ABBOTT CAPITAL

YEAR END 2022

PRIVATE EQUITY MARKET OVERVIEW

Venture Capital

U.S. Private Equity

Europe Private Equity

Secondaries

Abbott Capital Management, LLC

In a general sense, I would actually say that I think that the last two years will become a case study of how the world forgot Economics 101… If you keep interest rates low, if you tell people to stay home, and if you pump in trillions of dollars and euros and yuan in stimulus spending, you will engineer a situation in which demand will outstrip supply, so you'll get inflation.

- *Indermit Gill, Chief Economist of the World Bank Group. "2022 in Review: A Year of Uncertainty." The Development Podcast, World Bank Group, December 19, 2022.*

OVERVIEW

Inflation was in the headlines in early 2022, but at the December 2021 meeting of the Federal Open Market Committee, the Federal Reserve projected median PCE inflation to be only 2.6% for 2022. As Indermit Gill, quoted above, notes, it was the year that the world forgot Economics 101. In hindsight, the general consensus likely underestimated the post-Covid demand surge fueled by federal stimulus, underestimated the effects of a still-strained supply chain, and underestimated the impact of higher wages stemming from a tight labor supply. Those factors may have conspired to keep inflation higher and more persistent than expected. Mostly, however economists appear to have underestimated Russia's resolve to wage war in Ukraine. Following Russia's invasion of Ukraine in February 2022, commodity prices spiked. Wheat (+25%), crude (+20%) and natural gas (+37%) all increased dramatically in March 2022 following the onset of the war.

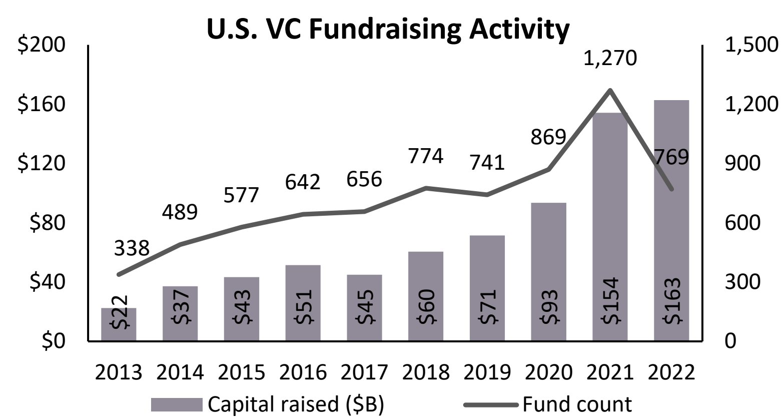
Entering 2022, the Federal Funds Rate remained at 0.00%-0.25%, indicating that significant rate hikes were imminent. In fact, as inflation took hold during the year, the Fed acted with speed and vigor to bring prices back in line: the Federal Reserve raised rates 425 basis points during the year. Striking a balance between taming inflation without reversing GDP growth is tricky, and some predicted a recession in the United States might follow. Inflation measured by CPI appears to have peaked at 9.1% in June, and core inflation peaked in September at 6.6%. In step with the Fed's actions, both measures have fallen since then. According to the Bureau of Economic Analysis, real GDP growth was negative in the first two quarters of the year, but that trend was reversed in the second half with growth of 3.2% and 2.9% in the third and fourth quarters of 2022. While this trend reversal may have come as a surprise, it did appear to reduce the likelihood of a severe recession.

Public market investors struggled to find safe refuge in 2022, as major equity and fixed income indices ended down, including the S&P500 (-18%), NASDAQ (-33%), MSCI World (-18%) and S&P U.S. Corporate High Yield (-11%). U.S. Equity benchmarks turned in their worst performance since the global financial crisis, and U.S. bond markets suffered their worst year ever.

For the private markets, two major developments in 2022 were the severe slowdown in exit activity compared to prior years and the decline in new deal activity.

