: Dunedin Buyout Fund II
£250 million

Key fundraising differences

- An increased proportion of overseas investors with 60% from outside the UK, compared with 20% in 2006
- Investors from the Nordics and the USA are investing for the first time with increased interest from French, Swiss and German investors
- Types of investors are more varied with increased commitments from pension funds, insurance companies, sovereign wealth funds and foundations

Key reasons for success

- An increased proportion of overseas investors with 60% from outside the UK, compared with 20% in 2006
- Investors from the Nordics and the USA are investing for the first time with increased interest from French, Swiss and German investors
- Types of investors are more varied with increased commitments from pension funds, insurance companies, sovereign wealth funds and foundations

Dunedin view

"The successful closing of our third fund at the hard cap of £300 million represents a key milestone for Dunedin. We worked diligently as a team to raise this new fund in an extremely challenging market, firmly beating our target of £250 million. We believe that this is an endorsement of the rigorous investment process and active portfolio management that we undertake to maximise returns for our investors."

Grant Thornton comment

The Dunedin fundraising included a far more demanding process than previously experienced with an increased amount of time, effort and resource required from the team. The timing of their recent exits, active deal pipeline, their sector focused investment strategy and the quality of their track record underpinned the funds' successful raise. Even in the current climate, this UK fund attracted investors globally for the first time, a reflection of confidence in the team and its strategy.

The challenge of deal flow

Attaining deal flow

Deal flow is seen as one of the key challenges in the current market, especially in Europe, but it is also amongst the top three challenges for GPs in North America, Asia Pacific, the Middle East & Africa, and Latin America. This highlights the importance of adopting proprietary techniques to identify and win deals.

Globally, the importance of networking amongst corporates and entrepreneurs remains the most important factor in all markets for new deal flow. However, in the new PE markets of Asia Pacific and Latin America, track record and reputation are far more prominent (the second most important factor) reflecting the need for the industry to be understood and trusted by the wider community.

"Local presence is the most important factor. As Turkey sees itself geographically, historically, politically or culturally as neither in the East or West, entrepreneurs feel they have a distinctive way of doing business and prefer to deal with senior PE executives who they feel will understand and relate to them and their business culturally."

Turkey

"Long term, it's all about origination, building relationships and trust. This is a relationship business rather than a pure M&A shop. We build relationships with management long before we invest in them; this is the typical methodology as vendors view their businesses as their babies."

UK

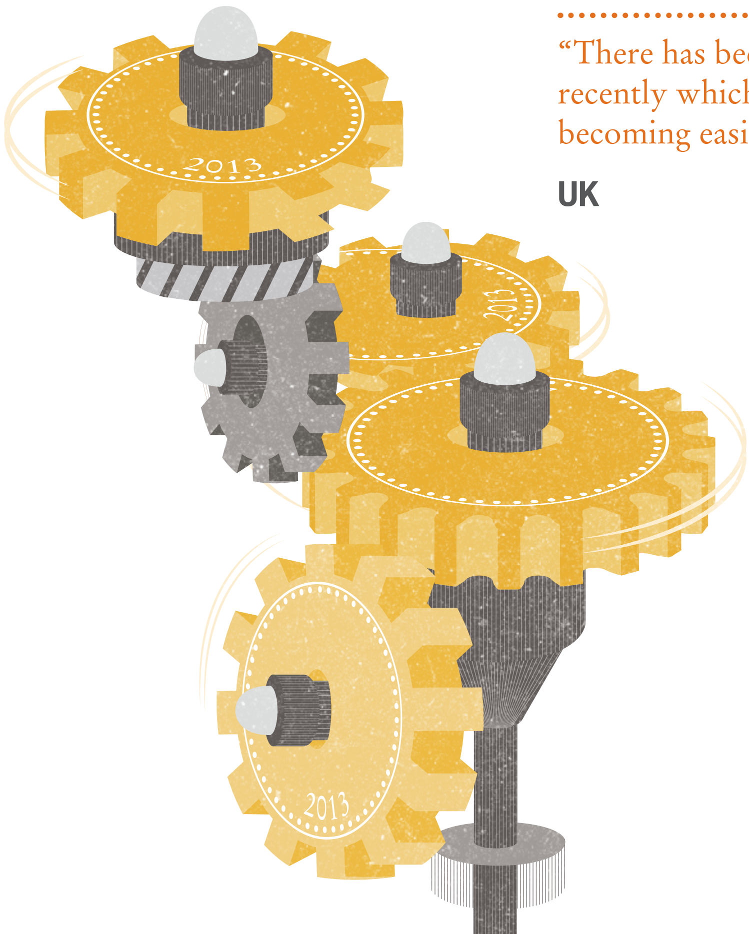
"The most important things are the value you can add to the business and the relationships you are able to build with the management teams. The region is so huge that it is not that well intermediated, so personal relationships, via 'friends and family', are critical."

Hong Kong

Deal flow set to improve

Although deal flow remains a key challenge, 54% of GPs globally expect investment activity to rise over the next 12 months, a more positive picture than a year ago at 37%.

Interestingly, the slightly more positive sentiment originates from PEs in the more established markets. An increased proportion of European GPs expect deal flow to increase, indeed this is at its highest level across this report's three year history. North American sentiment remains consistent with previous years with 58% of respondents expecting an increase, although a growing minority expect deal flow to decrease.



"There has been an increasing level of confidence in the economy recently which has translated to business and forecast planning becoming easier and boosting private equity activity."

UK

"There is a lot of pent-up activity that has been waiting to happen and the lending environment is better than it has been for the last three years."

USA

In the less established PE markets, once bullish respondents are now less optimistic about future deal activity. Asia Pacific highlights this. Many local GPs are seeing activity plateauing and Chinese GPs are expecting a decline in activity levels, a reflection of the tough exit climate. There are some differences within the region though with both Australian and South East Asian GPs responding more positively.

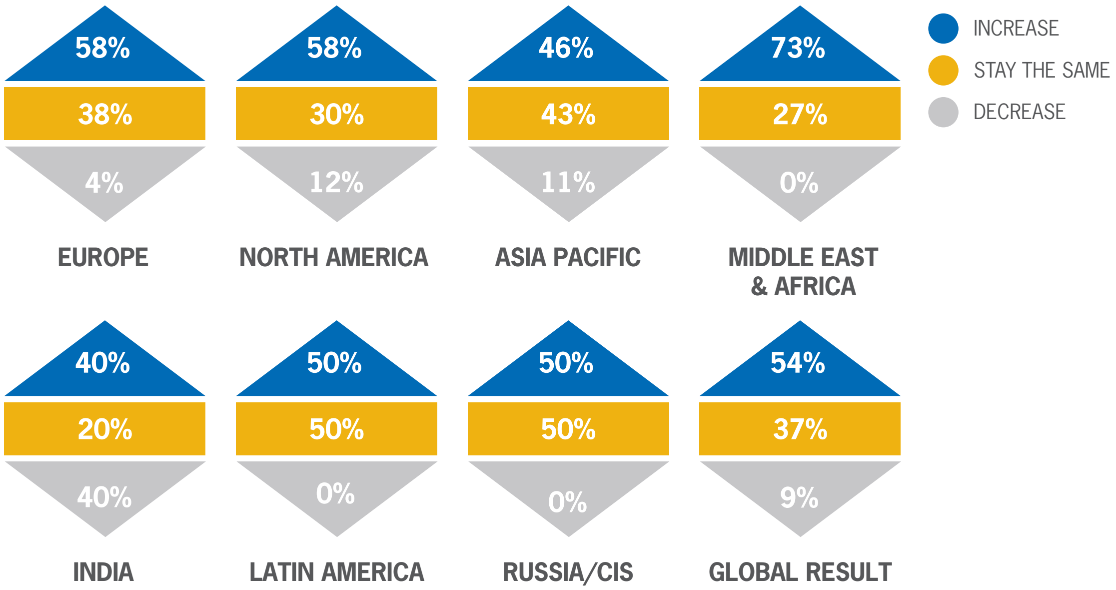
Over the three years of the study, the proportion of GPs in Latin America expecting deal flow to rise has decreased each year, although they still do not expect to see a decrease in activity, just more expect the levels to remain at their current level.

Indian respondents show the greatest diversity in their reactions. 40% expect an increase in activity and 40% expect a decrease in activity, highlighting the on-going uncertainty that the current environment is having on GPs.

"As is happening in other emerging markets, people are getting more nervous about the macro situation: it's still growing at 5% or 5.5%, but it was 6% or 7% six months ago. Essentially there is no damage because the growth is still there, but the perception of the market has diminished."

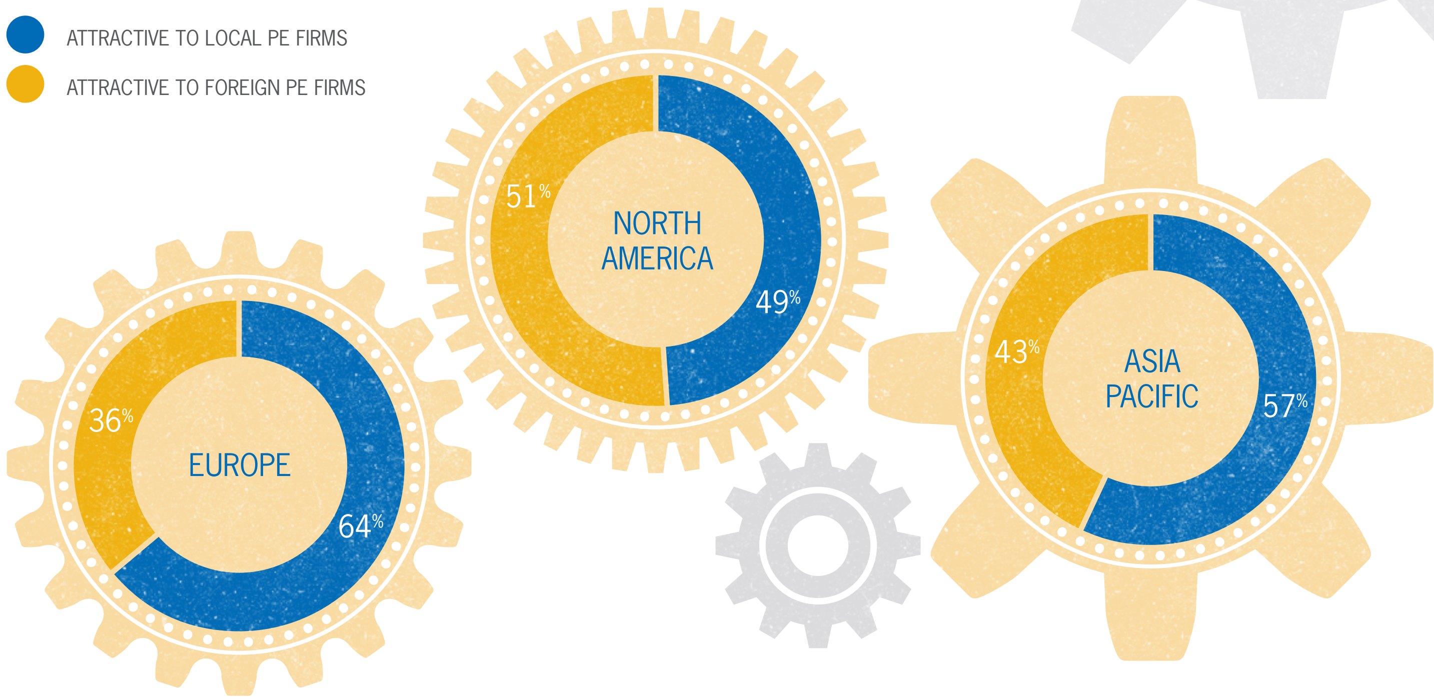
Peru

INVESTMENT ACTIVITY BY REGION



Although deal flow remains a key challenge, 54% of GPs globally expect investment activity to rise over the next 12 months.

GLOBAL MARKETS HIGHLIGHTED AS POTENTIALLY ATTRACTIVE BY GPS



Deal flow by market

In terms of market opportunities, with continuing perceptions that North America is on track economically, that region, along with the ever present Asia Pacific, is seen by GPs as the most interesting non-domestic markets for investment currently. Although Europe is seen as the most attractive non-US market for GPs in North America, this may well be due to cultural similarities.

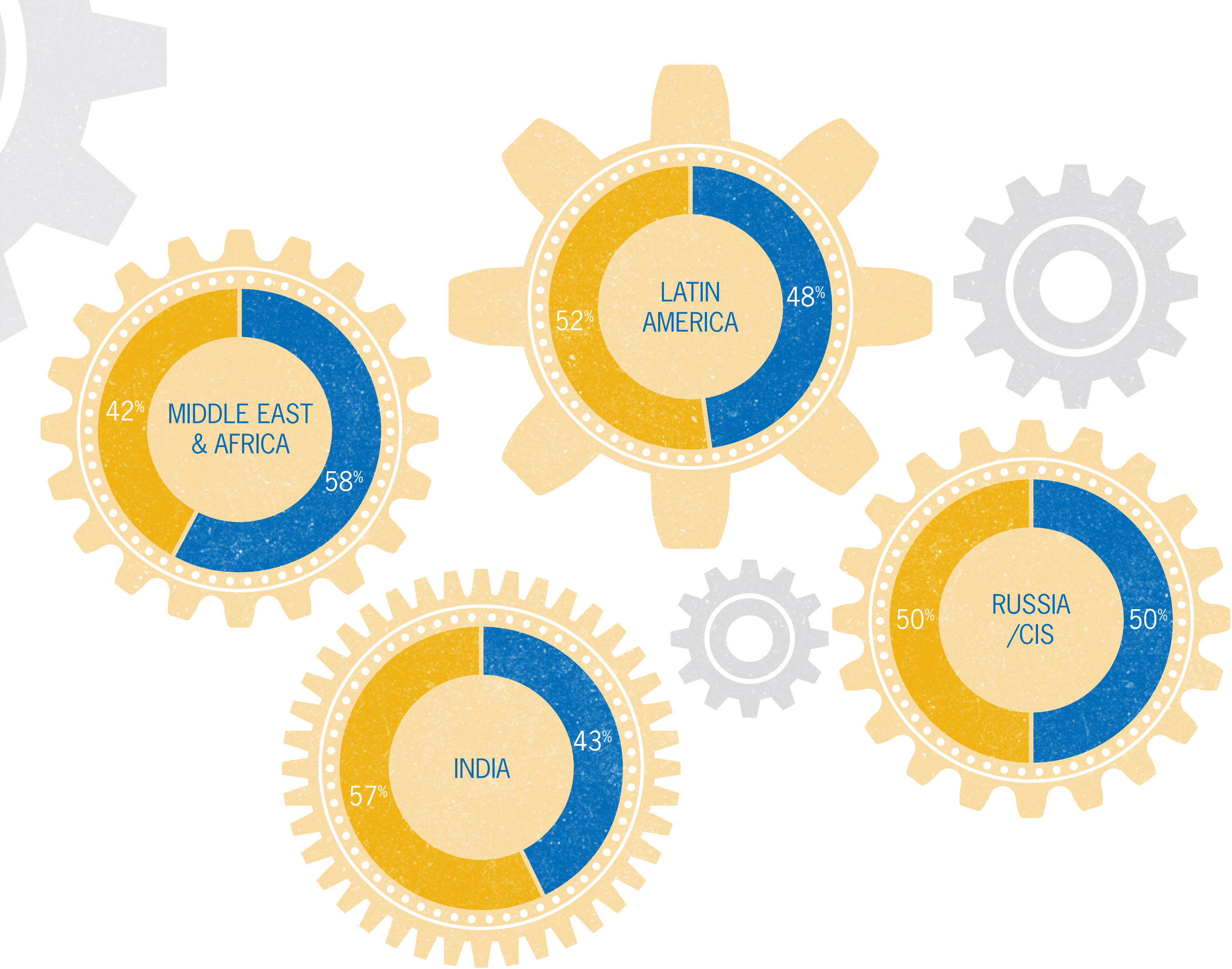
With the PE markets of Latin America and South East Asia becoming established, it is Africa that is seen as the new frontier for the industry. While both LPs and GPs note that it remains a large but difficult region to access, increasingly PEs are recognising that there is potential in the markets of East and West Africa and not just in the more established South Africa and Middle East & North Africa markets.

