Abbott Capital Management, LLC

First Quarter 2019 Private Equity Market Overview

Macroeconomic Commentary

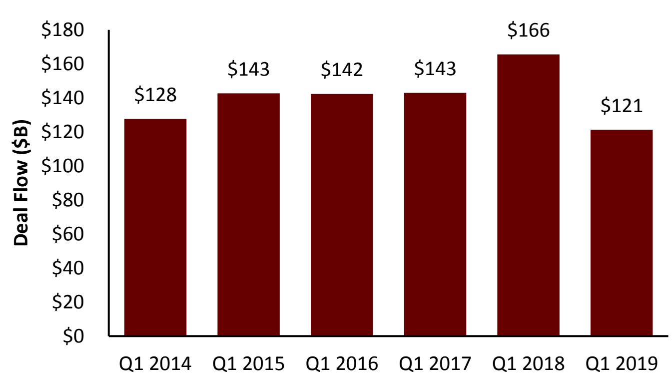
Global equity markets rebounded sharply during Q1 2019, erasing losses witnessed during the prior quarter. The S&P 500 appreciated more than 13% in Q1 2019, which was the Index's best performing first quarter since 1998. General market conditions in the U.S. remained relatively sanguine, with unemployment remaining at record lows and inflation at or below target levels, leading to the likelihood that interest rates will remain stable for the foreseeable future. Global indices performed similarly well during the past three months despite ongoing concerns discussed in prior market reviews, most notably Brexit and trade negotiations with China.

Despite generally accommodating economic and financial market conditions, private equity experienced a relatively sluggish start to the year, a stark contrast when compared with the same time period in 2018. The government shutdown in the U.S. at the start of the year was a partial cause, as were concerns over Q4 2018 public market volatility, the lack of clarity on various macro negotiations, and persistently elevated market multiples. In contrast, the IPO market continued to show signs of life during the quarter, with a number of well-known private technology companies now trading publicly. The pipeline of potential IPO candidates remains robust, foreshadowing a potentially strong year for venture-backed public offerings.

Private Equity

Private equity transaction volume and exit activity got off to a slow start in 2019, but the rebound in U.S. public markets in Q1 combined with record high levels of dry powder and sustained robust fundraising activity is likely to lead to a reversal during the remainder of the year. U.S. private equity fundraising continued to strengthen with $46 billion raised by 29 funds during the quarter, compared to $37 billion raised by 55 funds during the same period in 2018. European fundraising activity saw an uptick in the number of funds raised, with 32 funds raising a combined €26 billion, compared to €29 billion raised by 15 funds during the same period last year.

First Quarter U.S. Private Equity Deal Flow by Year



Source: PitchBook's 1Q 2019 US PE Breakdown

New investment activity in the U.S. declined significantly year-over-year. Deal value plunged 27% year-over-year, with only 993 investments closed totaling $121.4 billion. Poor performance in the credit markets in Q4 2018 and an associated adverse impact on the cost of debt were major contributors, as was continued cautiousness on the part of many practitioners given current market multiples. European investment activity also declined significantly from Q1 2018 levels; 674 deals closed valued at a total of €66 billion, representing a 34% decline from Q1 2018 in terms of deal value. This marks the slowest start to a year since 2009, and is driven by political uncertainly, particularly in the UK, and similar concerns over market multiples, as well as increased competition from cash-rich corporate buyers.

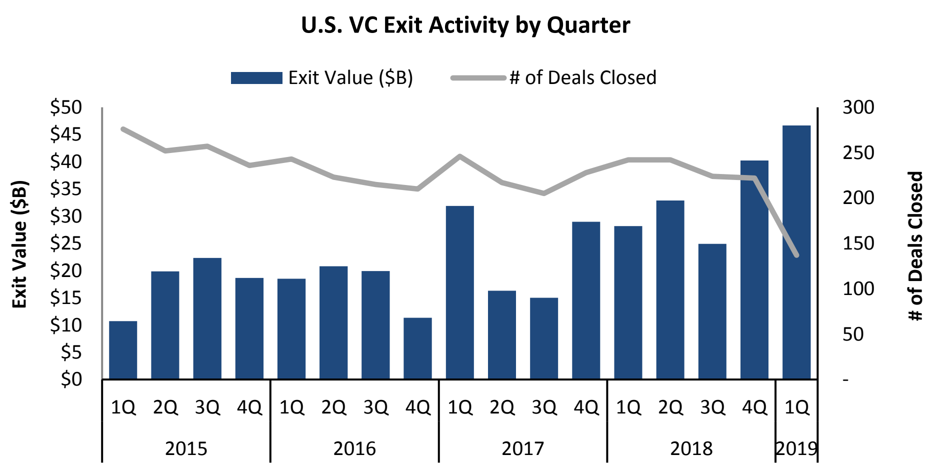
Private equity-backed exits in the U.S. totaled $41 billion across 164 transactions in Q1 2019, a 42% decline by number and 59% decline by value when compared with Q1 2018 exit volume. Similarly, European exit activity slowed to €29.2 billion across 139 transactions, a 53% decline by number and 50% decline by value from Q1 2018. Public market declines combined with the poor performance in the leveraged loan markets led GPs to delay exits. Despite these reports, it is worth noting that Abbott actually observed a 5% increase in year-over-year distributions from its primary fund investments.

