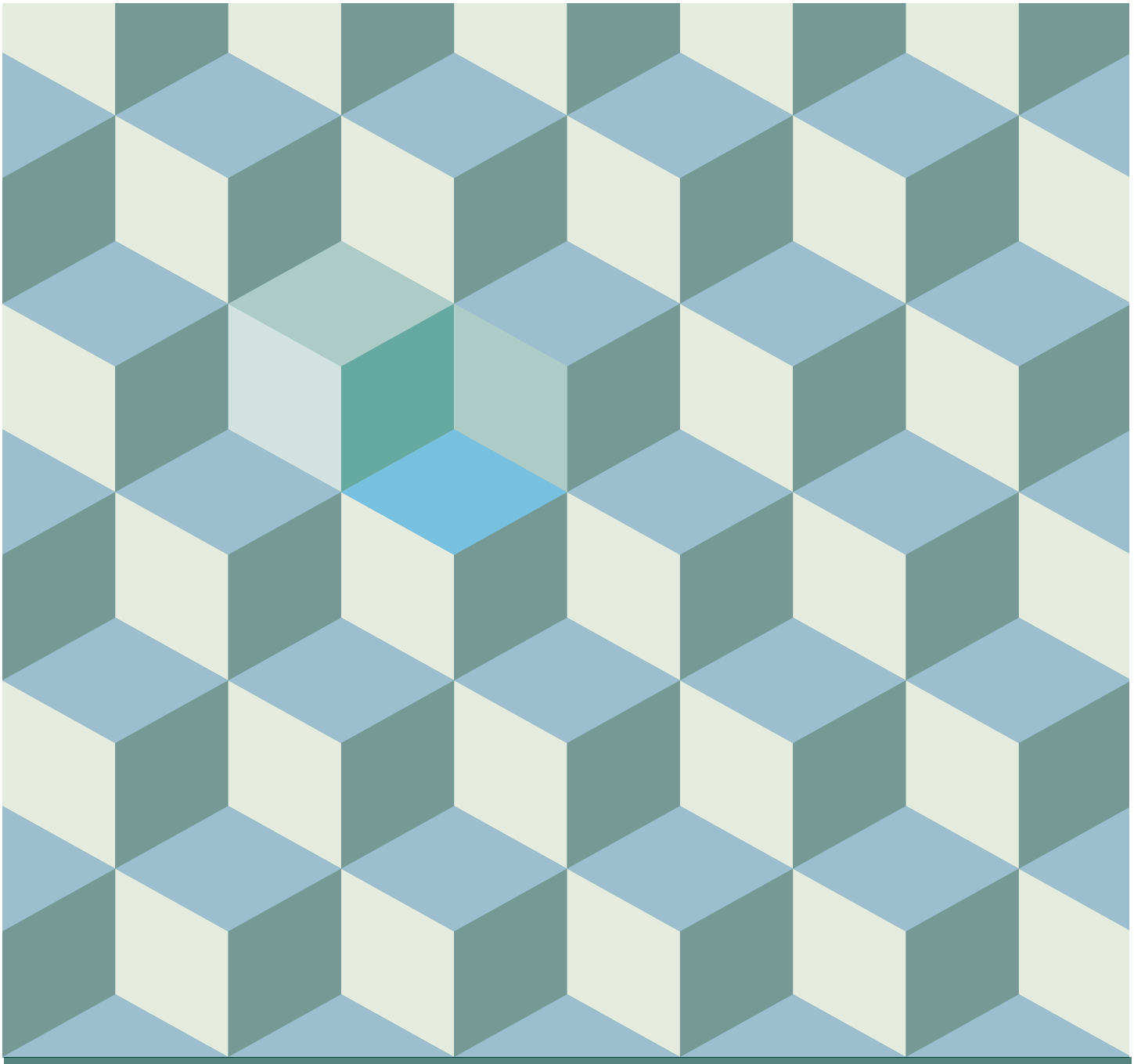


Private Equity Institutional Investor Trends for 2017 Survey

PROBITAS PARTNERS

probity (prō′bĭ·tē)

n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.

On an ongoing basis, Probitas Partners offers research and investment tools for the alternative investment market to aid its institutional investor and general partner clients. Probitas Partners compiles data from various trade and other sources and then vets and enhances that data via its team's broad knowledge of the market.

Contents

The Private Equity Fundraising Environment

- Global private equity fundraising in 2016 is on pace to roughly match last year's total; annual fundraising has been steady the last three years. These numbers are still below the peak years of 2007 and 2008 reached at the beginning of the Great Financial Crisis ("GFC").

- There are several underlying trends behind the overall numbers in Chart I:

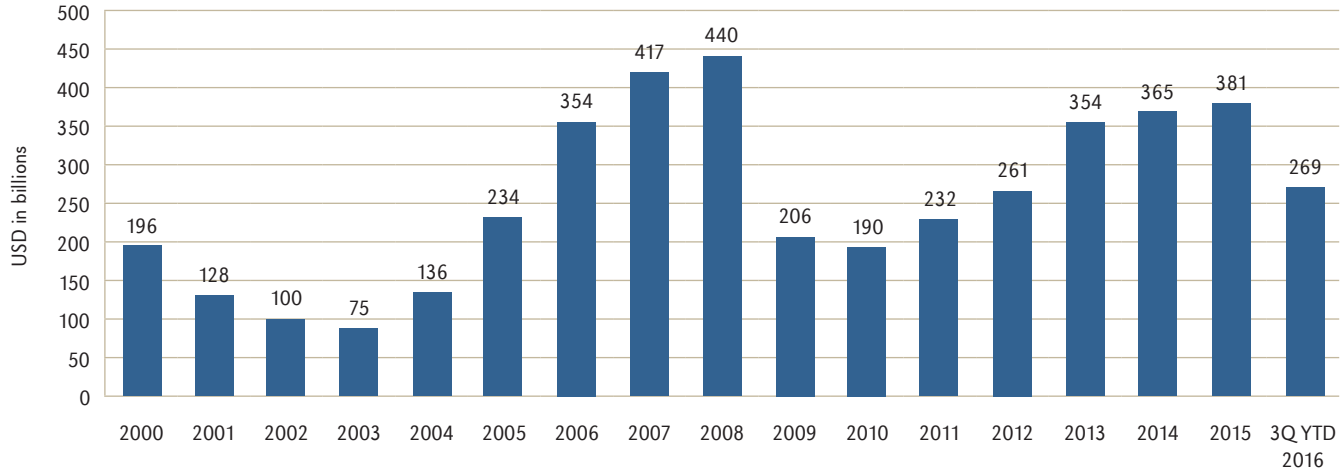
  - 55% of total money raised targeted North America; this remains by far the largest private equity market.

  - This chart details commitments made to closed-end funds and does not include commitments to co-investments, which are more difficult to track accurately. Co-investment activity has increased significantly over the last decade.

  - As fundraising has increased, the overhang of "dry powder" has also increased over the last three years, reaching nearly $1.5 trillion in October 2016.

"This chart details commitments made to closed-end funds and does not include commitments to co-investments"

Chart I Commitments to Global Private Equity Partnerships



Source: PREQIN, does not include funds-of-funds, data as of September 2016

Private Equity Institutional Investor Survey

Probitas Partners conducted its annual online survey in late September/early October 2016 to gauge investor interest, opinions, and perspectives on investing in private equity. This survey is administered annually to gauge emerging trends and to compare investors' changing views over a longer period of time. Eighty-six responses were received from senior investment executives globally, representing such institutions as public and corporate pension plans, funds-of-funds, insurance companies, family offices, endowments and foundations, and consultants and advisors.

Overview of Survey Findings

The following summarizes the top-line findings from the survey:

- ***Strong interest in private equity continues.*** In the current low return environment, investors hungry for yield are increasingly focused on private equity as a means of generating significant long-term returns.

- ***One of respondents' strongest fears is that the private equity market is nearing the top of the cycle.*** This fear, that the market is topping out and downside risk is increasing, runs across different types of investors and geographies.

- ***Middle-market buyout funds in North America and Europe remain the predominant focus of respondents.*** Investors remain focused on these funds, especially those that pursue strategies with an operating focus that they believe can generate added value.

- ***Many respondents fear purchase price multiples in these sectors are too high.*** Though investors are targeting this sector, they fear that the high prices now being paid and the capital flooding into these sectors will drive down future returns.

- ***There is an increasing interest in funds focused on specific industry sectors.*** A number of investors believe these funds have competitive advantages, with the strongest interest in funds focused on healthcare and technology.

- ***Interest in emerging markets has fallen.*** More investors feel that economic or political risks are increasing in key emerging markets, and that risk/return for private equity is more favorable in developed markets.

- ***Interest in venture capital is bipolar.*** Though interest in U.S. venture capital rose significantly this year, a large number of investors do not invest in venture capital, especially in Europe and Asia.

- ***Brexit seems to have had an impact on the attractiveness of the UK — at least for investors outside North America.*** North Americans still have a strong interest in investing in the UK, but interest in Continental Europe and the rest of the world has dropped significantly.

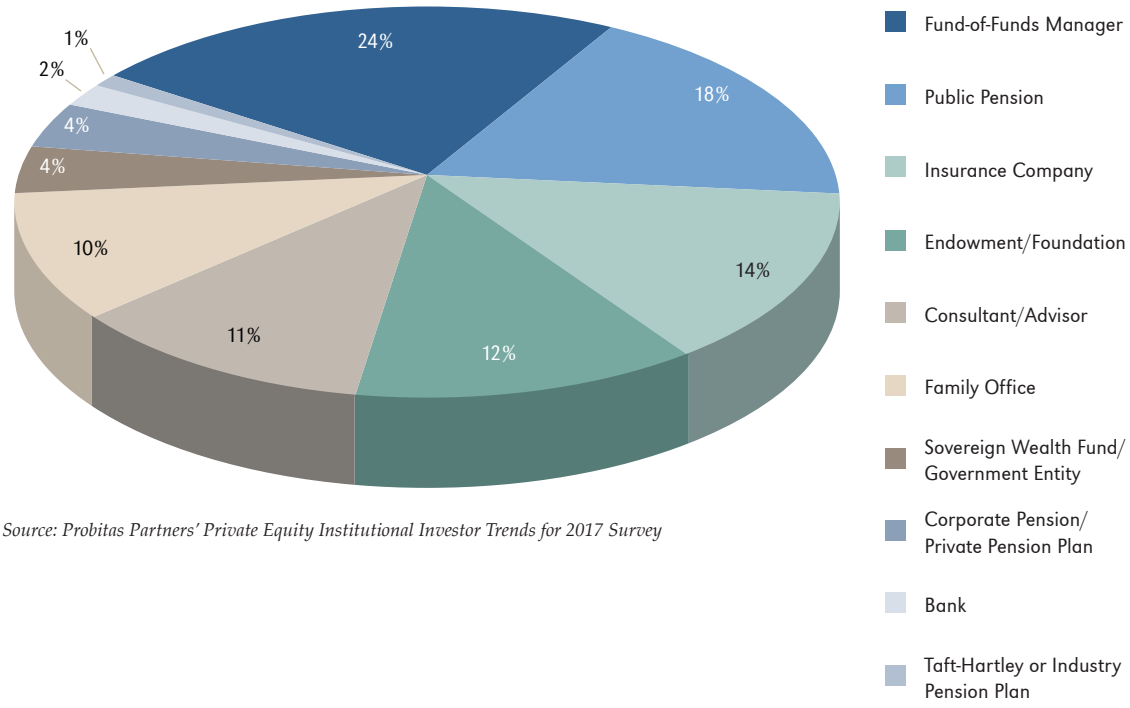
"Investors hungry for yield are increasingly focused on private equity as a means of generating long-term returns"

Profile of Respondents

- This year there were 86 respondents to the survey; most respondents were from pension plans, funds-of-funds, insurance companies, and endowments & foundations (Chart II).
- There was strong participation from North America, Europe, and Australasia (Chart III). In addition, this year we identified UK respondents separately from other Western Europeans in order to take a look at Brexit more closely.
- As detailed in Chart IV, there is a split between investors, with roughly a third near their target allocations and less room to back new relationships, another third under their allocations and actively looking to add relationships, and the rest of the responses more scattered.

Chart II Respondents by Institution

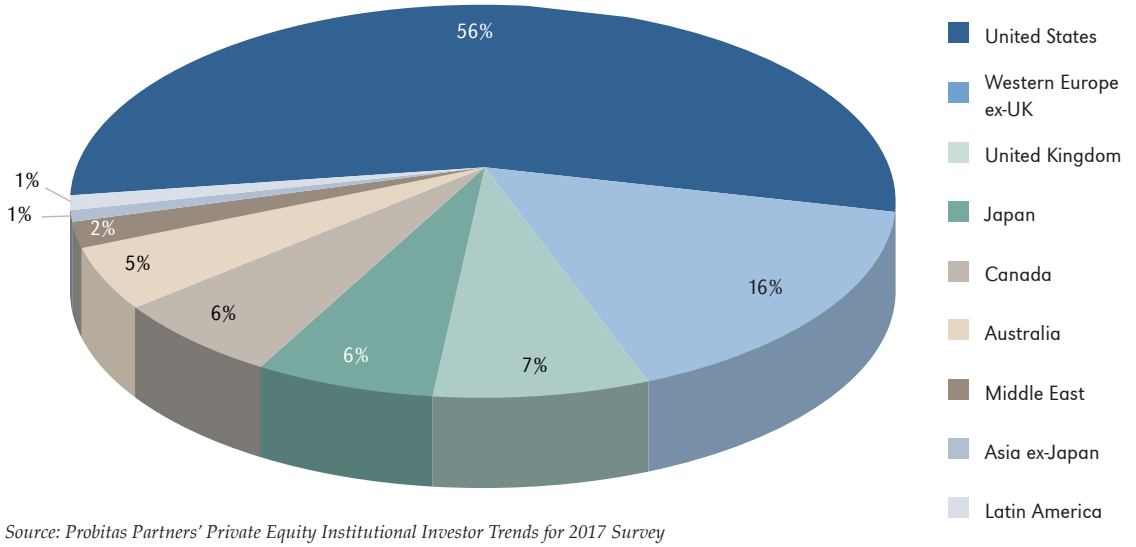
I represent a:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Chart III Respondents by Firm Headquarters

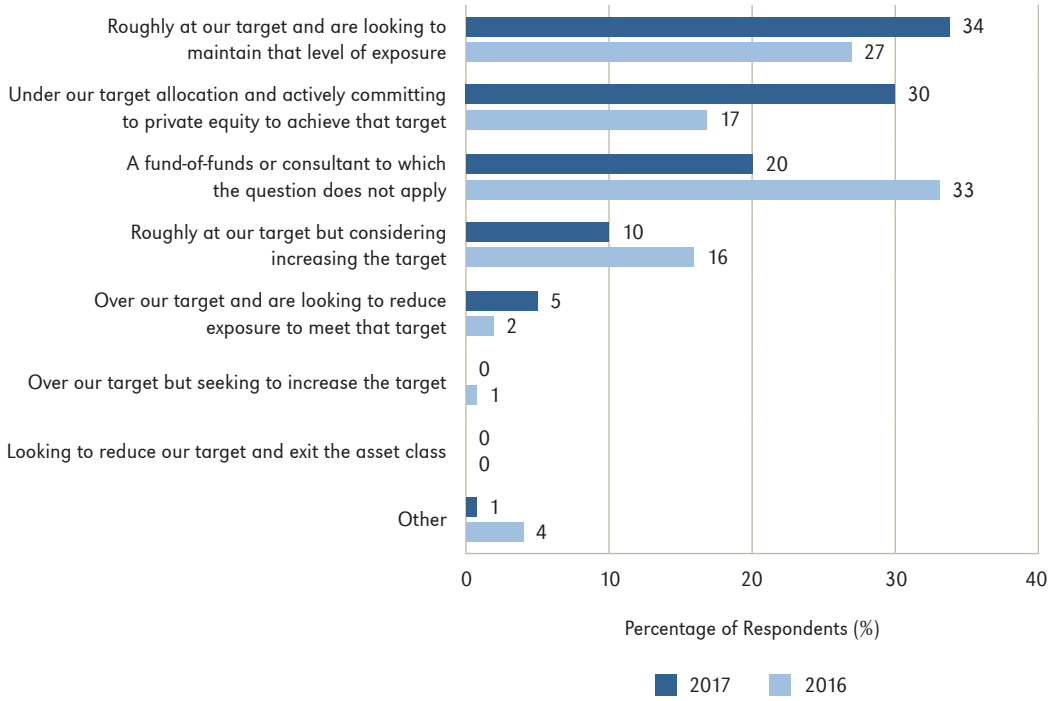
My firm is headquartered in:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Chart IV Current and Target Private Equity Allocations

