Macroeconomic Commentary

The global COVID-19 pandemic continued to impact all manner of economic and financial market activity during Q3 2020, with quarter-over-quarter improvements witnessed across many relevant metrics. U.S. economic activity snapped back during Q3 2020 after historic Q2 declines, increasing over 7% from the prior quarter, which equates to an annualized rate of approximately 33%. Labor market conditions steadily strengthened as well, as the unemployment rate declined over 2% to end the quarter at 7.9%, an improvement to a still unsustainably high level. Further, the financial markets also continued to benefit from the Fed's commitment to maintain low interest rates for the foreseeable future, likely until 2023, with the S&P 500 and NASDAQ increasing 8.5% and 11%, respectively, during the quarter. Despite many of these positive developments, subsequent Q2 events, including the U.S. presidential election and expanding COVID-19 cases globally, will impact economic conditions and financial market activity meaningfully during the remainder of the year.

Private equity activity remained significantly below 2019 levels throughout Q3 2020, particularly in terms of transaction activity given the general lack of clarity regarding company performance and future prospects. As further discussed below, activity within the healthcare and technology sectors, software in particular, continued relatively apace as many of these companies have proven resilient and continued to grow during the pandemic. In fact, prices paid for private equity transactions during Q3 actually increased year-over-year as a result of the disproportionate share of the market these sectors currently comprise.

In contrast, venture capital and growth equity activity accelerated in Q3 2020 as many venture-backed technologies have thrived in today's work-from-home, e-commerce-dominated environment. Fundraising and exit activity remained robust, while new investments were essentially flat compared with 2019, itself an elevated base year. After the effective shutdown of the IPO markets in Q2, the market roared back in Q3, with over $100 billion raised through IPOs. Going forward, a number of high-profile, later stage companies have discussed publicly listing as well, portending potential significant near-term venture-backed liquidity for investors.

U.S. Private Equity

- 2020 U.S. private equity fundraising activity was modest through the third quarter, with 167 funds closed on $127.6 billion, representing declines of approximately 27% and 43%, respectively when compared to the same period last year.
- New private equity investment activity is also lagging year-over-year with 3,444 deals worth $453.2 billion YTD through Q3 2020, down approximately 16% and 21%, respectively, from the same period last year. There were signs of improvements during the quarter, portending potential increases in new investment activity through the end of 2020.
    - Deal activity in the technology and healthcare sectors remained steady in 2020, as those businesses garnered investment by private equity firms given the resilience, and even growth, many have demonstrated through the pandemic.
- Similarly, private equity-backed exit activity is down year-over-year with 576 portfolio companies exited YTD through Q3 2020 for $217.6 billion, or declines of 29% and 24%, respectively. Exits that have occurred include sales to SPACs, several high-profile IPOs, and a number of secondary buyouts and recaps.

Figure 1: U.S. PE Exits ($B) by Type

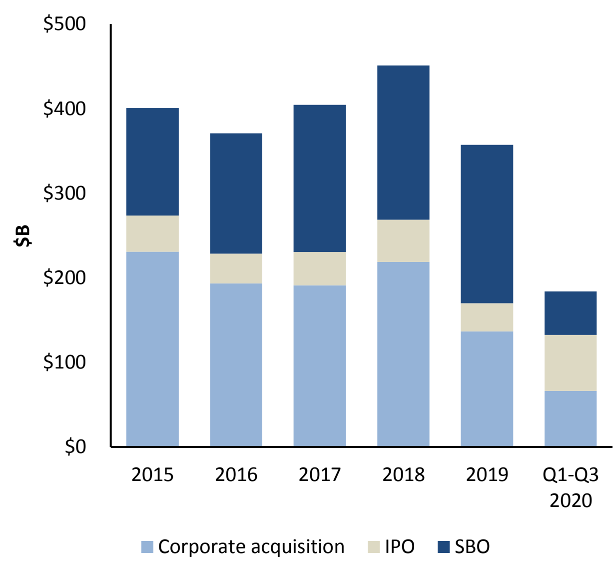

Figure 1 Data Source: PitchBook 3Q 2020 US PE Breakdown.

