

PE Pulse

Quarterly insights and
intelligence on PE trends

July 2019



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The PE Pulse has been designed to help you remain current on capital market trends. It captures key insights from subject-matter professionals across EY member firms and distills this intelligence into a succinct and user-friendly publication.

The PE Pulse provides perspectives on both recent developments and the longer-term outlook for private equity (PE) fundraising, acquisitions and exits, as well as trends in private credit and infrastructure.

Please feel free to reach out to any of the subject-matter contacts listed on page 17 of this document if you wish to discuss any of the topics covered.

1. EY Voices



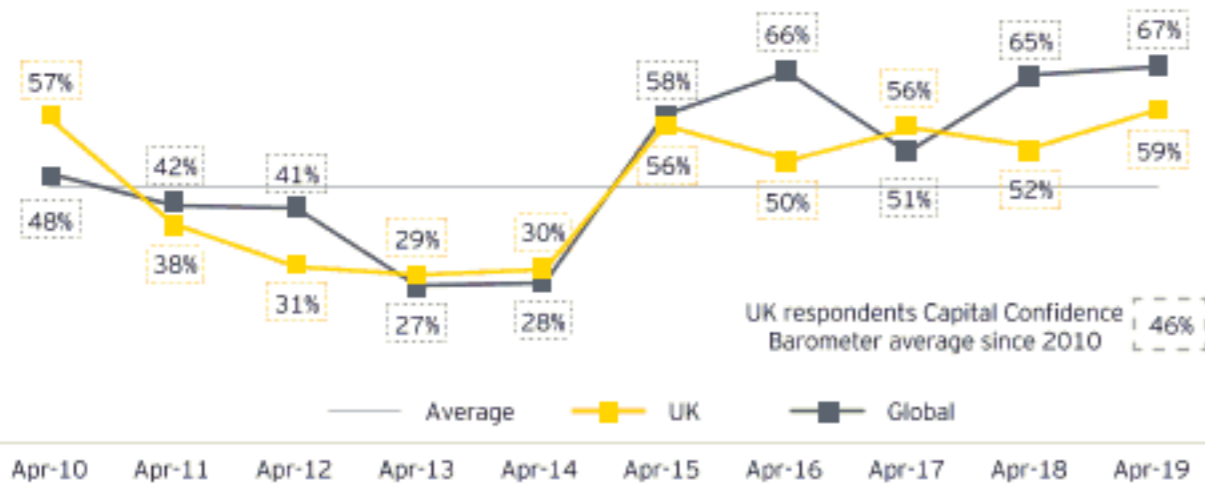
1.i. Is the UK still an attractive option for PE?



Three years since the EU referendum vote, Brexit remains a work in progress and the unpredictability of UK politics stands in stark contrast to the relative stability we saw before 2016. And yet, corporate deal appetites seem undented.

The latest EY Global Capital Confidence Barometer (CCB20) shows that UK remains a highly attractive destination for domestic and overseas corporate dealmakers. For the first time in a Decade, the UK is named as the most attractive M&A destination by global executives, and UK executives have also signaled their highest transaction appetite in the survey's history.

Do you expect your company to actively pursue M&A in the next 12 months?



UK deal drivers

There are strong drivers to transact in the UK:

1. The UK's reputation for innovation and its attractive globally oriented assets
2. The UK's changing relationship with the EU, which will encourage more near-sourcing and more companies to invest to protect supply chains and maintain regulatory and market access
3. New challenges and opportunities slower growth should encourage greater consolidation; higher wages could increase demand for labor-saving technologies
4. The UK's geographical, language and legal advantages

Meanwhile, slower global growth has perhaps lessened the relative perception of UK challenges. A weaker pound has also helped some valuations stack up, but any advantage here could be lost in earnings translation for overseas buyers.

The PE context behind the attractiveness of the UK

Many of these drivers apply to PE investments, but general partners (GP) deal dynamics are different to corporate buyers. GPs have a fundamental requirement to transact and record dry powder to deploy. European PE groups' latest round of fundraising is larger - but also earlier - than expected, reflecting high investor demand and possibly a move to seek protection before a downturn.

Nonetheless, large European or internationally focused GPs typically have significant flexibility in terms of how and where they deploy their capital. More so than UK-centric mid-market firms and more so than companies that are often tied into locations, trade routes and supply chains. GPs with a European or global geographical focus have the potential to steer their capital in areas where greater visibility gives them more certainty over valuations.

Moreover, GPs - unlike companies - need to think about their exit. This is clearly harder to plan when there is so little visibility over the medium-term regulatory and market environment and UK-based companies' ability to attract and retain talent. This labor issue is quickly moving up the agenda as other nations - most notably France - look to make themselves more attractive to PE investors.

1.i. Is the UK still an attractive option for PE? (cont.)

Weakening resilience

UK PE deals

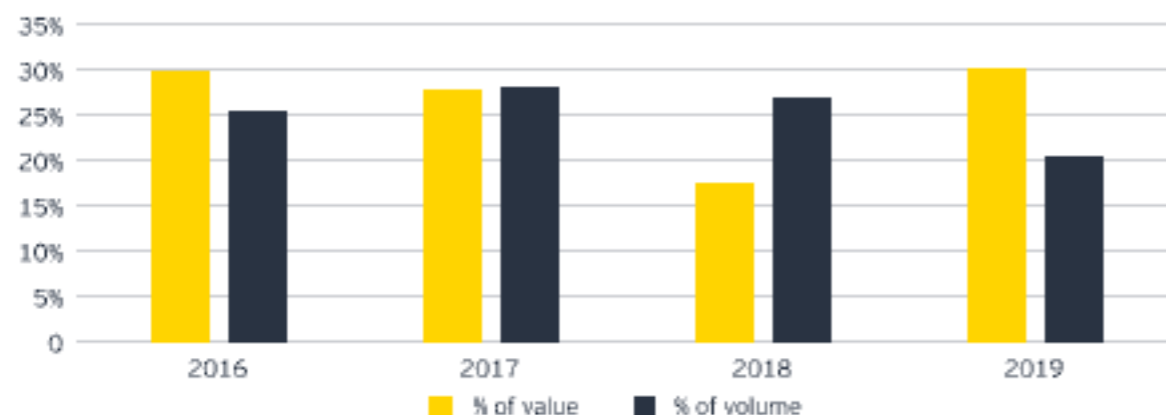


Source: Dealogic

The UK's strong draws help to explain why, until recently, UK PE deal activity has shown such resilience. UK PE investment has fallen sharply since late 2018 under more intense uncertainty. The Decline is even more noticeable when we look at UK transactions as a percentage of European deals.