VENTURE CAPITAL

Momentum from 2021 carried venture capital fundraising into a record-setting year in 2022. More than 760 funds raised a total of $163 billion for the year, but nearly 75% of capital raised closed in the first half of the year. Consistent with prior years, capital continues to be concentrated across the industry's larger and existing managers. Less than 30% of the capital raised was for funds less than $500 million. Nevertheless, 370 emerging managers collectively raised over $34 billion.



Data Source: Q4 2022 PitchBook-NVCA Venture Monitor.

Despite the active fundraising environment and a very strong investment year by historical standards, venture capital investment activity fell each quarter in 2022, with Q4 at the lowest level since Q3 2018 by deal count and 4Q 2019 by deal value. Quarterly activity fell by over 60% from Q4 2021 to Q4 2022. For the full year, the median pre-money valuations for early stage deals increased by 19% while late stage venture and venture growth deal valuations declined 10% and 14%, respectively. Dry powder continued to trend upward hitting nearly $300 billion with majority of the dry powder coming from 2021 and 2022 vintage funds (data only available as of 9/30/2022).

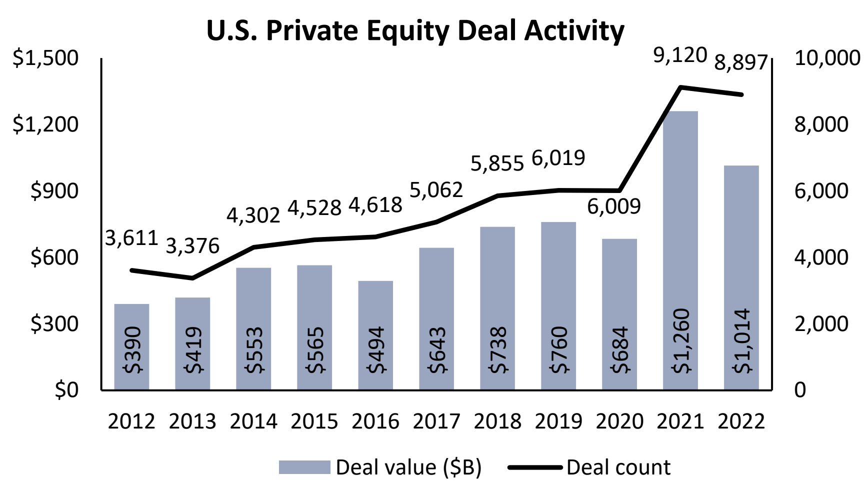
Given a troubled IPO market and a drop in the Nasdaq during the year, U.S. exit activity decreased 91% from $753 million in 2021 to $71 million in 2022. Highlighting the worsening exit environment as the year progressed, Q4 saw the lowest quarterly exit value since Q3 2009 at $5 billion. The fourth quarter represented just 7% of the 2022 total exit value. For the full year, public listings only accounted for 6% of the total U.S. exits by count, versus 16% for the prior year.

U.S. PRIVATE EQUITY

Despite the geopolitical uncertainty, poor public market 2022 performance and inflation, U.S. private equity fundraising remained robust in 2022. The past year represented the second-best fundraising year ever, totaling just $20 billion below 2021's $363 billion record haul. Notably, 2022's total was concentrated across far fewer vehicles (405 funds) than the prior year's 733. Funds over $5 billion attracted the majority of capital raised, for the first time since 2008. 52% of all capital raised in the year went to just 13 funds. The first-time fund count also dropped materially in 2022 to just 53, the lowest number since 2012.

A slowdown in exit activity (and therefore distributions back to LPs), also likely contributed to an elongation of fundraising timelines. The average time PE funds took to close reached over 15 months, the highest figure since 2017. Year-over-year, 2022's exit value of $323 billion (includes estimated exit value of $27 billion and estimated deal count of 192) represented a precipitous decline from 2021's record-setting $877 billion and plumbs the lowest levels in the decade since 2013. The 2022 "exit-to-investment" ratio of 0.39x constitutes the lowest post-GFC reading, which underscores issues some LPs are facing as proceeds are scarce to come by while confronting yet another fundraising prospect. IPOs struggled throughout 2022 and accounted for only 3% of the year's exit value. In fact, 2022 appears to have yielded only two U.S. listings that raised more than $250 million each[1]. As long as exits remain relatively subdued, we expect a challenging fundraising environment to persist.