As far as our current private equity allocation, we are:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **What drives investors to invest? As with Probitas Partners' past surveys, "pursuing the best available managers and funds" remains the driving factor, a focus that has become more intense since the GFC (Chart V).**

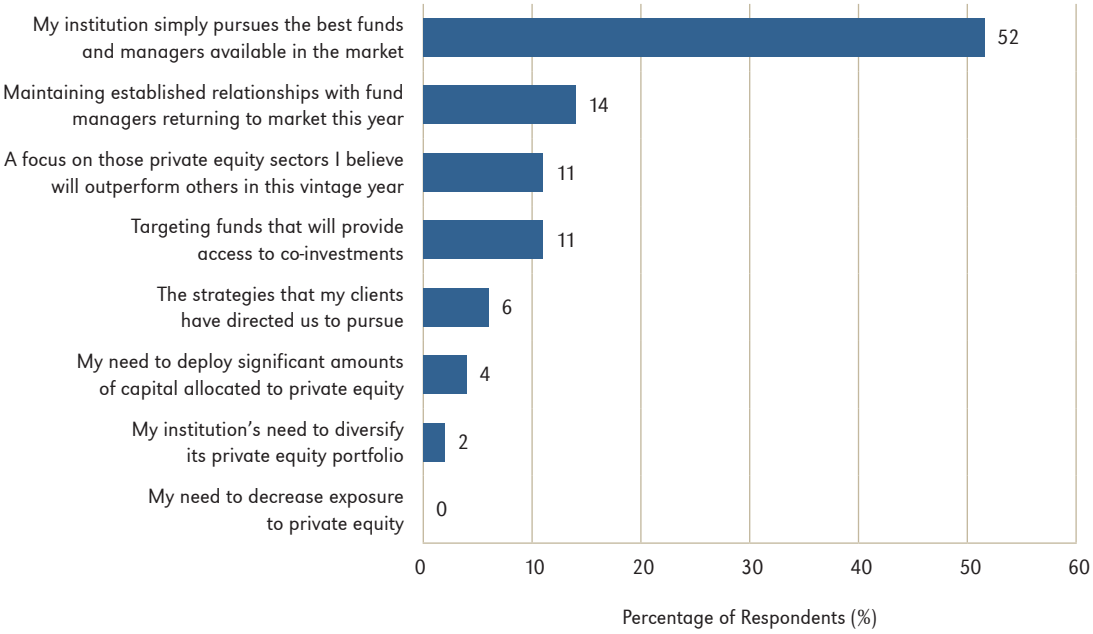
- **At various points in the past, other drivers such as access to co-investment or interest in particular sectors have been an important though secondary concern; this year other responses are quite scattered though notably no one was focused on decreasing their exposure to private equity.**

- **Respondents to the survey represent a wide variety of investors in terms of their appetite for investing in 2017 (Chart VI).**

- **As there has been for the past two years, there is a strong focus by limited partners ("LPs") on re-ups with a more limited look at backing new manager relationships — though 30% of respondents are actively targeting new relationships (Chart VII).**

Chart V Drivers of Sector Investment

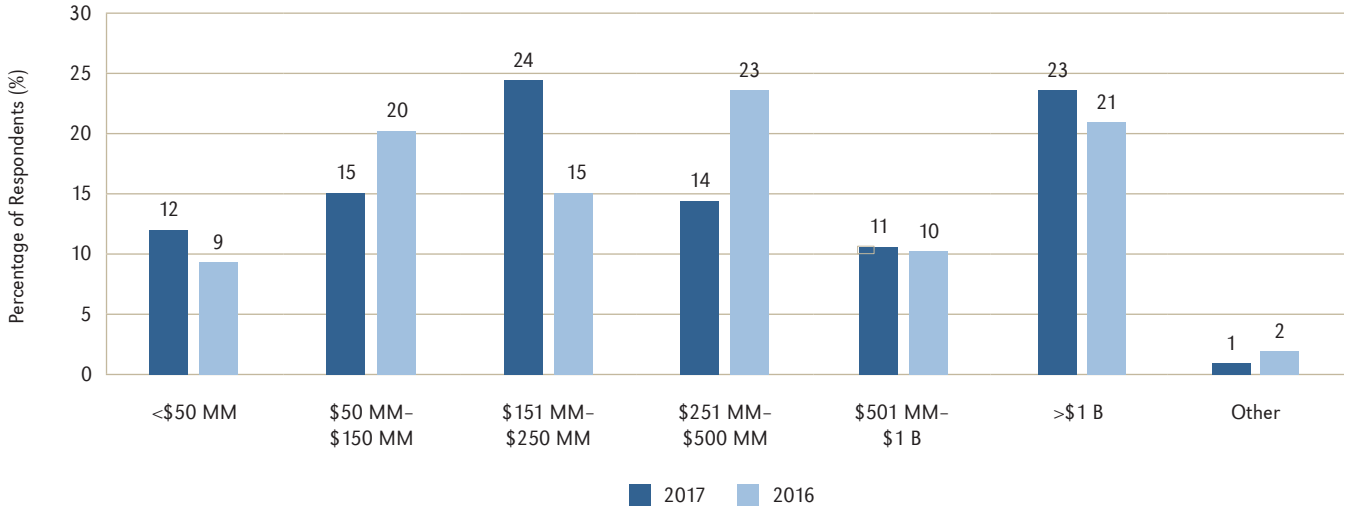
Our sector investment focus in 2017 will be driven by (choose no more than two):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Chart VI Private Equity Allocations

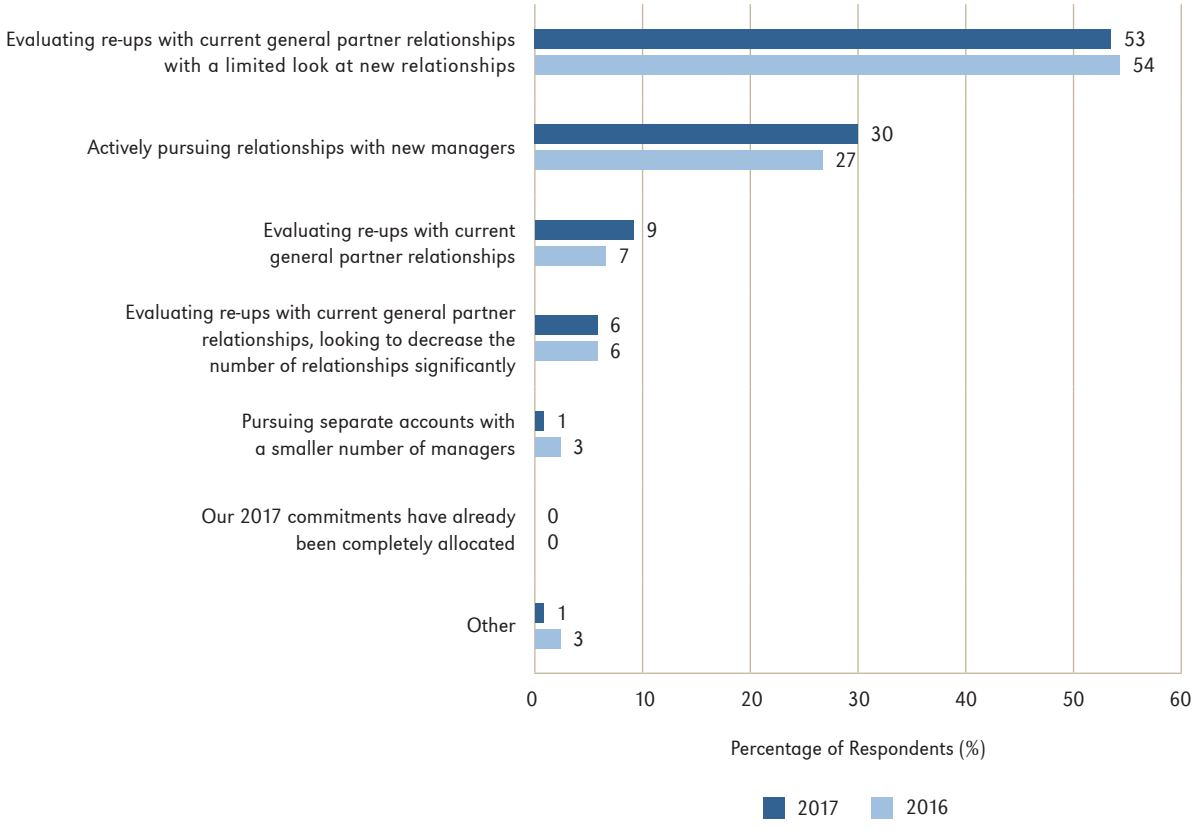
For 2017, we or the clients we advise are looking to commit across all areas of private equity (in USD):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey; Other responses were basically for respondents who had no target

Chart VII Manager Relationships

During 2017, we would expect our primary focus to be:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Sectors and Geographies of Interest

Chart VIII sets out the sectors of interest for overall respondents for 2017:

- Middle-market buyouts and growth capital in the United States and Europe dominate interest, as has been the case in most of our previous surveys — but interest in U.S. venture capital rebounded significantly in this survey.
- Interest in distressed debt remained steady in this year's survey, while interest in both Pan-Asian and Asian country-focused funds declined.
- As has been the case in all of our past surveys, expressed interest in mega buyouts remains fairly low, though it continues to attract significant capital.

The top-ranked areas of interest from our pre-GFC 2007 survey, the last market peak, and this year's survey are compared in Table I.

- Our most recent survey had more options than the 2007 survey (including a more detailed breakout of U.S. middle-market buyouts by size) but U.S. middle-market and European middle-market buyout funds in both cases were the top choices for LPs seeking to allocate capital.
- U.S. venture capital has gone through a long cycle, falling from its third-ranked position in 2007 to as low as fifteenth place in 2014. Driven by increasing interest from North American investors, venture capital returned to one of the top five sectors of interest for the first time in a decade.
- Distressed debt was just off the 2017 table of top sectors of interest in the seventh position with 31% targeting it.

"Middle-market buyouts and growth capital in the United States and Europe dominate interest"

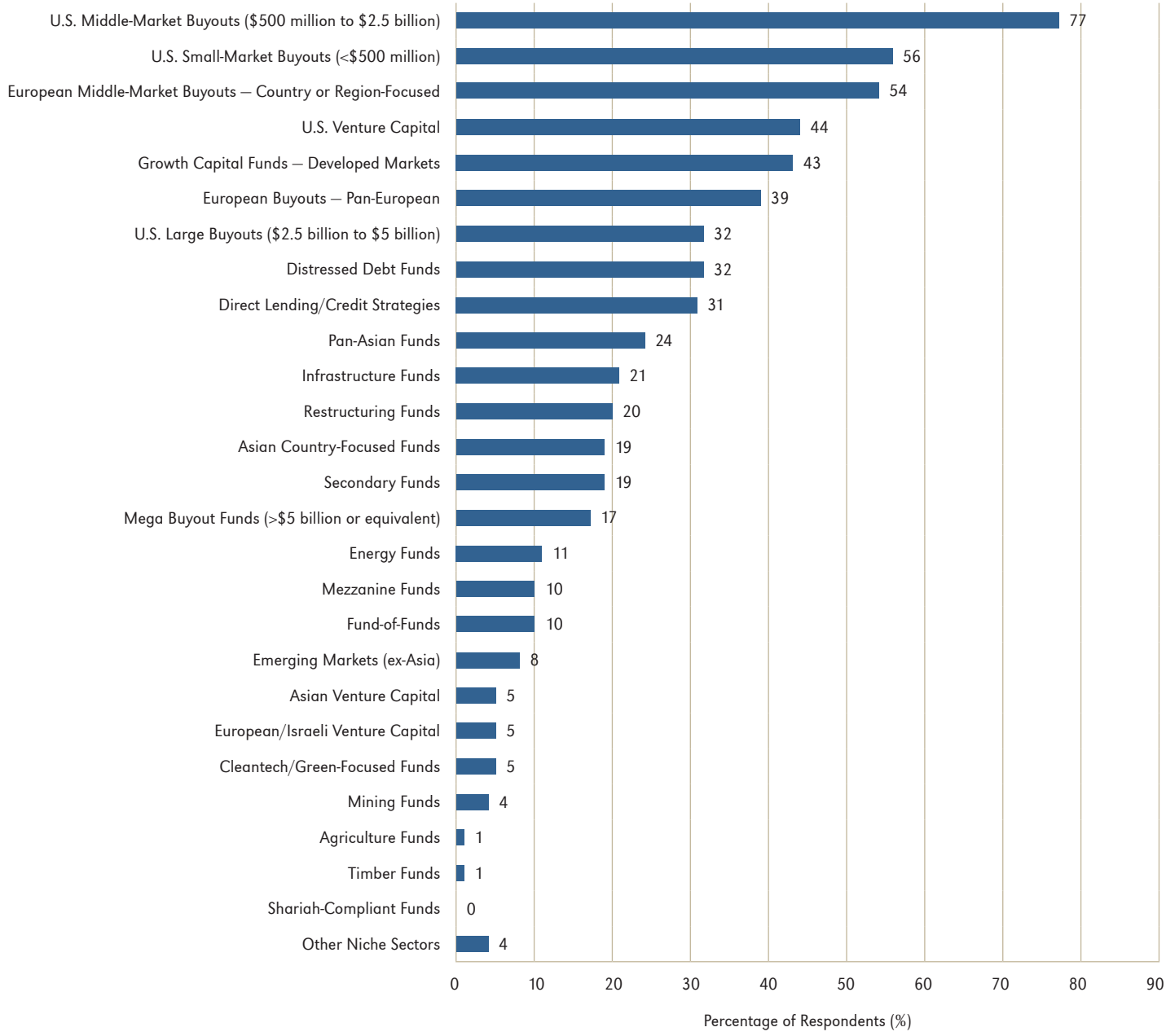
Table I Institutional Investors Focus of Attention Among Private Equity Sectors
Top Five Responses:

2007		2017	
Sector	**% Targeting**	**Sector**	**% Targeting**
U.S. Middle-Market Buyouts	49%	U.S. Middle-Market Buyouts ($500 million to $2.5 billion)	77%
European Middle-Market Buyouts	42%	U.S. Small-Market Buyouts (<$500 million)	56%
U.S. Venture Capital	34%	European Middle-Market Buyouts — Country or Region-Focused	54%
Distressed Debt	30%	U.S. Venture Capital	44%
Asian Funds	25%	Growth Capital Funds — Developed Markets	43%

Source: Probitas Partners' Private Equity Institutional Investor Trends for 2007 Survey and 2017 Survey

Chart VIII Private Equity Sectors of Interest

During 2017, my firm or my clients plan to focus most of our attention on investing in the following sectors (choose no more than seven):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

In part, the ranking of U.S. middle-market buyouts in the survey reflects the fact that a majority of the respondents were from the United States or Canada, with some preference for the local markets they know best. However, North American investors continue to represent the largest pool of capital investing in private equity globally. Charts IX and X, respectively, detail how European and Asian, Middle Eastern and Latin American respondents look at sectors of interest, while Chart XI breaks out North American respondents separately.