The UK remains the number one destination overall, but many of the biggest deals of the last 18 months have come on the continent.

UK PE deals



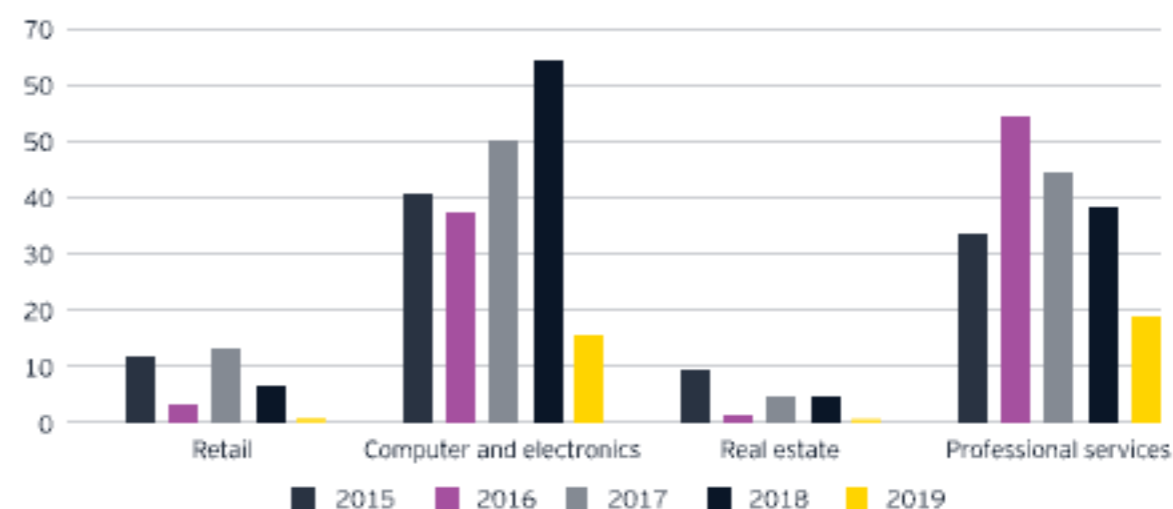
To some extent, this change reflects a maturing European market. However, the bar for doing UK deals has also moved higher. UK-based targets with niche markets or strong overseas revenues are still attractive. There is also interest in companies that offer potential Brexit upside from import substitution or automation. But UK activity has dipped in domestically exposed areas, such as retail and real estate.

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Paddy Moser, Partner, Transactions Advisory Services, Ernst & Young LLP

UK PE deals as a percentage of European activity



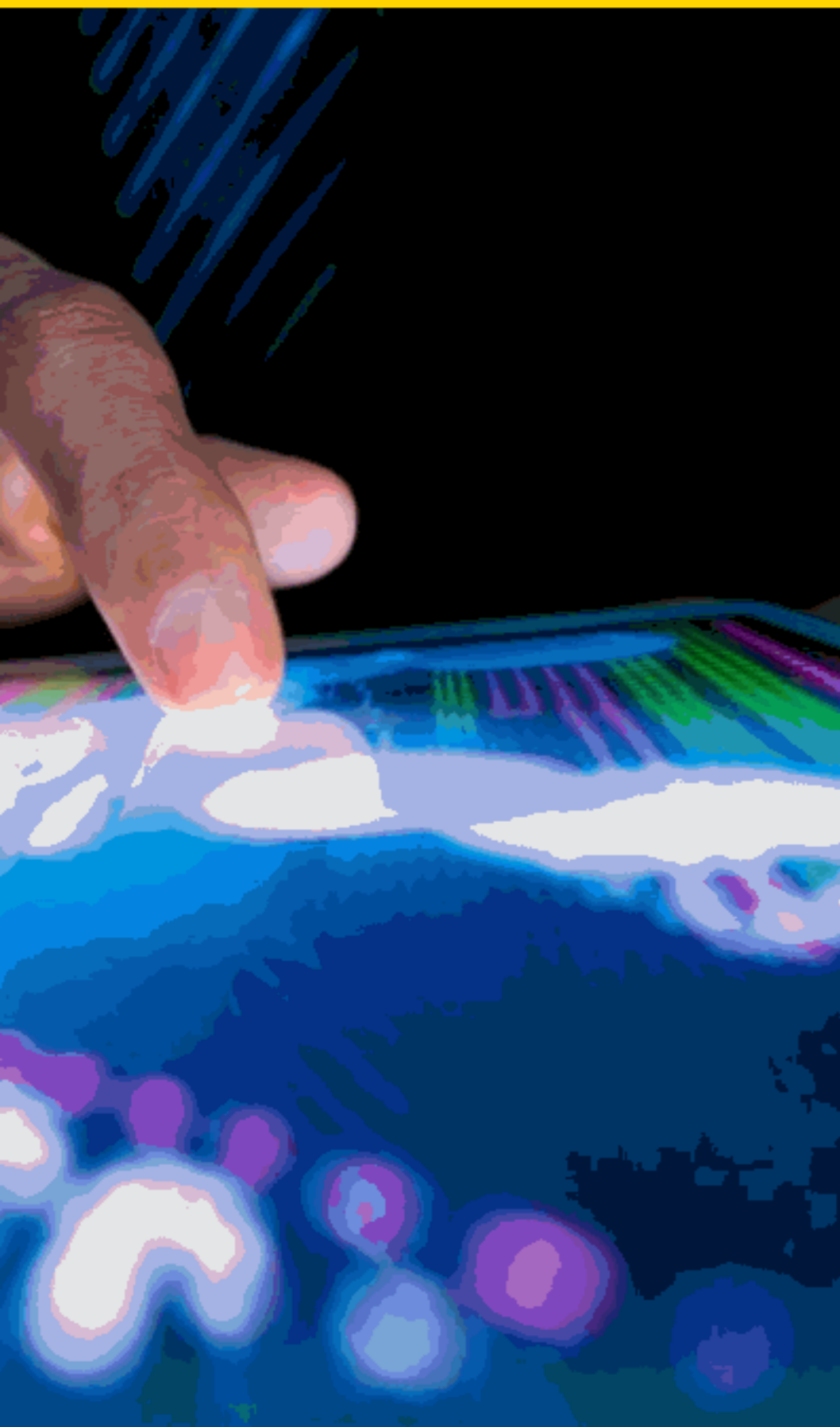
What is the risk-reward?