European Private Equity

- European private equity fundraising activity rebounded strongly in the third quarter after a sluggish start to the year.
    - Full year 2020 fundraising is back on pace to surpass €90 billion, which would represent the second highest total within the last decade.
- European investment activity YTD through Q3 2020 was down roughly 6% by number and 20% by deal value, year-over-year, as COVID-19 slowed transaction activity.
- European PE exit activity has declined significantly during the year through Q3 and is currently pacing towards a 10-year low due to the impact of the pandemic.
- The continued spread of COVID-19 and resulting lockdowns across a number of countries will likely dampen the level of private equity activity during the fourth quarter.

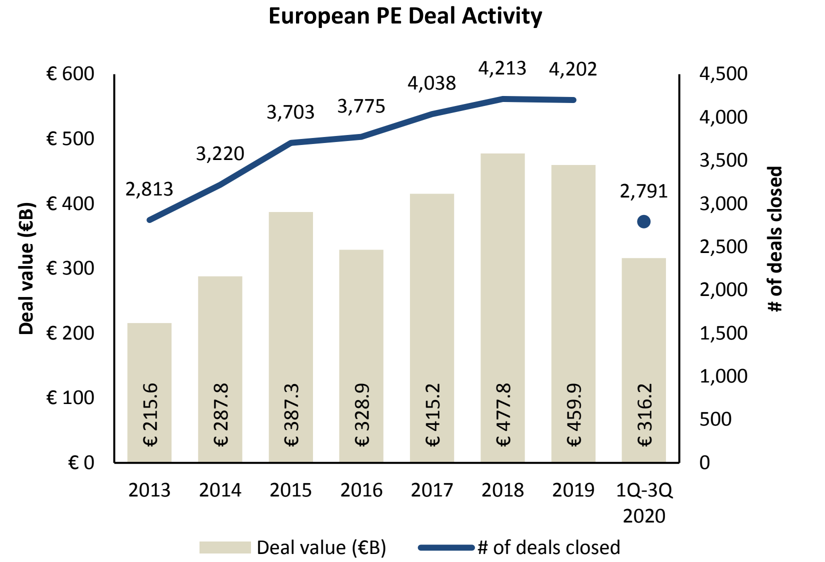

Figure 2 Data Source: PitchBook 3Q 2020 European PE Breakdown. Figure 1 includes €6.1 billion in estimated deal flow for 2019 and €81.3 for 2020. Figure 2 includes number of estimated closed deals at 64 for 2019 and 747 for 2020.

Venture Capital and Growth Equity

- Venture capital and growth equity fundraising remained robust in 2020.
    - YTD through Q3 2020, 228 funds raised $56.6 billion, already exceeding the total amount raised in 2019.
- Despite the challenging environment, venture capitalists continued to deploy capital at similar rates to the recent past; 8,962 investments accounted for $112 billion in value, a 6% increase year-over-year.
- Activity level by stage diverged meaningfully in the first nine months of 2020, as the number and value of early-stage deals decreased by 25% and 24%, respectively, compared with the same period last year. Early stage managers faced difficulties investing with entrepreneurs they had not met or known. Conversely, later stage financings continued apace as many of these companies continued to demonstrate strong growth rates and had metrics to analyze.
- Venture-backed exit activity surged in Q3 2020 after the IPO market was effectively shut during the prior quarter.
    - Large IPOs, including that of Snowflake, Big Commerce, and GoodRX, drove exit value to nearly $104 billion in Q3. Special Purpose Acquisition Companies ("SPACs") represented 47% of all IPOs for the quarter. In Q3 2020 alone, 77 SPACS were raised, far exceeding the 27 that were raised in the second quarter.

