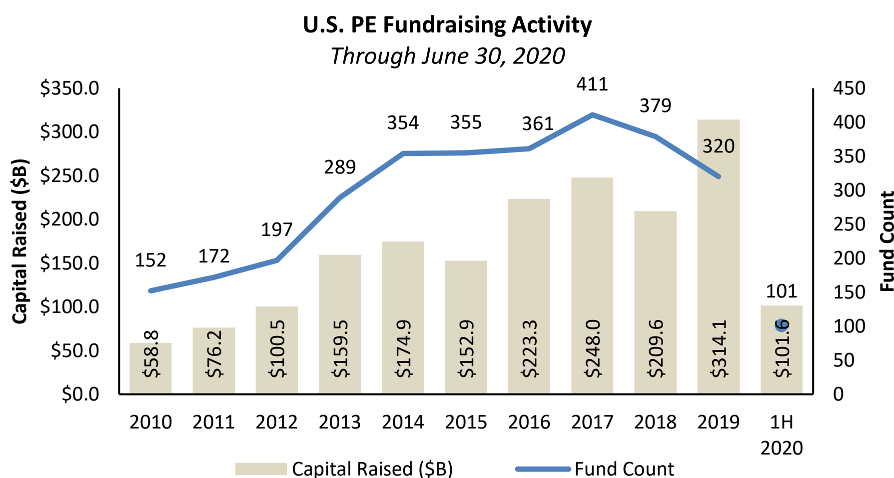
Macroeconomic Commentary

The novel coronavirus pandemic meaningfully impacted global economic activity during 2Q 2020. On an annualized basis, U.S. GDP declined approximately 33% during the quarter, representing a 9% decline from 1Q, while U.S. unemployment remained at over 10% at quarter end. Declines were even more stark across the Eurozone, with annualized GDP falling slightly over 40% and roughly 12% from the prior quarter, likely the result of harsher and longer lockdown policies among many of the member countries. Despite these daunting economic indicators, the public markets nearly recovered their yearly losses as of 2Q, with the U.S. Federal Reserve playing an outsized role given its continued support for accommodative monetary policy. In the U.S., the S&P 500 appreciated roughly 20% during 2Q, while the technology-heavy NASDAQ, which includes many companies that have benefitted from stay-at-home orders, demonstrated even larger gains of over 30%. European equity indices demonstrated strong, yet more modest gains in 2Q, although going forward many market prognosticators forecast a more robust economic recovery across the continent given stable infection levels and ECB stimulus measures. Global fiscal policies have also played a role in spurring some level of recovery, ranging from the Paycheck Protection Plan and enhanced unemployment benefits in the U.S., to job-furlough plans and other business-friendly initiatives across the U.K. and Europe. Ongoing negotiations regarding another round of fiscal stimulus bear monitoring in the U.S., as an inability to successfully reach a resolution could significantly impact 3Q GDP. Further, positive data regarding a COVID-19 vaccine and/or an effective therapeutic would provide further clarity and seemingly expedite any global economic recovery.

Amid this challenging backdrop, private equity-backed transaction activity during 2Q, both in terms of new investments and monetization events, declined meaningfully. Executing new investments in this environment is difficult for multiple reasons, such as a lack of clarity regarding current and projected company operating performance (EBITDA versus EBITDAC – with the "C" being the perceived impact of COVID-19) and divergent views of buyer and seller price expectations. At the same time, private equity fundraising across all geographies remained relatively strong. However, a number of these capital raising processes began prior to the pandemic, and at this point the number of firms planning to commence fundraising during the second half of the year appears more limited. The venture capital and growth equity market exhibited similar trends regarding fundraising and transaction activity during the first half of the year. It is worth noting, however, many venture-backed portfolio companies have been less affected by COVID-19, and in fact have actually benefited from the current environment. Adoption for many technologies has increased markedly during the pandemic and investors continue to put a premium on businesses that have demonstrated resilience.

