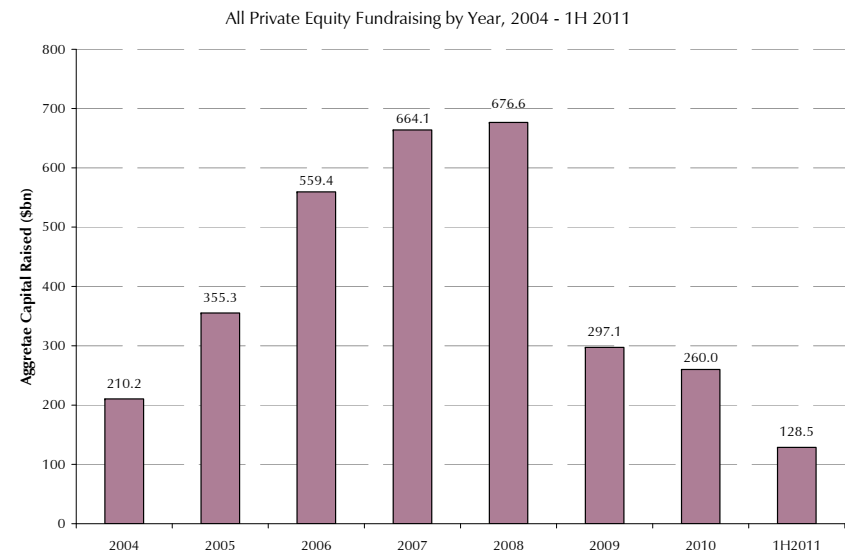
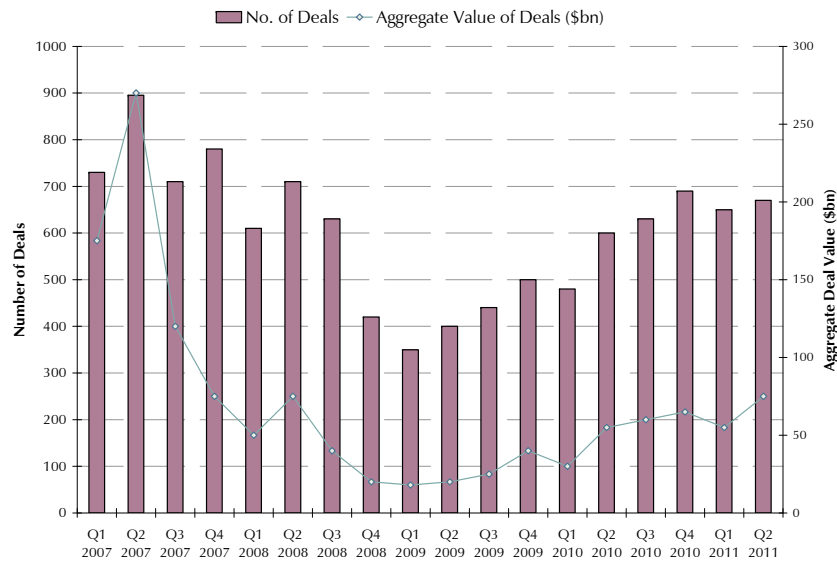


Private Equity in 2011¹

Global private equity investment activity in the first half of 2011 was robust, with over \$125 billion of capital invested in more than 1,300 transactions. This pace was in line with the activity seen in the second half of 2010, demonstrating sustained momentum. Deal activity was dominated, as usual, by the North American market, which represented approximately 50% of total activity globally. On the flip side, fundraising continued to be a struggle. A total of \$127 billion was raised in the first half, a pace to match total fundraising activity for 2010. The reduced fundraising activity, however, allowed the industry to reduce its capital overhang, as overall investment activity was higher. On the fundraising front, the enthusiasm for emerging markets was noticeable with roughly a 25% share of the global fundraising activity.