"Mexico and Colombia are at the top of the list in Latin America, followed by Peru. But I would also see a lot of opportunities coming in the Hispanic markets in the US."

Mexico

"Africa is up and coming as is the Middle East on a case-by-case basis. Our proximity to Europe means that it is still not a market you can say no to. The other markets of interest are Russia and Central Asia."

Turkey



However, whilst these emerging markets in Asia and Africa continue to offer growth opportunities, their inherent risks and the perceived stability of the US and Western European markets means opportunities back in the home of private equity are now attracting greater interest from investors locally and globally.

With the PE markets of Latin America and South East Asia becoming established, it is Africa that is seen as the new frontier for the industry.

"India is a pretty good bet, though the US will also stay solid. Certainly Europe is difficult, as is China, which has gone through a cycle. Brazil was interesting, but has cooled off a bit as their own growth has tailed off."

India

"I would say the US market is probably the most attractive at the moment, though prices are high. Also, depending where you focus, Europe has some attractive opportunities."

Brazil

"I think there is the potential for some energy-related deals coming through. Everyone seems to be getting very excited about anything to do with fracking at the moment. I think oil, gas and energy will probably tick up a little or at the very least remain active."

UK

"The North American market is increasingly looking to homemade goods."

USA

"There are certainly a lot of assets waiting to be sold by private equity funds. Similarly there is probably a big backlog of privately owned assets waiting to come onto the market once conditions start to improve."

Brazil

TMT activity is expected to be of note in North America, Asia Pacific, India and Russia; energy deal flow is largely highlighted by European and North American GPs, partly driven by renewed optimism around opportunities such as shale gas.

Deal flow by sector

Healthcare, consumer, industrials & manufacturing, and business services remain the key sectors for future activity according to GPs surveyed.

Overall, consumer-focused sectors are still expected to dominate the 'emerging markets'. Whilst North America and Europe see a swing back to industrials; healthcare is a focus for all regions as the ageing global population continues to underpin demand.

Beyond these sectors, whereas a year ago GPs were expecting financial services activity to be significant, this year TMT and energy are regarded as more promising with real estate and infrastructure noted as features for Latin America and the Middle East & Africa.

"Mining has been such a big part of the economy and is finding it pretty difficult at the moment. I assume it will probably mean less dealflow in terms of mining and its associate services."

Australia

“There has already been an increase in the number of private sellers over the last six months and now private equity sellers are starting to come back to market.”

USA

Originating deal flow

Sources of deals remain consistent year on year, although a higher proportion of GPs are expecting to sell to another PE. Expectations are set for secondaries to grow in popularity given the pressures to both invest and exit.

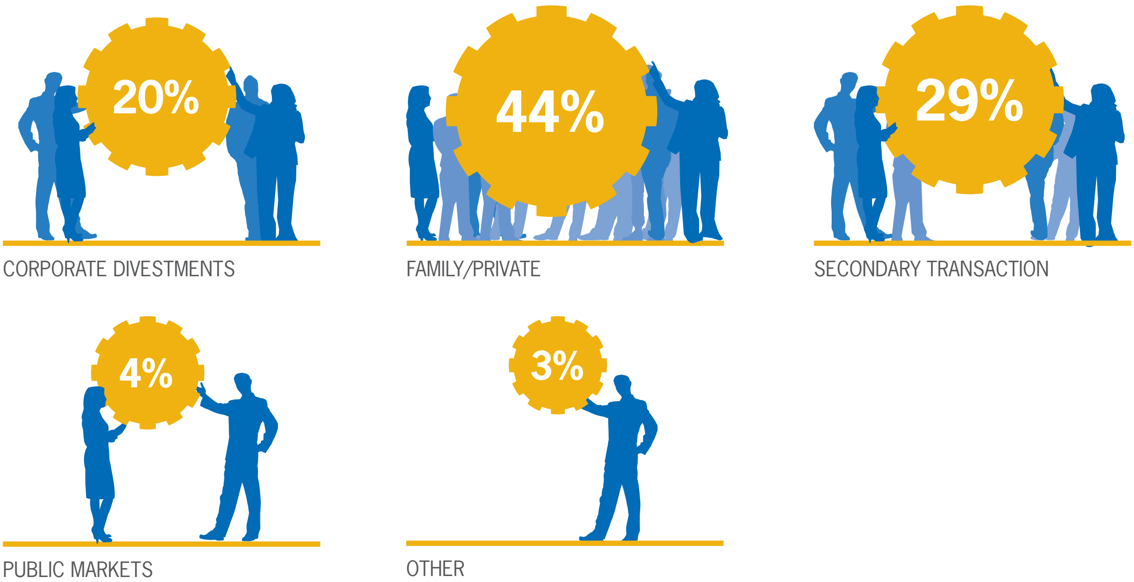
There is a perception amongst PEs that many corporates remain cash rich and are in buying, rather than selling mode. Nonetheless, strategic divesting by corporates is also expected to see modest increased activity, notably in the larger North American (which has seen expectations of this rise over the last three years), European and Asia Pacific markets.

There is a perception amongst PEs that many corporates remain cash rich and are in buying, rather than selling, mode.

SOURCES OF DEALFLOW

WHAT DO YOU EXPECT TO BE THE MOST SIGNIFICANT SOURCE OF DEALS OVER THE NEXT 12 MONTHS?

PERCENTAGE OF RESPONDENTS



“It’s a balance: interest rates have been rising, therefore leverage has lowered and valuations have dropped, so buying opportunities have been good; on the other hand, sellers are still not willing to lower their prices.”

Canada

Competing for deal flow

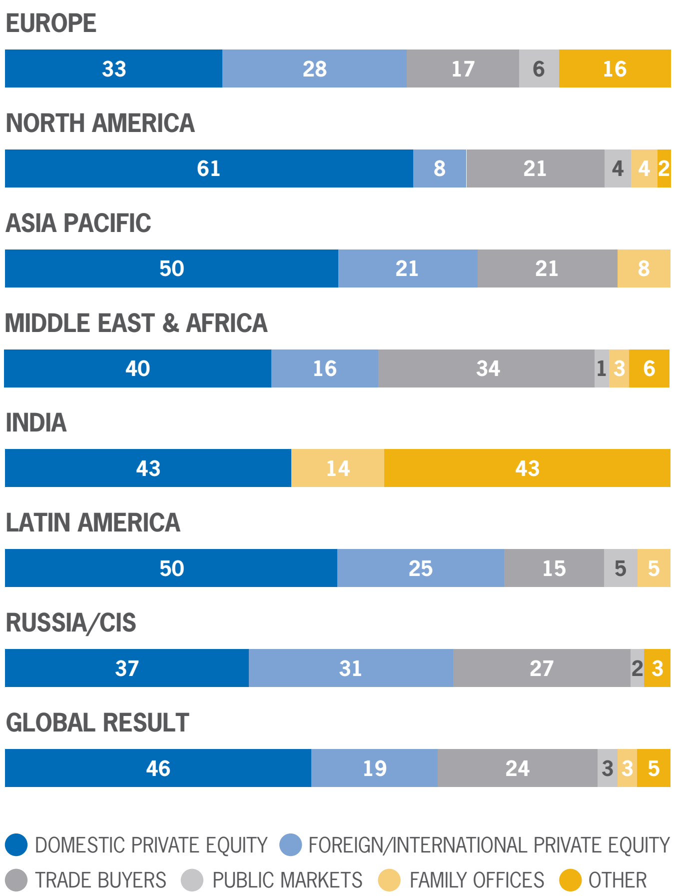
One of the reasons deal flow is seen as a challenge is due to the level of competition, with GPs recognising that there continues to be "too much capital chasing too few deals".

Competition remains fierce globally amongst private equity, as firms continue to seek to deploy capital from past and current fundraisings to attract and appease their investor base.

Regionally, Latin America, in particular, has seen a steady rise over the past three years in the expected level of competition from local PE firms, whilst in Asia Pacific, there is increasing competition from international PE firms and to a lesser extent trade buyers who are, of course, a key competitor especially in Europe and North America. Indian GPs report the most diverse competitive landscape, with foreign private equity firms being a particularly notable feature of the market.

Overall, the competitive landscape has remained relatively stable globally, although there are signs of some changes; public markets and family offices are now being joined by a smaller number of other acquirers, including LPs shifting to a direct investment model, and high net worth individuals.

SOURCES OF COMPETITION



"Local PE firms are the main source of competition, especially for primary transactions, though foreign groups are more competitive on secondary deals. Also the corporates; they are cash rich and need to find growth. We are especially seeing Japanese, before the recent devaluation, but also Chinese and US buyers."

Sweden

"In Africa, there is competition coming from everywhere. Certainly strategic interest from other countries. Then PE as well, which has been sitting on a wall of money. There have not been many deals done and there are a lot looking to invest."

South Africa

Multiples on the rise?

Despite multiples often being perceived to have remained steady through the downturn, upward pressure is more common in the current environment.

The dynamics of the downturn have contrived, in many GPs' eyes, to hold multiples steady. Deal flow has declined as private owners have held off selling rather than being negotiated to a lower price and, with macro uncertainty abound, only the best companies have attracted attention. With competition rife, prices have held up.

In the current market, the dealflow challenges mean this continues to be the case. In markets such as North America and Europe this has been coupled with a gradual easing of debt liquidity that some GPs feel will drive upward pressure on multiples. This is in slight contrast to the picture 12 months ago when there was a slight bias towards an expected decline in pricing levels.

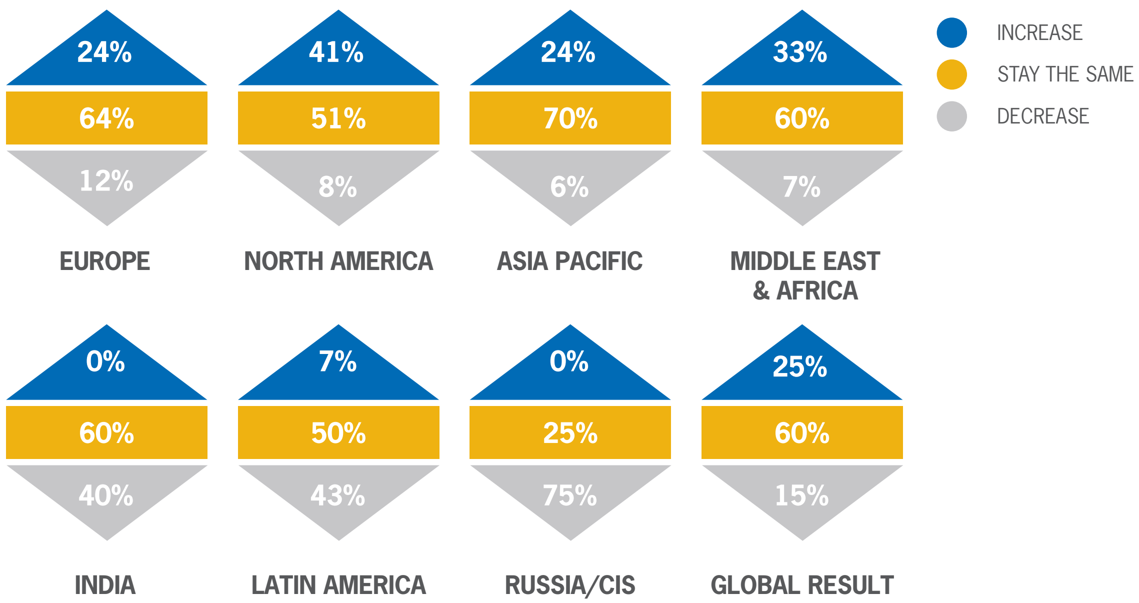
However, as was previously the case, this masks particular regional trends, with the majority of upward pressure on entry multiples being reported in North America, Europe and Asia Pacific. In North America, and Europe to a lesser extent, this is part of an ongoing upward trend over the last three years.

Only in Latin America is there evidence of a trend over the last three years towards more GPs expecting multiples to decrease (although market-wide they are still expected to stay level).

"Multiples are probably trending upwards. To win in an auction you basically have to be very aggressive on price – probably over-bid. And you have to be pre-emptive."

Germany

ENTRY MULTIPLES



The dynamics of the downturn have contrived, in many GPs' eyes, to hold multiples steady.

"Business owners make the choice between selling for a good price or not selling, and not selling has been key for the last few years. The effect is that multiples will stay the same."

Netherlands

“There is currently a bubble in the credit markets – both in terms of senior and junior debt. Bonds are also cheap and are easily accessible.”

USA

“Whatever the banks say, debt for smaller deals is still really really hard. It’s a massive frustration and a massive opportunity.”

UK

Debt markets opening up?

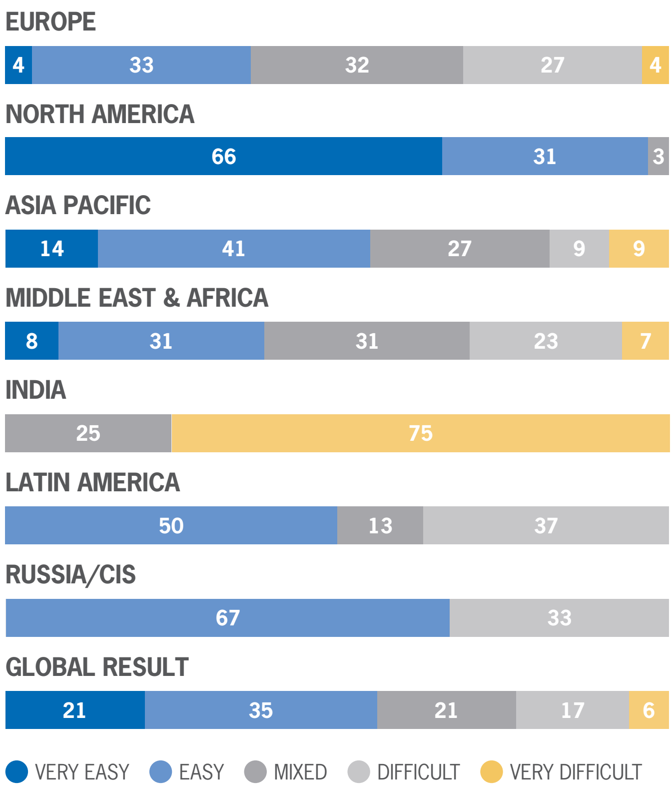
The report’s results highlight that the debt markets appear to be easing, especially in North America where debt multiples are noted to be returning to pre-crisis levels and where respondents have seen a shift from availability being ‘easy’ to ‘very easy’ over the last 12 months.

Last year 46% of GPs said that accessing debt funding for transactions was “difficult” or “very difficult”, this year the figure stands at just 23%. Likewise, the proportion suggesting debt availability is “very easy” or “easy” has risen from 44% to 56%.

Even in Europe, there is a sense that accessing debt is becoming increasingly easier, with GPs characterising access to debt as “difficult” or “very difficult” declining from 50% to circa 30%.

The lack of movement in results from European GPs stating that it is ‘easy’ or ‘very easy’ suggests that banks are still being selective about the businesses they are willing to support.

SECURING DEBT FUNDING



“Multiples are slightly lower than they have been in the last 12 months, but there is still a big gap between what vendors expect and what the current conditions sensibly allow. Entrepreneurs have always looked to PE as a provider of high valuations.”

India

"On the larger deals there's availability to go to some of the non-banks, some of the other financial institutions. If you go larger, borrowing $200+, you are able to tap into more flexible US credit facilities for the longer term, probably at a slightly higher price, but with complete flexibility. So there are some additional sources, but not really for the lower mid-market."