- Chart IX shows U.S. middle-market buyouts (funds seeking $500 million to $2.5 billion) as tied for the top-ranked interest for European investors with European country-focused funds, showing the strength of European interest in the sector. U.S. small-market buyouts (funds seeking less than $500 million) are of less interest, reflecting the fact that it is more difficult for European investors to target and diligence these funds.

- Certain investors invest in infrastructure as part of their private equity allocations and for that reason it is included as a sector in the survey. Europeans are much more interested in infrastructure than North American respondents.

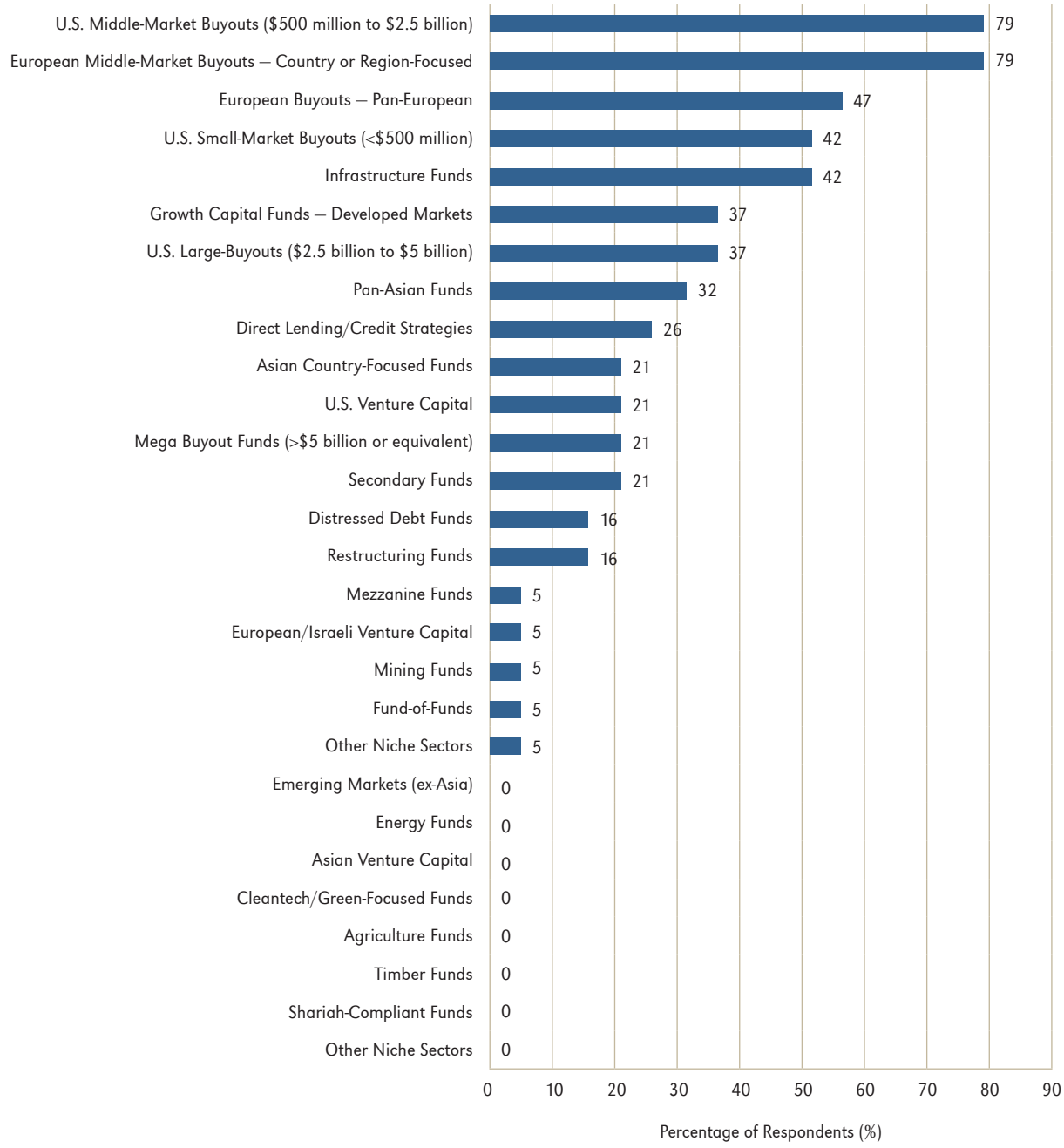
- On the other hand, U.S. venture capital was of significantly less interest to Europeans in part because it is more difficult for Europeans to access top performing managers. However, interest in U.S. venture capital significantly outscored interest in European venture capital.

- There are a number of niche sectors of private equity in which European investors expressed no interest.

"U.S. venture capital was of significantly less interest to Europeans in part because it is more difficult for Europeans to access top performing managers"

Chart IX Private Equity Sectors of Interest; European Respondents

During 2017, I plan to focus most of my attention on investing in the following sectors (choose no more than seven):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **Investor responses from the rest of the world (Chart X) were dominated by participants from Japan and Australia — though it also includes responses from the Middle East and Latin America.**

- **These respondents, like Europeans, are strongly focused on U.S. middle-market buyouts and European country-focused funds.**

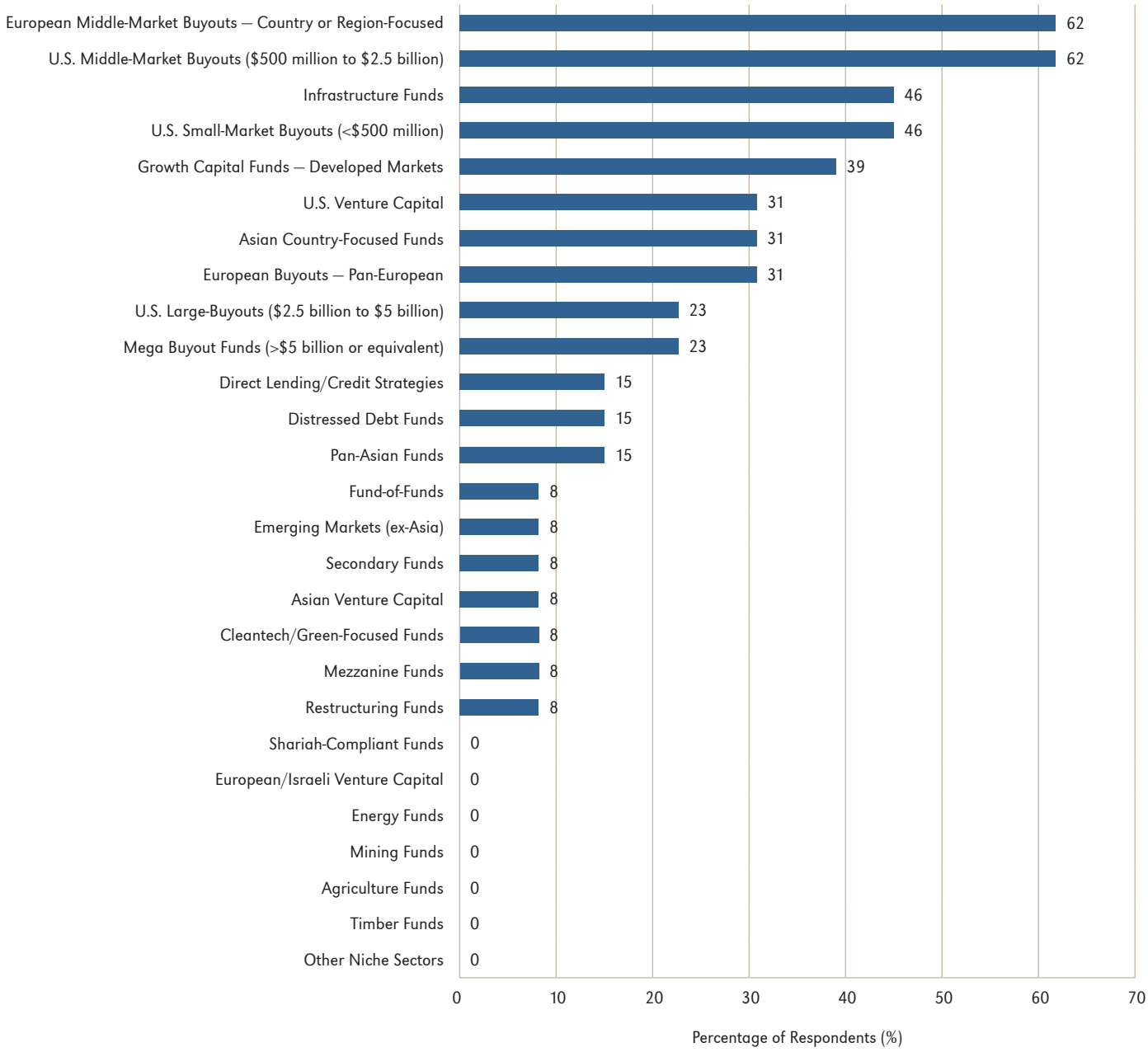
- **As with European respondents, there is a much stronger interest in infrastructure than from North America.**

- **Interestingly, Pan-Asian and Asian country-focused funds do not rate particularly high with this group.**

- **This is the first year the survey has asked about interest in Asian venture capital. None of these respondents expressed an interest in it, though 6% of North American respondents did.**

Chart X Private Equity Sectors of Interest; Asian, Middle Eastern and Latin American Respondents

During 2017, I plan to focus most of my attention on investing in the following sectors (choose no more than seven):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- Chart XI details the interest of North American respondents. U.S. middle-market and small-market buyouts led interest by a significant amount, and U.S. venture capital ranked third in North American interest.

- There was significantly more interest in North America in distressed debt, reflecting the fact that the sector is more established there.

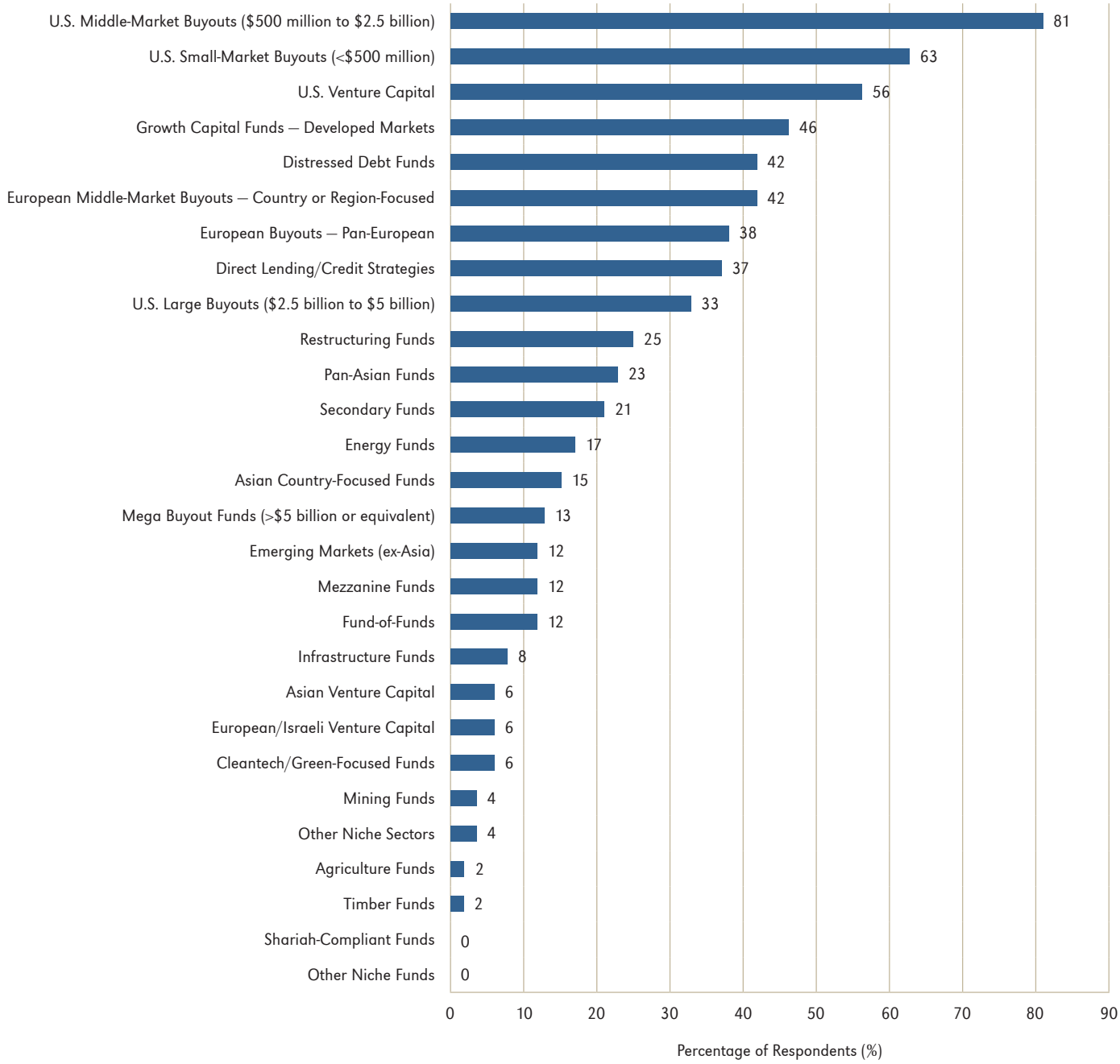
- There was much less interest in infrastructure, likely reflecting the fact that the sector is more nascent in the United States and that those North Americans targeting infrastructure are more likely to do so outside private equity allocations.

- Many North American private equity portfolios are very mature, and North Americans consequently are more likely to pursue niche strategies to complement their core portfolios.