U.S. Private Equity

In the first half of 2020, U.S. fundraising activity was down year-over-year, but on pace to match full-year 2018 figures, with $101.6 billion raised by 101 funds. Large and mega funds (defined as fund sizes of $5 billion or greater) with established brand names and strong historical track records continued to drive fundraising during the period, while special purpose acquisition companies, or SPACs, had their most active quarter on record. Per Dealogic, 75 SPACs have raised nearly $30 billion year-to-date, more than double the amount raised in 2019, which itself was the highest volume year on record for SPACs. Going forward, Abbott projects near-term U.S. private equity fundraising will be more subdued, largely a result of slower investment paces by many general partners over the preceding months. In the



Data source: PitchBook Q2 2020 US PE Breakdown

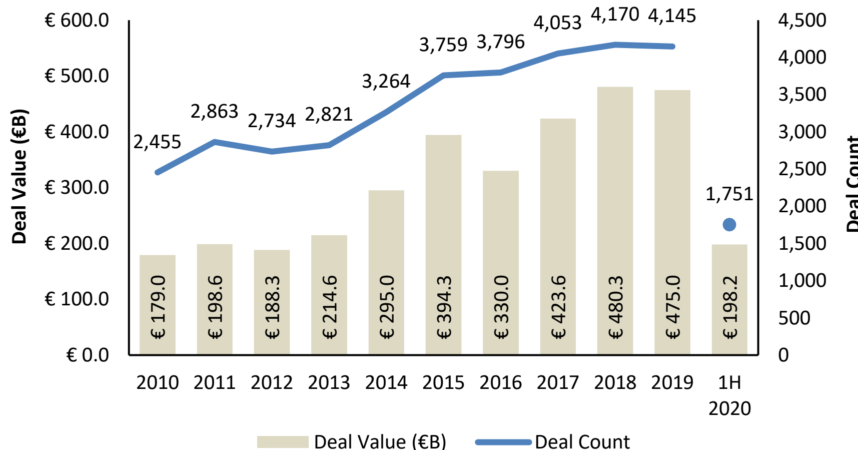
meantime, many limited partners continue to focus on understanding portfolio-level cash flow projections to ensure they can appropriately manage existing funding obligations.

New investment activity by U.S. private equity firms was strong during the first two months of 2020, but declined sharply by the end of March. Through the first half of 2020, U.S. private equity dealmakers closed on 2,173 transactions totaling $326.7 billion, a nearly 20% decline in deal value from the first half of 2019. Quarterly figures show an even steeper fall, with second quarter deal value down more than a third from 2Q 2019 levels. However, deal value remained above the low points witnessed during the global financial crisis as general partners used alternative sources of deal flow, including private investments in public equity and other structured investments, to deploy capital. That stated, the median deal size declined for the first time in five years as private equity funds turned away from larger sponsor-to-sponsor transactions in favor of backing family-owned businesses, which tend to be smaller and perhaps owned by more motivated sellers in times of stress. By sector, just under 20% of all private equity deals during 1H 2020 were in technology as it has proven to be one of the most recession- and pandemic-resilient places to invest.

Private equity-backed exits in the U.S. remained down pre-COVID-19 and declined even during the second quarter. In the first half of 2020, U.S. exits totaled $134.8 billion across 392 transactions. Announced global PE exits were down approximately 70% in May 2020 compared to May 2019 as sponsors delayed exits. Exit activity is expected to continue to be muted as private equity firms hold investments rather than sell at reduced market multiples and/or at portfolio company operating performance nadirs. Going forward, the increased fundraising by SPACs in 1H 2020 could have a positive impact on private equity-backed exit activity during the second half of 2020; Abbott has already seen this occur, and anecdotal conversations with multiple general partners indicated a number of newly-raised SPACs have initiated conversations with their portfolio companies. At the same time, these SPACs could also increase the competitive set for private equity firms and increase the amount of dry powder in the market.

European Private Equity

After a strong start to 2020, European private equity deal volume fell in 2Q 2020 to its lowest quarterly figure since 3Q 2013. As within the U.S., this substantial decrease was a result of the global pandemic and the uncertainty investors face regarding its ultimate impact and resolution. At the same time, European private equity fundraising activity was relatively subdued. As of June 30, 2020, €20 billion was raised across 38 vehicles compared with 49 funds that raised €40 billion during the same 1H period last year. Note, however, this figure does include the closing of CVC's most recent fund, which closed with over €20 billion in commitments. Like the U.S. market, brand name general partners have benefitted from a perceived "flight to quality" in these uncertain times. Conversely, across Europe Abbott has perceived a more challenging environment for first-time and/or spin-out fundraises.