Australia

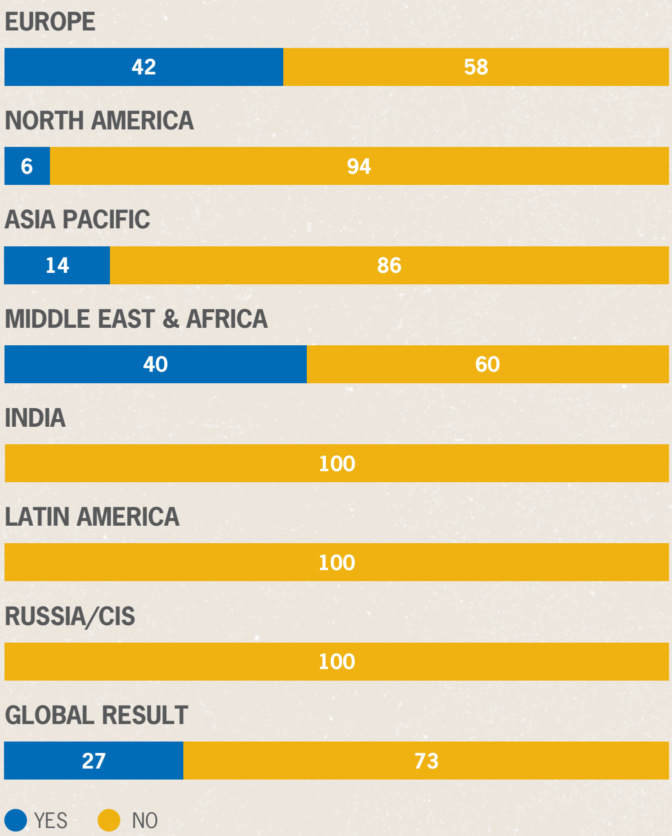
Other debt options facilitating deal flow

Whilst many European PE firms report new sources of debt capital being marketed, in many cases these remain relatively untested.

Five years on from the banking crisis, the nature of the debt market from a PE perspective seems to have remained relatively constant. However, there are some early signs of shifts within the market. Around a quarter of GPs globally report that the sources of debt are becoming more diverse. The trend is most marked in Europe, where 40% of respondents state that their sources of debt are changing and in the Middle East & Africa, where many sources of finance have been available for a number of years.

The new sources of debt funding in Europe principally include dedicated debt funds, though some have seen the return of the high yield market, notably in North America and also by some in Australia, who have in some cases been looking to North America for debt funding.

ARE YOUR SOURCES OF DEBT CHANGING?



"We are looking at one or two people in the unitranche space to see what the blended return is. The story coming from this area is that there are better levels of service, more reactive approaches, more flexibility on how to structure, but obviously it's at a higher cost. So we are testing the hypothesis."

UK

"It's improved on two fronts: one is the High Yield (HY) market. There has been a bubble on the HY market; that's correcting now and it is still a very liquid market. Then there is the emergence of the private debt market and over time this will become more of a feature. This is a new feature and is sometimes a good alternative to traditional lenders."

France

Demands and opportunities of managing and exiting the portfolio

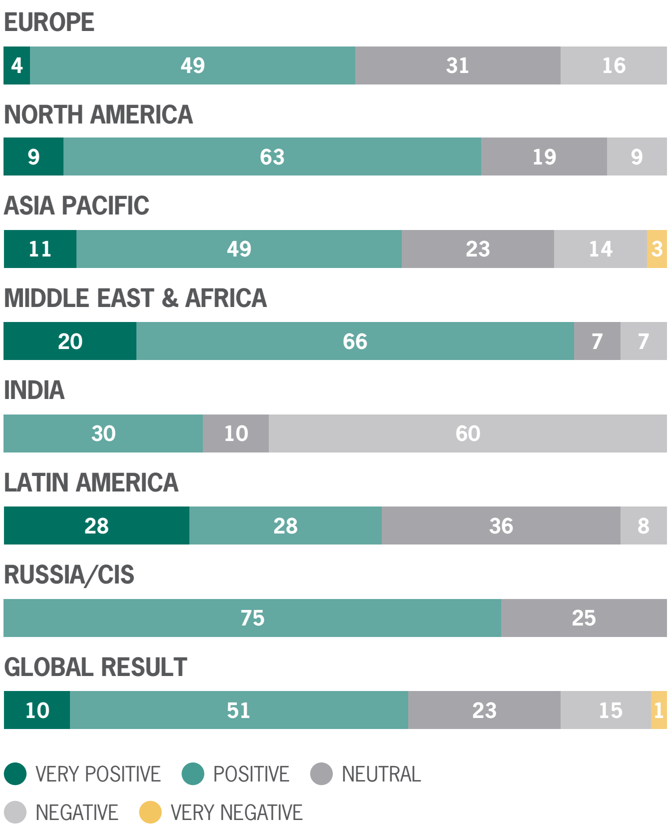
Market challenges easing

Globally, the economic environment remains one of the top five challenges facing the PE industry in the eyes of GPs. In the West, the recovery is seen as slow, while in the 'emerging markets', the growth drivers have weakened. That said, the picture is slightly improved on a year ago.

Overall, GPs are relatively positive about the outlook for their own portfolio with around 61% feeling "positive" or "very positive" about the outlook for their investee companies. While the businesses may have been 'in portfolio' longer than originally intended, GPs feel they are well positioned to survive in the current economic climate as many GPs believe they have done a lot of work strengthening their portfolio during the downturn.

GPs in the Middle East & Africa are currently the most positive about the environment for their portfolio, despite the still uncertain post-Arab Spring legacy in this region, there is more positive sentiment from GPs in North America and Europe as well as Asia Pacific.

ECONOMIC OUTLOOK FOR PORTFOLIO BUSINESSES



"We will be increasing the number of portfolio-focused staff and it's not just us, it's across the industry in Brazil."

Brazil

"For South East Asia, the economies are still in good shape and very domestically focused. You can't totally avoid the global problems, but we are in better shape than most regions."

Singapore

"We spend a lot of time on corporate governance, we spend a lot of time acting as their in-house strategy and corporate development department, and also we act as a sounding board."

China

Focus remains on performance improvement

The focus for PE executives looking to build portfolio value remains on driving performance improvements. M&A also continues to be an important feature, although this is most significant in North America, Europe and Latin America.

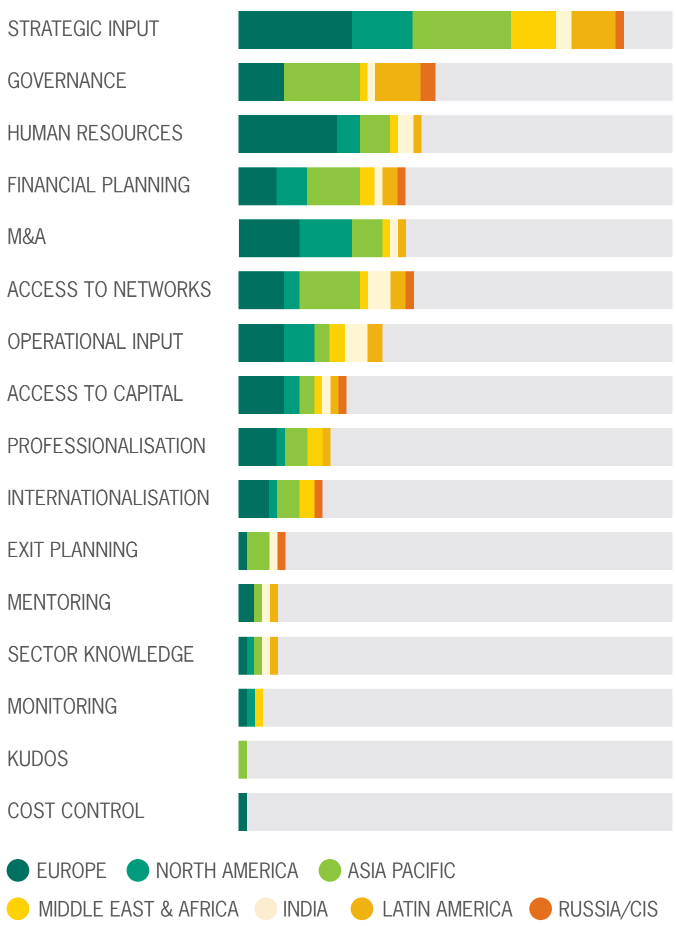
However, market growth has become a more important element for many, another sign of improving economic and trading conditions. This is particularly emphasised by PEs in India and parts of Asia Pacific where it is noted that the resurgent North American market is a more important growth factor than was the case last year.

The importance of performance improvement means GPs tend to feel they need to be seen to be 'engaged' with portfolio companies and overall, around 40% of GPs expect the number of dedicated portfolio executives to increase over the next 12 months.

Alongside strategic input, GPs also particularly highlight the value they feel they can bring through governance-related advice. While this is highlighted particularly by respondents in Asia Pacific and Latin America, regions with an evolving PE market, it is also raised as pertinent amongst European GPs.

This further emphasises the increasing levels of regulation which GPs feel they and their investees are subject to.

AREAS OF HANDS-ON INVOLVEMENT



"It's all about EBITDA growth and performance improvement. Markets around the world will likely still be anaemic and with our small companies there is no financial engineering. So it is about add on acquisitions, new markets, new products, new distribution channels and making sure that you get top line growth."

USA

“Some of our companies are operating on a more worldwide scale, some are operating more regionally within Europe. If we’re looking at the global companies, they are targeting Middle and South America as growth regions, as well as Indonesia and the Middle East.”

Netherlands

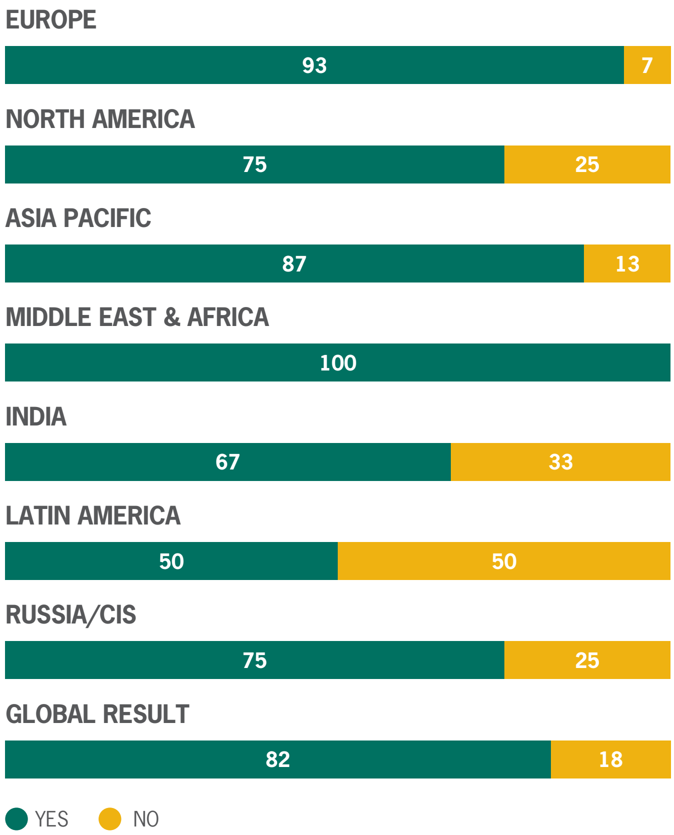
Global markets continue to drive growth

International markets are now a fundamental growth strategy for portfolio companies, not just to potentially access higher growth markets and their customers but also to ensure the business has a greater attraction to potential buyers.

Globally, around 80% of GPs say that at least some of their portfolio firms have an international footprint (or aspirations to have one) and that they will have assisted in this expansion, mainly through M&A support, although firms in Latin America are the most domestically focused.

In most cases, moving beyond the domestic market means extending further within their region. However, European GPs’ investee businesses are now increasingly looking particularly towards Asia Pacific as well as having an eye on North America and Latin America, whilst those in Asia Pacific are looking to Europe and North America, and those in North America looking back at Europe and Asia Pacific.

ARE YOUR PORTFOLIO COMPANIES SEEKING YOUR SUPPORT TO INCREASE THEIR BUSINESS WITHIN NEW GEOGRAPHICAL MARKETS?



“Typically, proximity is a key ingredient. Western Europe is not very attractive nowadays. So you look north to Russia. You look east – Iran is quite interesting, CIS countries, then you look south to North Africa and the Middle East.”

Turkey

“We like to help drive international growth. We’re in a low growth domestic environment and often internationalisation is a really good route to getting the value creation that you need.”

UK

The exit environment

LP desire for distributions and the pressure of lengthening holding periods mean GPs believe exit activity must rise although the pressure from LPs to invest is stronger.

Although the need for exits grows, around half expect to be net buyers of assets over the coming year and only 28% state they expect to be net sellers.

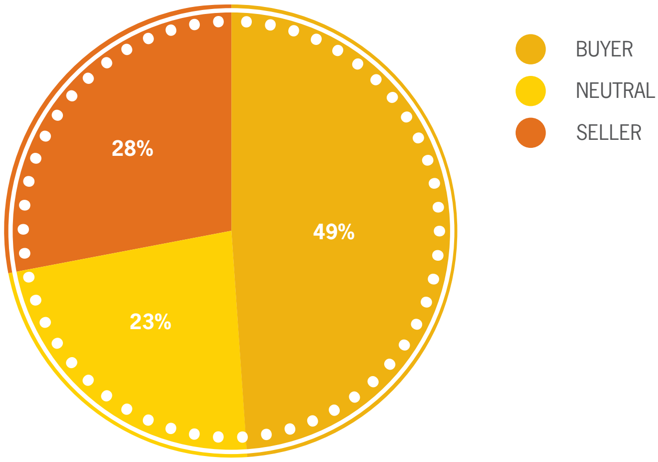
Generally though, GPs are more bullish about the prospects for exit activity over the coming year than last. Around two thirds of GPs believe that exit activity will increase going forward, compared to a figure of below 50% a year ago. GPs in India are the most optimistic for an increase in exit activity, a reflection of the need to prove exit success to potential investors.

Unsurprisingly, trade sales and secondary buyouts continue to dominate exit routes. Generally buyers are expected to be domestic or based in the same region as the target. Although over 40% of respondents say foreign buyers will be significant.

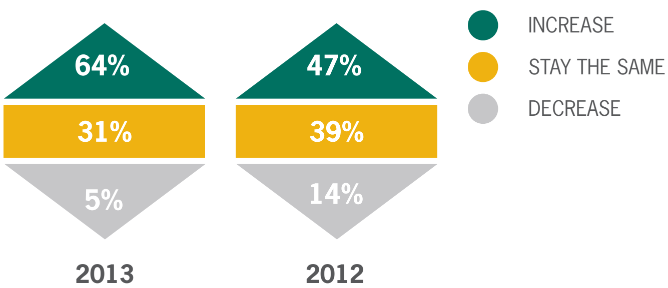
IPOs are still expected to continue to be rare in Europe, North America or the Middle East & Africa, but remain an option in Russia/CIS and Latin America. China has presented a particular challenge where IPOs have historically been a key exit route, but due to government intervention this exit route has effectively closed and the impact of this on PEs is yet to be fully appreciated.

NET BUYER/SELLER

DO YOU EXPECT TO BE A NET BUYER OR SELLER OF ASSETS OVER THE NEXT YEAR?



DO YOU EXPECT LEVELS OF EXIT ACTIVITY ACROSS THE MARKET TO INCREASE, DECREASE OR STAY THE SAME OVER THE NEXT 12 MONTHS?



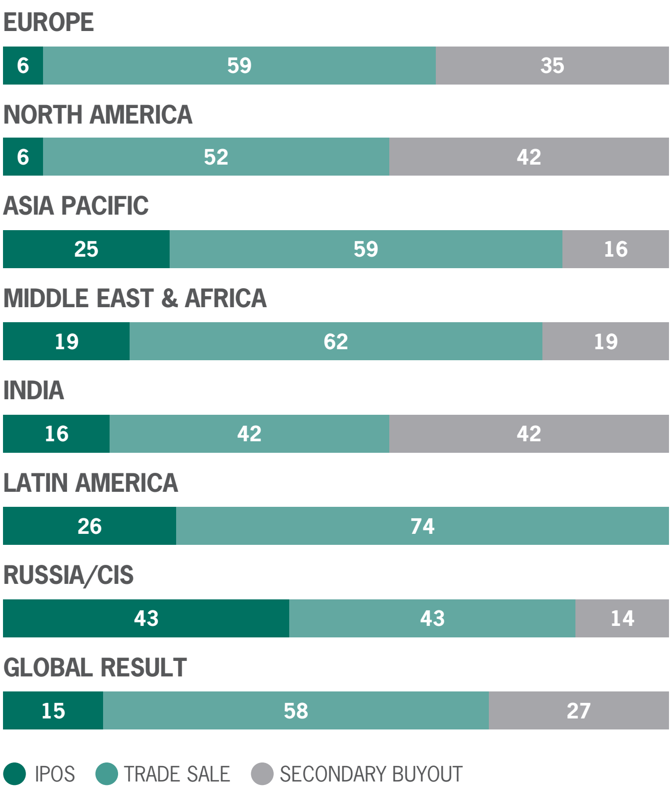
"For the past 6-12 months, the China Securities Regulatory Commission has controlled IPO activity, but hopefully the markets are going to reopen in the coming months. The private equity market is highly linked to IPO activity in China, so once it reopens, I think exit activity will pick up."

