

YEAR END 2023

PRIVATE EQUITY MARKET OVERVIEW

Venture Capital
U.S. Private Equity
Europe Private Equity
Secondaries



OVERVIEW

Market commentators may struggle to highlight the good news. It seems so much safer, and more interesting for readers, to talk about risks to the economy, weaknesses in the markets, and the dangers of ‘unknown unknowns.’

As it turns out, despite the concerns about a domestic or global recession, despite fears around the labor markets, despite concerns about supply chains and labor markets, ...despite almost all expectations, the U.S. economy appears to have pulled off the elusive soft landing. In the face of accelerating inflation, the Fed began its aggressive march toward higher rates in late 2022, reaching the summit in August 2023 before warning of a ‘higher-for-longer’ regime. U.S. inflation (measured by personal consumption expenditure, or PCE) ended 2023 at 2.9% for the year, nearing the Fed’s desired level of 2%. Rate increases are meant to bring inflation down, so that pattern is unsurprising. However, economic growth can be a casualty of the fight against inflation. As Andrew Hunter, deputy chief U.S. Economist at Capital Economics wrote, “It’s hard to say what is more remarkable: that GDP growth accelerated last year following the Fed’s most aggressive tightening campaign in decades, or that core inflation nevertheless fell back to the 2% target in annualized terms over the second half of the year.” It is hard to imagine a better definition of a soft landing, although as 2024 unfolds, some market watcher can still point to risks ahead. As always, there are risks ahead. The old adage about economists and meteorologists holds true: never wrong; sometimes early.

While the real economy was shrugging off the effects of higher rates, the financial markets were booming in the U.S. The S&P 500 returned over 24% for 2023, making it the fifth best year since 2000. With a 43% return for 2023, Nasdaq had its fourth best year in the same period. The yield on the 10-year U.S. Treasury, meanwhile, ended 2023 almost exactly where it started: 3.88%. The rosy picture, despite the continuing war in Ukraine and escalating tensions around the Middle East, propelled consumer confidence to its highest level since July 2021, including a 14% boost in December (followed by another 13% in January 2024). In Europe, the Stoxx 600 returned a respectable 12.74%, while the FTSE’s lackluster 3.78% approximated the average annual return since 2010.

With the exception of European fundraising, which strongly rebounded, the overall story in the private markets in 2023 broadly echoed the prior year. Fundraising for buyouts in North America remained strong, especially in the first half of the year. Venture fundraising, on the other hand, fell dramatically from prior years. New investments and exits were both subdued in 2023.



VENTURE CAPITAL

U.S. venture capital fundraising activity hit a six-year low in 2023, totaling \$67 billion, with the number of funds in the market falling 65% from the previous year. Fundraising by funds over \$1 billion in size contracted over 76% last year, perhaps partially reflecting the more than \$124 billion of dry powder funds of this size currently hold. Across all fund sizes, however, the decline in deal making activity has extended investment periods and slowed fundraising.

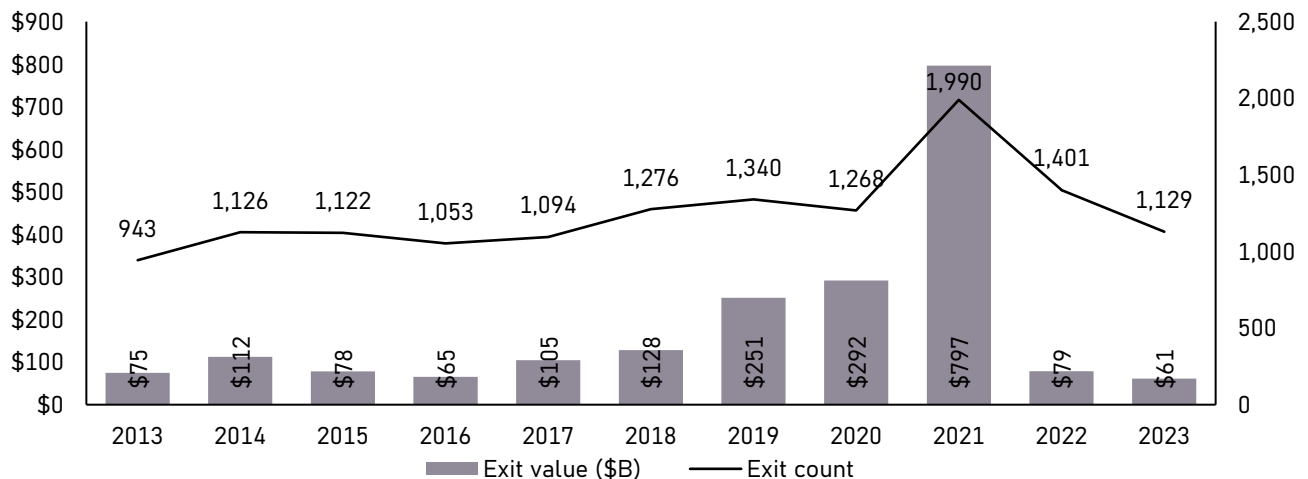
Venture capitalists invested \$171 billion across 15,766 companies in 2024, representing a four-year low since 2019's figure of \$149 billion. Deals greater than \$50 million in size totaled \$106 billion and continued to represent the largest portion of the annual deal value. Late-stage deals accounted for \$80 billion or roughly 47% of the annual deal value, but on an absolute basis declined 14% from the prior year. Early-stage deployment, which last year represented less than a quarter of all deal value, contracted dramatically from \$70 billion in 2022 to \$40 billion in 2023.