"There was significantly more interest in North America in distressed debt"

Chart XI Private Equity Sectors of Interest; North American Respondents

During 2017, I plan to focus most of my attention on investing in the following sectors (choose no more than seven):



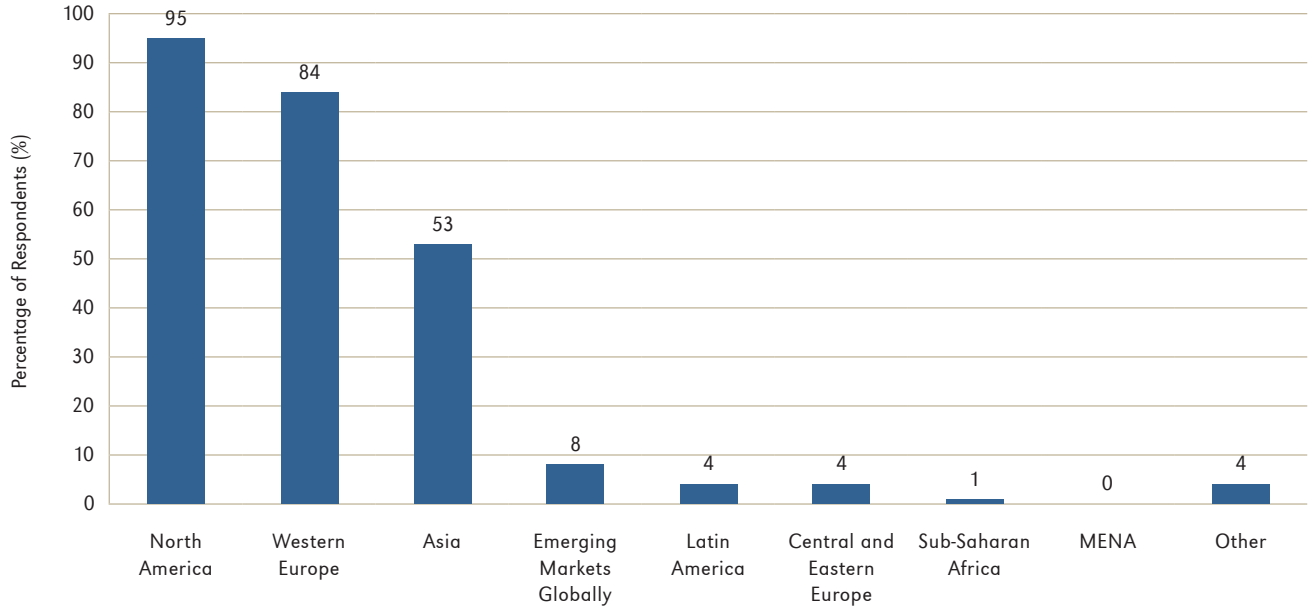
Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **In summary, the three major geographies of North America, Western Europe, and Asia continue to dominate investor interest (Chart XII), though interest in Asia declined from 63% last year to 53% this year.**

- **Interest in emerging markets fell slightly across the board this year, with interest outside Asia being scattered with no emerging market geography being dominant.**

Chart XII Private Equity Geographical Focus

During 2017, I anticipate that the three primary areas of geographical focus for our programs will be:

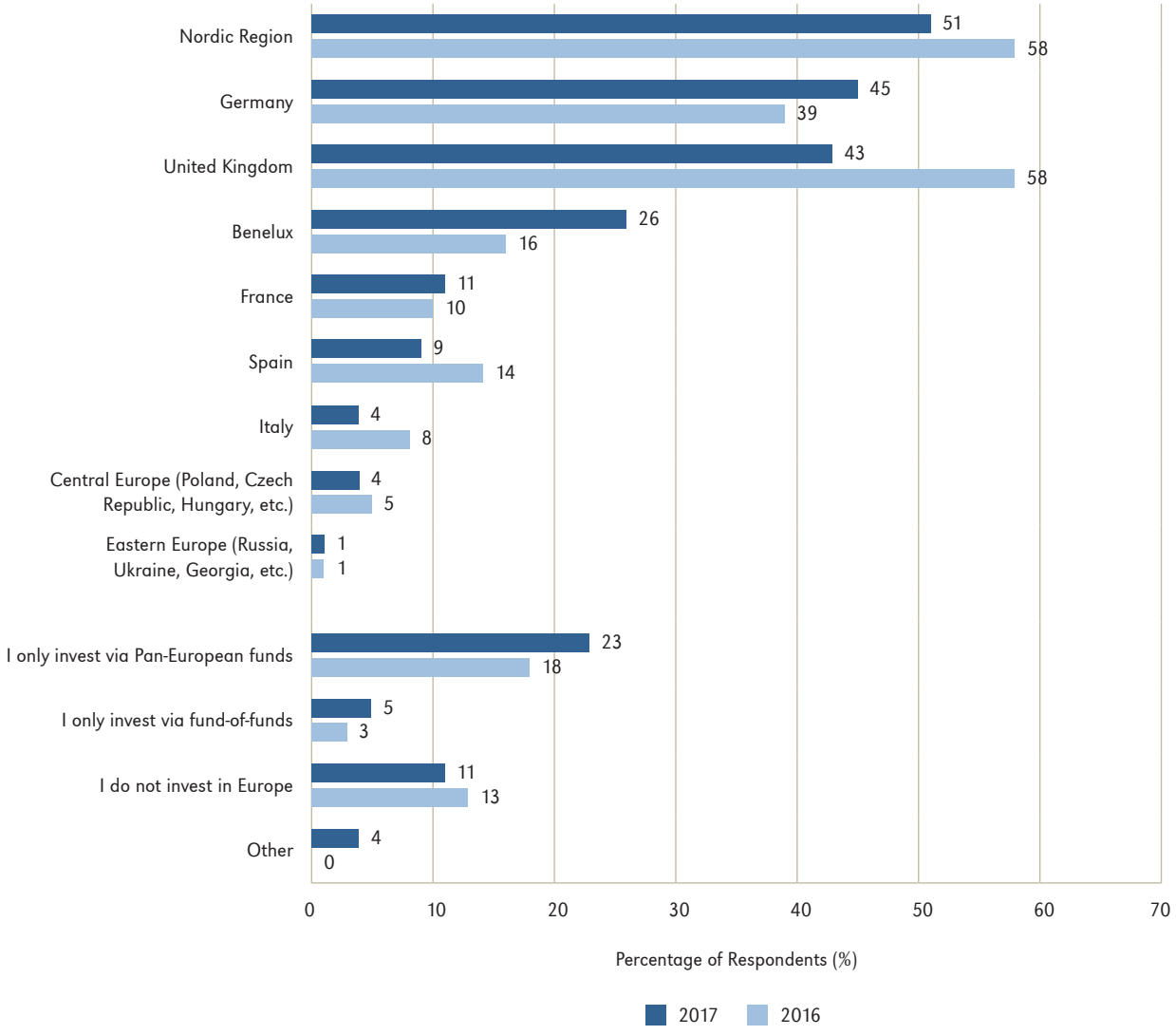


Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **Interest in specific European countries or regions is detailed in Chart XIII. As in all of our past surveys, the Nordic Region, Germany, and the UK were the top three geographies of interest.**
- **However, this survey, our first since June's Brexit vote, shows a sharp decline in interest in the UK, moving from 58% targeting it last year to 43% this year.**
- **Interest in Spain and Italy also declined this year among overall respondents, while interest in the Benelux surged.**
- **Interest in Eastern Europe remained low as it has over the last few years as political tensions between Russia and the West as well as continued turmoil in the Ukraine dimmed investor enthusiasm.**

Chart XIII Most Attractive European Markets

For European country/regionally-focused funds, I find the most attractive markets to be (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

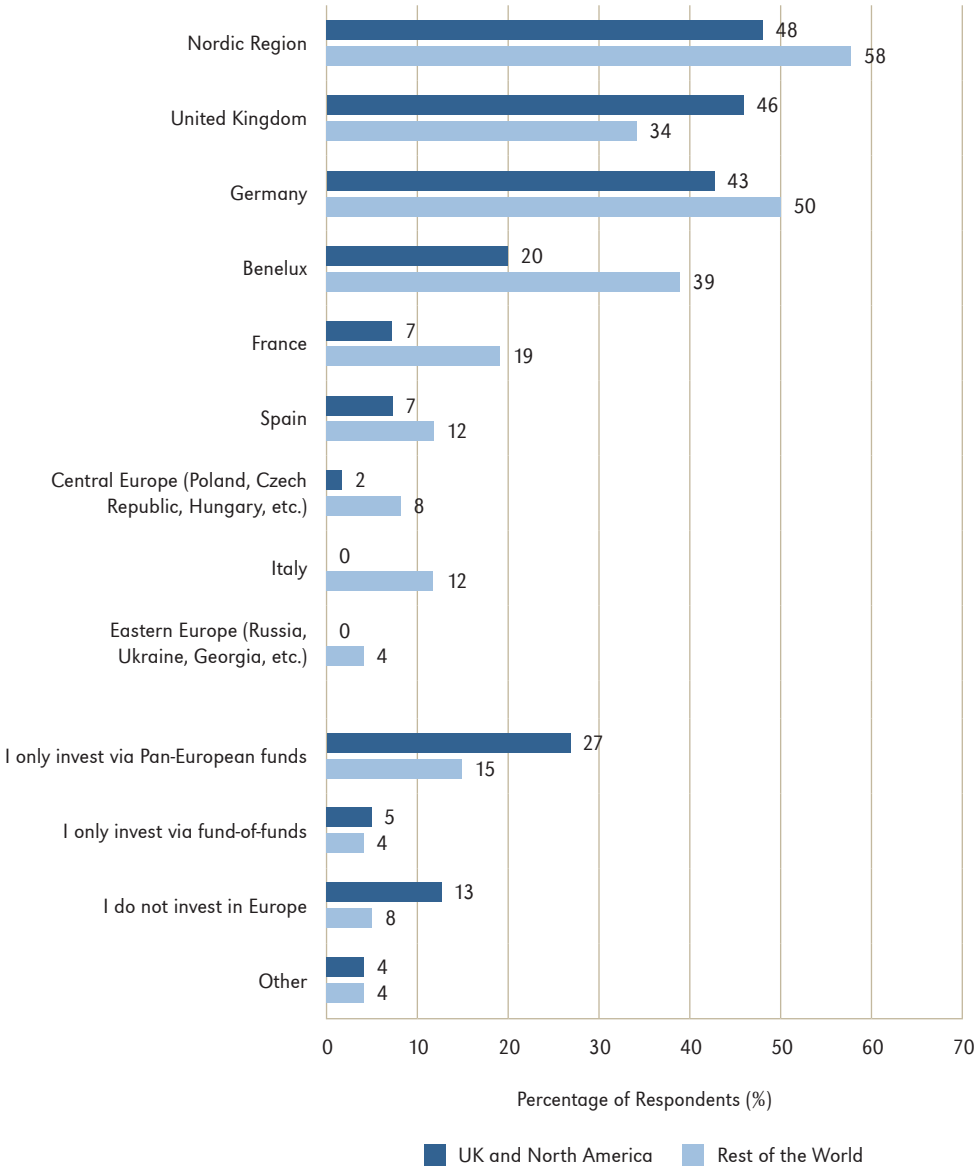
- **A different picture presents itself when digging deeper. North American and UK respondents were much more interested in the UK as an investment destination than Continental Europeans and investors from the rest of the world, as highlighted in Chart XIV. Among these respondents, interest in the UK plunged, falling out of the top three geographies in Europe with the Benelux taking its place. This is a distinct change from last year where the UK was the leading target for European respondents to the survey.**

- **For investors outside North America and the UK, there was also much stronger interest in France, Italy, and Spain, with less of a focus on Pan-European funds.**

"North American and UK respondents were much more interested in the UK as an investment destination than Continental Europeans and investors from the rest of the world"

Chart XIV Most Attractive European Markets; Comparative Interest

For European country/regionally-focused funds, I find the most attractive markets to be (choose no more than three):



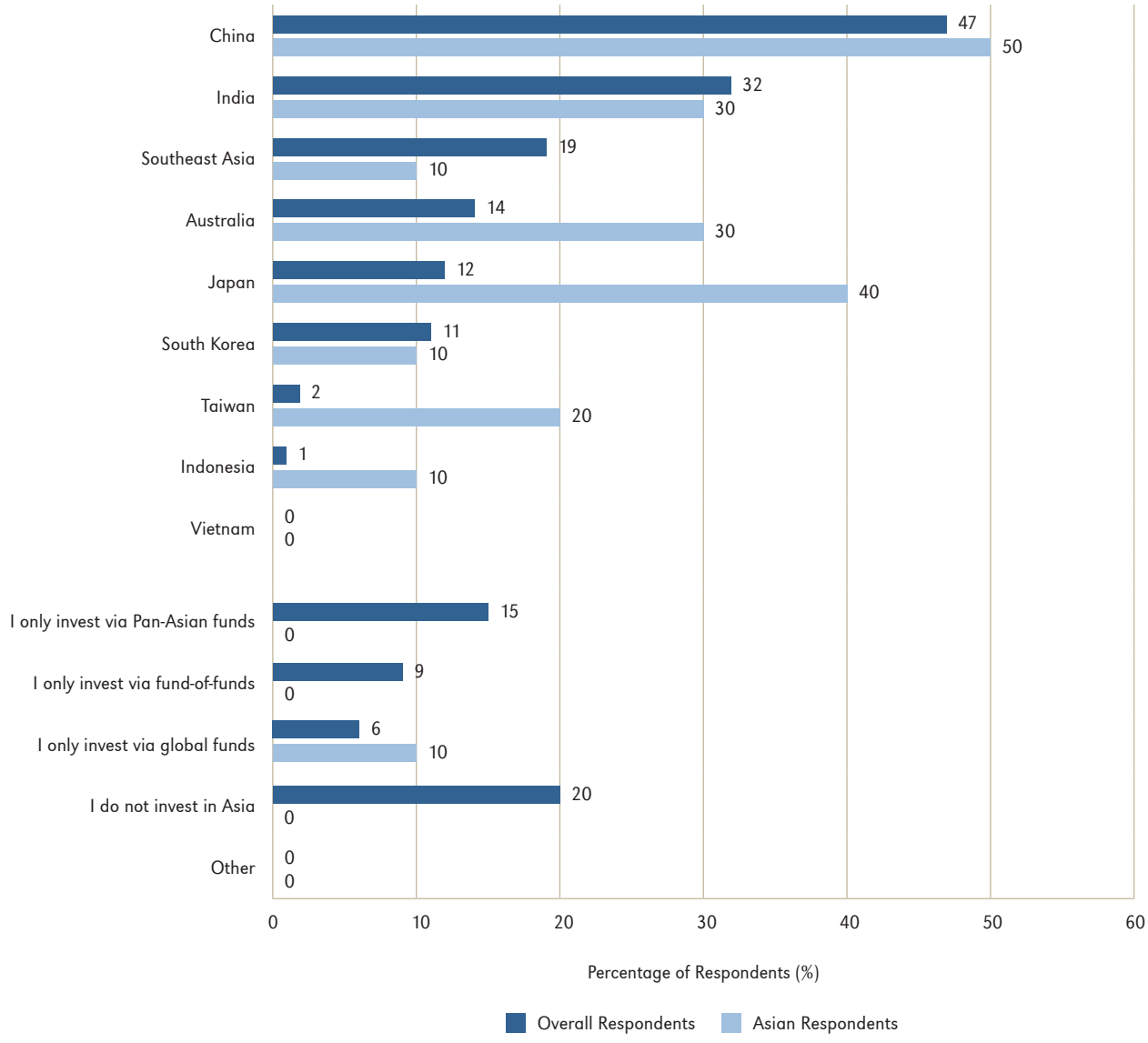
Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Chart XV highlights interest in Asian countries or regions going into 2017, and compares the interest of respondents globally to respondents from Asia.

- **China remains the top target, both for overall respondents and Asian respondents, with interest roughly the same as last year.**
- **Asian respondents have a much greater interest in Japan and Australia, but that is driven by the fact that Japanese and Australian investors dominate Asian respondents and are more likely to support their home markets.**
- **Asian investors are also much less likely to invest in Asia only through Pan-Asian funds.**

Chart XV Most Attractive Asian Markets

For Asian focused funds, I find the most attractive markets to be (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

"Interest in China has surged since then, dominating the market"

Table II highlights changes in interest in Asia over the last eleven years.

- In 2007, investors were nearly equally interested in China, India, and Japan. Interest in China has surged since then, dominating the market. After falling substantially in between, interest in India has rebounded strongly on the back of increased hopes for the private equity environment since Prime Minister Modi's election. Interest in Japan has also varied, but has fallen back this year among overall respondents based upon doubts about Abenomics.

- Southeast Asian funds have only become of interest over the last five years as investors have looked to diversify away from a reliance on China exposure; but that interest actually declined this year to 19% from 27% last year.