China

"Trade is still the main route. While historically it would have been to local groups, now we are seeing much more interest from other Asian strategics, from China, Taiwan and Korea."

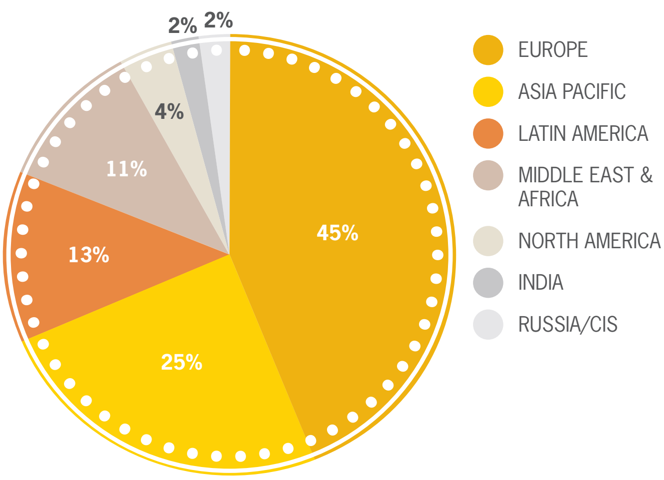
Japan

EXIT ROUTES 2013 (REGIONAL BREAKDOWN)



EXIT ROUTES

REGIONS WHERE TRADE SALES TO FOREIGN CORPORATES ARE EXPECTED TO BE AN IMPORTANT EXIT ROUTE



With debt availability easing at a time when exits can still be difficult to achieve (and there continues to be pressure from LPs for distributions), a number of GPs note the return of dividend recaps providing some liquidity. Around half of GPs globally indicate that they believe dividend recaps will be a growing feature of the market, with this being particularly the case in North America, Russia, and Europe. Although many remain sceptical and feel that the focus for banks is on backing growth rather than investor pay-outs.

"Exits are still mostly to strategics from the Western European and American markets. It is an emerging trend to see buyers coming from China and Asia generally, but it's new and not that significant yet."

Brazil

"We are seeing increased attention from Far Eastern buyers. Chinese companies have had a harder time closing deals, compared to the Japanese. The latter are more used to buying companies and have a more useful regulatory framework. Often the Chinese buyers are more inexperienced and can face difficulties transferring capital out of China."

Sweden

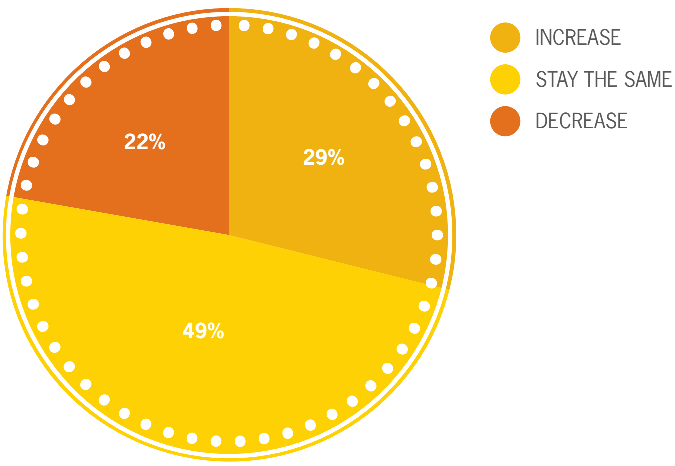
"The business environment has deteriorated so anyone that can afford to wait to exit is likely to. Plus the threat of an end to quantitative easing is hitting emerging markets hard, whilst the poor exchange rate is really not helping."

Brazil

The expected returns from an exit is a mixed picture. On balance, GPs globally think that returns are likely to remain around their current level. Around a third expect returns to increase (up from a fifth last year) – GPs in Russia, the Middle East & Africa and, to a lesser extent, North America are most bullish, while those in Latin America and India are the most cautious.

Against the backdrop of public markets continuing to blow hot and cold and low interest rate levels in some markets, GPs remain confident that private equity returns are attractive to investors.

AVERAGE RETURNS



"Everyone might talk a good game about returns, but if you look at the industry overall with flat growth and prices still the same, returns have to come down. The deviation between the winners and losers will be bigger."

UK

"There's more competition for fewer appropriate assets, vendor expectations are very high and the promise of 7% GDP growth is not there. At the moment you could end up buying high and selling low – it goes against the basics of what PE is about."

Peru

"Having talked to a couple of firms where it is increasingly uncertain whether there will be carry, the partners maybe are being more generous with cash incentives to retain the team than they would have been in the past. I have had that conversation with a few firms."

Australia

Sample and methodology

Interviews included a mixture of quantitative and qualitative questions.

During July and August 2013, 156 interviews were conducted with top executives from private equity firms. Respondents included industry GPs in seven principal regions:

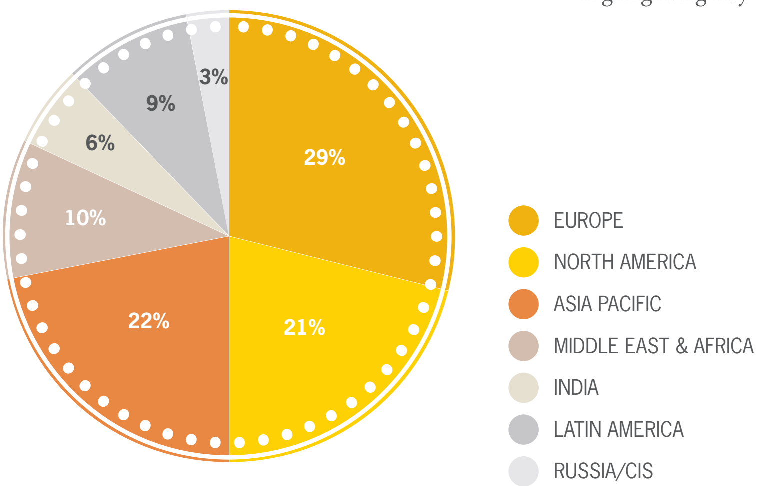
- Europe
- North America (USA and Canada)
- Asia Pacific (China, the Far East, South East Asia, Australasia)
- Middle East & Africa
- India
- Latin America
- Russia/CIS

Participants were identified from a number of sources including industry associations, regional team contacts and market directories.

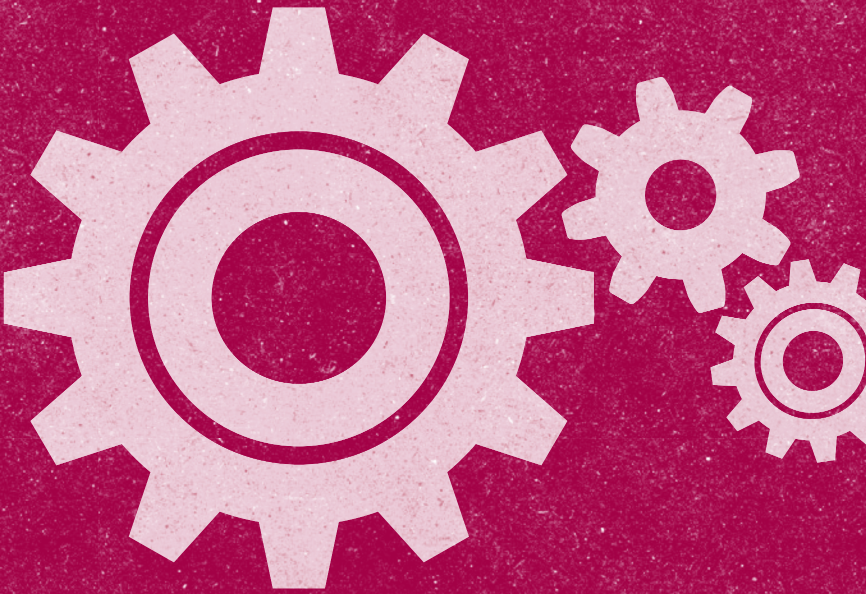
The interviews were conducted on an unattributed basis and were structured around the various stages of the private equity cycle, including fundraising, new investment activity, portfolio management, and exits. This approach enabled detailed exploration of likely trends throughout the cycle and identification of key pressure points within the chain.

Interviews included a mixture of quantitative and qualitative questions. This report includes graphs and charts derived from both the quantitative data and, where appropriate, the coding of responses to qualitative questions to provide statistics highlighting key trends.

REGIONAL BREAKDOWN OF RESPONDENTS



Appendix



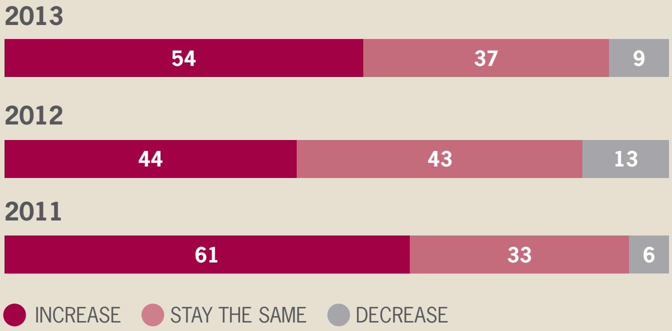
QUESTION 1: DO YOU EXPECT PRIVATE EQUITY INVESTMENT ACTIVITY IN YOUR COUNTRY TO INCREASE, DECREASE, OR STAY THE SAME OVER THE NEXT 12 MONTHS?

	2011	2012	2013
Increase	61%	44%	54%
Stay the same	33%	43%	37%
Decrease	6%	13%	9%

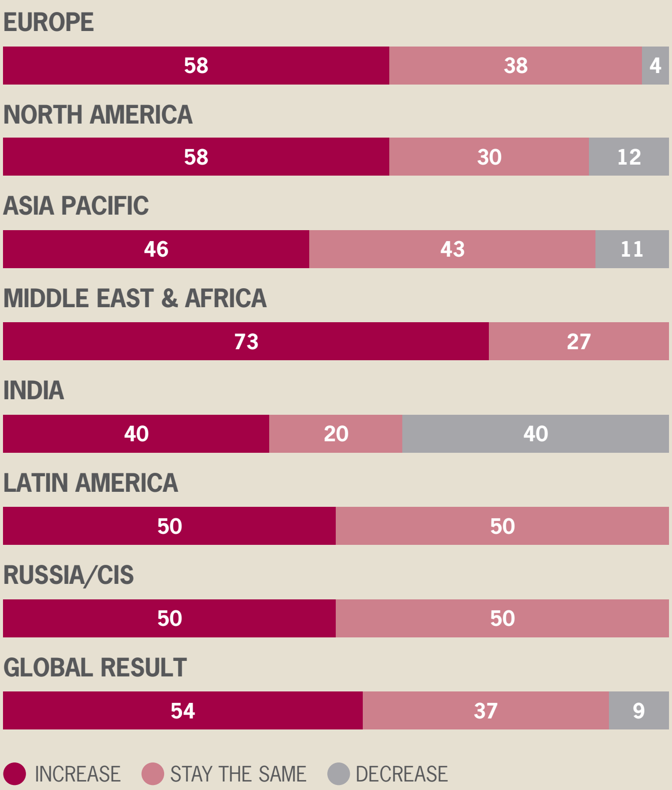
2013	Increase	Stay the same	Decrease
Europe	58%	38%	4%
North America	58%	30%	12%
Asia Pacific	46%	43%	11%
Middle East & Africa	73%	27%	0%
India	40%	20%	40%
Latin America	50%	50%	0%
Russia/CIS	50%	50%	0%
GLOBAL RESULT	54%	37%	9%

2012	Increase	Stay the same	Decrease
Europe	32%	60%	8%
North America	59%	41%	0%
Asia Pacific	44%	32%	24%
Middle East & Africa	44%	31%	25%
India	34%	22%	44%
Latin America	78%	22%	0%
Russia/CIS	50%	50%	0%
GLOBAL RESULT	44%	43%	13%

Investment activity



Investment activity 2013 (Regional breakdown)



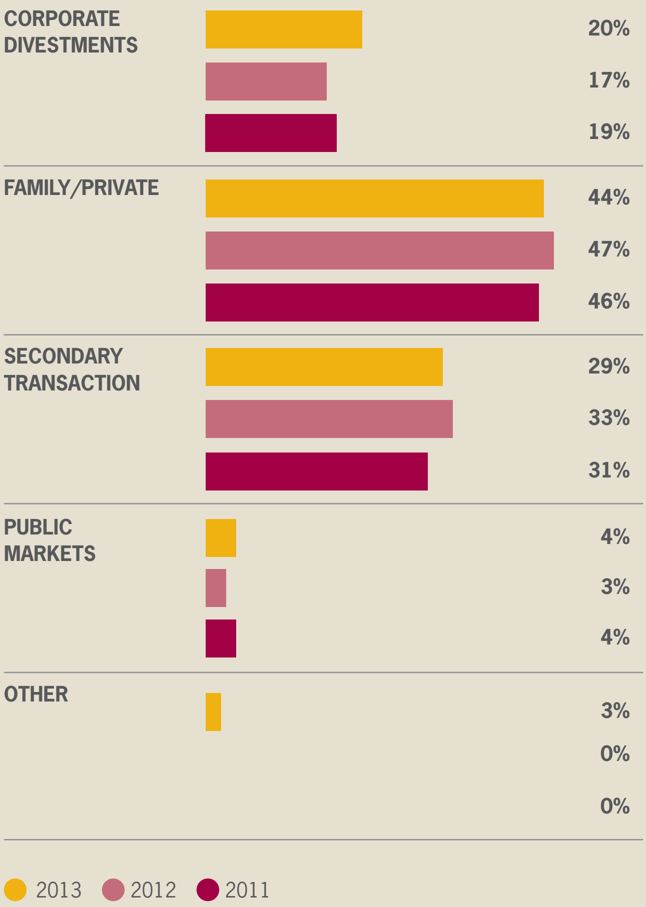
QUESTION 2: WHAT DO YOU EXPECT TO BE THE MOST SIGNIFICANT SOURCE OF DEALS OVER THE NEXT 12 MONTHS?