The number of venture financings declined each quarter in 2023, reaching its lowest point since Q4 2017. Early-stage (Series A/B) rounds' share of the overall deal volume increased on a quarterly basis to 38% of the overall VC deal activity in 2023. From a sector perspective, roughly one-fifth of all deals in 2023 were AI- or machine-learning related, and they represented 37% of total dollars invested. From a valuation perspective, venture growth pre-money valuations fell 47% in 2023, compared to approximately 17% for early- and late-stage rounds. Seed valuations saw a slight uptick.

Exit activity in 2023 remained muted, with the total number of exits falling to its lowest level since 2017. Exits totaled \$62 billion during the past year, a 92% decline from the 2021 peak and the lowest exit value in the prior decade. With 723 private unicorns and an essentially closed public market, the current IPO backlog continues to increase. The 83 companies that did go public in 2023 accounted for 8% of the total deal count and 46% of the total exit value. Acquisitions were down 34% in value year-over-year.

Overall venture fundraising, investment activity and exits experienced a second consecutive down year in 2023. The outlook for 2024 appears to be relatively consistent with 2023, with no clear signs of a potential rebound. With ample dry powder, a slow investment pace and uncertain exit prospects, the fundraising outlook remains soft.

U.S. VENTURE CAPITAL EXIT ACTIVITY



Data Source: Q4 2023 PitchBook-NVCA Venture Monitor. 2023 includes estimated exit count of 130.



U.S. PRIVATE EQUITY

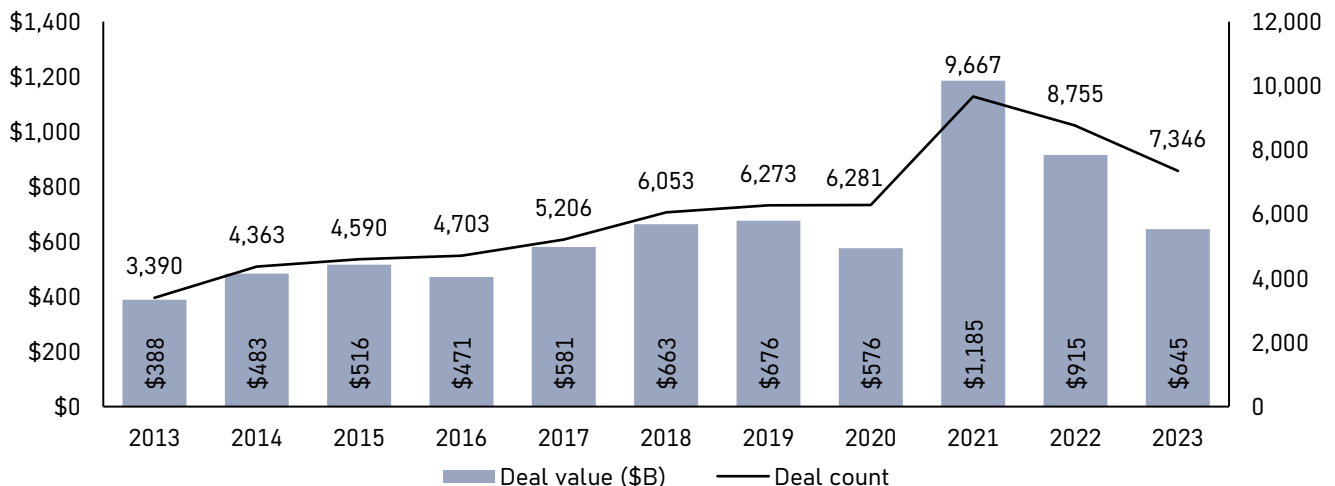
Despite continued headwinds from geopolitical uncertainty and inflation, U.S. private equity fundraising volume remained robust in 2023 with \$375 billion in total commitments, representing fundraising’s second-best year for total commitments in the past decade behind 2022’s \$379 billion. Funds over \$5 billion attracted most of the new capital coming in with 51% of all capital raised going to just these 17 funds. Average fundraising timelines pushed out, however, to 14 months versus 11 months in 2022, and representing the longest length of time since 2011. While the extended time may have contributed to GPs raising additional capital, as 81% of funds closed higher than their previous sizes, total funds raised during the year also dropped to 381, down from 779 and 860 in 2022 and 2021, respectively.