- "I do not invest in Asia" was the sixth ranked answer in our trends for 2016 survey with 15% of responses and would have been off the table; this year it ranks third with 20% of respondents.

Table II Which Geographies in Asia Are of the Most Interest?
Top Four Responses:

2007		2017	
Country/Region	**% Targeting**	**Country/Region**	**% Targeting**
China	28%	China	47%
India	28%	India	32%
Japan	25%	I do not invest in Asia	20%
I do not invest in Asia	25%	Southeast Asia	19%

Source: Probitas Partners' Private Equity Institutional Investor Trends for 2007 Survey and 2017 Survey

Emerging Markets

- The most attractive country or region in the emerging markets is China, who has held that position throughout most of our recent surveys (Chart XVI). China is also the deepest of the emerging markets for private equity, with a large number of fund managers and investment strategies from which to choose.

- The only geography that shows a surge in interest this year compared to last year is India, with hopes by investors that Modi's government will be increasingly more friendly to business in general and private equity in particular.

- Going into 2013, Brazil was ranked second in interest with 33% of respondents targeting it. Falling gross domestic product ("GDP"), currency impacts and political turmoil have dragged it down to sixth place this year with only 13% of investors targeting it — though certain investors are of the opinion that Brazil may be bottoming out and therefore opportune for new investment.

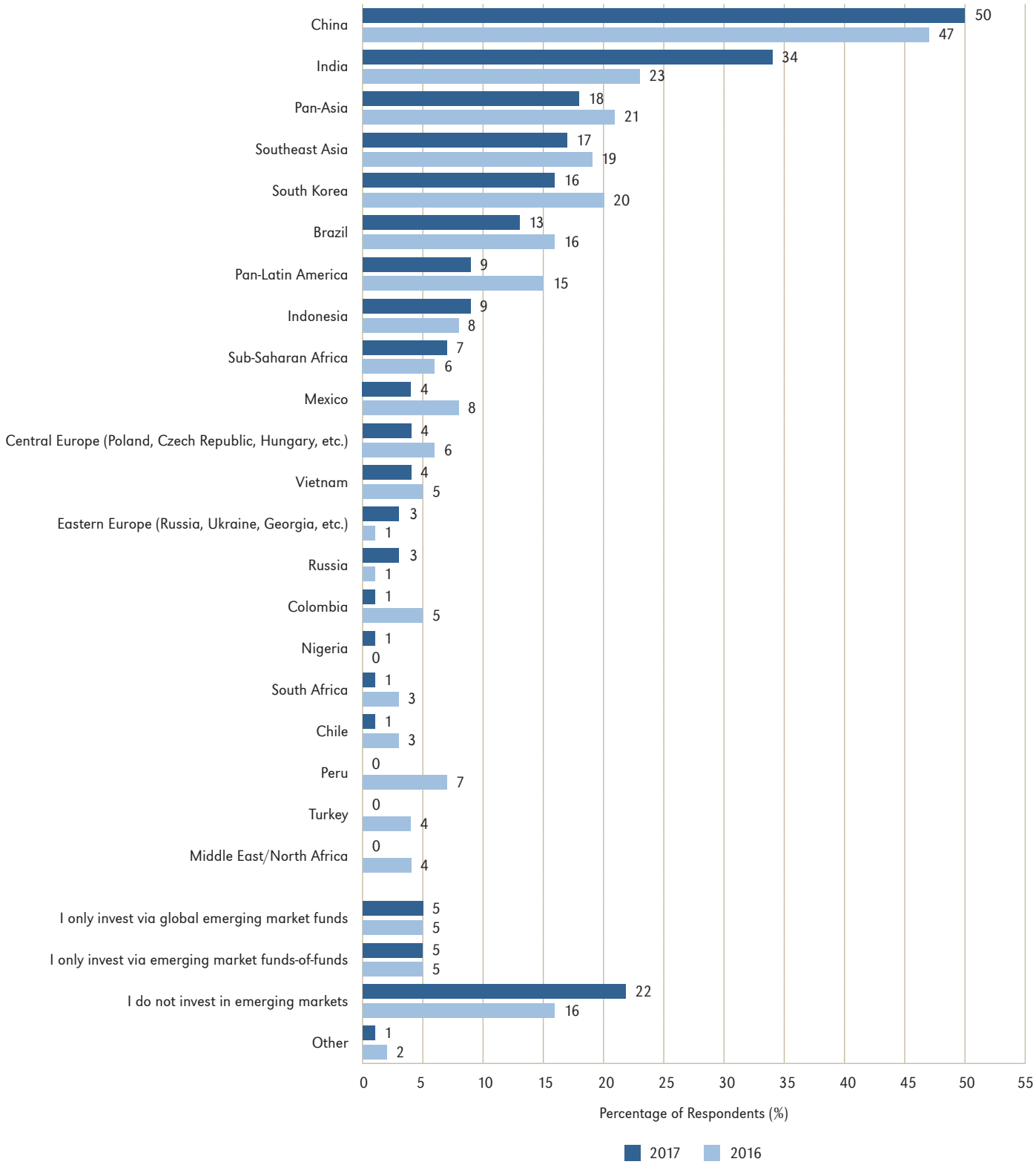
- Most other emerging markets registered a small decline in interest; overall those who say they do not invest in emerging markets increased from 16% last year to 22% this year.

- Though Sub-Saharan Africa has been touted as the latest "hot" emerging market, interest in our survey remained very stable, increasing slightly from 6% last year to 7% this year, while interest specifically targeting the two largest economies in Sub-Saharan Africa, Nigeria and South Africa, remained very weak.

"The only geography that shows a surge in interest this year compared to last year is India"

Chart XVI Most Attractive Emerging Markets

Which emerging markets do you find most attractive (choose no more than four):



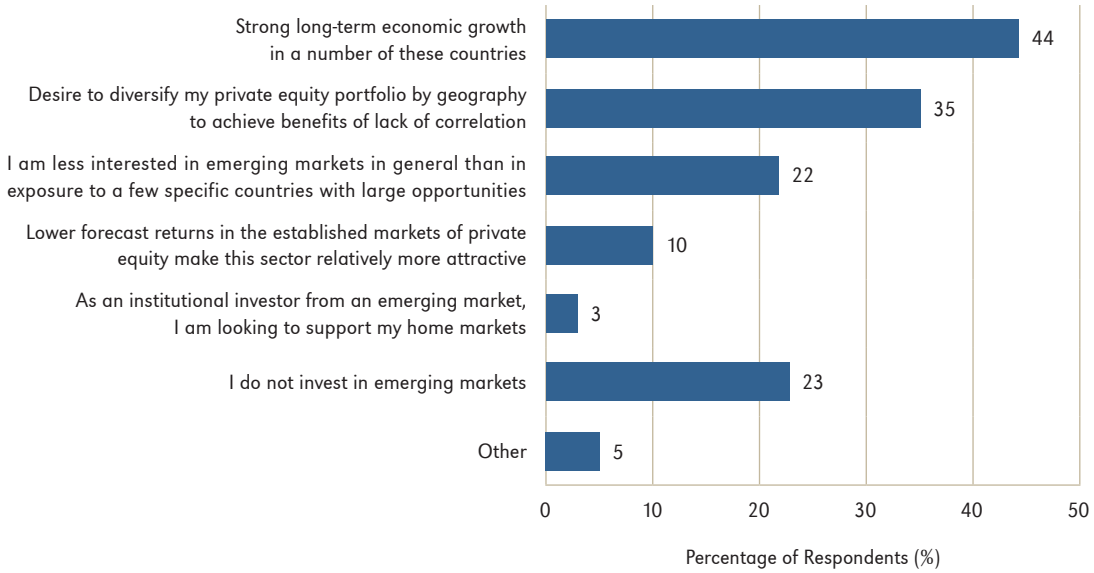
Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **Most investors targeting emerging markets do so because they expect strong long-term economic growth there, driven in part by strong returns in China and Brazil during the GFC (Chart XVII). However, economic slowdowns and political turmoil in certain key markets have lowered that expectation, dropping the response from 77% six years ago to 44% this year.**

- **The only other specific reason for interest in the emerging markets that increased in frequency significantly from last year's respondents was the statement that the investor was "less interested in the emerging markets in general and was rather targeting a few countries with large perceived opportunities," up from 16% last year to 22% this year.**

Chart XVII Interest in Emerging Market Private Equity

My interest in emerging market private equity is driven by (check all that apply):

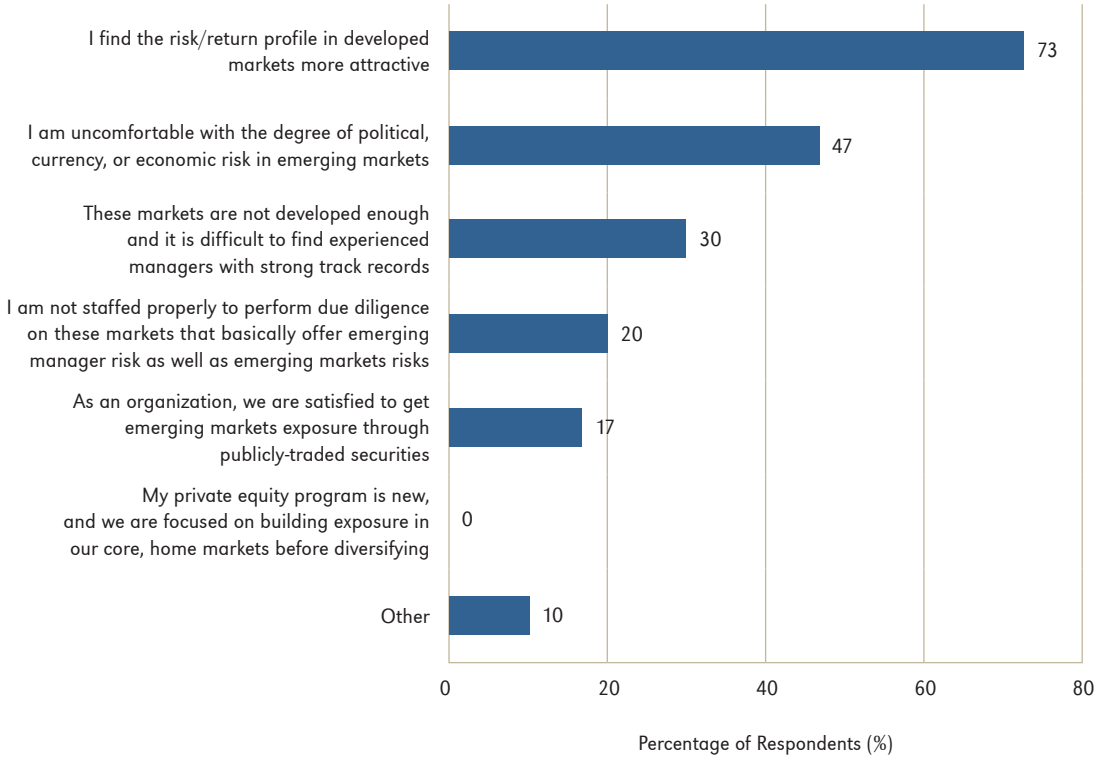


Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **The perception of risk in the emerging markets increased significantly this year, with those finding the risk/return profile of developed markets more attractive, increasing from 55% to 73%. Those expressing discomfort with currency, political or economic risk increased from 32% last year to 47% this year (Chart XVIII).**

Chart XVIII Disinterest in Emerging Market Private Equity

For those not interested in emerging markets, I am not interested because (check all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

U.S. Middle-Market Funds

- The U.S. market is large and homogenous compared to other regions where differentiated geographic focus is a strong factor in investor interest. As a result, investment strategies, rather than geographic differences, are much more important in the United States (Chart XIX).

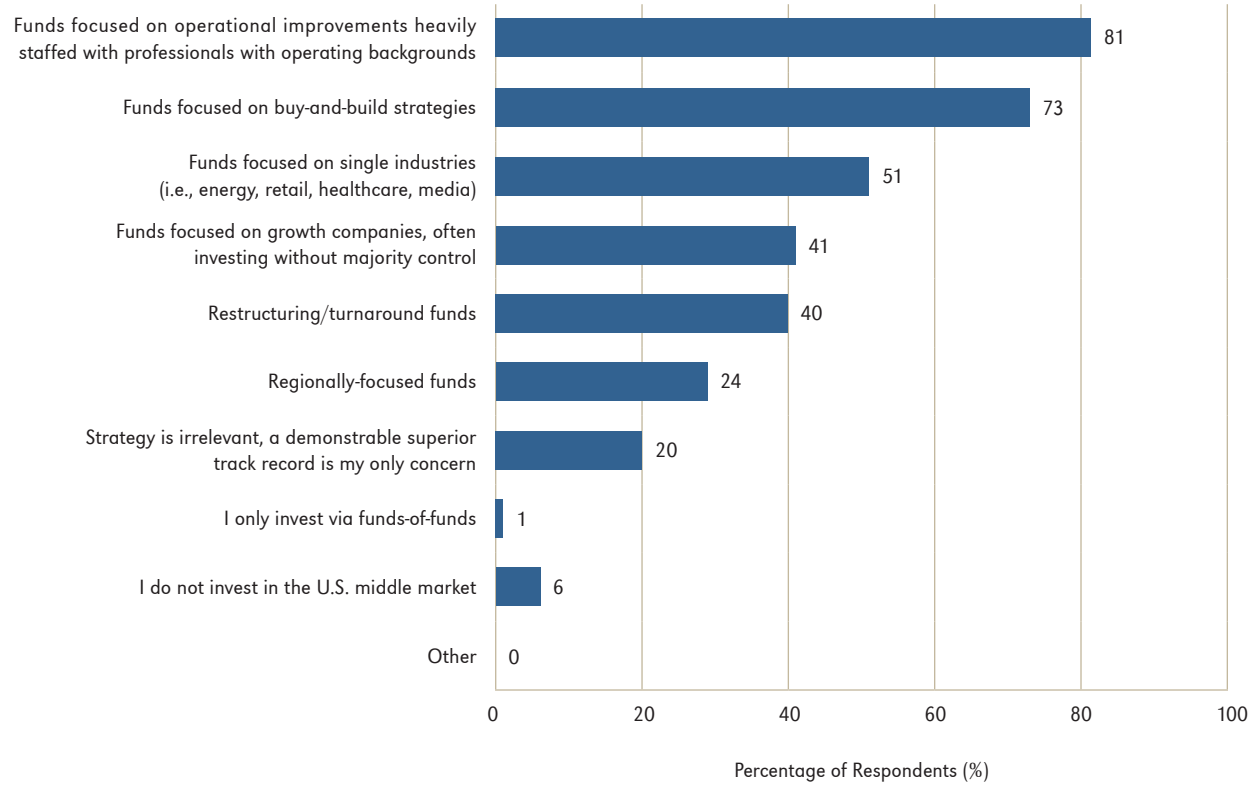
- In U.S. middle-market buyouts, investors remain focused on fund managers with strategies that drive operational improvements and buy-and-build strategies. This is consistent across all types of investors and is consistent with past surveys — though with an even stronger focus this year.

- Interest in specialty funds focused on a single industry surged from 37% last year to 51% this year.