	2011	2012	2013
Corporate divestments	19%	17%	20%
Family/Private	46%	47%	44%
Secondary transaction	31%	33%	29%
Public markets	4%	3%	4%
Other	0%	0%	3%

2013	Corporate divestments	Family/ Private	Secondary buyouts	Public markets	Other
Europe	24%	29%	46%	0%	1%
North America	18%	40%	40%	2%	0%
Asia Pacific	20%	52%	14%	6%	8%
Middle East & Africa	30%	48%	13%	9%	0%
India	11%	50%	28%	11%	0%
Latin America	11%	72%	11%	6%	0%
Russia/CIS	16%	67%	17%	0%	0%
GLOBAL RESULT	20%	44%	30%	4%	2%

2012	Corporate divestments	Family/ Private	Secondary buyouts	Public markets
Europe	21%	36%	42%	1%
North America	18%	48%	34%	0%
Asia Pacific	19%	51%	22%	8%
Middle East & Africa	5%	63%	26%	6%
India	15%	31%	46%	8%
Latin America	0%	90%	10%	0%
Russia/CIS	0%	100%	0%	0%
GLOBAL RESULT	17%	47%	33%	3%

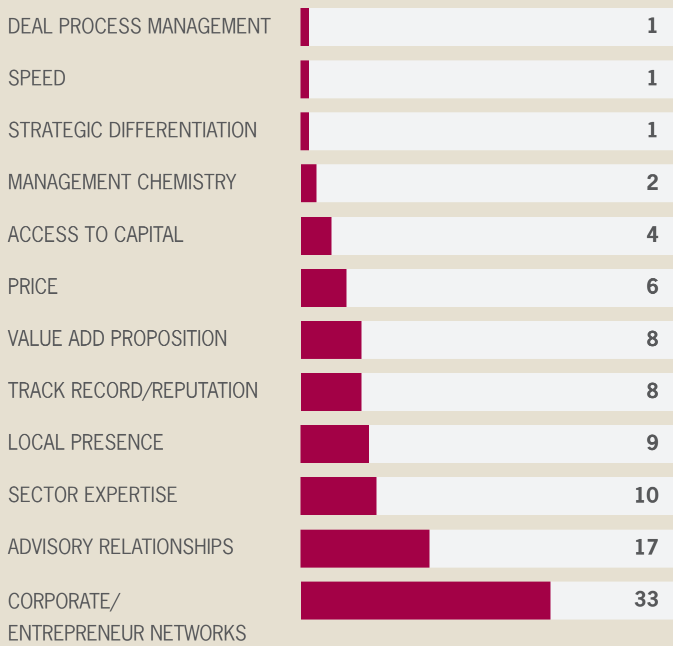
Sources of dealflow



QUESTION 3: WHAT ARE THE MOST IMPORTANT FACTORS WHICH HELP PRIVATE EQUITY FIRMS TO IDENTIFY AND WIN DEALS IN YOUR MARKET?

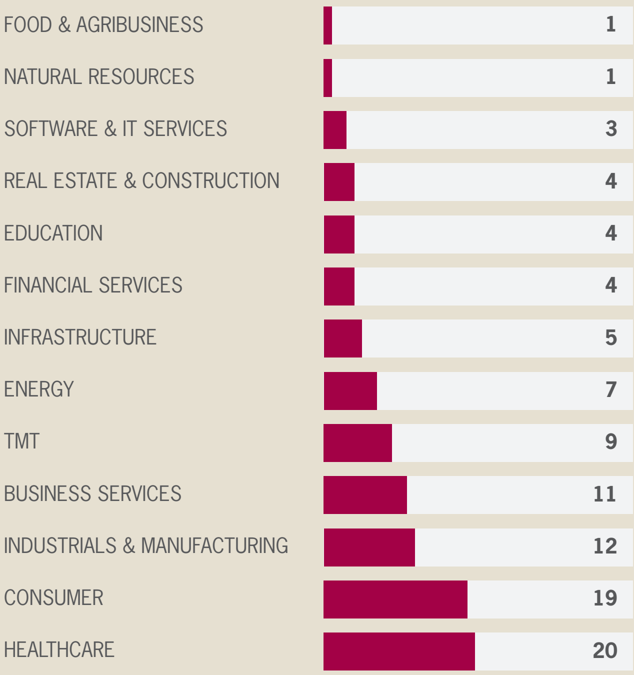
	2011	2012	2013
Corporate/Entrepreneur networks	24%	26%	33%
Advisory relationships	12%	3%	17%
Sector expertise	11%	14%	10%
Local presence	10%	10%	9%
Track record/Reputation	10%	15%	8%
Value add proposition	8%	8%	8%
Price	7%	9%	6%
Access to capital	6%	5%	4%
Management chemistry	3%	7%	2%
Strategic differentiation	1%	1%	1%
Speed	2%	1%	1%
Deal process management	6%	1%	1%

Key factors in identifying and winning deals in 2013



QUESTION 4: IN WHICH SECTORS DO YOU EXPECT PE FIRMS TO BE MOST ACTIVE OVER THE COMING 12 MONTHS?

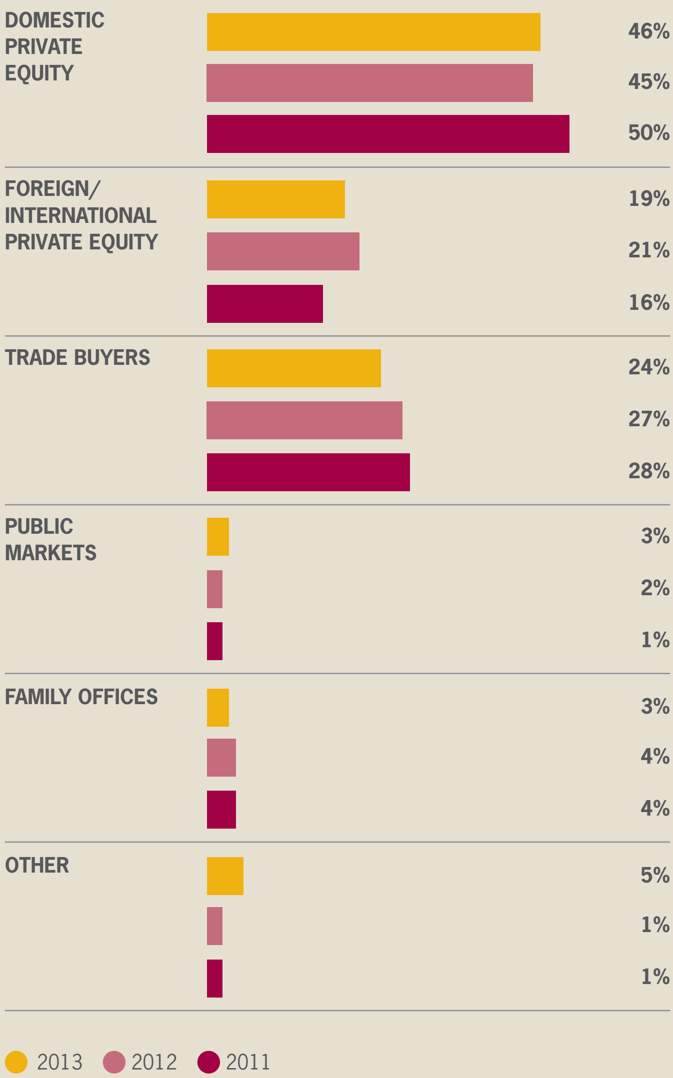
Most active sectors in 2013



QUESTION 5: FROM WHICH SOURCES DO YOU FORESEE THE MOST COMPETITION FOR DEALS OVER THE NEXT 12 MONTHS?

	2011	2012	2013
Domestic private equity	50%	45%	46%
Foreign/International private equity	16%	21%	19%
Trade buyers	28%	27%	24%
Public markets	1%	2%	3%
Family offices	4%	4%	3%
Other	1%	1%	5%

Sources of competition



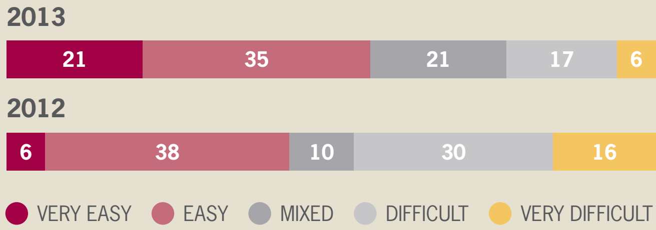
QUESTION 6: HOW EASY DO YOU EXPECT IT TO BE TO SECURE DEBT FUNDING FOR NEW DEALS OVER THE COMING YEAR?

	2012	2013
Very easy	6%	21%
Easy	38%	35%
Mixed	10%	21%
Difficult	30%	17%
Very difficult	16%	6%

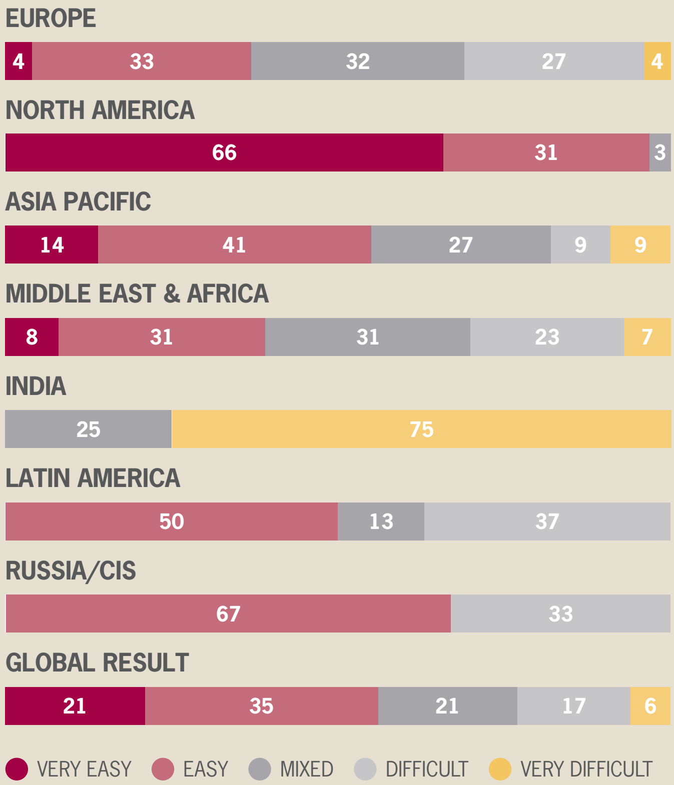
2013	Very easy	Easy	Mixed	Difficult	Very difficult
Europe	4%	33%	32%	27%	4%
North America	66%	31%	3%	0%	0%
Asia Pacific	14%	41%	27%	9%	9%
Middle East & Africa	8%	31%	31%	23%	7%
India	0%	0%	25%	0%	75%
Latin America	0%	50%	13%	37%	0%
Russia/CIS	0%	67%	0%	33%	0%
GLOBAL RESULT	21%	35%	21%	17%	6%

2012	Very easy	Easy	Mixed	Difficult	Very difficult
Europe	0%	40%	10%	32%	18%
North America	21%	55%	14%	10%	0%
Asia Pacific	0%	19%	19%	25%	37%
Middle East & Africa	9%	9%	0%	64%	18%
India	0%	0%	0%	100%	0%
Latin America	0%	56%	0%	22%	22%
Russia/CIS	0%	50%	0%	50%	0%
GLOBAL RESULT	6%	38%	10%	30%	16%

Securing debt funding



Securing debt funding 2013 (Regional breakdown)



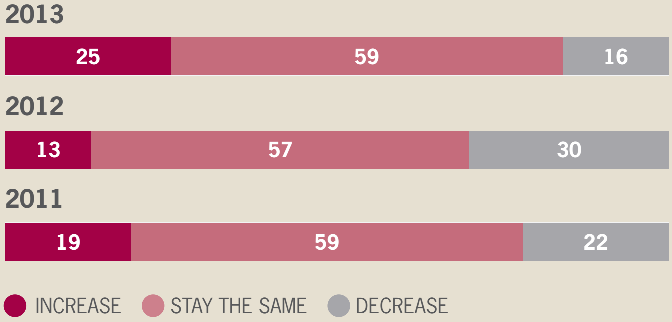
QUESTION 7: DO YOU FORESEE ENTRY MULTIPLES INCREASING, DECREASING OR STAYING THE SAME IN YOUR MARKET OVER THE NEXT 12 MONTHS?

	2011	2012	2013
Increase	19%	13%	25%
Stay the same	59%	57%	59%
Decrease	22%	30%	16%

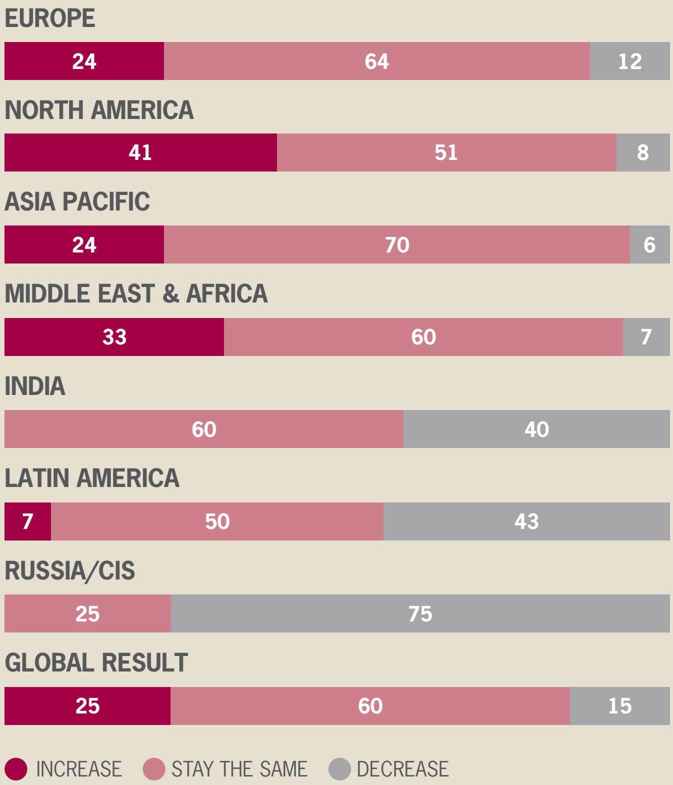
2013	Increase	Stay the same	Decrease
Europe	24%	64%	12%
North America	41%	51%	8%
Asia Pacific	24%	70%	6%
Middle East & Africa	33%	60%	7%
India	0%	60%	40%
Latin America	7%	50%	43%
Russia/CIS	0	25%	75%
GLOBAL RESULT	25%	60%	15%

2012	Increase	Stay the same	Decrease
Europe	12%	66%	22%
North America	25%	64%	11%
Asia Pacific	8%	44%	48%
Middle East & Africa	19%	68%	13%
India	0%	10%	90%
Latin America	12%	33%	55%
Russia/CIS	0%	75%	25%
GLOBAL RESULT	13%	57%	30%

Entry multiples

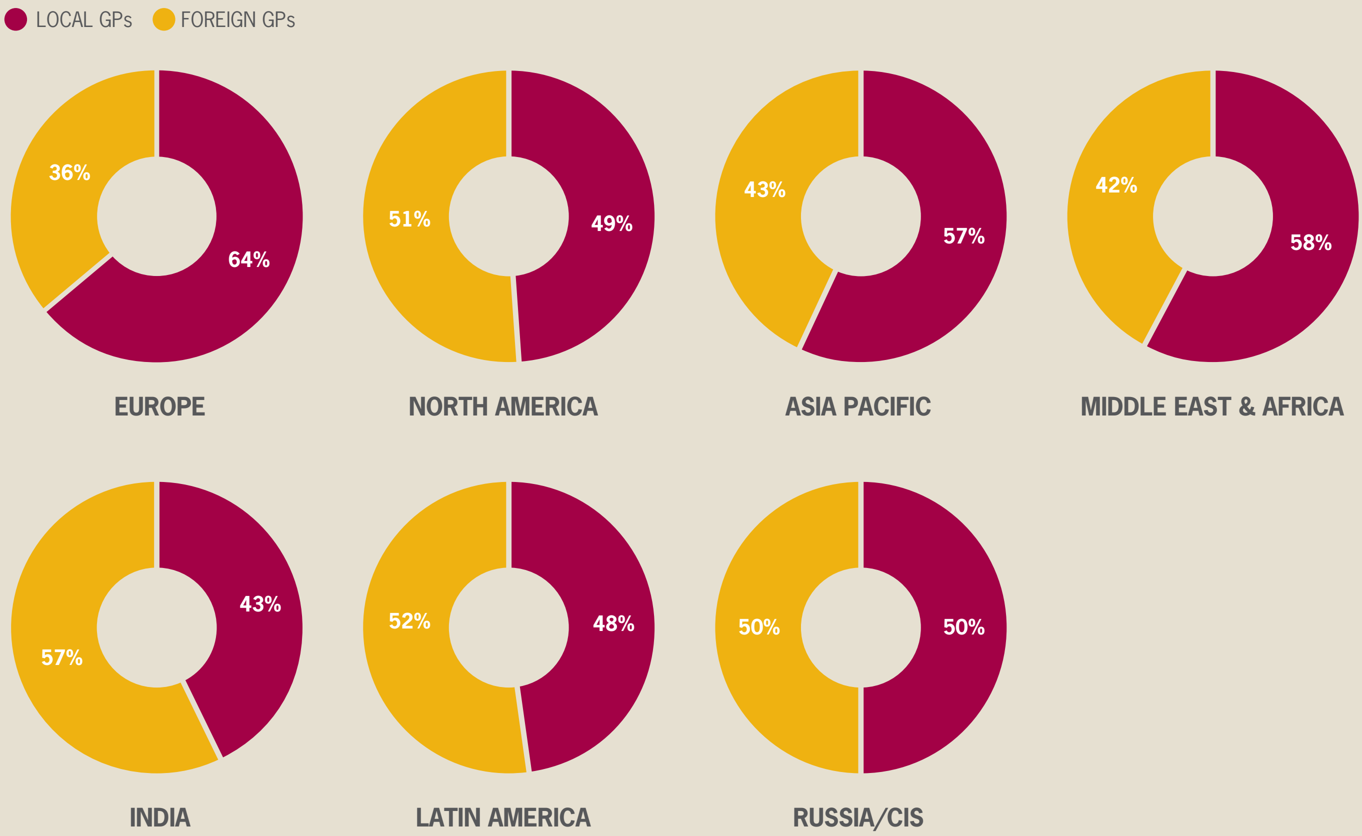


Entry multiples 2013 (Regional breakdown)



QUESTION 8: IRRESPECTIVE OF YOUR OWN INVESTMENT REMIT, WHICH GEOGRAPHICAL MARKETS DO YOU SEE AS THE MOST ATTRACTIVE FOR THE PRIVATE EQUITY INDUSTRY IN TERMS OF NEW DEALS OVER THE NEXT 2-3 YEARS?