Data source: PitchBook Q2 2020 European PE Breakdown

Not surprisingly, new investment activity in Europe also slowed considerably in 2Q 2020 after a robust start to the year, as both deal count and value plunged to their lowest quarterly figures since 3Q 2013 and 4Q 2016, respectively. During the second quarter, 650 European private equity-backed transactions closed with a total deal value of €79.8 billion, year-over-year decreases of 32% and 19%, respectively. However, despite this decline, 1H 2020 investments actually increased year-over-year; 1,751 deals closed valued at a total of €198 billion during 1H 2020 (including estimated deal flow), representing increases of

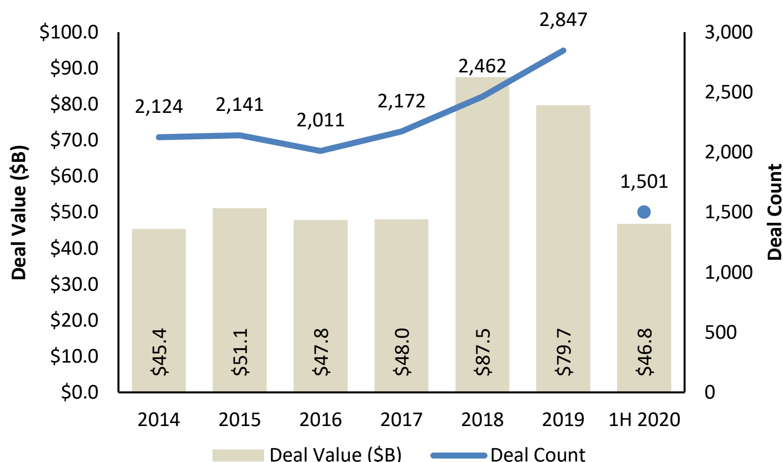
38% and 49%, respectively, from the same time period last year. Anecdotally, early 3Q European private equity investment activity has remained consistent with that of 2Q and thus Abbott expects overall activity to remain subdued in the near term.

Private equity exit value in Europe continued its declining trajectory in 1H 2020, putting the year on pace for its lowest annual total in six years. However, 2Q 2020 alone saw approximately €55 billion in exit value, compared with 2Q 2019 exit value totaling €34 billion. However, this statistic was largely propelled by JDE Peets' IPO, without which exit value would have dropped considerably relative to 1H 2019 activity. Absent a resolution to the pandemic, European private equity exits will also likely remain limited.

Venture Capital and Growth Equity

Fundraising remained robust throughout the first half of 2020 with $42.7 billion raised across 148 funds, compared with $20.6 billion raised across 103 funds during the same period last year. As mentioned in prior letters, larger venture capital and growth equity funds continue to attract the vast majority of limited partner capital. As of June 30, 2020, 24 mega-funds (defined as fund sizes of $500 million or greater) have closed, which nearly equals the total number raised in 2019. Notably, the top 15 largest funds alone accounted for over half of the capital raised during the first six months of 2020. Further, the significant number of mega-funds drove median fund size to slightly over $300 million, the highest level in the last decade and well over the median fund size for 2019 of $146 million. At the same time, first-time fundraising remains depressed with only $1.5 billion raised across 14 funds. Abbott expects this trend to continue as uncertainty will likely persist in the next few quarters and limited partners continue to seek well-establish venture brands that have invested through various economic cycles.

Deal activity in 1H 2020 was down 21% by deal volume and relatively flat by deal value year-over-year, with 5,058 deals closed totaling $69.1 billion. Activity was sustained by large late-stage financings, which outpaced early-stage investments and are tracking to outpace the record number of late-stage deals completed over the same period last year. In 1H 2020, $46.8 billion was invested in 1,501 late-stage financing rounds compared to $42 billion invested in 1,497 deals in 1H 2019. This is due to a number of factors related to COVID-19; some companies sought growth capital to capitalize on unexpected opportunities or to meet unexpected increases in demand, while others required capital to weather the market downturn and/or postponed exits. Mega-rounds (defined as rounds sized at $100 million or greater) continue to dominate late-stage financings with 57 mega-deals closed in 2Q 2020 alone, which brings the total for 2020 to 100 and puts the year on pace to surpass the 175 mega-deals closed in 2019. Many of these rounds are likely raised by companies on track for an IPO. However, many are seeking to raise private pre-IPO rounds as a cushion in the event their initial public offerings are postponed.