Given the backdrop of two frenetic dealmaking years in 2020 and 2021, it is unsurprising that the pace moderated in 2022. Despite the more muted deployment of capital, transaction activity for the year was still in line with pandemic-era levels and remained strong compared to pre-pandemic years. However, with the macro developments discussed above, the slowdown in the second half of 2022 was more pronounced: deal value declined from H1 2022's $555 billion, to $459 billion in the second half (includes estimated deal value of $93 billion). Relatively decent 2022 deal volume continued despite a



Data Source: PitchBook's 2022 Annual U.S. PE Breakdown. Q4 2022 data includes estimated deal count of 1,402 and deal value of $93 billion.

[1] https://www.nasdaq.com/articles/what-will-the-ipo-market-look-like-in-2023

tepid bank lending market for LBOs, becoming underpinned by participation from private lenders and capital providers in lieu of traditional institutions. Some estimates peg the amount of "hung deals" on banks' balance sheets at >$42 billion, which will have to be offloaded and could further constrict traditional issuances into 2023. When credit markets normalize, we believe the substantial quantity of dry powder available to PE firms should support relatively healthy continued dealmaking, even if it does somewhat moderate from recent peaks.

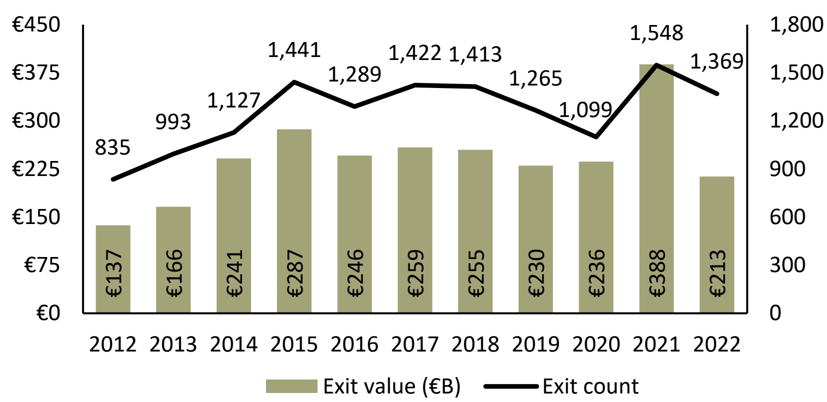
EUROPE PRIVATE EQUITY

European private equity fundraising activity in 2022 was at its lowest since 2012 in terms of fund count and its lowest since 2014 in terms of capital raised, at just €53 billion across 92 funds. This is less than half of 2021, both in terms of fund count and capital raised, at 200 funds and €107 billion raised, respectively, in the previous year. This trend is partly the result of dropping valuations in the public markets in the end of 2021, which have meant that some LPs have been faced with the denominator effect and hence had less capital available to commit to private equity in 2022. A shift in monetary policy as the European Central Bank became more hawkish, increasing interest rates and tightening monetary conditions in a bid to curb inflationary pressures, has also put pressure on the fundraising environment. First time funds have been relatively more challenged in this environment than experienced managers with 14 first time funds raised in 2022 compared to 39 in 2021, indicating that LPs tend to prefer what they consider a safe pair of hands to navigate the current uncertainty.