Figure 3: U.S. Venture Capital Fundraising Activity

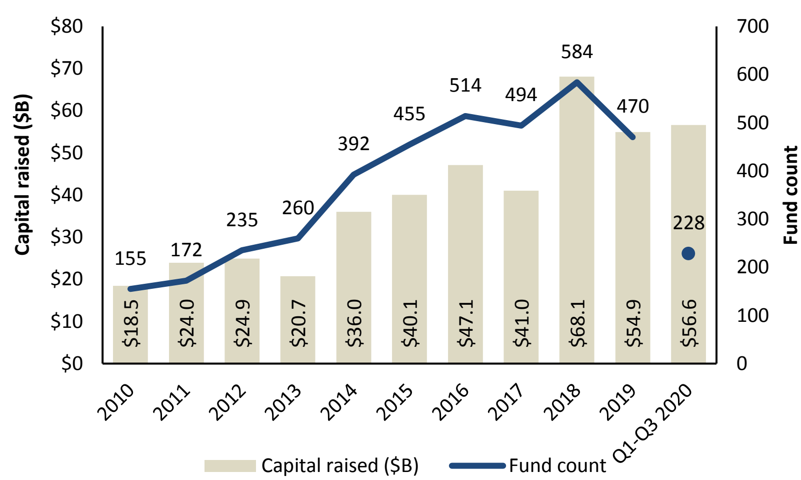

Figure 3 Data Source: 3Q 2020 PitchBook-NVCA Venture Monitor.

Secondaries

- Secondary fundraising remained robust during the first three quarters of 2020, as these funds have raised $60 billion YTD as of September 30, which represents the most capital ever raised in any year. However, the figure is buoyed by two mega funds that each closed at roughly $14 billion.
    - Transaction activity has been volatile YTD, although the overall market appeared to stabilize in Q3 as evidenced by the number of GP-led deals and single and multi-asset portfolios that have closed or will close shortly.
- The market's capital overhang, or estimated dry powder available for investment, stood at $115 billion as of August 20, 2020, representing 1.5x-2.0x the annual market's historical transaction volume. The overhang is likely exacerbated by the relatively low levels of investment activity in H1 2020; competition and therefore pricing for large, diversified portfolios remains fierce as these transactions are an efficient way for mega funds to deploy significant amounts of capital.

Figure 4: Secondaries Year-on-Year Fundraising

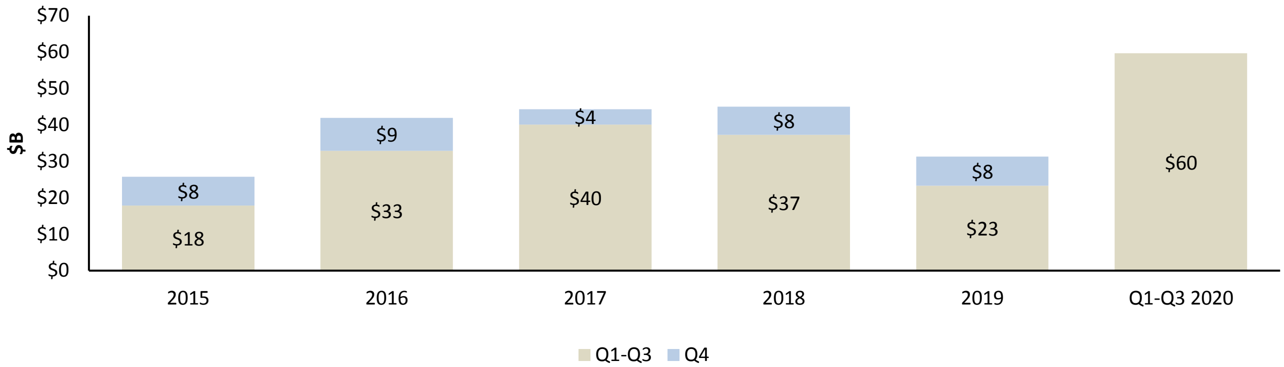

Figure 4 Data Source: Secondaries Investor Fundraising Report Q1-Q3 2020.

<u>SOURCES CONSULTED</u>

With respect to macroeconomic commentary, material sourced through: www.bea.gov.
With respect to private equity information, material sourced through: PitchBook 3Q 2020 US PE Breakdown and PitchBook 3Q 2020 European PE Breakdown.
With respect to venture capital information, material sourced through: 3Q 2020 PitchBook-NVCA Venture Monitor; Factset, *U.S. IPO Market SPACs Drive a Third Quarter IPO Surge*, Sara B. Potter, October 8, 2020.
With respect to secondary investment information, material sourced through: Preqin and Secondaries Investor Fundraising Report Q1-Q3 2020.

<u>IMPORTANT INFORMATION</u>

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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.