Data source: Q2 2020 PitchBook-NVCA Venture Monitor

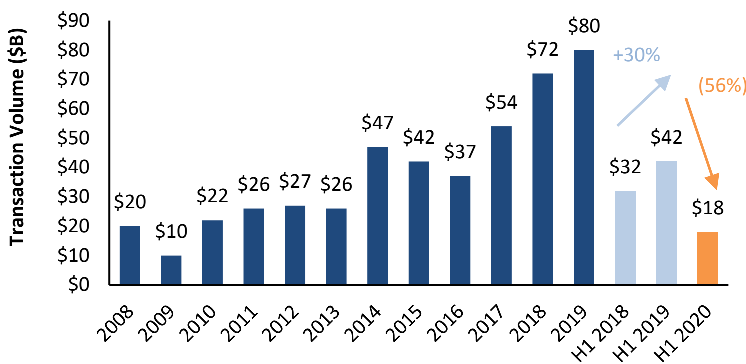
Venture-backed liquidity remained subdued given the onset of the COVID-19 pandemic in the U.S. in early March. In 2Q 2020, there were 147 exits totaling $21.2 billion in value, bringing the year-to-date total to 376 exits valued at $45.3 billion. In contrast to last year's record setting first half of the year, when 560 exits totaled $197.0 million, exit count is tracking to be the lowest since 2011, with annualized 1H 2020 projected values dropping below the $100 billion benchmark of the past few years. Similarly, the sharp public market downturn in 1Q led to few new IPOs during the quarter, which has been an important part of the exit market over the last few years, 2019 in particular. While 2Q activity was below that of the recent past, early signs in 3Q point to a potential market thaw as technology-based IPOs have gained momentum and other large private

companies, like Palantir, have confidentially filed for a listing. While overall venture-backed exit activity is down, significant appreciation of many venture-backed public stocks has led to an increase in stock distributions by existing venture investors. As a proxy for the broader market, in 2Q and through August 15, 2020 Abbott has received the most stock distributions of any quarter over the last 10 years.

Secondaries

During the first half of 2020, the secondaries market saw a steep reversal from its long-term growth trend driven primarily by the economic uncertainty due to the COVID-19 pandemic. Transaction volumes declined substantially and deals that were closed did so at depressed pricing levels relative to recent years. According to estimates from Evercore and Greenhill, 1H 2020 secondaries volume stood at $18 billion, the lowest 1H volume since 2016. While various market participants expect an increase in transaction volume for the second half of the year, Greenhill's full year volume outlook for 2020 of $40 billion to $50 billion is a far cry from expectations at the beginning of the year when the secondaries market was poised to surpass $100 billion for the first time. Despite the decline in 1H 2020 activity, dry powder available for new deals stands at a record high. According to Preqin data, available capital for secondary transactions as of August 2020 was $115.1 billion, the highest number ever recorded.

Secondaries Transaction Volume Over Time
Through June 30, 2020

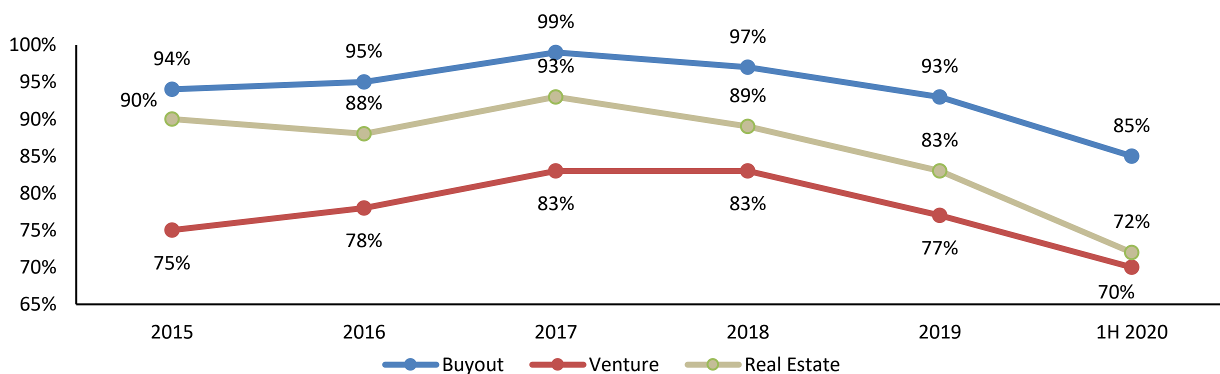


Data source: Evercore Private Capital Advisory: H1 2020 Secondary Market - July 2020