As total fundraising volume remained strong, subdued deal activity resulted in the continued accumulation of dry powder, which swelled by 9% in the past two years to a new record of \$956 billion. Deal value in 2023 decreased to \$645 billion across 7,346 deals, down from \$915 billion across 8,755 deals in 2022, likely due in part to a reluctant seller base, hoping for increases in valuations, and less accessible leverage for large platform deals.

As a result of the latter, add-on transactions, which often require little to no leverage, continued to take hold, and represented 76% of all buyout volume for the year.

As exit activity slowed down, the median holding period of U.S. private equity investments increased to 6.4 years, eclipsing last year’s 5.8 years to become a new record. Exit value for the year closed out at \$282 billion across 1,121 deals, down from \$306 billion across 1,356 deals in 2022 and the 2021 high-mark of \$836 billion across 1,842 deals. Exits via IPO were notably scarce, with just \$7 billion from 14 deals worth of IPO exits compared to the pre-pandemic (2010-2019) average of \$52 billion. Collectively, 2023’s “exit-to-investment” ratio reached 0.36x, a historically low mark since the Global Financial Crisis. To combat this, it appears that sponsors increasingly turned towards continuation vehicles and GP-led secondaries processes to solve for liquidity. By the end of 2023, the gap between public and private markets was still developing, given the run-up in public stock prices likely not yet reflected in private market valuations. This gap in valuations may help revitalize the tight IPO market and boost M&A, contributing to increased liquidity for private equity investors.

U.S. PRIVATE EQUITY DEAL ACTIVITY



Data Source: 2023 Annual US PE Breakdown. 2023 includes estimated deal count of 709.