The UK is an incredibly resilient deal market. But there is undoubtedly more food for thought for an industry that thrives on numbers, given the lack of visibility beyond the end of October.

Should uncertainty lift, we could see a considerable release of deal activity in the PE space and beyond. Should uncertainty remain and UK asset prices fall, deal activity could remain muted, albeit with increasing interest in the distressed space.

Meanwhile, PE firms are putting more emphasis on their existing portfolios and we expect to see more bolt-on acquisitions in the UK as well as increasing numbers of minority stake investments, as PE looks for more ways to put capital to work.

1.ii. Infrastructure funds get new options



Infrastructure funds have been one of the most popular PE fundraising classes in recent years. In aggregate, PE firms have raised more than US\$388b over the last five years for investments in the infrastructure, according to an EY analysis of Preqin data. Currently, PE firms have more than US\$217b in dry powder available to fund new deals. Infra funds have raised US\$100b over the last 12 months, up 24% to the US\$81b that was raised over the prior 12 months.

However, structural barriers such as inconsistent legal frameworks across jurisdictions, the amount of time it takes to complete public-private partnerships and high competition for a limited number of attractive assets is making it difficult for the industry to effectively deploy capital. In the first half of 2019, PE firms announced infrastructure deals valued at US\$212b, down 7% from the same period a year ago, and on pace for the lowest total since 2015.

Continued strength in fundraising amid a challenging environment for deployment

Two new IRS private letter rulings (PLRs) obtained by EY teams for separate clients may make it easier for PE funds to invest in certain types of energy and

telecommunications infrastructure - two of the hottest areas of interest for PE investors. The rulings pave the way for real estate investment trusts (REITs) to own and operate energy pipelines, storage tanks and fiber optic lines in certain cases.

Energy and telecommunications infrastructure have been some of the most sought-after investments by PE funds, which are looking to capitalize on the increase of US oil and natural gas production and the surging demand for bandwidth and the move toward 5G wireless, the backbone for the internet of things (IoT), autonomous vehicles and similar technologies.

Since 2015, there have been 777 PE deals for energy storage and pipeline assets, with pipelines and storage totaling close to US\$150b. At the same time, there have been 306 deals for various types of telecommunications and wireless infrastructure totaling more than US\$110b.

The PLRs provide PE investors a tax-advantaged option for investing in these assets, as REITs generally do not pay US corporate income tax. The REIT structure provides potential incremental value for PE investors who are looking to acquire these popular assets, either as a single target or as part of a roll-up strategy.

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Connie Cassidy, EY Americas Infrastructure Private Equity Leader



What are rents from real property?

The PLRs revolve around the question of what constitutes “rents from real property.” An entity may qualify as a REIT if substantially all its revenue is rents from real property.

That test is simple in real estate such as an apartment or office building. In those cases, rent is paid for the exclusive right to use a certain fixed space over a certain amount of time for a fixed amount.

For a storage tank or pipeline, it can be more challenging, said David Miller, Co-Director, EY Americas Passthrough Transactions Group and an author of the private letter ruling requests. In those cases, a user is paying for capacity and may not know in which tank their commodity is being stored. In addition, their commodity may be commingled with another user’s commodity. Furthermore, the payments may be fixed, may be based on “throughput” or a combination of both.

In a February 2019 PLR obtained by EY for a REIT client, the IRS ruled that the amounts received by the REIT from a user constituted rents from real property notwithstanding the differences described above compared with apartments or office buildings.

EY obtained a separate PLR addressing whether payments received by a REIT for the use of certain fiber optic lines may qualify as rents from real property. As in the case of a pipeline, a fiber optic cable may have multiple users at the same time. The PLR concludes that payments received by a REIT for capacity reserved for a user with respect to an identifiable pathway (including a wave lease) may qualify as rents from real property.

“Over the long-term, assets that are eligible to be owned and operated in a REIT tend to be held in a REIT. Timber used to be owned by regular C corporations and now is held primarily in REITs. The same is true with respect to cell towers, data centers and certain other types of infrastructure assets.

David Miller, Co-Director, Passthrough Transactions Group, Ernst & Young LLP

1.ii. Infrastructure funds get new options *(cont.)*

Tax advantaged infrastructure investment

Miller also suggests the rulings could eventually lead to REITs being a more common vehicle for investing in certain types of energy and telecommunications infrastructure.

For PE investors, these PLRs present a welcome development. REITs are a well-known vehicle in capital markets and often receive a premium valuation in the market. Many global investors in PE funds, including global pension funds and sovereign wealth funds, can receive a favorable tax treatment for distributions received from a REIT and on gain when they sell REIT shares, Michael Doolan, EY Americas Infrastructure Tax Leader. Whether a REIT is an appropriate vehicle for a particular asset is a function of the nature of the asset, the nature of the payments received for the use of the asset and, in some cases, regulatory issues. In the appropriate circumstances, however, a REIT is a compelling alternative as an investment vehicle for a PE fund compared with a C corporation blocker.