Venture Capital and Growth Equity

In Q1 2019, 37 U.S. venture capital funds closed on $9.6 billion, representing a 21% increase in capital raised and a 31% drop in number of funds closed when compared to the same period last year. The decrease in number is due to the continued dominance of larger funds in the market. Despite some softness early in the year, 2019 projections suggest a strong fundraising environment as limited partner demand for venture capital remains high.

During the quarter, venture capitalists invested $32.6 billion, the second-highest amount in a given quarter over the last decade, putting 2019 on an early pace to match last year's record investment activity when a total of $131 billion was invested. While large rounds continue to dominate and increase aggregate deal volume, deal count declined 23% from Q1 2018 with 2,391 deals closed versus 1,853 in Q1 2019. We believe that this trend is likely to continue as larger deals are comprising a steadily increasing portion of total capital investment.

At the same time, exit conditions remained favorable during the quarter with total exit volume at $46.7 billion across 137 transactions. As shown on the chart to the right, while quarterly exit volume lagged slightly in number, 2018's 242 exits coupled with outsized liquidity events propelled total value, which included six transactions with transaction values over $650 million. As previously mentioned, 2019 is anticipated to be a very active year for venture-backed IPOs.



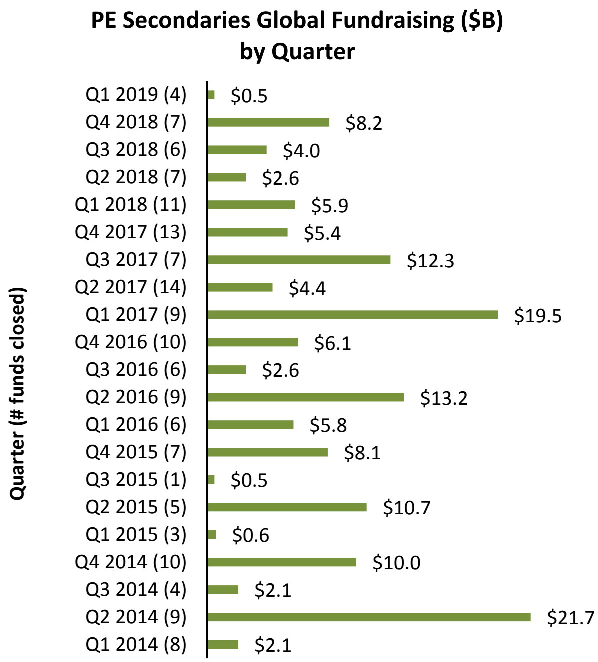
Source: The 1Q 2019 PitchBook-NVCA Venture Monitor

In the first quarter of 2019, Lyft and Alector went public at valuations of $24 billion and $1.3 billion, respectively, while the Q2 listing of Uber represented an even larger public offering. Many more VC-backed "unicorns" are on file to trade publicly, including Palantir Technologies, Slack, Airbnb, and Postmates, which we believe will likely create a path to significant liquidity for limited partners. It is worth noting, however, the early trading performance of some 2019 IPOs has been mixed, at best, with Lyft and Uber in particular trading significantly below their IPO prices. Should poor trading of venture-backed IPOs persist, some companies may opt to delay listing and/or opt to remain private.

Secondaries

During the first quarter of 2019, secondary buyers were generally cautious in evaluating opportunities as market participants waited for the release of year-end 2018 financials to price transactions. Given the sharp decline in public markets during the preceding quarter, many buyers felt hesitant to price deals based on Q3 2018 net asset values. However, despite overall cautiousness, deal flow across single funds, portfolio transactions, and GP restructurings remained relatively robust.

According to Preqin, secondaries fundraising got off to a slow start in 2019 with only four smaller final closes recorded in the first quarter for an aggregate value of $500 million. This fundraising lull however appears not to



Source: Preqin Ltd. 2019

be the start of a trend, but rather is the result of increasing lumpiness in fundraising activity driven by several $10 billion-plus mega funds that are all coincidentally targeting final closes later in 2019. Correspondingly, *Secondaries Investor* expects that 2019 will ultimately see a big bump in fundraising relative to 2018, likely followed by another year of lower aggregate fundraising volume in 2020.

Given these fundraising dynamics, Abbott expects the secondary market to continue its bifurcation into (i) a small group of very large mega funds that provide broad exposure to private equity as an asset class and (ii) smaller funds that focus on specialized strategies often at the smaller end of the market.

Shortly after the end of the first quarter, in early April, ILPA released its guidance on *GP-led Secondary Fund Restructurings*, formalizing many best practices around transparency and efficiency in this growing part of the market. While the recommendations are not universally applicable to all deal types and circumstances, these guidelines send a positive signal that GP-led deals have become a part of the mainstream secondaries market and – when executed properly – can provide an attractive portfolio management and liquidity tool for LPs and GPs.

SOURCES CONSULTED

With respect to private equity information, information was sourced through PitchBook 1Q 2019 US PE Breakdown and PitchBook 1Q 2019 European PE Breakdown

With respect to venture capital information, information was sourced through: 1Q 2019 PitchBook-NVCA Venture Monitor

With respect to secondary investment information, information was sourced through: *Preqin Ltd. 2019 and* https://www.secondariesinvestor.com/q1-fundraising-lull-hints-tidal-wave-come/

The views expressed are Abbott's opinion as of June 2019 and are subject to change without notice.

IMPORTANT INFORMATION

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