	Target region						
Respondent region	**Europe**	**North America**	**Asia Pacific**	**Middle East & Africa**	**India**	**Latin America**	**Russia/CIS**
Europe	50%	13%	16%	11%	3%	7%	0%
North America	26%	49%	17%	0%	0%	8%	0%
Asia Pacific	10%	10%	74%	0%	3%	3%	0%
Middle East & Africa	6%	0%	16%	58%	5%	10%	5%
India	0%	30%	30%	10%	30%	0%	0%
Latin America	7%	27%	0%	0%	0%	66%	0%
Russia/CIS	25%	0%	0%	25%	0%	25%	25%
GLOBAL RESULT	25%	20%	27%	11%	4%	12%	1%



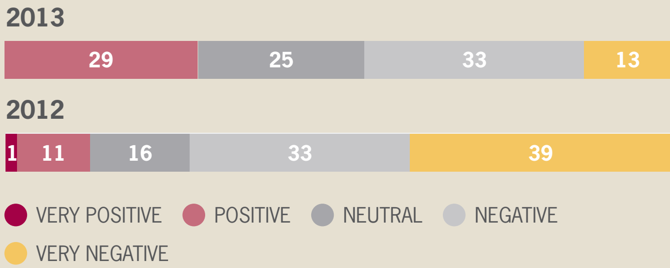
QUESTION 9: HOW DO YOU VIEW THE CURRENT FUNDRAISING ENVIRONMENT?

	2011	2012	2013
Very positive	4%	1%	0%
Positive	24%	11%	29%
Neutral	26%	16%	25%
Negative	33%	33%	33%
Very negative	13%	39%	13%

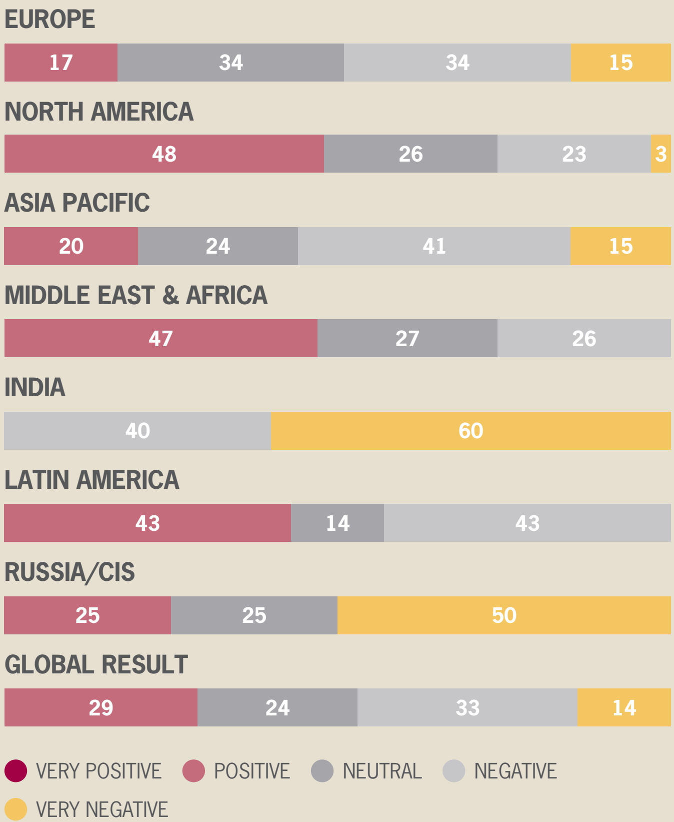
2013	Very positive	Positive	Neutral	Negative	Very negative
Europe	0%	17%	34%	34%	15%
North America	0%	48%	26%	23%	3%
Asia Pacific	0%	20%	24%	41%	15%
Middle East & Africa	0%	47%	27%	26%	0%
India	0%	0%	0%	40%	60%
Latin America	0%	43%	14%	43%	0%
Russia/CIS	0%	25%	25%	0%	50%
GLOBAL RESULT	0%	29%	24%	33%	14%

2012	Very positive	Positive	Neutral	Negative	Very negative
Europe	2%	11%	21%	31%	35%
North America	0%	23%	15%	42%	20%
Asia Pacific	0%	4%	4%	46%	46%
Middle East & Africa	0%	13%	25%	31%	31%
India	0%	0%	10%	0%	90%
Latin America	11%	11%	11%	22%	45%
Russia/CIS	0%	0%	0%	25%	75%
GLOBAL RESULT	1%	11%	15%	33%	40%

Fundraising environment



Fundraising environment 2013 (Regional breakdown)



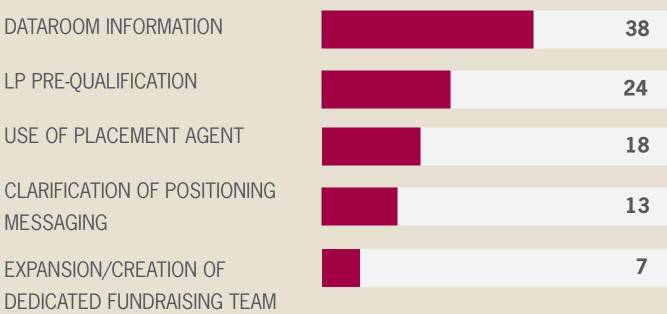
QUESTION 10: IN THE CONTEXT OF YOUR MOST RECENT FUNDRAISE, HOW DIFFERENT WAS YOUR INITIAL PREPARATION COMPARED TO PREVIOUS FUNDRAISING CAMPAIGNS?

	2013
Dataroom information	38%
LP pre-qualification	24%
Use of placement agent	18%
Clarification of positioning messaging	13%
Expansion/creation of dedicated fundraising team	7%

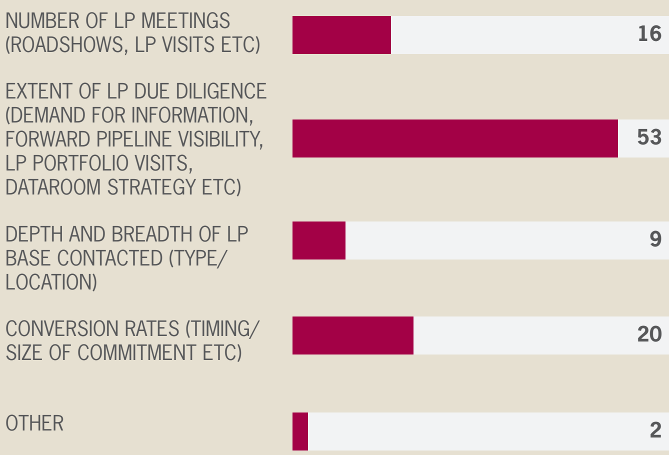
QUESTION 11: OVERALL, HOW DO YOUR MORE RECENT EXPERIENCES OF FUNDRAISING DIFFER FROM THOSE PREVIOUSLY?

	2013
Number of LP meetings (Roadshows, LP visits etc)	16%
Extent of LP due diligence (Demand for information, forward pipeline visibility, LP portfolio visits, dataroom strategy etc)	53%
Depth and breadth of LP base contacted (type / location)	9%
Conversion rates (timing/size of commitment etc)	20%
Other	2%

Preparing to fundraise 2013



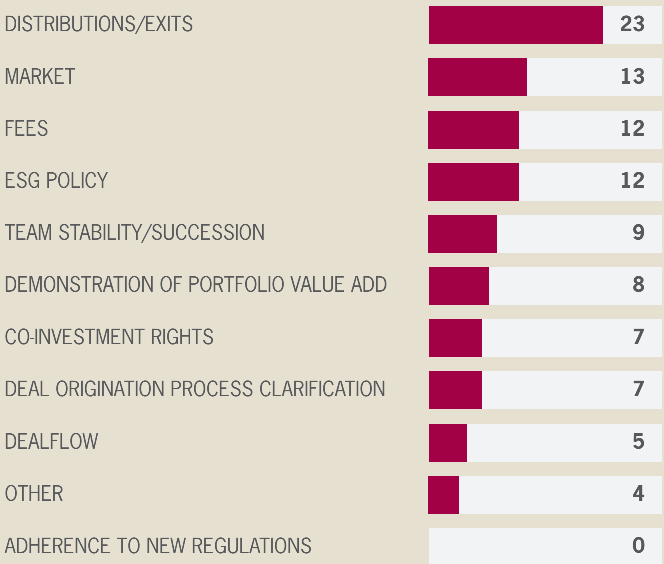
Experience of fundraising 2013



QUESTION 12: IN WHAT AREAS HAVE YOU BEEN FEELING THE MOST PRESSURE FROM INVESTORS RECENTLY?

	2013
Distributions/exits	23%
Market	13%
Fees	12%
ESG policy	12%
Team stability/succession	9%
Demonstration of portfolio value add	8%
Co-investment rights	7%
Deal origination process clarification	7%
Dealflow	5%
Other	4%
Adherence to new regulations	0%

Areas of LP pressure



QUESTION 13: RESPONDENTS ASKED FOR ADDITIONAL COMMENTS.

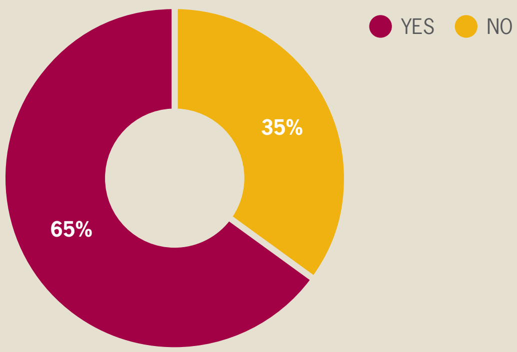
QUESTION 14: DO YOU EXPECT TO BE FORMALLY FUNDRAISING WITHIN THE NEXT 12 MONTHS?

	2012	2013
Yes	62%	65%
No	38%	35%

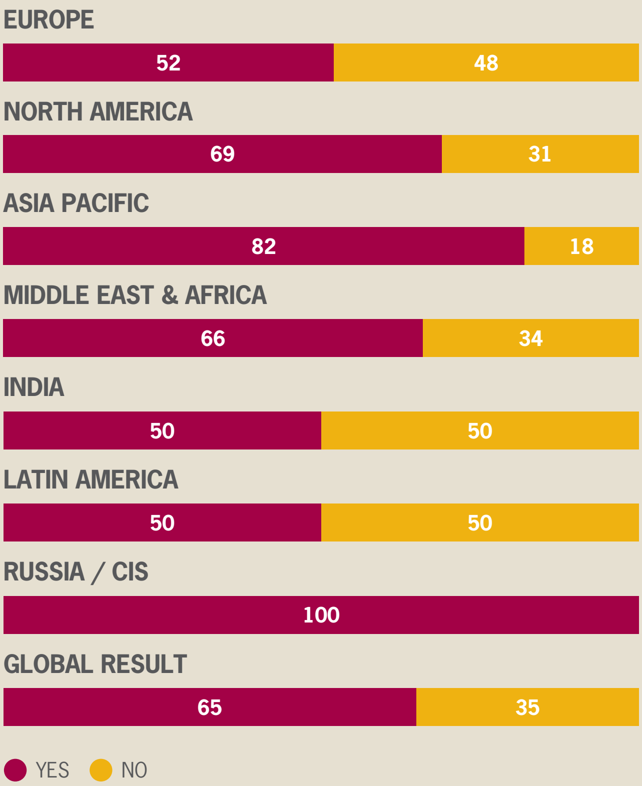
2013	Yes	No
Europe	52%	48%
North America	69%	31%
Asia Pacific	82%	18%
Middle East & Africa	66%	34%
India	50%	50%
Latin America	50%	50%
Russia/CIS	100%	0%
GLOBAL RESULT	65%	35%

2012	Yes	No
Europe	56%	44%
North America	63%	37%
Asia Pacific	73%	27%
Middle East & Africa	77%	23%
India	50%	50%
Latin America	66%	34%
Russia/CIS	50%	50%
GLOBAL RESULT	62%	38%

Do you expect to be formally fundraising within the next 12 months?



Do you expect to be formally fundraising within the next 12 months? (Regional breakdown)

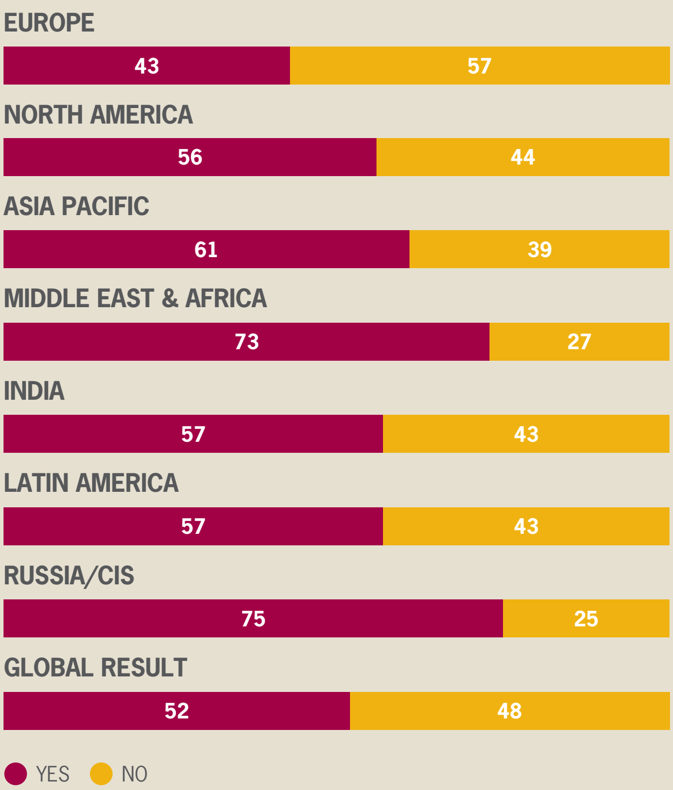


QUESTION 15: DO YOU EXPECT TO SEE AN INCREASE IN THE USE OF ALTERNATIVE FUND STRUCTURES FOR PRIVATE EQUITY (IE NOT A LIMITED PARTNERSHIP) OVER THE NEXT THREE YEARS?

	2013
Yes	56%
No	44%

Do you expect to see an increase in the use of alternative fund structures for private equity?

2013	Yes	No
Europe	43%	57%
North America	56%	44%
Asia Pacific	61%	39%
Middle East & Africa	73%	27%
India	57%	43%
Latin America	57%	43%
Russia/CIS	75%	25%
GLOBAL RESULT	52%	48%



QUESTION 16: WHAT PROPORTION OF YOUR NEXT FUND (BY % OF INVESTORS) DO YOU EXPECT TO BE FIRST TIME INVESTORS WITH YOU?