¹ Source: Preqin

Buyout

Buyout activity continued its active investment pace and generated 60% of total private equity investment activity.¹ Large size transactions (over \$1 billion) became more common, partly due to an increase in secondary buyout transactions. This trend was more pronounced in Europe where approximately half of all buyout activity was in secondary transactions. As the investment pace remained at a steady level, buyout investors reverted to traditional sectors such as industrial and consumer. Last year, buyout managers were more interested in the defensive characteristics of healthcare and energy/infrastructure related companies. One of the promising trends was the maintenance of equity ratios above 45% in spite of increasing purchase prices and easy access to debt markets.²

Liquidity options saw another avenue opening up in the public markets, which were very receptive to established company IPOs, such as Dunkin Donuts. Corporate M&A activity also increased as companies looked to invest the record sums of cash sitting on their balance sheets.

Private Debt

Following a strong debt market recovery during 2010 from the Global Financial Crisis, debt markets finished the first half of 2011 essentially unchanged from the prior year end. After continuing to narrow through the first quarter, high yield spreads ticked back up to finish the second quarter, driven by growing investor unease over the slow pace of the economic recovery, geopolitical instability in the Middle East, and potential sovereign debt issues in Europe. At the end of June, the EU committed an additional \$17 billion of bailout funds to help Greece avoid a default, although the longer term outlook for avoiding default without additional support remained negative. The record high yield market new issuance of 2010 continued into 2011, and a large portion of the U.S. maturity wall was pushed to the latter half of the decade through refinancing transactions. Default rates and yields both remained low, while syndicated debt traded at or above par, as investors continued to accept greater risk in search of yield. As of the end of June, concerns over the impending need to raise the U.S. debt ceiling were on investors' minds, but had not yet manifested themselves broadly, as the debt markets appeared to heavily discount the odds that a resolution would not be reached.

Venture Capital

Venture Capital appeared to be going through a large scale revolution on the back of a surge in mobile technology. Improvements in mobile technology have increased opportunities in storage (cloud computing), gaming, internet and e-commerce, media, and networking. Adoption of these technologies created new business models and ecosystems for venture capitalists to exploit. Large technology companies that have been behind in adoption of such technologies focused on acquisitions to enter these new markets, providing a liquidity option for venture capital investors. One of the key developments of the first half was the rise in interest by public markets for technology companies with new business models. In all, 25 venture backed companies went public in the first half of 2011, led by LinkedIn, Pandora, and Zipcar.³ Many other companies, such as Zynga and Groupon, filed S-1s with the SEC. Facebook continued to increase in value based on prices observed in active trading on private exchanges. Almost all major names were being actively traded on these private exchanges, as current and former employees looked to generate liquidity.

¹ Source: Preqin

² Source: S&P Leveraged Loan

³ Source: Private Equity Analyst

The Fed & Economy

In June 2011, the U.S. Federal Reserve ended Quantitative Easing 2 (QE 2), aimed at stimulating the economy through an injection of capital. During the same period, interest rates remained at historic low rates, making borrowing very appealing. QE 2 was started in November 2011 and was limited in scope, at \$600 billion in size. Despite all the efforts by the U.S. Federal Reserve since the GFC, the unemployment rate was static and the economy grew at a meaningfully lower level. All indications are that the U.S. Federal Reserve is running out of options to stimulate the economy. On the other hand, partisan political bickering led to a lack of confidence in the political system and its ability to fix economic problems. The U.S. GDP grew at a rate of 1.3% in Q2 2011, which followed low first quarter growth of 0.4%.¹ Based on this data, major institutions reduced their forecast for U.S. GDP growth for rest of 2011 and 2012.

There were renewed fears of a double dip recession and weak economic output and the growing sovereign debt crisis in Europe made matters worse. Globally, emerging markets continued to grow at a robust pace but faced high levels of inflation, leading to policy tightening by central bankers in these economies. Overall, global economic growth was projected to be slower in 2011, with reduced contribution for faster growing economies.

¹ Source: Bureau of Economic Analysis