The buy-side of the secondaries market continues to be highly concentrated with a relatively small group of buyers investing out of very large fund vehicles. Evercore estimates that about half of the market is driven by six buyers that deploy capital from large multi-billion USD funds. These buyers tend to invest capital in large, highly diversified transactions that allow them to deploy capital efficiently. On the other end of the spectrum, secondary funds below $1 billion accounted for only 7% of the overall 1H 2020 transaction volume. These smaller, more nimble investors tend to focus on smaller transaction sizes often with more uncorrelated risk-return profiles relative to the broader private equity market.

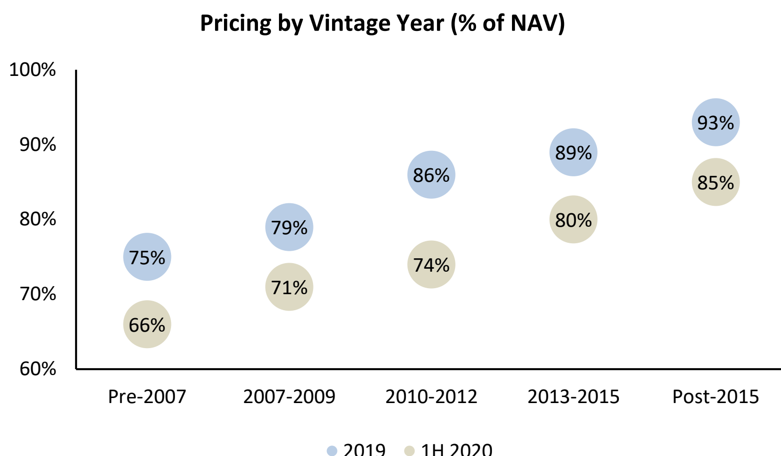
In terms of pricing, the first half of 2020 saw a decline across all strategies. Greenhill data showed that buyout funds priced on average at 85% of NAV during the first six months of 2020, an 800 basis point decline from 2019 levels. Among buyout funds, there was a dispersion of pricing levels with generally smaller discounts for well-established GPs and defensive assets in healthcare and technology, and higher discounts for funds from lesser-known GPs or with exposure to retail or energy.

Historical Secondary Pricing (% of NAV)



Data source: Greenhill Global Secondary Market Trends & Outlook July 2020

During these uncertain times, buyers also increasingly value younger vintages with sizeable remaining unfunded positions. The weighted average vintage of funds sold in 1H 2020 was 2014, driven by high demand for younger funds and less investor appetite for tail-end funds with often limited perceived upside potential. According to Greenhill, investors are frequently underwriting unfunded capital in this environment to a 2.0x+ return, which allows them to offer significantly higher prices for newer vintages (post-2015) compared to funds that are 8-10 years old (2010-12 vintages) or older.



Data source: Greenhill Global Secondary Market Trends & Outlook July 2020

GP-led deals remain an important part of the secondaries market, despite overall COVID-19-related volume declines. GP-led deals continue to represent roughly a third of the overall secondaries market ($6 billion of $18 billion total market volume for 1H 2020), according to Greenhill data. The same way many LP-deals were put on hold by sellers in 1H 2020, many GPs decided to delay or postpone planned GP-led transactions until there is more visibility for the underlying assets. However, after two quarters of muted deal activity, there now appears to be a strong backlog of GP-led deals that are expected to be launched once 2Q or 3Q valuations become available. Greenhill predicts a strong second half of the year with overall GP-led deal volume potentially reaching $15 billion to $20 billion for FY 2020.

Another part of the secondary market that received significant attention during the past months are structured or preferred equity solutions. While still a small part of the overall deal landscape, these deals have shown that the secondaries market is able to find creative ways to bridge wide bid-ask spreads and unlock liquidity for private investments in times of high uncertainty. According to Greenhill, structured solutions accounted for 15% of 1H 2020 deal volume.