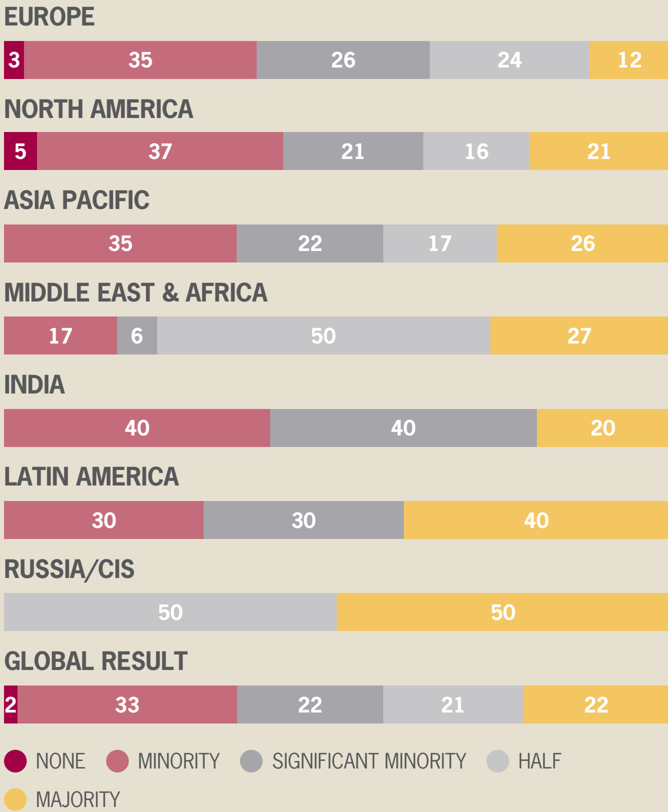
	2011	2012	2013
None	4%	2%	2%
Minority	44%	35%	33%
Significant minority	28%	27%	22%
Half	8%	18%	21%
Majority	16%	18%	22%

What proportion of your next fund do you expect to be first time investors with you?

2013	None	Minority	Significant minority	Half	Majority
Europe	3%	35%	26%	24%	12%
North America	5%	37%	21%	16%	21%
Asia Pacific	0%	35%	22%	17%	26%
Middle East & Africa	0%	17%	6%	50%	27%
India	0%	40%	40%	0%	20%
Latin America	0%	30%	30%	0%	40%
Russia/CIS	0%	0%	0%	50%	50%
GLOBAL RESULT	2%	33%	22%	21%	22%

2012	None	Minority	Significant minority	Half	Majority
Europe	0%	46%	19%	16%	19%
North America	6%	31%	31%	26%	6%
Asia Pacific	0%	29%	35%	18%	18%
Middle East & Africa	0%	0%	57%	14%	29%
India	0%	43%	29%	14%	14%
Latin America	0%	25%	13%	25%	37%
Russia/CIS	0%	0%	0%	0%	0%
GLOBAL RESULT	1%	35%	27%	19%	18%

Percentage of first time investors 2013 (Regional breakdown)



QUESTION 17: WHAT DO YOU ENVISAGE TO BE THE MOST SIGNIFICANT NEW SOURCES OF LP CAPITAL OVER THE NEXT 2-3 YEARS FOR PRIVATE EQUITY FUNDS IN GENERAL?

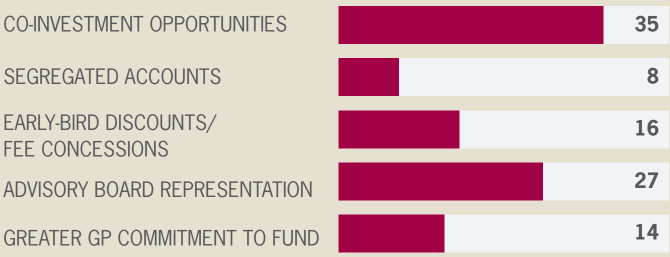
	TARGET REGION						
RESPONDENT REGION	Europe	North America	Asia Pacific	Middle East & Africa	India	Latin America	Russia/CIS
Europe	12%	15%	37%	23%	3%	8%	2%
North America	50%	11%	28%	11%			
Asia Pacific	17%	21%	43%	13%	2%	4%	
Middle East & Africa	7%	20%	40%	33%			
India		8%	50%	34%		8%	
Latin America	7%	50%	29%	14%			
Russia/CIS	33%	33%	34%				
GLOBAL RESULT	16%	20%	37%	19%	2%	5%	1%

	LP TYPE										
RESPONDENT REGION	Banks	Corporate	Development agency	Endowments	Family offices	Fund of funds	HNWs	Insurance	Pension	Philanthropy	SWFs
Europe				8%	27%	2%	6%	4%	21%	2%	30%
North America					24%		29%		35%		12%
Asia Pacific	2%	2%	2%	11%	17%	9%	7%	2%	24%		24%
Middle East & Africa	5%	5%	9%		24%		5%	9%	14%		29%
India					10%		20%		20%		50%
Latin America				21%	13%	13%	13%		27%		13%
Russia/CIS			20%	20%	20%				20%		20%
GLOBAL RESULT	1%	1%	2%	8%	22%	4%	10%	3%	23%	1%	25%

QUESTION 18: WHICH OF THE FOLLOWING STRATEGIES ARE YOU CONSIDERING USING AS PART OF YOUR NEXT FUNDRAISING TO HELP ATTRACT INVESTORS?

	2013
Co-investment opportunities	35%
Segregated accounts	8%
Early-bird discounts/fee concessions	16%
Advisory Board representation	27%
Greater GP commitment to fund	14%

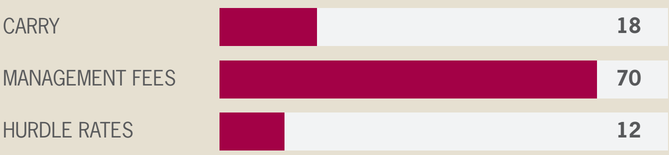
Attracting LPs



QUESTION 19: OVER THE COMING THREE YEARS, WHAT DO YOU EXPECT TO BE THE MOST LIKELY CHANGES TO THE STANDARD TERMS AND CONDITIONS OF PRIVATE EQUITY FUNDS?

	2013
Carry	18%
Management fees	70%
Hurdle rates	12%

Changing terms & conditions



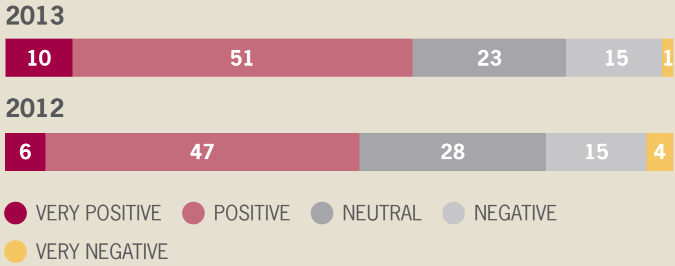
QUESTION 20: HOW POSITIVE DO YOU FEEL ABOUT THE ECONOMIC OUTLOOK OVER THE NEXT 12 MONTHS IN YOUR REGION FOR YOUR PORTFOLIO BUSINESSES?

	2011	2012	2013
Very positive	6%	6%	10%
Positive	55%	47%	51%
Neutral	32%	28%	23%
Negative	7%	15%	15%
Very negative	0%	4%	1%

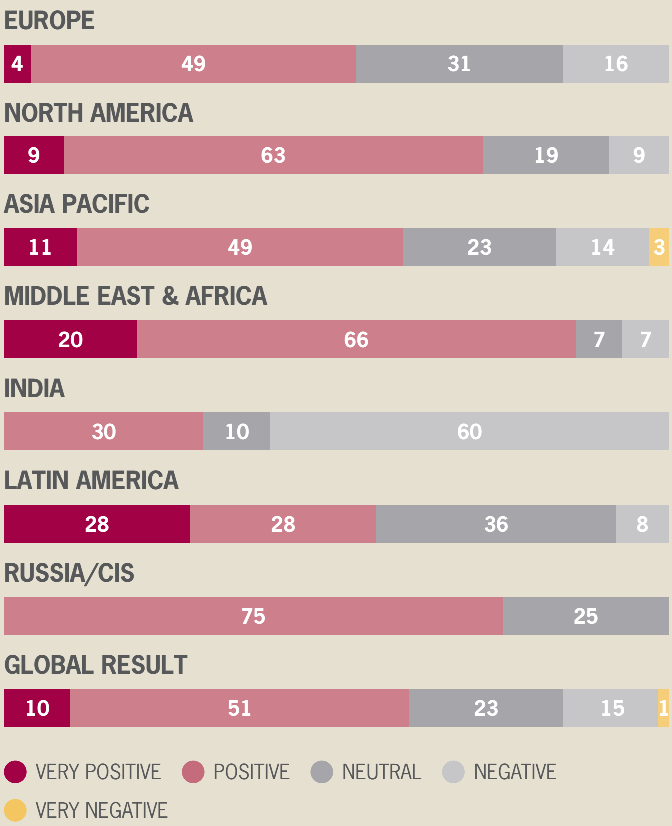
2013	Very positive	Positive	Neutral	Negative	Very negative
Europe	4%	49%	31%	16%	0%
North America	9%	63%	19%	9%	0%
Asia Pacific	11%	48%	23%	14%	4%
Middle East & Africa	20%	66%	7%	7%	0%
India	0%	30%	10%	60%	0%
Latin America	28%	28%	36%	8%	0%
Russia/CIS	0%	75%	25%	0%	0%
GLOBAL RESULT	10%	51%	23%	15%	1%

2012	Very positive	Positive	Neutral	Negative	Very negative
Europe	4%	39%	37%	12%	8%
North America	10%	40%	40%	10%	0%
Asia Pacific	0%	68%	12%	16%	4%
Middle East & Africa	13%	40%	27%	20%	0%
India	11%	33%	11%	45%	0%
Latin America	0%	90%	10%	0%	0%
Russia/CIS	0%	25%	50%	25%	0%
GLOBAL RESULT	6%	47%	29%	14%	4%

Economic outlook for portfolio business



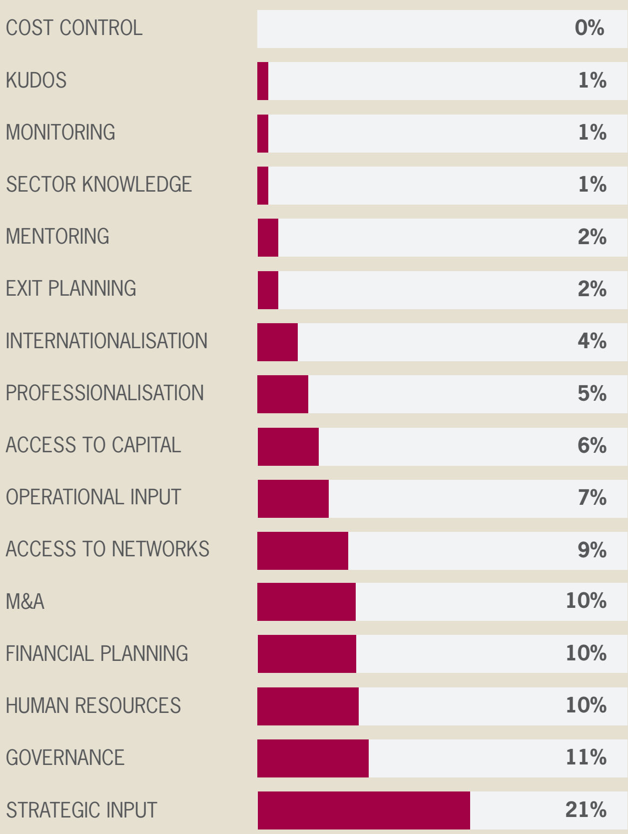
Economic outlook for portfolio business 2013 (Regional breakdown)



QUESTION 21: WHAT THREE THINGS DO YOU MOST COMMONLY CONTRIBUTE TO YOUR PORTFOLIO COMPANIES?

	2011	2012	2013
Strategic input	19%	19%	21%
Governance	14%	13%	11%
Human resources	12%	12%	10%
Financial planning	6%	9%	10%
M&A	11%	8%	10%
Access to networks	10%	7%	9%
Operational input	7%	6%	7%
Access to capital	4%	5%	6%
Professionalisation	1%	5%	5%
Internationalisation	3%	5%	4%
Exit planning	3%	3%	2%
Mentoring	2%	3%	2%
Sector knowledge	1%	1%	1%
Monitoring	3%	1%	1%
Kudos	1%	1%	1%
Cost control	1%	1%	0%
Managing banking relationships	1%	1%	0%
Innovation	1%	0%	0%

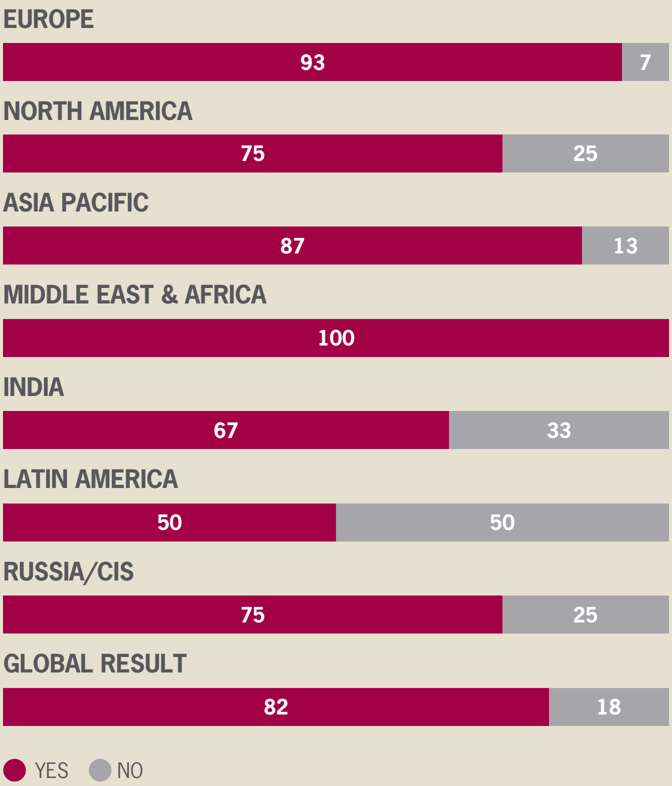
Areas of hands-on involvement 2013



QUESTION 22: ARE YOUR PORTFOLIO COMPANIES SEEKING YOUR SUPPORT TO INCREASE THEIR BUSINESS WITHIN NEW GEOGRAPHICAL MARKETS?

	2013
Yes	82%
No	18%

Are your portfolio companies seeking your support to increase their business within new geographical markets?



QUESTION 23: DO YOU EXPECT THE NUMBER OF DEDICATED PORTFOLIO VALUE ENHANCEMENT EXECUTIVES ON YOUR TEAM TO INCREASE, DECREASE OR STAY THE SAME OVER THE NEXT 12 MONTHS?

	2013
Increase	39%
Stay the same	61%
Decrease	0%

Do you expect the number of dedicated portfolio value enhancement executives on your team to increase, decrease or stay the same over the next 12 months?

2013	Increase	Stay the same	Decrease
Europe	37%	63%	0%
North America	34%	66%	0%
Asia Pacific	37%	63%	0%
Middle East & Africa	75%	25%	0%
India	34%	66%	0%
Latin America	50%	50%	0%
Russia/CIS	50%	50%	0%
GLOBAL RESULT	39%	61%	0%

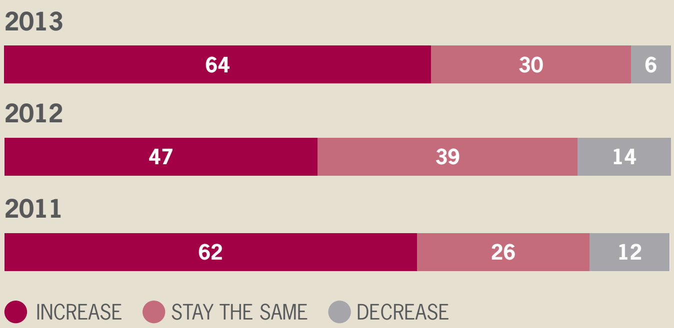
QUESTION 24: DO YOU EXPECT LEVELS OF EXIT ACTIVITY ACROSS THE MARKET TO INCREASE, DECREASE OR STAY THE SAME OVER THE NEXT 12 MONTHS?