Despite the economic environment deteriorating in 2022, investment activity across Europe remained resilient, with deal count increasing 13% year over year, while deal value increased slightly, up just over1%. During 2022, 8,004 deals closed with a total deal value of €738 billion (includes estimated deal value of €143 billion and estimated deal count of 1,791). This stability is partly the result of significant amounts of dry powder remaining available to GPs from previous years of record fundraises. Compared to 2021, deals were smaller in 2022 but more numerous with only 36 deals of over €1 billion in Europe, which is roughly half of last year's figure at 74. This is further reflected in the fact that 2022 was a record year for add-on acquisitions, which represented 67% in terms of deal count and 46% in terms of deal value. Add-on acquisitions tend to be smaller than their original platform investments and we expect should add value in terms of company strategy (market share, product expansion or geographic expansion). They also help GPs grow their portfolio companies when organic growth is slower. Add-ons often fetch a more favorable price at acquisition than the initial platform investment.

While European investment activity remained stable, the reported number of European private equity-backed exits dropped to their lowest value in nine years coming in at €213 billion (includes estimated exit value of €14 billion) and dropping from the record high of €388 billion seen in 2021. Over the course of the year, there were 1,369 liquidity events reported (includes estimated exit count of 328), which compares to 1,548 in 2021 representing a 2% decline. This is, in part, due to a muted IPO market in Europe, with only 17 public listings in 2022 compared to 143 in 2021.

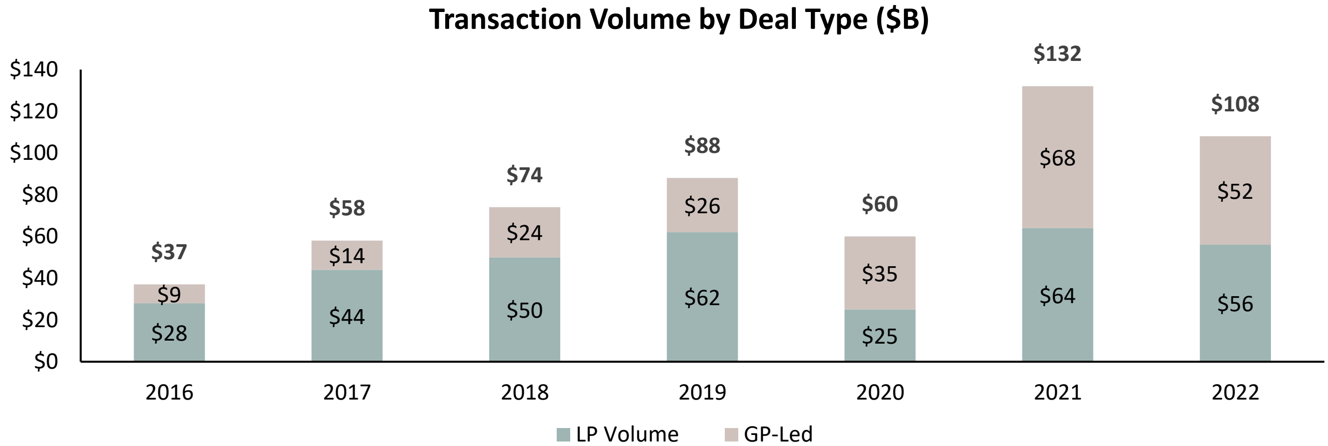
Europe Private Equity Exit Activity



Data Source: PitchBook's 2022 Annual European PE Breakdown. Q4 2022 includes estimated exit count of 328 and exit value of €14 billion.