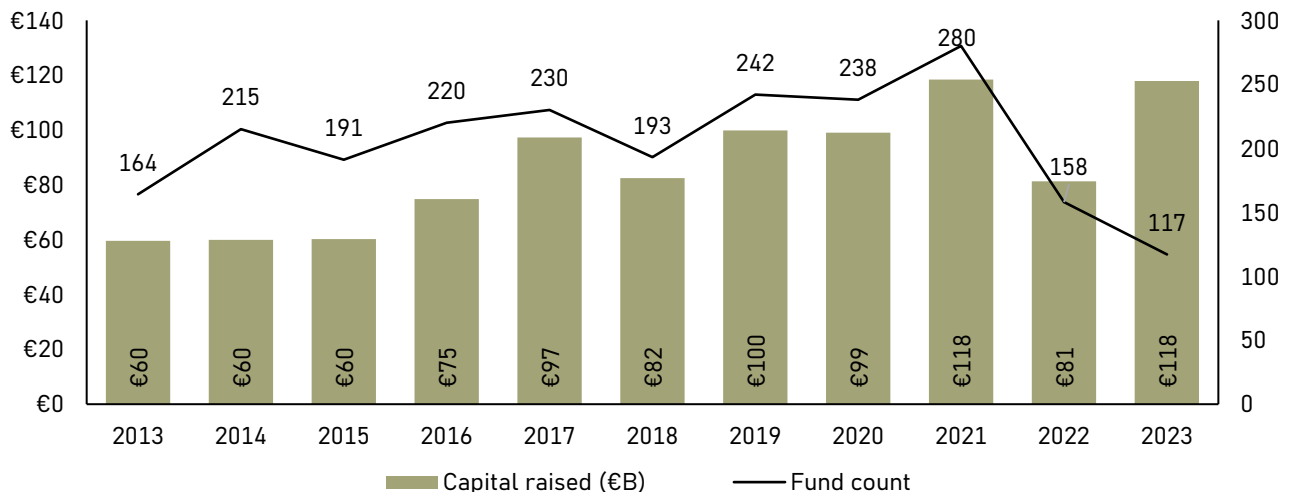
EUROPE PRIVATE EQUITY

European private equity fundraising in 2023 matched a record year in 2021 (last decade) in terms of capital raised. Capital raised was €118 billion, compared to €81 billion in 2022 and €118 billion in 2021. This amount was raised across 117 funds, which is the lowest number of new funds in over a decade (158 closed in 2022). It is noteworthy that 54% of capital raised in 2023 can be attributed to only five funds: CVC Capital Partners' Fund IX, Permira's Fund VIII, KKR's European Fund VI, PAI Partners Fund VIII, and Bain Capital European Fund VI. This may be attributable to a trend followed by LPs deploying larger tickets in what are often perceived to be more proven and stable managers, whereas first-time and emerging fund managers faced increasingly longer and more difficult fundraising processes.

Investment activity across the European continent provided a somewhat mixed picture, with deal value in 2023 decreasing 27% year-over-year, but deal count increasing 4% year-over-year. During 2023, 7,590 deals closed with a total deal value of €421 billion. While a year-over-year decrease in terms of deal value, it should be noted that the 2023 amount was still higher than any of the pre-2021 levels in the prior decade. 2023 was a year of smaller but more numerous deals, often add-ons, which represented 55% of all deals done in terms of deal count. Add-on acquisitions often tend to be smaller than their original platform investments and are generally anticipated to add value in terms of company strategy (market share, product expansion or geographic expansion). They also help GPs to continue to grow their portfolio companies inorganically, and can fetch a more favorable price at acquisition than the initial platform investment.

European private equity-backed exits remained relatively stable, with exit value decreasing by only 1% year-over-year, €264 billion in 2023 versus €267 billion in 2022, but increasing in terms of count 3% year-over-year, 1,517 in 2023 versus 1,479 in 2022. In terms of valuations, it is noteworthy that a correction took place with median EV/EBITDA dropping from 12.3x in 2022 to 10.2x in 2023 and changing the market dynamics to more of a buyer's market.

EUROPE PRIVATE EQUITY FUNDRAISING



Data Source: 2023 Annual European PE Breakdown.



SECONDARIES

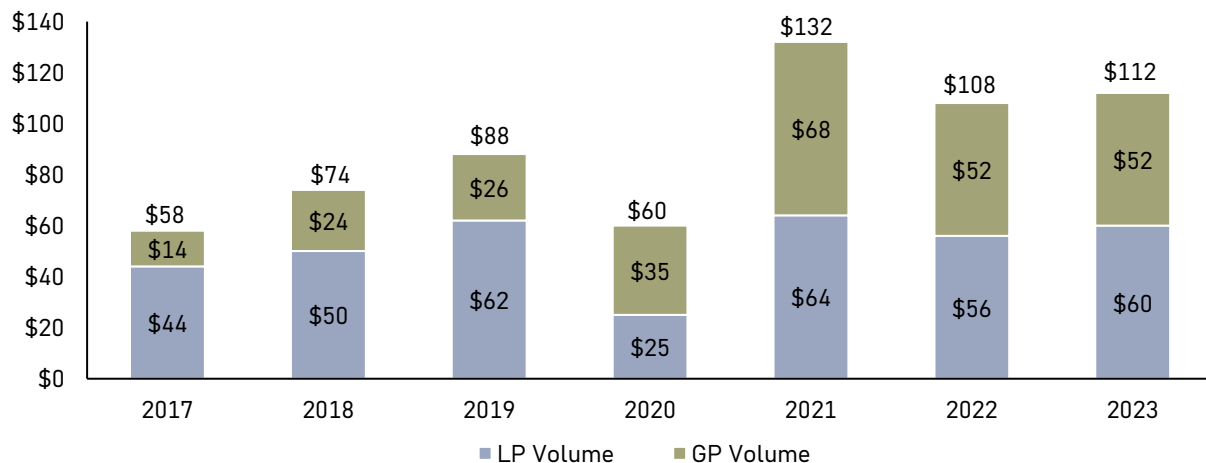
2023 was a year of contrast for the global secondary market. After a slow start, with only \$43 billion of total transaction volume in H1, volume increased substantially in H2 to \$69 billion. Overall, total secondary transactions of \$112 billion in 2023 represented an increase of 4% year-over-year, driven by the strong momentum in H2. LP's desire for liquidity was a major contributor to selling volume, with 36% of LPs citing that as their motivation for transacting (versus 14% in 2022). In a similar way, the number of large portfolio sales also increased, with 19 LP portfolio sales over \$1 billion in value, up from 12 in 2022. Pension and Sovereign Wealth Funds were the most active sellers, accounting for 62% of LP volume. While traditional LP sales increased 7% year-over-year to \$60 billion, GP-led deals for the year remained flat at \$52 billion.