In summary, there is significant pent-up demand from multi-billion USD secondary funds that are eager to deploy large amounts of capital in sizeable transactions. With an expected increase in economic visibility over the coming quarters and a corresponding narrowing of the bid-ask spreads, many institutional sellers are expected to come back to the market with large LP portfolios. As the increase in supply will be met by a record capital overhang, secondary transaction volumes will likely increase in the quarters to come. The ability to generate attractive returns in this market environment will more than ever depend on an investor’s access to attractive proprietary deal flow away from highly competitive auction processes.

Outlook

The first half of 2020 was challenging on a number of levels, first and foremost from a public health perspective, and also due to the global economic downturn that resulted from the COVID-19 pandemic. Unfortunately, it appears current market conditions will persist over the near term, if not the remainder of the year, without an approved and effective vaccine or therapeutic treatment regimen. As a result, the economic recovery will likely be more prolonged, with increased volatility and less predictable short-term economic indicators. Private equity investment activity is expected to be more modest as a result, and likely resemble that of the late first and second quarters. In contrast, technology investments, particularly those that help enable people to work from home, are expected to continue to benefit from the current market tailwinds. We are living in uncertain times, and as always, Abbott will closely monitor all developments.

Abbott hopes you, your families, and organizations remain safe and healthy. We look forward to providing an update in our next quarterly market review.

SOURCES CONSULTED

With respect to macroeconomic commentary, material sourced through: Torry, Harriet. "U.S. Economy Sees Record Downturn." *The Wall Street Journal,* 31 July 2020. Fairless, Tom. "European GDP Cratered in Lockdowns." *The Wall Street Journal Weekend,* 1 & 2 August, 2020. www.spglobal.com. www.nasdaq.com.

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With respect to venture capital information, material was sourced through: 2Q 2020 PitchBook-NVCA Venture Monitor and 2Q 2019 PitchBook-NVCA Venture Monitor.

With respect to secondary investment information, material was sourced through: Preqin, Greenhill Global Secondary Market Trends & Outlook, July 2020, Evercore Private Capital Advisory: H1 2020 Secondary Market – July 2020.

IMPORTANT INFORMATION

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Coronavirus Outbreak Risks. The recent global outbreak of the 2019 novel coronavirus ("COVID-19"), together with resulting voluntary and U.S. federal and state and non-U.S. governmental actions, including, without limitation, mandatory business closures, public gathering limitations, restrictions on travel and quarantines, has meaningfully disrupted the global economy and markets. Although the long-term economic fallout of COVID-19 is difficult to predict, it has and is expected to continue to have ongoing material adverse effects across many, if not all, aspects of the regional, national and global economies. In particular, the COVID-19 outbreak has already, and will continue to, adversely affect many private equity investments and many of the industries in which private equity managers operate. The ability to operate effectively, including the ability of personnel or service providers and other contractors to function, communicate and travel to the extent necessary to carry out investment strategies and objectives and business, has been, and will continue to be, impaired. Markets are experiencing very high levels of volatility and generally stressed conditions. Businesses across the United States and the world, and across most sectors, are experiencing significant challenges to their revenues and business, which could make it difficult for businesses to continue as a going concern. Unemployment is likely to rise significantly and reduced revenues may reduce profits or lead to losses. Many governments--federal, state, local, and non-United States--have imposed limitations on businesses and intervened in markets in an effort to ensure they continue to function. It is unclear how long these conditions will continue and, the longer these conditions continue, the risk of a long term adverse effect increases. The extent of COVID-19's impact will depend on many factors, including the ultimate duration and scope of the public health emergency and the restrictive countermeasures being undertaken, as well as the effectiveness of other governmental, legislative and financial and monetary policy interventions designed to mitigate the crisis and address its negative externalities, all of which are evolving rapidly and may have unpredictable results. Even if and as the spread of the COVID-19 virus itself is substantially contained and economies are able to "re-open", it will be difficult to assess what the longer-term impacts of an extended period of unprecedented economic dislocation and disruption will be on future macro-and micro- economic developments, the health of certain industries and businesses, and commercial and consumer behavior.