Given this backdrop, EY teams expect that REITs will emerge as the owners of midstream and telecommunications infrastructure assets, both in the private and listed markets.

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For PE investors, these PLRs present a welcome development. REITs are a well-known vehicle in capital markets and often receive a premium valuation in the market.

Michael Doolan
Infrastructure Tax Leader
Ernst & Young LLP

2. Private equity

2.i. PE: fundraising

Executive summary

- The fundraising environment remains strong, albeit off the highs of the last two years. PE firms have raised US\$324b over the past six months, versus US\$325b previous year, a marginal Decline of 0.2%.
- In Q2 2019, aggregate fundraising Declined to US\$155b, from US\$166b over the same period last year.
- Buyout continues to be the dominant strategy, accounting for 42% of the funds raised in last six months.

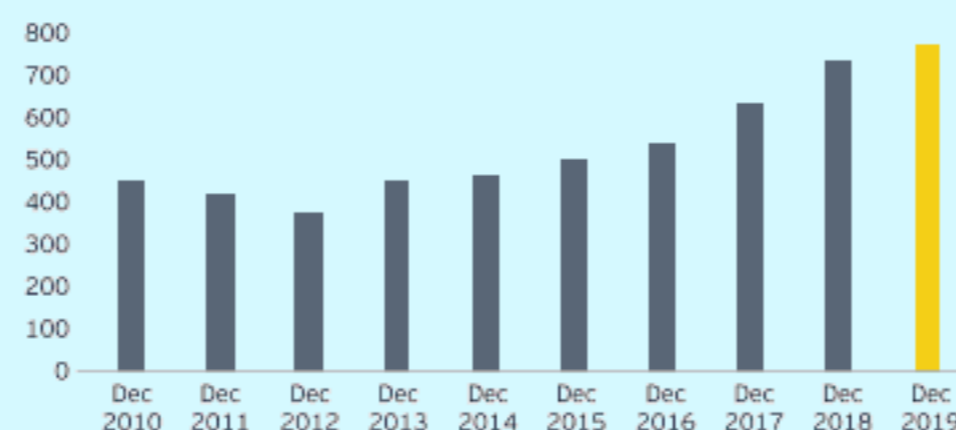
Current state

Fund sizes continue to grow in 2019, as investors seek to place large strategic commitments with managers possessing strong track records of repeated success.

- PE firms raised US\$155b during 2Q19, compared with US\$168b in 2Q18. The number of funds closed dipped by 41% during the same period.
- 2Q19 saw buyout as the dominant strategy, accounting for 44% of the aggregate fundraising. It has represented 40% of the total capital raised in last 12 months.
- As a result of the strong fundraising environment, PE dry powder continues its upward run, reaching US\$732b as of Jun'19, up 6% from the beginning of the year.
- US remained the most preferred destination as focussed location for fundraising. Over 61% of the capital raised in last 12 months is focussed to be deployed in the US.



Buyout dry powder – three-year compounded growth rates



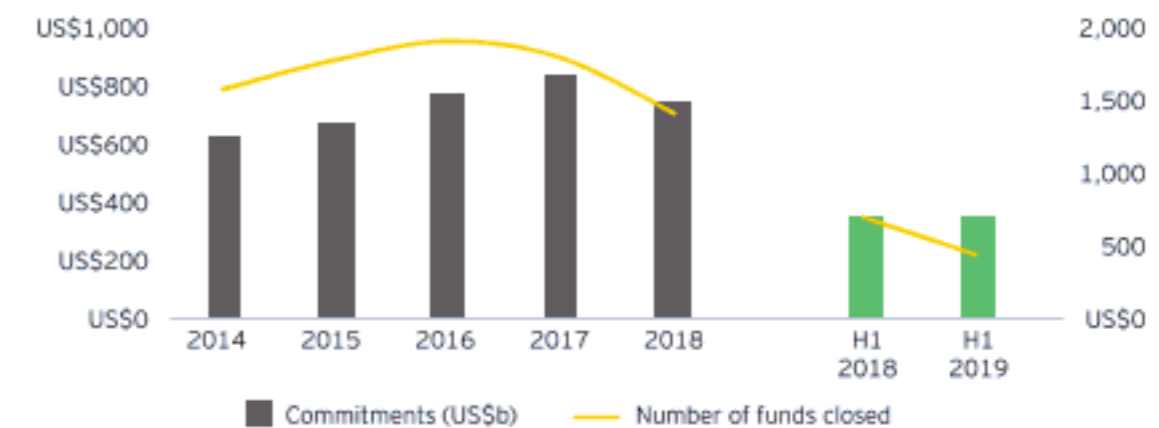
Source: Preqin

Environment and horizon

- SWFs and family offices continue to seek direct investments, in part to exercise greater control over their portfolios. The Global Family Office Report 2018 Survey by UBS and Campden Wealth 2018 suggested that 50% of family offices are aiming to increase their allocation to PE direct deals in 2019.