SECONDARIES

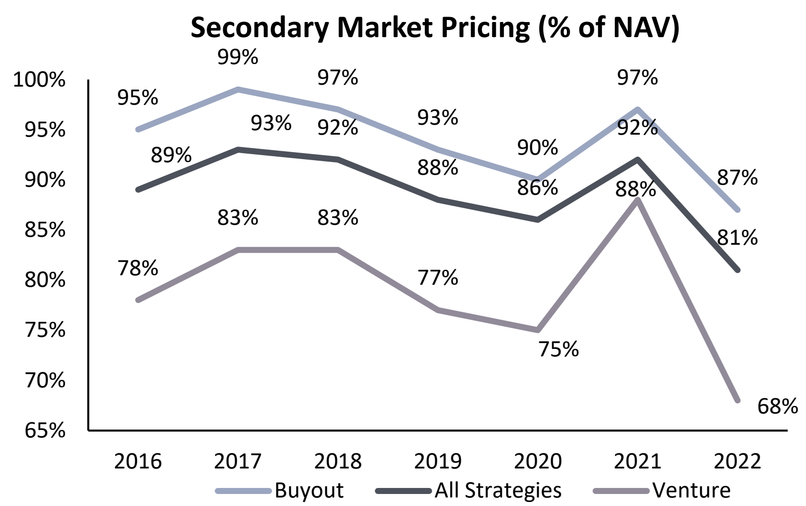
While the year started off strong for secondaries, macroeconomic instability and the market downturn caused total secondary volumes to fall 18% year over year to $108 billion in 2022 (as per intermediary Jefferies). However, that amount still represents the second biggest year on record for secondary volumes, and almost double the amount from where the market was just five years ago ($58 billion in 2017). Selling volume was depressed partly because buyers became more selective when bidding on LP portfolios, driven by lag between private and public market valuations. A bid-ask spread caused many potential deals to be put on hold, as sellers remained anchored at higher valuations seen in 2021 and buyers had an eye on precipitous declines in the public markets. At the same time, GP-led deals continued to be an important part of the market, representing $52 billion of transaction volume in 2022. We believe buyers increasingly expressed a strong preference for high-quality buyout assets that could weather a potential recessionary environment.



Data Source: Jefferies Global Secondary Market Review - January 2023.

GP-led transactions, after accounting for 52% of all secondary transaction volume in 2021, decreased slightly in 2022, accounting for only 48% of total volume at $52 billion. Single-asset continuation vehicles continued to be the structure of choice at 50% of completed GP-led transactions, followed by multi-asset deals at 35%. Buyout assets represented the vast majority of GP-led deals, with venture and growth assets accounting for just 5% of total transaction volume. Jefferies notes that the average historical company hold period for all GP-led transactions remained relatively flat at five years, while single-asset hold periods were closer to four years. Alignment was a major topic among many buyers, with 90% of closed continuation vehicles featuring key GP investment team members reinvesting 100% or more of their realized proceeds into the transaction.

Secondary pricing fell across the board in 2022, decreasing to 81% of NAV across all strategies. While some public indices fell by more than 20% for the year, private market valuations were slow to adjust, causing buyers to bid at larger discounts. Hit particularly hard was the venture secondary market. After seeing a five-year pricing high of 88% in 2021, prices for venture funds cratered by 2,000 basis points to 68% of NAV in 2022. On the buyout side, prices also decreased (though by a lower amount) to 87% of NAV. Even with the market downturn, demand for buyout funds remained strong at 72% of total volume, with buyers particularly interested in mature assets with stable cash flows. The weighted average age of all funds sold hovered around eight years, roughly in line with 2021 levels. However, the spread on pricing was particularly pronounced when comparing more recent vintages (less than five years old) at 89% of NAV on average, to pre-2012 tail-end funds that priced at 70% of NAV.



Data Source: Jefferies Global Secondary Market Review – January 2023.

2023 OUTLOOK

After several record-breaking years, it is impossible to ignore the emerging signs of softness in the venture capital and private equity markets. When the story of 2023 is written, we expect it will include a significant slowdown in fundraising, a weaker investment pace, and less liquidity for investors than over the last several years.

As of mid-February, the forward fundraising pipeline appeared full. Nevertheless, we expect fundraising timelines to be extended for all but a few managers raising capital. After the break-neck fundraising pace and one-and-done closes over the last few years, LPs should enjoy having time on their side again in at least some processes during the coming year. This trend for longer fundraises began in 2022 and we expect it to extend well into 2023.

The sense of urgency to raise capital also may have moderated as the overall pace for new investments slowed. In 2022, it seemed that many sellers' expectations remained anchored on 2021 values, while buyers may have reacted more quickly to public market pricing and higher costs of capital, creating an impasse that suppressed deal activity. More benign public equity markets will likely help close the bid-ask spread, but until there is more certainty around the rate environment, it's unlikely that lenders will return in force. We do not expect to see things loosen up in a meaningful way before the second half of the year.