"Interest in specialty funds focused on a single industry surged... to 51%"

Chart XIX Most Attractive U.S. Middle-Market Sectors

Which of these sectors/strategies in the U.S. middle market do you find most appealing (check all that apply):



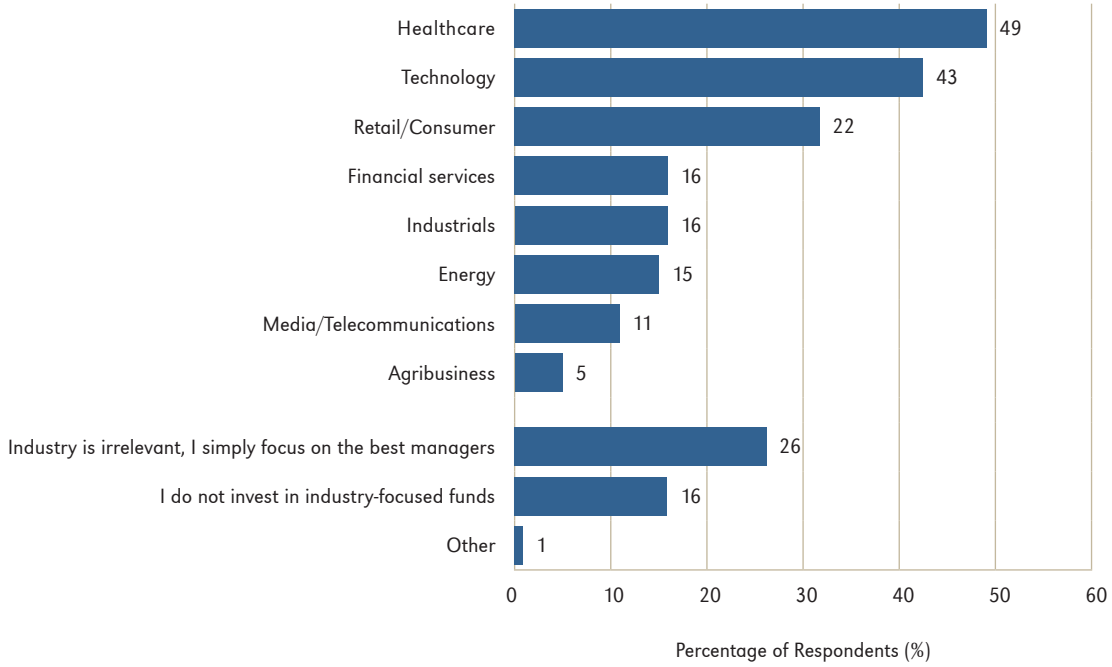
Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **Within industry sector focused funds, healthcare and technology are the predominant areas of focus, with energy falling from 30% interest and third place last year to 15% and sixth place this year (Chart XX).**

- **Asian investors are more focused on retail/consumer strategies while North American investors are more likely to invest in sector-focused funds in general.**

Chart XX Interest in Industry-Focused Funds

As far as funds focused on single industries, I am most interested in (choose no more than three):

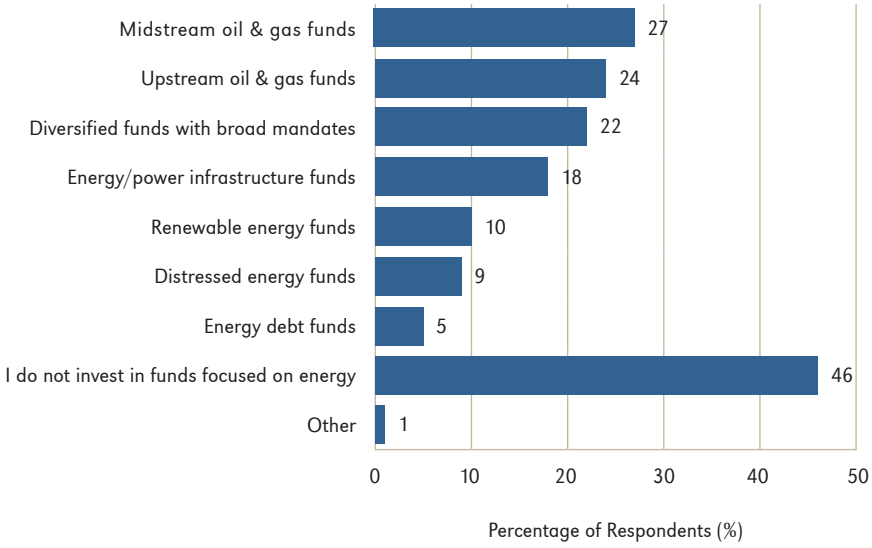


Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **As far as energy, an industry sector that has attracted strong interest from North American investors over the last decade, interest in specific sub-sectors is scattered, with the biggest difference from last year's results being the increase in respondents not investing in the sector, growing from 30% to 46% (Chart XXI).**

Chart XXI Interest in Sectors within Energy

In the energy sector, I am most interested in (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Venture Capital

- The strongest area of interest for venture capital investors remains early-stage funds and funds targeting technology or multiple sectors (Chart XXII). There is no interest in cleantech focused funds and little interest in venture debt.

- Endowments and foundations more aggressively target venture capital funds, and primarily early-stage vehicles, with 66% of them focused on this stage.

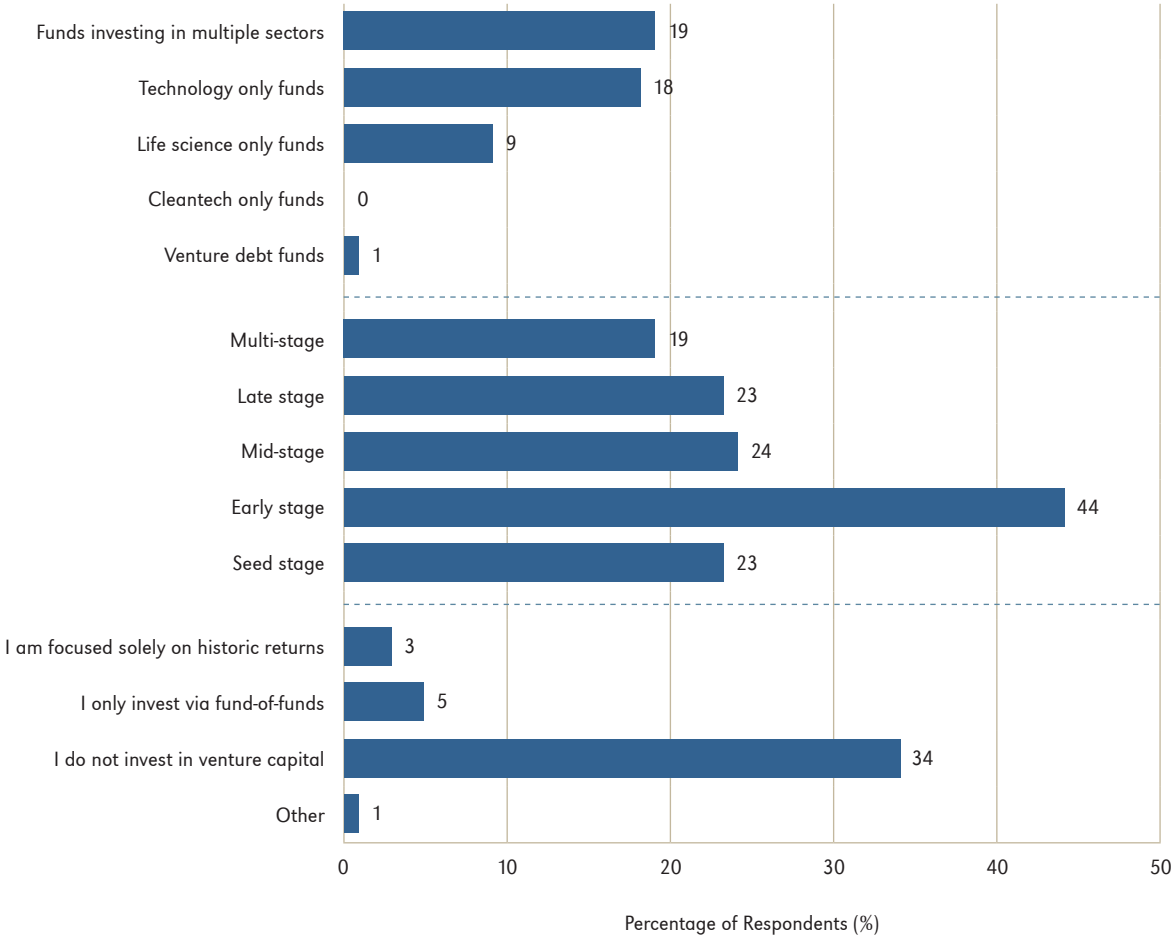
- In 2007, only 17% of respondents said they did not invest in venture capital, a response that doubled to 34% in our most recent survey. However, that is still a distinct improvement from the 42% who said that they did not invest in venture capital in 2014. In addition, as noted in Chart VIII (page 9), 44% of respondents are targeting U.S. venture capital, resulting in an almost barbell response.

- North American respondents are more interested in venture capital, especially U.S. venture capital. As shown in Chart XI, 56% of North American respondents are targeting U.S. venture capital funds, while only 31% of Asian respondents and 21% of European respondents are doing so (Charts IX and Chart X). There is little interest in European or Asian venture capital among any of the respondents.

"56% of North American respondents are targeting U.S. venture capital funds"

Chart XXII Most Attractive Venture Capital Sectors

In venture capital, I focus on funds active in the following sectors or stages (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Distressed Private Equity

- There are several distinct distressed strategies (in Chart XXIII), but a number of funds execute on two or three of these strategies within the same fund while other fund managers raise multiple funds with separate strategies.

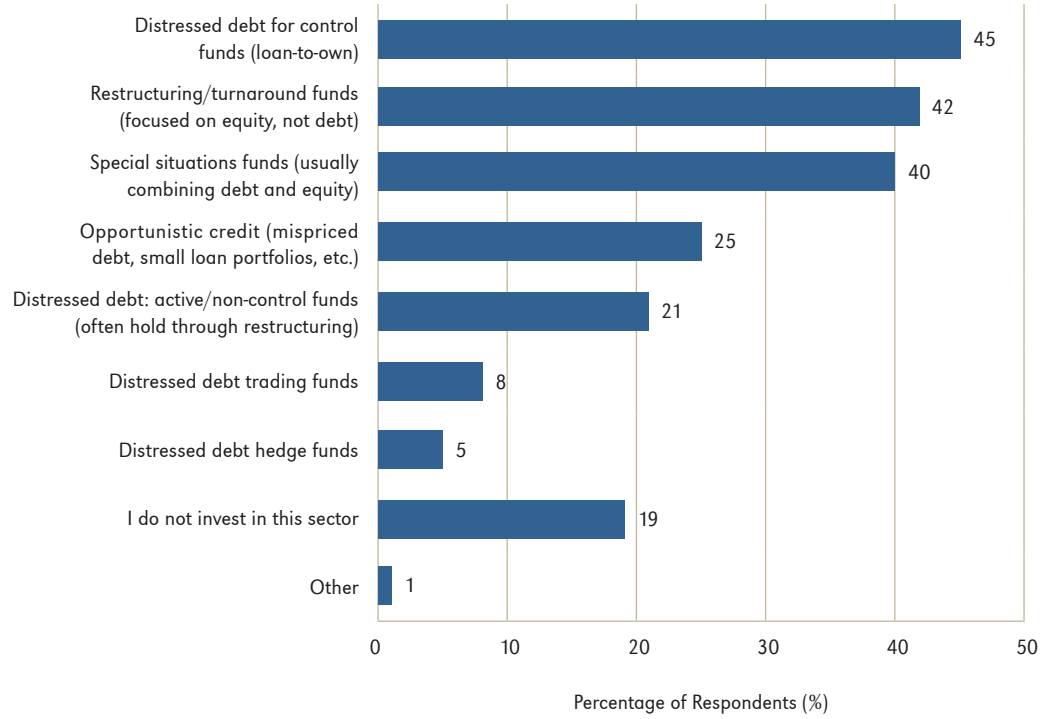
- Investors, of course, prefer strategies with a focus that generates higher multiples of return, such as the top three strategies: distressed for control, turnaround/restructuring, and special situations.

- Last year, for the first time, we included special situations funds, a hybrid strategy, as a potential choice; it continued to attract strong interest this year, with 40% of respondents targeting it.

- Opportunistic credit funds ranked fourth on this year's survey, as they did last year. These funds have a focus on assets other than corporate debt — including stressed small loan portfolios or asset-backed securities — that certain investors consider a straight credit product, allocated through credit/fixed income portfolio exposure instead of private equity allocations.

Chart XXIII Distressed Investments

Within the distressed debt/restructuring sector, I am most interested in (choose no more than two):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Credit-Focused Funds

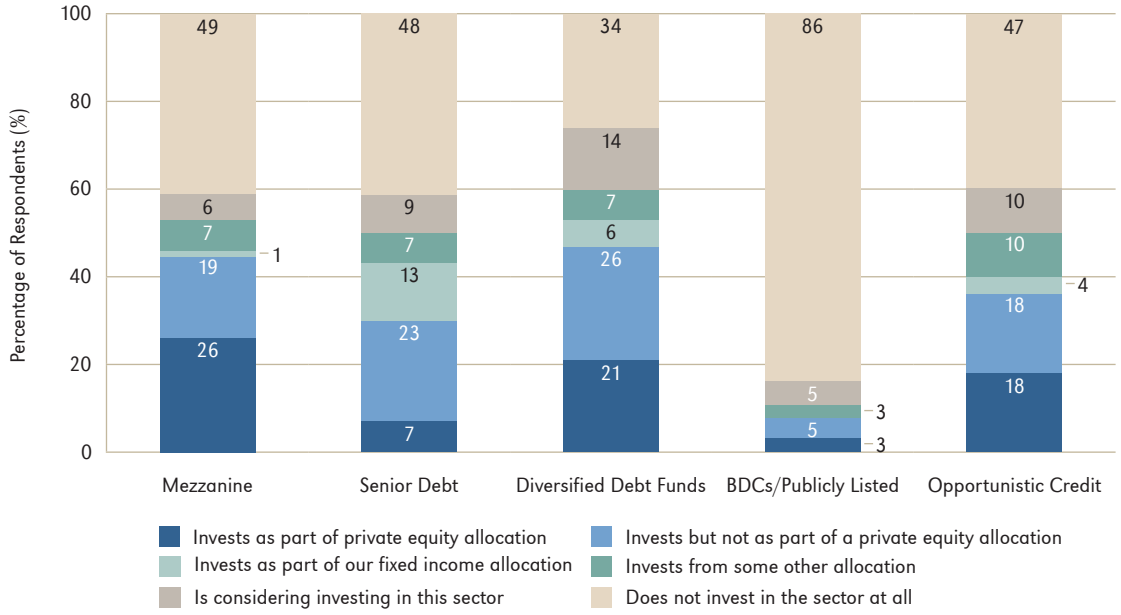
- **Since the GFC, investors have been increasingly interested in private credit exposure as they look both at opportunities created by turmoil in banks emanating from regulatory changes, as well as a potential source of yield in a low rate environment.**

- **The private equity respondents to the survey are most focused on mezzanine and opportunistic credit sectors, as well as on diversified debt funds that invest across the debt portion of the capital structure, including through unitranche facilities (Chart XXIV). Vehicles focused strictly on senior debt are much more likely to be invested through private debt allocations because their returns are lower.**

- **Business Development Companies ("BDCs") or other publicly listed vehicles were of little interest to respondents either in their private equity or private debt allocations.**

Chart XXIV Credit

In the credit sector, my firm:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey
Note: Some sectors total greater than 100% of respondents as a few investors had multiple responses

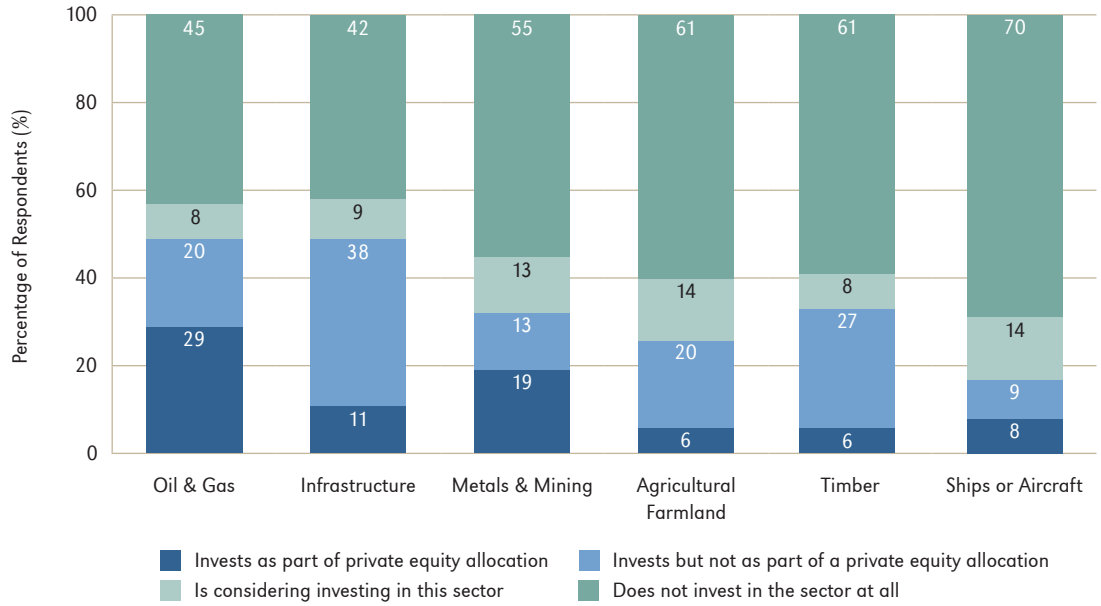
Real Asset Funds

Investors with significant long-term liabilities, such as pension plans and sovereign wealth funds, have had increasing interest in the real asset sectors over the last five years.