- ▶ Despite recent Declines in deployment activity, PE firms remain focused on the Asia-Pacific region. A recent Pitchbook survey of LPs found that 37% of LPsw expected to increase target allocations to Asia/Oceania, higher than any other region. Over the last Decade, PE assets targeting Asia-Pacific have climbed at a compounded rate of 21%, versus 7% for Europe and 7% for North America, according to Preqin figures. In addition to “traditional” growth capital investments in Asia’s emerging economies, firms are also increasingly focused on:
 - ▶ Western-style buyouts, as management teams become increasingly comfortable with PE
 - ▶ Complex carve-outs, as the regions conglomerates seek to offload certain non-core businesses
 - ▶ Credit opportunities – while still small relative to the US and Europe, Asia’s private debt market has tripled over the last Decade

PE fundraising by year (US\$b) Source: Preqin



Top funds raised over the last 12 months

Fund	Type	Value (US\$b)
Carlyle Partners VII	Buyout	18.5
Advent Global Private Equity IX	Buyout	17.5
Hellman & Friedman Capital Partners IX	Buyout	16
Brookfield Strategic Real Estate Partners III	Real estate	15
Thoma Bravo Fund XIII	Buyout	12.6
Cinven VII	Buyout	11.1
Hillhouse Fund IV	Buyout	10.6
EQT Infrastructure IV	Infrastructure	10.2
TA XIII	Buyout	8.5
Lone Star Fund XI	Real estate	8
Sequoia Capital Global Growth Fund III	Growth	8

Source: Preqin

2.ii. PE: acquisitions

Executive summary

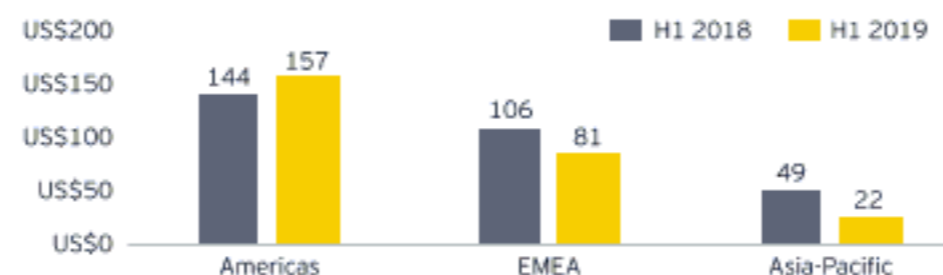
- Investment activity receded in the second quarter of 2019, with 476 deals announced valued at US\$159b, down 4% from 2Q18.
- The aggregate size of PE investments dipped 13% over the last 6 months versus the prior 6 months, to US\$260b. In the Americas, PE investment increased by 10% in Americas during this period while it fell by 24% and 54% in EMEA and Asia-Pacific respectively.
- Heightened competition for a diminished pool of quality assets, high valuations and concerns regarding the macro environment and geo-political stability are impacting PE's pace of deployment.

Current state

PE deal activity down 4% in 2Q19, down 13% over the last six months.

- PE firms have announced deals worth US\$159b during 2Q19, down 4% from the previous year. Deal volume also Declined by 11% over 2Q18 to reach 476 deals.
- PE deals have fallen 13% over the last 6 months to US\$260b.
- The Americas region continues to dominate deal activity, representing 60% and 48% of global deal value and volume, respectively over the last 6 month.
- EMEA witnessed 2% fall in the aggregate size of PE investments in 2Q19 reaching to US\$50b from US\$51b a year ago. Deal volume slipped by 7%.
- PE deal value and volume in APAC Declined by 5% and 54% respectively over the past 6 months.

PE deal activity by region and value (US\$b), 1H19 vs. 1H18



Source: Dealogic

Environment and horizon

Heightened competition for a diminished pool of quality assets, high valuations and concerns regarding macroenvironment and geo-political stability are impacting PE's investment pace.

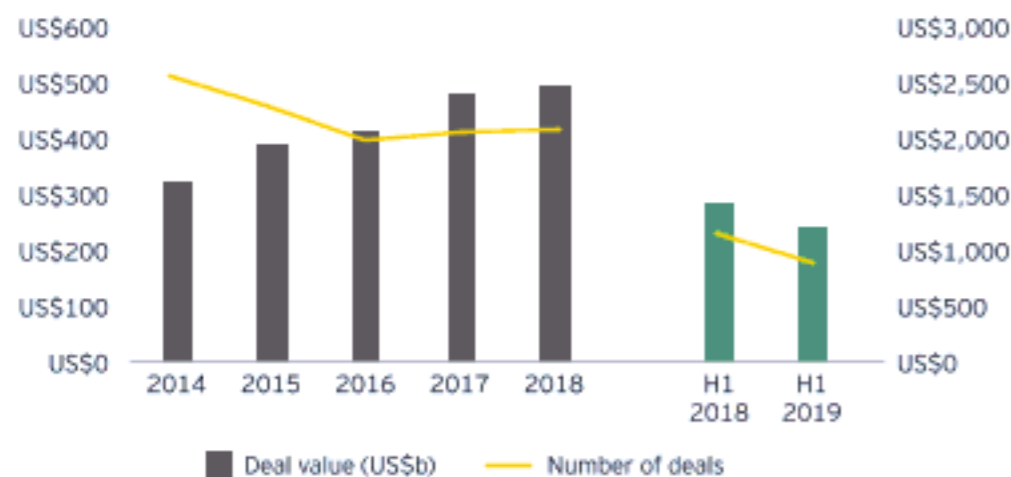
- Higher weight on ESG: the PE industry's appetite for responsible investment is steadily growing. PE houses and their investors are increasingly factoring ESG and impact considerations into their investment Decisions and portfolio management strategies. A recent survey by IHS Markit and Mergermarket revealed that respondents considered climate change and greenhouse gas emissions (37%), followed by human rights and labor standards (27%) as key issues requiring immediate attention.
- Sector focus: healthcare, FinTech, and CleanTech are expected to garner significant investor interest through the balance of the year. Partnerships between PE and healthcare buyers also are evolving beyond acquisitions, with some healthcare companies spinning off non-core assets and co-investing with PE in the new company. New research by Cambridge Associates recently found that sector specific funds outperformed generalist funds by 5%. Healthcare was an area where specialization particularly paid off, with IRRs of 34%, versus 19% for generalist funds.

2.ii. PE: acquisitions (cont.)



► Increasing focus on board diversity: an analysis published by Mergermarket and Toppan Merrill highlighted the emergence of board diversity as key focus area for PE investors, along with asset managers and other investment executives, while formalizing corporate strategy for their investees. Prior such experience for CEO nominees and slow turnover among board members remain key barrier, however, gradual progress have been made as percentage of women on the boards of Russell 3000 companies grew to 18.5% in 2018, according to research by Equilar.