The post-pandemic spike in corporate profits reversed in Q4 2022, suggesting that acquisitions may be harder to come by, and it is not obvious that public market investors are clamoring for fresh listings of often growth-oriented PE- and VC-backed companies. As such, we expect VC and PE exits to remain well below the peak of 2021. Unless the outlook brightens, 2023 industry-wide liquidity could be below 2022.

Private equity and venture capital valuation changes tend to lag and to be less dramatic than those in the public markets. Although year-end valuations are only beginning to be reported, they generally do not reflect the severe re-ratings that public markets experienced in 2022. On the venture capital side, many companies appear to either be profitable (in contrast to many public-market tech darlings), or well-funded through 2023 and beyond. Many private equity-backed companies grew faster than overall GDP in 2022. Nevertheless, we believe organic growth in many cases will slow as input price increases flow through and as consumer and corporate purse strings tighten further. LPs should be prepared to see the effects of higher debt service levels on levered businesses impact EBITDA and therefore valuations.

We expect LPs to exercise caution in 2023 with respect to making new commitments, especially those investors who base annual private equity commitment pacing on calendar year valuations. The Russell and the NASDAQ, in particular, ended 2022 at levels on par with those during peak COVID. We expect uncertainty and turbulence in the public markets to continue for much of 2023. The effect of this uncertainty and turbulence on the private equity and venture capital markets however remains to be seen. Private equity and venture capital investors have, at times, witnessed long term overall attractive vintage year performance for those funds raised during turbulent public markets. For example, according to Insight Research as of December 31, 2022, the pooled IRR of all private equity funds with a 2007 vintage was under 8%, while the comparable number for 2009 vintage funds was over 14%. Based on this data, turbulent public market conditions could prove fruitful in the long term for disciplined LPs who choose a steady, consistent approach to making private equity commitments.

ABOUT ABBOTT

Abbott Capital Management, LLC was founded in 1986 with the objective of providing long-term continuity and accountability in private equity portfolio management. As a leading independent investment adviser specializing in the creation and management of private equity investment programs, Abbott manages assets for a global investor base comprised of public, corporate, and multi-employer pension funds, foundations, endowments, family offices, and high net worth individuals.

SOURCES

With respect to the Overview, index information sourced through: S&P (CapitalIQ and spglobal.com); commodity price data information sourced through: the World Bank (worldbank.org); inflation information sourced through: the Federal Reserve (federalreserve.gov) and U.S. Bureau of Labor Statistics (bls.gov); and GDP information sourced through: Bureau of Economic Analysis (bea.gov).

Unless otherwise noted, with respect to private equity information, data sourced through: PitchBook's 2022 Annual US PE Breakdown and PitchBook's 2022 Annual European PE Breakdown.

Unless otherwise noted, with respect to venture capital information, data sourced through: Q4 2022 PitchBook-NVCA Venture Monitor, Q2 2022 PitchBook-NVCA Venture Monitor, and Q4 2018 PitchBook-NVCA Venture Monitor.

Unless otherwise noted, with respect to secondaries information, data sourced through: Jeffries Global Secondary Market Review – January 2023.

With respect to the 2023 Outlook, IRR data sourced through: Insight Research. Insight Research data set forth herein is preliminary as of 12/31/2022. Preliminary data by its nature and final results are likely to differ, perhaps materially, from these estimates. Preliminary cash flows may be materially different from final cash flows due to late arriving, updated, or refined information received after preliminary performance is published. Insight Research data is compiled using fund cash flows contributed by limited partners representing net to LP performance from over 3,500 global private equity funds, including fully liquidated funds. Differences in active vintages between preliminary and final cash flow could be material due to account valuation and capital account value adjustments, use of credit facilities, and other factors.

IMPORTANT INFORMATION

Past performance is not a guide to future results and is not indicative of expected realized returns.

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