- **Only the oil & gas sector attracted strong interest from private equity allocations. However, consistent with responses in the survey related to declining interest in energy generally, interest in oil & gas private equity investing dropped by nearly half from two years ago (Chart XXV).**
- **Interest in infrastructure, timber, and agriculture attracted significant interest from allocations outside of private equity, so not all of this interest is captured in this survey.**
- **Investors looking to commit $500 million or more to private equity in 2017 are more interested in real assets.**

Chart XXV Real Assets

In the real asset sector, my firm:



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2017 Survey
Note: Some sectors total greater than 100% of respondents as a few investors had multiple responses

Secondary Market

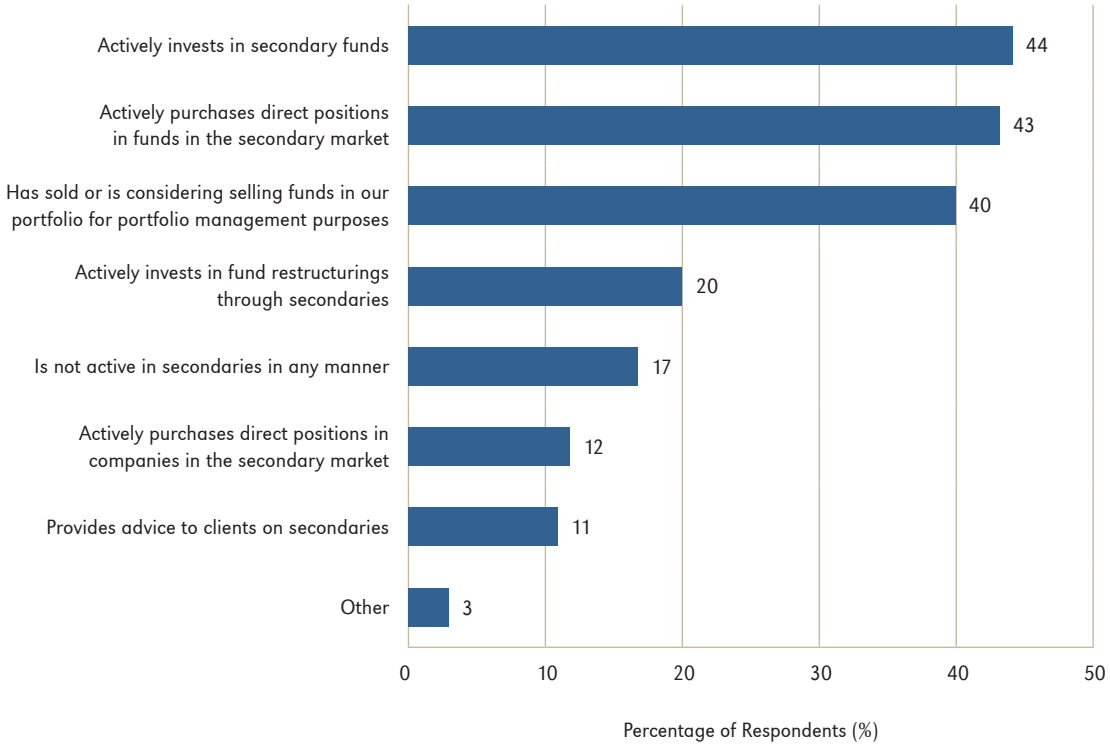
- **Only 17% of respondents are not active in the secondary market in any way (Chart XXVI). A large number of respondents purchase positions directly in the market or have sold or are considering selling positions.**

- **Large investors (those seeking to invest $500 million or more) are much more likely to purchase direct positions in secondaries than invest in secondary funds.**

- **Fund restructurings using secondaries are a relatively recent phenomenon that has also begun to attract the attention of the U.S. Securities and Exchange Commission ("SEC") in terms of potential conflicts of interest. Only 20% of respondents say that they actively target these transactions, though more of these are fund-of-funds.**

Chart XXVI Secondary Market Investments

In the secondary market, my firm (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

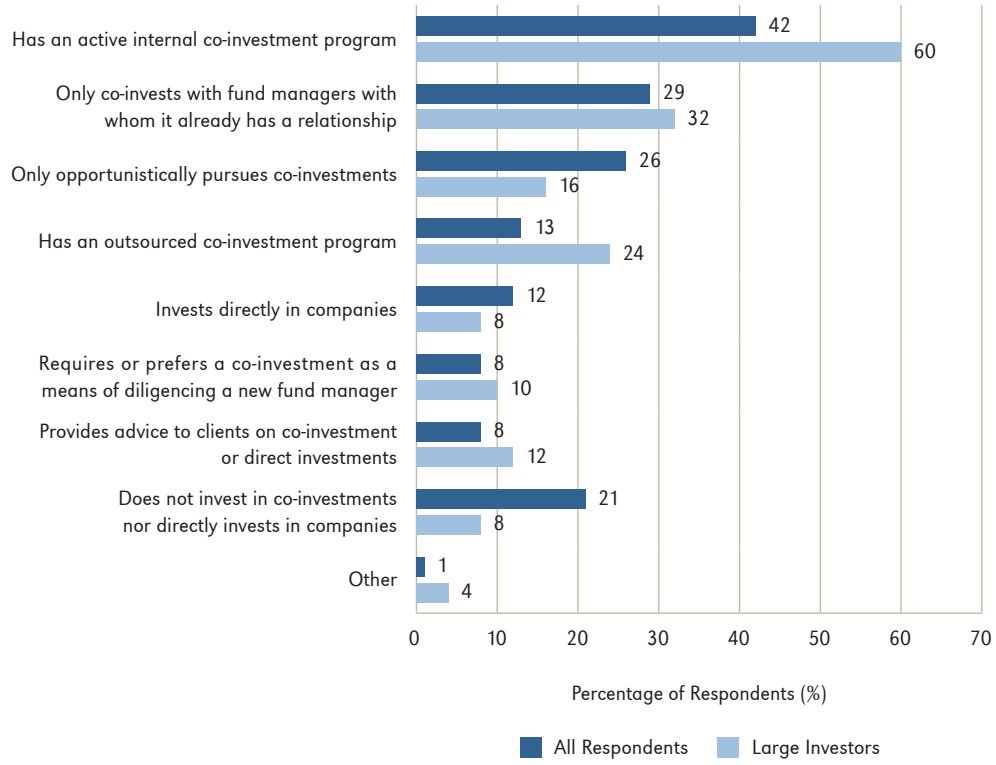
Co-Investments and Direct Investments

- **Interest in co-investments remained strong, with 55% of respondents having either an active internal or outsourced co-investment program (Chart XXVII). Large investors, who often have more capital to deploy and greater staff resources, are even more active, with 84% of them having either an active internal or external program.**
- **Only 8% of large investors do not pursue co-investments or direct investments at all, compared to 21% of overall respondents.**
- **Few respondents invest directly in companies.**

"55% of respondents having either an active internal or outsourced co-investment program"

Chart XXVII Directs and Co-Investments

Regarding directs and co-investments, my firm (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey
Note: "Large Investors" denotes those survey respondents who plan to commit $500 million or more to private equity in 2017

Fund Structures and Key Terms

- **The most important term for investors remains the level of general partner ("GP") financial commitment to a fund (Chart XXVIII). It is the key factor from investors' perspective that best establishes alignment of interest between investors and fund managers; interestingly, it is of greater importance to North American investors than other respondents.**

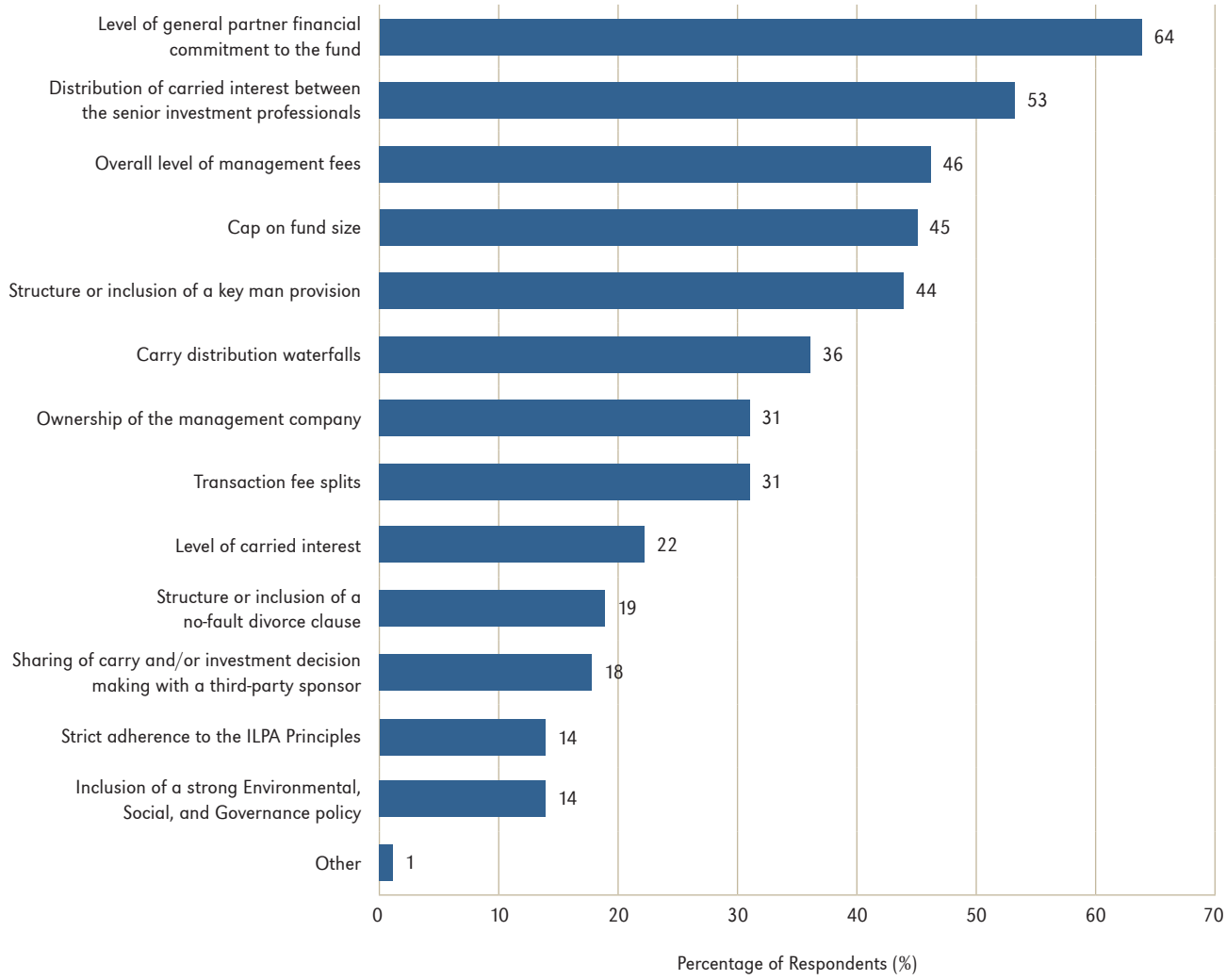
- **Though it is much discussed in the market, the inclusion of a strong Environmental, Social and Governance ("ESG") policy does not seem to be a major consideration to most respondents to our survey, with only 14% of respondents citing it as important.**

- **Similarly, strict compliance with the ILPA Principles is not a major criterion for investors, though many investors use them as a starting point in the negotiation of terms.**

"The inclusion of a strong ESG policy does not seem to be a major consideration to most respondents"

Chart XXVIII Issues Regarding Fund Structure

The issues I focus on most when investing or advising a client as far as terms or structure of a fund are (choose no more than four):