PE acquisition values and volumes by year (US\$b) Source: Dealogic



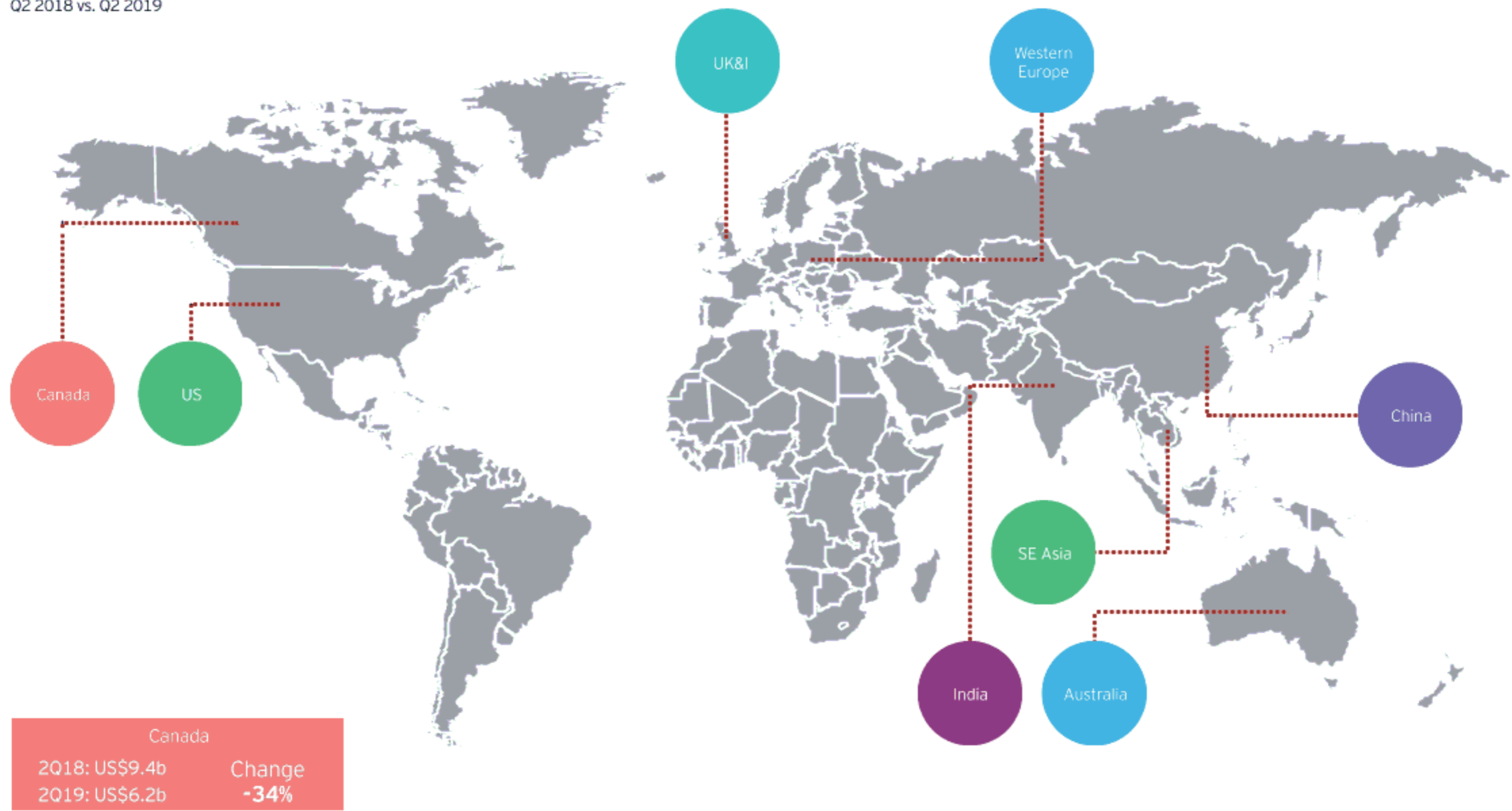
Top deals over the last 12 months

Target	Industry	Sponsor	Value (US\$b)
GLP Pte Ltd (US logistics assets)	Transportation	Blackstone	18.7
Zayo Group Holdings Inc.	Telecom	EQT Partners AB	14.3
Johnson Controls International Plc	Auto/Truck	Caisse de Depot et Placement du Quebec	13.2
Ultimate Software Group Inc.	Technology	Blackstone, CPPIB GIC Special Investments Pte Ltd., Hellman & Friedman LLC JMI Equity Inc.	12.4
Buckeye Partners LP	Oil and gas	IFM Investors Pty Ltd.	11.1
Nestle Skin Health SA	Consumer products	Abu Dhabi Investment Authority Ltd.	10.1
Sydney Motorway Corp Pty Ltd.	Transportation	Abu Dhabi Investment Authority Ltd.-ADIA CPPIB	9.5
Oaktree Capital Group LLC	Financial services	Brookfield Capital Partners Ltd.	9.1
Transportadora Asociada de Gas SA - TAG	Power and utilities	CDPQ	8.6
EnLink Midstream Partners LP	Energy	Global Infrastructure Partners, TPG Capital LP	7.9

Source: Dealogic

2.iii. PE: acquisition activity by region

PE: acquisition activity by key regions and countries
Q2 2018 vs. Q2 2019



2.iii. PE: acquisition activity by region (cont.)