	2011	2012	2013
Increase	62%	47%	64%
Stay the same	26%	39%	31%
Decrease	12%	14%	5%

2013	Increase	Stay the same	Decrease
Europe	62%	38%	0%
North America	69%	25%	6%
Asia Pacific	63%	31%	6%
Middle East & Africa	73%	20%	7%
India	80%	20%	0%
Latin America	50%	29%	21%
Russia/CIS	34%	66%	0%
GLOBAL RESULT	64%	30%	6%

2012	Increase	Stay the same	Decrease
Europe	52%	46%	2%
North America	50%	42%	8%
Asia Pacific	32%	28%	40%
Middle East & Africa	56%	38%	6%
India	55%	11%	34%
Latin America	34%	44%	22%
Russia/CIS	34%	33%	33%
GLOBAL RESULT	47%	39%	14%

Exit activity



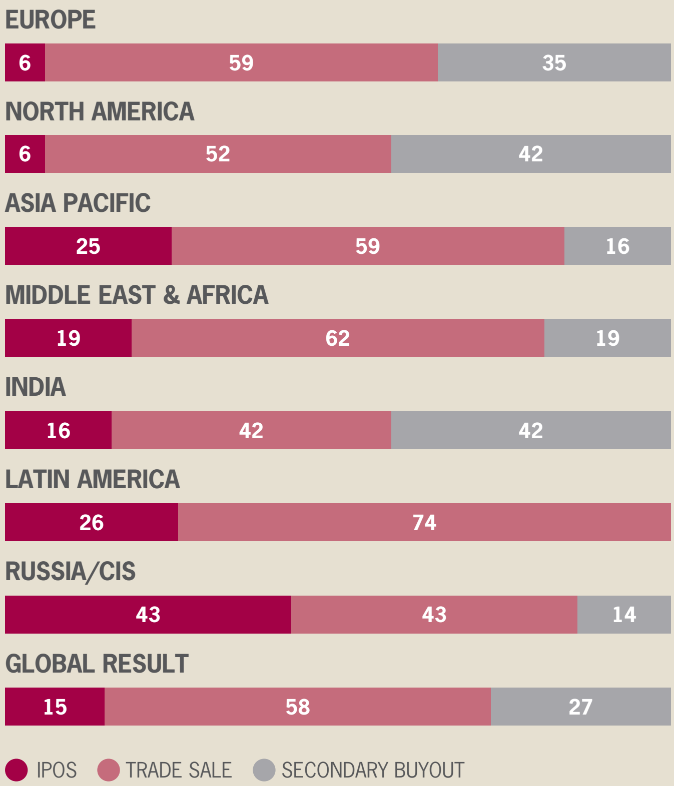
Exit activity 2013 (Regional breakdown)

2013	Increase	Stay the same	Decrease
Europe	62%	38%	0%
North America	69%	25%	6%
Asia Pacific	63%	31%	6%
Middle East & Africa	73%	20%	7%
India	80%	20%	0%
Latin America	50%	29%	21%
Russia / CIS	34%	66%	0%
GLOBAL RESULT	64%	30%	6%

QUESTION 25: WHAT DO YOU EXPECT TO BE THE MOST IMPORTANT EXIT ROUTES OVER THE NEXT 12 MONTHS?

	2011	2012	2013
IPOs	14%	7%	12%
Trade sale	53%	55%	66%
Secondary buyout	33%	38%	22%

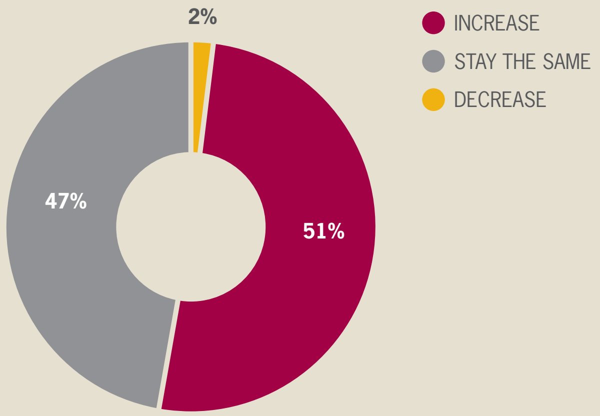
Exit routes 2013 (Regional breakdown)



QUESTION 26: DO YOU EXPECT THE USE OF DIVIDEND RECAPS BY PRIVATE EQUITY FIRMS TO INCREASE, DECREASE OR STAY THE SAME OVER THE NEXT 12 MONTHS?

	2013
Increase	51%
Stay the same	47%
Decrease	2%

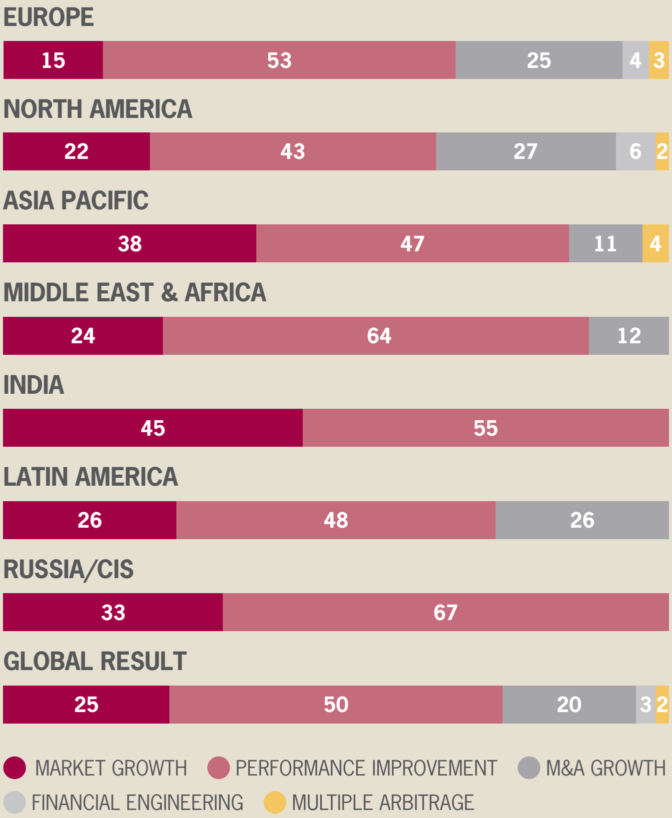
Do you expect the use of dividend recaps by private equity firms to increase, decrease or stay the same over the next 12 months?



QUESTION 27: ACROSS YOUR PORTFOLIO, WHAT DO YOU CONSIDER TO BE THE MOST IMPORTANT DRIVERS OF VALUE GROWTH IN TODAY'S MARKET?

	2011	2012	2013
Market growth	23%	29%	25%
Performance improvement	39%	43%	50%
M&A growth	30%	18%	19%
Financial engineering	2%	3%	3%
Multiple arbitrage	6%	7%	3%

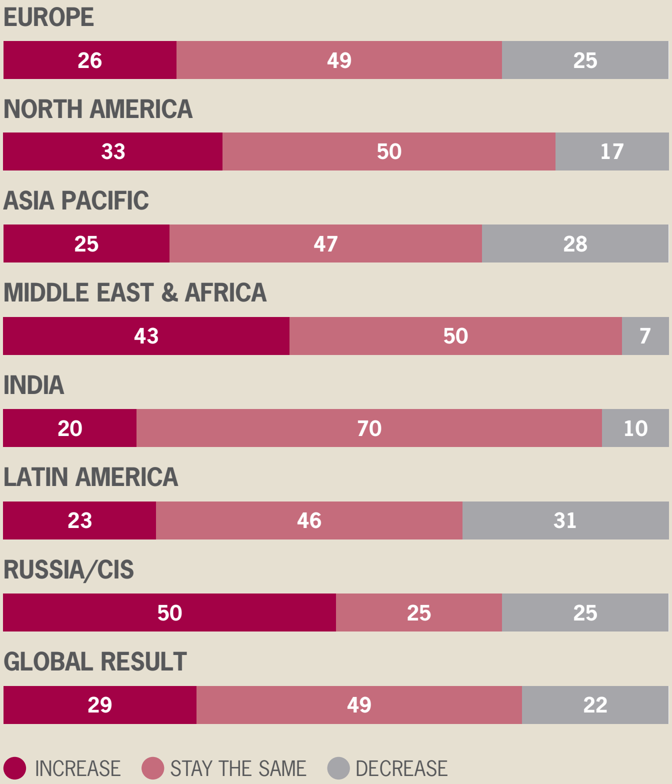
Portfolio value drivers



QUESTION 28: DO YOU EXPECT AVERAGE RETURNS TO INCREASE, DECREASE OR STAY THE SAME OVER THE NEXT 12 MONTHS?

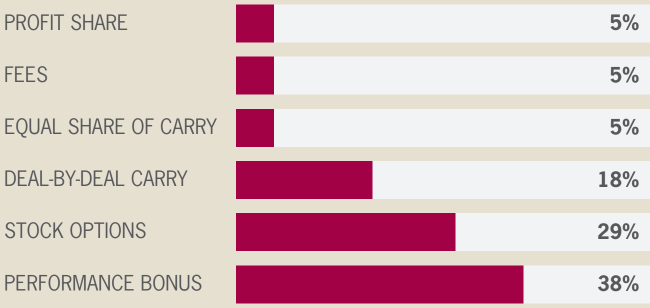
	2011	2012	2013
Increase	34%	18%	29%
Stay the same	39%	49%	49%
Decrease	27%	33%	22%

Average returns 2013 (Regional breakdown)



QUESTION 29: IN A POSSIBLE LOWER RETURN ENVIRONMENT, WHICH ALTERNATIVE TEAM INCENTIVISATION STRUCTURES DO YOU THINK ARE BEING CONSIDERED BY PE FIRMS?

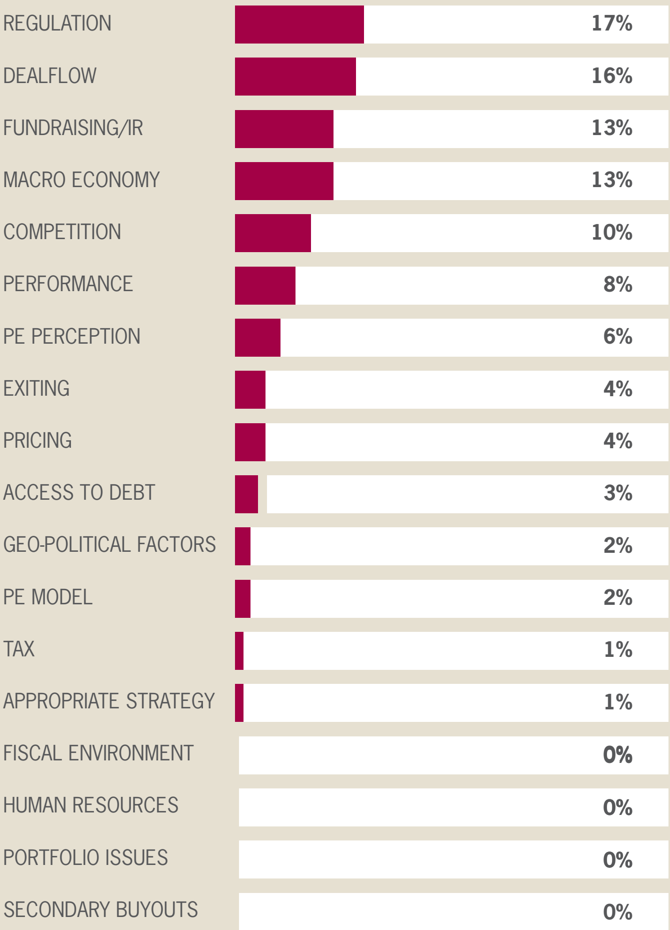
Favoured incentivisation structures



QUESTION 29: Regional breakdown 2013

	Stock options	Performance bonus	Deal-by-deal carry	Equal share of carry	Fees	Profit share
Europe	34%	25%	25%	8%		8%
North America	33%	67%				
Asia Pacific		67%	33%			
Middle East & Africa	50%				50%	
India						
Latin America						
Russia/CIS		100%				
GLOBAL RESULT	29%	38%	19%	5%	4%	5%

QUESTION 30: WHAT DO YOU BELIEVE ARE THE KEY CHALLENGES FACING PRIVATE EQUITY AT THIS POINT IN TIME?



QUESTION 31: DO YOU FEEL THAT THE IMAGE OF PRIVATE EQUITY IS IMPROVING OR DETERIORATING CURRENTLY?

	2012	2013
Improving	31%	36%
Staying the same	31%	48%
Deteriorating	38%	16%

2013	Improving	Staying the same	Deteriorating
Europe	27%	67%	6%
North America	36%	10%	54%
Asia Pacific	55%	39%	6%
Middle East & Africa	20%	80%	0%
India	17%	66%	17%
Latin America	46%	54%	0%
Russia/CIS	0%	100%	0%
GLOBAL RESULT	36%	48%	16%

2012	Improving	Staying the same	Deteriorating
Europe	35%	32%	33%
North America	15%	15%	70%
Asia Pacific	29%	46%	25%
Middle East & Africa	40%	26%	34%
India	37%	26%	37%
Latin America	63%	37%	0%
Russia/CIS	0%	66%	34%
GLOBAL RESULT	31%	31%	38%

Image of private equity 2013 (Regional breakdown)

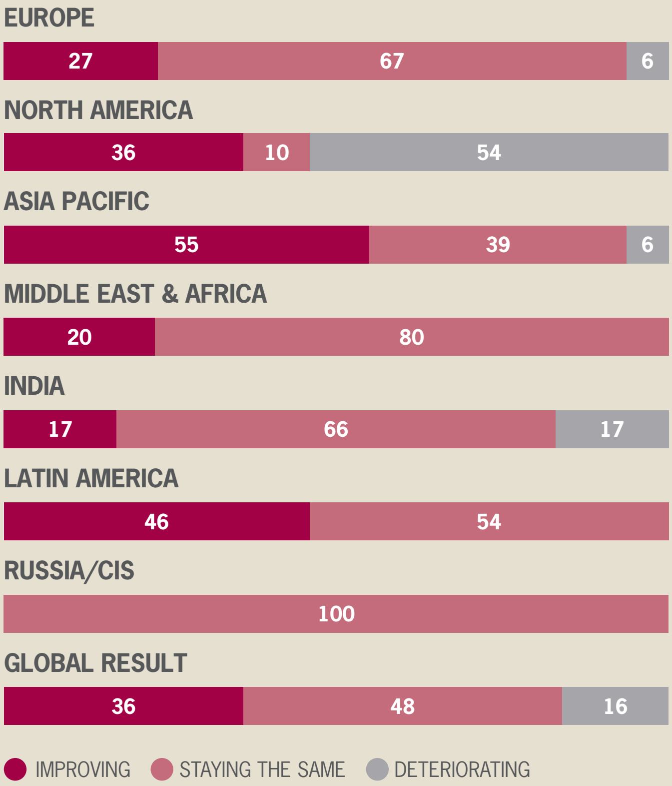
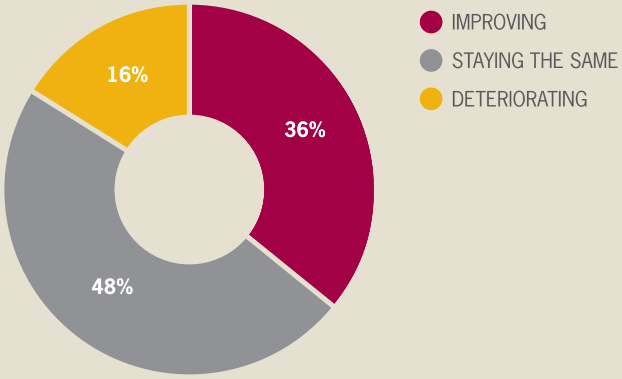


Image of private equity



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