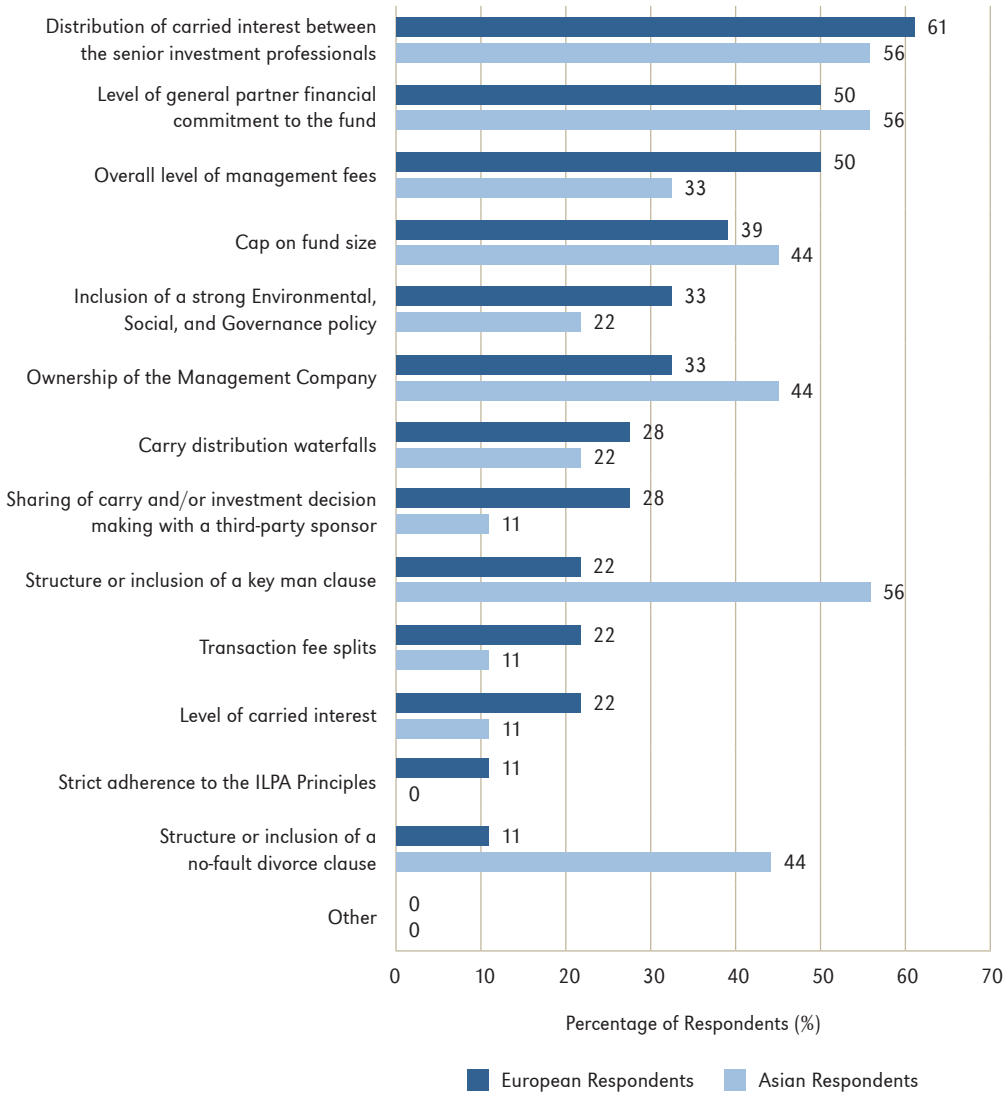


Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- **Though many investors agree generally about the most important issues on which to focus, there are distinct differences as well; Chart XXIX compares the responses of European respondents to Asian respondents to provide an example.**
  - **Notably, Asian respondents are much more focused on key-man and no-fault divorce clauses than other investors.**
  - **Europeans are much more interested in having a strong ESG policy than Asians or North Americans.**
  - **Europeans are also much more concerned about sharing economics or decision making with third-party sponsors than Asian respondents.**

Chart XXIX Issues Regarding Fund Structure; European Respondents vs. Asian Respondents

The issues I focus on most as far as terms or structure of a fund are (choose no more than four):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

Investor Fears and Concerns

- As with last year, investors' greatest fear is that too much money is coming into all areas of private equity, followed very closely by the concern that the private equity market feels like it is at the top of the cycle (Chart XXX).

- The concern that the market may be at the top of the cycle is the greatest fear cited by endowments and foundations (75%) and Europeans (67%).

- The third-ranked fear of investors, at 45%, is that purchase price multiples for middle-market buyouts are too high. That is the case even in the face of respondents still choosing U.S. and European middle-market buyouts as the leading sectors of investment interest.

- None of the other concerns beyond the top cited above garnered even 30% of responses.

- There is some stated concern that fund managers are not being transparent in disclosing details of fees or properly calculating them. While those issues are frequently mentioned in the media and have been the subject of SEC audits in the United States, only 13% of respondents note them as a concern.

- Few respondents (6%) are concerned that another technology bubble is forming.

Chart XXX Greatest Fears Regarding the Private Equity Market

My three greatest fears regarding the private equity market at the moment are:

Source: Probitas Partners' Private Equity Institutional Investor Trends for 2017 Survey

- Table III compares investors' fears just before the GFC, the prior market peak, to their fears going into 2017.
  - Too much money coming into the market and driving returns down is a constant refrain of investors, as was the case in various ways in 2007. However, there is a greater focus on that by respondents today, combined with the second-ranked fear that we are at the top of a market cycle.
  - For 2017, investors fear that purchase price multiples for middle-market and large buyouts are too high — even though middle-market buyouts are the most favored sector for investors. In 2007, there were greater fears about the amount of leverage being applied to buyouts and on recapitalizations that re-levered companies.
  - For 2017 survey, 26% of respondents fear that large firms in the market are becoming asset managers, focused on growing assets under management rather than their key investment strengths — an issue that was not on the map in 2007.

"Investors fear that purchase price multiples for middle-market and large buyouts are too high — even though middle-market buyouts are the most favored sector for investors"

Table III What Keeps You Up at Night?

Top five responses:

2007		2017	
Issue	%	**Issue**	%
Management fee levels and transaction fees on large funds are destroying alignment of interest between fund managers and investors	51%	Too much money is pursuing too few attractive opportunities across all areas of private equity	64%
The amount of leverage in the buyout market is unsustainable, and over the next two years credit problems will hurt performance of recent vintage funds	48%	The current private equity market feels like it is at the top of the cycle	56%
There is too much money available in the large buyout market and this will dramatically impact future returns	39%	Purchase price multiples in middle-market buyouts are too high and threaten future returns	45%
Private equity is most effective as a niche market and too much money is being raised in all sectors of private equity	35%	Purchase price multiples in large-market buyouts are too high and threaten future returns	26%
Recapitalizations are boosting IRRs temporarily, but adding to fund risk by re-levering companies	30%	Large firms in the market are becoming generalized asset managers and are moving away from key investment strengths	26%

Source: Probitas Partners' Private Equity Institutional Investor Trends for 2007 Survey and 2017 Survey

Our View of the Future

Several key trends emerged from the results of the survey or were generated from our ongoing conversations with investors:

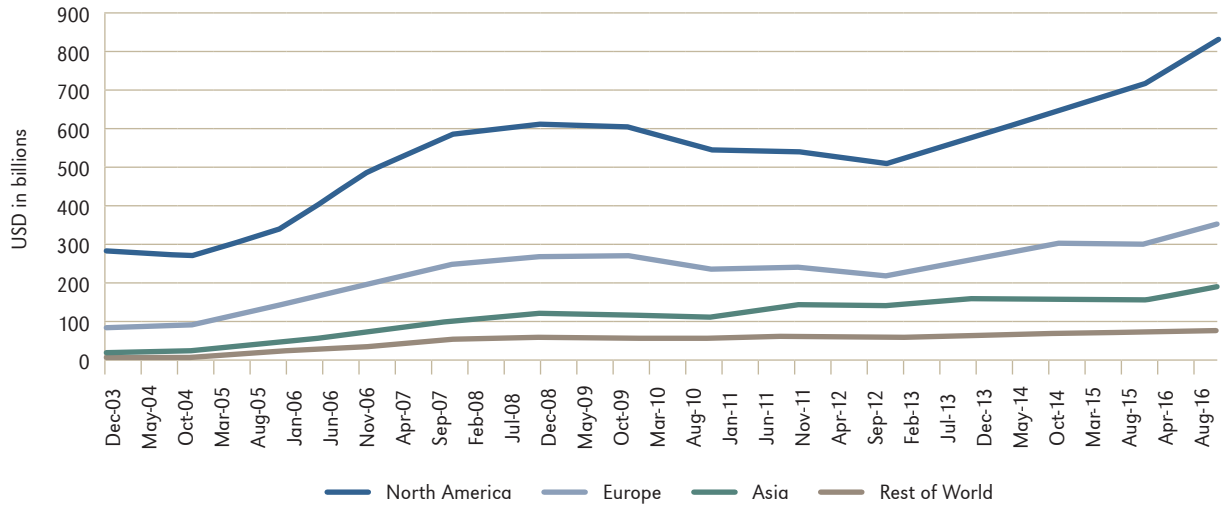
- ***The dramatic increase in private equity "dry powder" threatens future returns.*** Private equity "dry powder" has built up rapidly over the last three years, especially for North American funds. Combined with the high purchase price multiples, these levels of "dry powder" put more pressure on fund managers to put capital to work at what is likely the peak of the market cycle causing concerns about future return prospects for recent vintages.

- ***Co-investments and separate accounts are creating "dark pools" of capital that potentially understate "dry powder" estimates.***

  - ***Separate accounts are becoming increasingly important to large investors — and the amounts of capital raised through these accounts are more opaque then those raised for traditional commingled funds.*** Separate accounts — either specifically targeted at a particular strategy or giving the manager wide latitude to invest across strategies — are becoming increasingly important to very large investors. These investors use such vehicles to reduce manager costs while deploying large sums of capital. Commitments made to these accounts — and the "dry powder" that they engender — are much more difficult to track than multiparty vehicles resulting in a potentially larger pool of "dry powder" that otherwise is visible to the market.

  - ***Co-investments continue to be an expanded area of interest for a broader universe of investors.*** Institutions both large and small seek to accomplish a similar net return enhancement as separate account investors as a means of controlling risk and enhancing portfolio returns internally. This capital pool, similarly, is much more opaque to the market and represents an expansion of deployable capital that understates the market's view of "dry powder."

Chart XXXI Private Equity "Dry Powder" by Region Targeted



Source: PREQIN

"The ultimate impact of Brexit is not known yet and likely won't be for some time — but the uncertainties are having an impact on investor appetite for the UK"

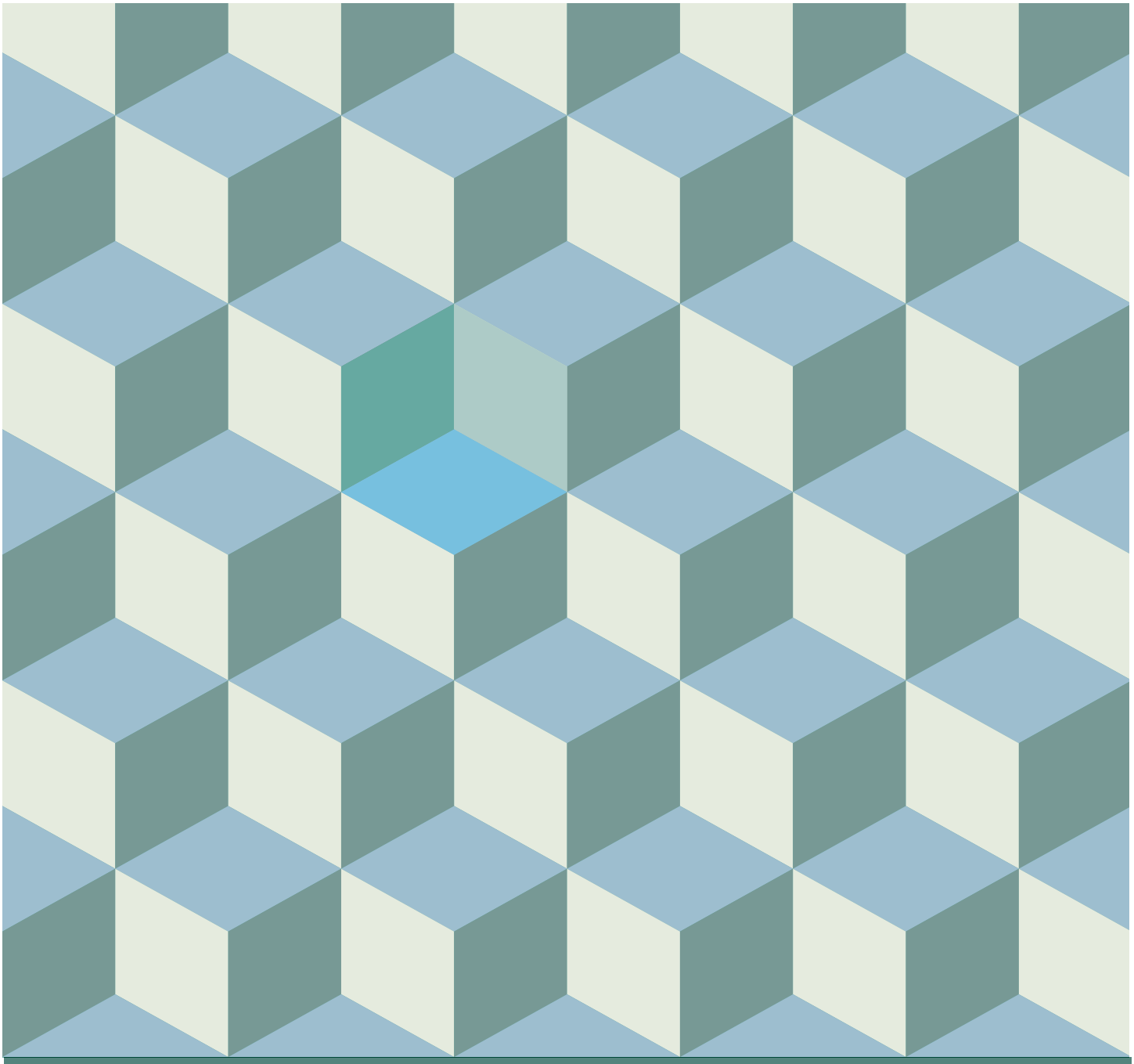
- ***The ultimate impact of Brexit is not known yet and likely won't be for some time — but the uncertainties are having an impact on investor appetite for the UK, at least for investors outside North America.*** Article 50 has yet to be triggered and separation negotiations have not yet begun, but uncertainty is causing certain investors to decrease focus on the UK, though at least for the time being, interest by North American investors remains strong. We have begun to notice increased talk of new turnaround funds targeting the UK and a drop in GDP would impact certain portfolio companies in existing portfolios. Forecasting exactly what sectors or companies are most at risk at the moment is more difficult.

- ***Smaller investors and the "best of breed" approach.*** Many smaller, sophisticated investors continue to take a targeted approach to investing, focusing on "best of breed" managers in narrow strategies looking to generate alpha in inefficient sectors such as industry sector focused buyout or growth capital funds, or middle-market distressed, turnaround and special situations vehicles. This approach often requires both looking at new managers and moving away from established relationships with managers who these LPs perceive have grown too large relative to their original strategies. While this approach can generate outsized performance, it is not immune to the impact of a dramatic increase in "dry powder." Several investors, for example, cite surprise when smaller fund managers disclose that much larger funds are dipping down into "their space" in search of less competition and better returns.

- ***Private debt funds and the credit cycle.*** Private debt funds — in private equity, real estate and infrastructure — have grown tremendously in interest and available capital since the GFC, driven by changes in the regulatory environment and a search for returns in a low yield environment. Since 2012, fundraising for closed-end private debt funds has increased dramatically from $22 billion to $61 billion in 2015, with other increases in vehicles like collateralized loan obligations ("CLOs"). This growth has resulted in the formation of a number of new funds, or interest still by other managers to launch new vehicles; a number with managers that have little experience investing across credit cycles. As a result, there is increasing risk of moderated returns in the sector and significant reverses in the event of a major down cycle — though forecasting the effect of dramatic central bank action regarding the space is difficult to predict.

- ***At the large end of the deal market, Sovereign Wealth Funds and the largest public pension plans are competing increasingly with fund managers for deals — yet another source of "untraceable" "dry powder."*** These institutions are becoming increasingly sophisticated and well-staffed direct investors, typically with longer-term investment horizons and an inherently lower cost of capital than funds, giving them unique advantages in certain circumstances. Many of them continue to join direct investment syndicates for particular deals while investing as LPs in funds, making them both competitors and partners to fund managers. However, as competition increases for larger deals, we expect the friction between these larger institutional investors and fund managers will likely increase.

In summary, there is an overall trend of both increasing cooperation between LPs and fund managers, as evidenced by increasing co-investment and separate account activity, as well as increased competition at the large end of the market as the largest LPs begin to move towards direct investment. There is also more competition among LPs for access to co-investments — all in an environment where the "dry powder" available through closed-end funds is increasing dramatically. This reflects changing market fundamentals and an environment where history is becoming a less accurate predictor of the future.



Private Equity Institutional Investor Trends for 2017 Survey

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