PE deal activity by country and region (by quarter, Q2 2015 through Q2 2019, in US\$b)

Target nationality	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	% Q1 2019 vs. Q2 2019	% Q2 2019 vs. Q2 2018
Americas																			
Canada	US\$6.00	US\$1.40	US\$0.50	US\$0.30	US\$1.60	US\$2.20	US\$1.50	US\$0.20	US\$1.30	US\$0.10	US\$4.60	US\$1.10	US\$9.40	US\$0.20	US\$0.10	US\$1.80	US\$6.20	244%	-34%
US	US\$55.20	US\$61.30	US\$62.30	US\$21.50	US\$70.50	US\$60.00	US\$35.00	US\$38.70	US\$62.50	US\$48.90	US\$43.10	US\$63.30	US\$68.40	US\$40.50	US\$65.10	US\$55.70	US\$84.10	51%	23%
Latin America	US\$1.30	US\$0.80	US\$4.10	US\$0.00	US\$3.90	US\$5.30	US\$2.70	US\$1.10	US\$1.40	US\$1.30	US\$7.90	US\$0.50	US\$0.40	US\$0.10	US\$0.40	US\$0.70	US\$8.70	1,095%	2,035%
EMEA																			
UK&I	US\$12.70	US\$11.40	US\$12.40	US\$6.50	US\$6.20	US\$3.10	US\$27.80	US\$5.90	US\$20.90	US\$15.80	US\$14.20	US\$6.40	US\$7.50	US\$8.60	US\$10.30	US\$8.90	US\$16.30	82%	117%
Germany/ Switzerland/ Austria	US\$7.00	US\$5.70	US\$2.70	US\$4.20	US\$10.50	US\$1.50	US\$13.50	US\$4.90	US\$3.30	US\$7.30	US\$5.00	US\$3.40	US\$10.50	US\$4.40	US\$2.10	US\$8.70	US\$15.90	83%	51%
Belgium/ Luxembourg/ Netherlands/ France	US\$11.30	US\$12.10	US\$5.20	US\$3.50	US\$16.80	US\$3.80	US\$2.40	US\$4.80	US\$8.20	US\$4.50	US\$10.50	US\$17.70	US\$10.50	US\$3.70	US\$6.70	US\$3.10	US\$1.70	-46%	-84%
Nordics	US\$1.00	US\$5.00	US\$2.00	US\$0.20	US\$3.00	US\$2.10	US\$1.10	US\$0.10	US\$7.40	US\$13.30	US\$5.50	US\$15.50	US\$3.00	US\$11.70	US\$4.90	US\$1.30	US\$4.40	229%	46%
Mediterranean	US\$3.80	US\$4.20	US\$4.40	US\$4.30	US\$9.70	US\$5.90	US\$5.00	US\$7.20	US\$3.40	US\$10.70	US\$13.10	US\$10.80	US\$16.00	US\$14.10	US\$4.20	US\$3.50	US\$9.10	163%	-43%
Western Europe	US\$23.90	US\$23.50	US\$17.60	US\$10.00	US\$23.10	US\$7.00	US\$30.20	US\$10.60	US\$29.10	US\$20.30	US\$24.60	US\$24.10	US\$18.00	US\$12.30	US\$17.00	US\$12.10	US\$18.00	49%	0%
Asia-Pacific																			
China	US\$4.70	US\$2.10	US\$0.90	US\$2.00	US\$1.20	US\$0.10	US\$1.10	US\$5.30	US\$8.20	US\$17.10	US\$0.20	US\$2.70	US\$18.10	US\$0.60	US\$2.60	US\$3.20	US\$2.70	-17%	-85%
SE Asia	US\$0.30	US\$0.30	US\$1.50	US\$0.40	US\$0.30	US\$3.50	US\$0.70	US\$0.40	US\$2.50	US\$1.50	US\$5.50	US\$1.10	US\$1.70	US\$0.20	US\$0.40	US\$0.30	US\$0.50	53%	-69%
India	US\$1.00	US\$1.70	US\$0.90	US\$0.30	US\$1.00	US\$0.80	US\$0.70	US\$2.50	US\$1.40	US\$1.90	US\$0.60	US\$5.90	US\$9.90	US\$2.40	US\$1.90	US\$2.20	US\$1.30	-39%	-86%
Australia	US\$3.00	US\$2.70	US\$10.70	US\$9.30	US\$1.60	US\$9.90	US\$14.40	US\$0.50	US\$2.90	US\$2.50	US\$2.50	US\$1.30	US\$2.90	US\$10.60	US\$7.80	US\$0.10	US\$1.40	832%	-53%
Japan	US\$2.10	US\$0.10	US\$0.90	US\$1.20	US\$0.30	US\$1.10	US\$5.80	US\$1.90	US\$2.20	US\$22.80	US\$2.40	US\$0.20	US\$0.00	US\$0.00	US\$1.20	US\$2.60	US\$0.30	-90%	1,278%

Analysis as of 30 June 2019. All Rights Reserved.
 Note: data is continually updated and therefore subject to change.
 Source: Dealogic.