GP led volume also rebounded in the second half of 2023, almost doubling from \$18 billion in H1 to \$34 billion in H2. Increasingly, it appears more sponsors have begun to view continuation vehicles (CVs) as a viable liquidity option, with CVs representing approximately 12% of all sponsor exit volume for the year (versus 7% in 2022). However, unlike in years past, single asset CVs did not represent the majority of GP-led deals. Rather, multi-asset CVs accounted for approximately 59% of deal volume in 2023. One reason for this may be that multi-asset deals can deliver more comprehensive fund liquidity, which is particularly useful in a difficult market for exits via more traditional routes like M&A or an IPO. When offered liquidity through a CV transaction, a large majority of LPs (approximately 80%) elected to sell their interests in 2023.

Blended secondary pricing for LP portfolios increased in 2023, rising from 81% in 2022 to 85% of NAV across all strategies. This was driven primarily by a 400 basis point rise in aggregate buyout pricing, which increased to 91% of NAV. A recovery in public market indices, which are often used for buyout valuation comps, may have played a role in increasing buyout pricing and demand from secondary buyers. In contrast, venture pricing for the year remained flat at 68% of NAV, continuing the muted pricing levels seen in 2022. Buyer confidence in venture assets continued to be dampened, likely by liquidity concerns at the portfolio company level and the risk of "down rounds" amongst a difficult fundraising environment for startup companies. That said, venture secondary sales as a percentage of total volume did increase year over year, from 8% in 2022 to 12% in 2023, indicating that more buyers and sellers were finding common ground to transact at the lower pricing levels.

As in years past, overall pricing continues to be heavily influenced by fund age or vintage. In the buyout space, funds three years or younger priced on average at 99% of NAV, a significant contrast to average pricing of 68% of NAV for funds that are greater than 13 years old. Overall, the average vintage year for funds transacted on during 2023 was 2016 (versus 2014 in 2022), which indicates a market shift towards even younger fund vintages that generally price better in transactions.

ANNUAL TRANSACTION VOLUME (\$B)



Data Source: Jefferies LLC, Global Secondary Market Review, January 2024.



OUTLOOK

A year ago, we expected fundraising to remain robust during the first half of 2023, followed potentially by a significant slowdown during the latter half, and we anticipated timelines to extend for all but a few general partners. We also expected new investment and exit activity to remain muted and well below prior years. That's exactly how the year unfolded.

For 2024, the projected pipeline of managers coming to market appears to us to be thinner than in prior years. With slow deployment for the last several quarters, managers with full coffers going into 2024 have no need to return to the market to raise new funds.

For the past year, GPs have been hinting at improved conditions for liquidity in 2024. Given how bleak 2023 looked a year ago (public markets down, inflation up, interest rates on the rise, imminent recession, falling corporate profits, and bank failures), anticipating limited private equity exits that year was hardly going out on a limb. Nevertheless, in mid-February, the outlook for 2024 appears better. The markets are up, inflation is down, GDP is advancing, and sentiment is high. Add to that a stable (or potentially falling) rate environment, and an aging inventory of private equity-owned assets, and even professional skeptics would have reason to feel somewhat better about the prospects for liquidity in the coming year.

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SOURCES

Unless otherwise noted, with respect to private equity information, data sourced through: PitchBook's 2023 Annual US PE Breakdown and PitchBook's 2023 Annual European PE Breakdown.

Unless otherwise noted, with respect to venture capital information, data sourced through: Pitchbook's Q4 2023 PitchBook-NVCA Venture Monitor.

Unless otherwise noted, with respect to secondaries information, data sourced through: Jefferies-Global-Secondary-Market-Review-January-2024.

IMPORTANT INFORMATION

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

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