2.iv. PE: exits

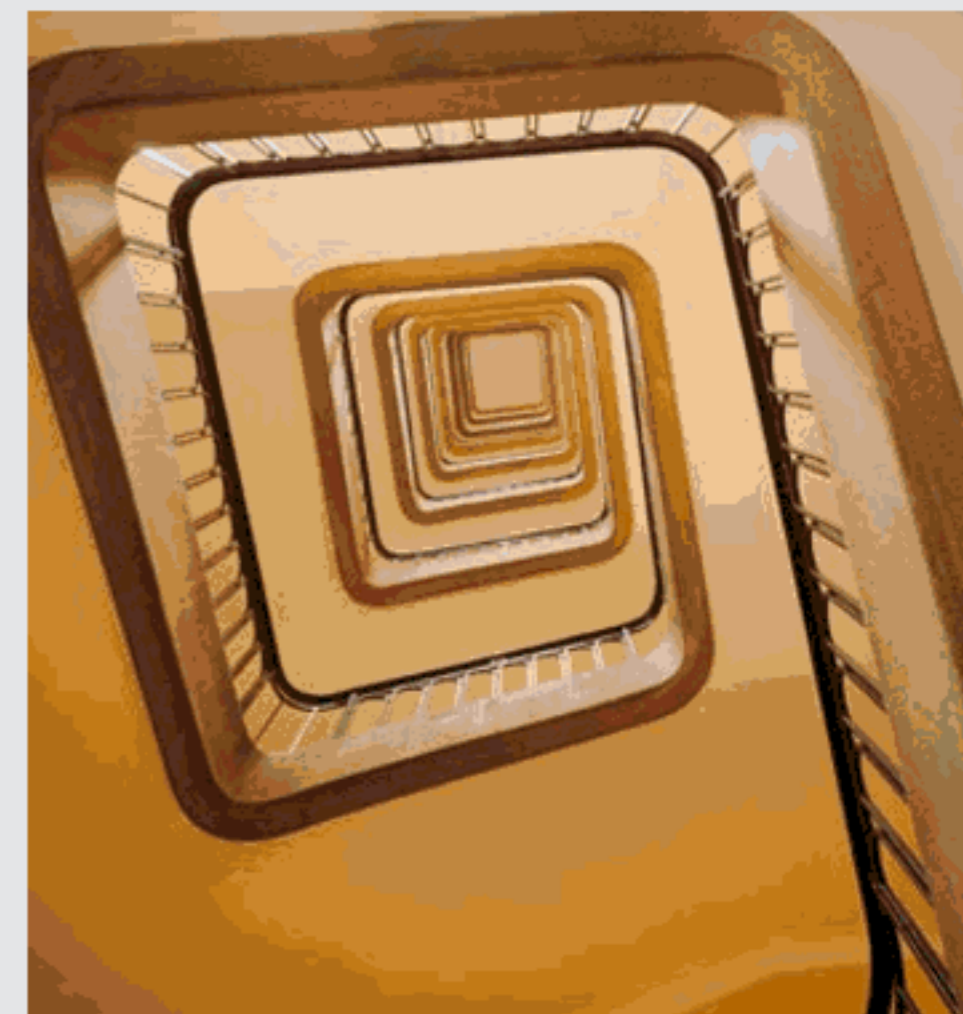
Executive summary

- PE exits have Declined significantly in 2Q19 compared with last year, with 285 deals valued at US\$98b, down 34% from 2Q18.
- Exits through M&A suffered a significant slowdown and fell by 40% by value in 2Q19 over the previous year; however, PE-backed IPOs gained momentum and witnessed an upswing of 36%.
- All regions witnessed Declines in their exit value and volume during the quarter.

Current state

After a healthy start in 1Q19, the industry witnessed a significant Decline in PE exit activity in the second quarter.

- 2Q19 saw a Decline in PE exits, with 285 deals valued at US\$98b, down by 34% from 2Q18.
- This Decline was primarily driven by PE exits by M&A which slowed down by 40% in 2Q19 from previous year. During the quarter, It recorded a value of US\$82b through 260 deals.
 - All regions witnessed a fall in PE exit activity by M&A. PE M&A exit value Declined by 37%, 34% and 63% for Americas, Asia-Pac, and EMEA, respectively in 2Q19.
- PE-backed IPOs proceeds increased by 36% in 2Q19. The number of PE-backed IPO deals Declined 29%, to 25 deals.
- Over the last 6 months, PE exit value has Declined by 8%, to US\$205b.



Environment and horizon

- EY's Global Divestment Study suggests a change in exit strategies followed by PE firms. When acquiring businesses, their top two exit considerations are the company's market position (54%) and the potential exit timing (36%). During this extended period of competitive valuations, buyers have shifted focus away from organic growth potential (16%), a top priority a year ago for 43% of PE firms.
- The unicorns continue to go public. Recent listings from a number of US\$1b+ venture-backed firms underscore demand for high growth companies by public market investors. According to CB Insights, there were more than 300 unicorns in existence across the globe with an aggregate valuation of more than US\$1.1t.
- Year-one growth matters: The PEI Operating Partners Forum held in May 2019 highlighted that there is a positive correlation between year-one growth and profitable exits. It generally becomes tougher to fundamentally reform a business if a manager waits three to four years after acquisition for value creation.

PE secondary buyout deals (US\$b) Source: Dealogic



PE M&A exits by year (US\$b) Source: Dealogic



PE-backed IPOs by year (US\$b) Source: Dealogic



Largest PE exit deals over the last 12 months

Target	Industry	Sponsor	Value (US\$b)	Type
First Data Corp.	Technology	KKR	39.4	M&A
Zayo Group Holdings Inc.	Telecom	EQT Partners AB	14.3	M&A
BMC Software Inc.	Technology	Bain Capital, GIC Special Investments, Golden Gate Capital Corp, Insight Venture Partners KKR	8.2	M&A
Ascendas Pte Ltd., Singbridge Pte Ltd.	Real estate	Temasek Holdings Ltd.	8.1	M&A
Gatwick Airport Ltd.	Transportation	Abu Dhabi Investment Authority Ltd.	7.0	M&A
Acelity LP Inc.	Healthcare	Apax Partners, CPPIB, Public Sector Pension Investment Board	6.7	M&A
Sedgwick Claims Management Services Inc.	Insurance	Carlyle Group LP, CDPQ, KKR, Stone Point Capital LLC	6.7	M&A
DJO Global Inc.	Healthcare	Blackstone	5.5	M&A
Altran Technologies SA	Professional services	Apax Partners SAS	5.6	M&A

Source: Dealogic

3. Infrastructure

3. Infrastructure

Executive summary

- ▶ Infra funds have raised US\$41b over the last six months, down 11% from US\$47b raised previous year.
- ▶ Firms have record levels of dry powder available for deals; firms have US\$217b in capital to deploy. The bulk of this, i.e., c.84%, is focused on the US and Europe.

Current state

- ▶ Infrastructure fundraising dipped in first half of 2019 as compared with the previous year both in terms of aggregate size and number of funds. There were 35 funds closed raising US\$41b of capital, down 11% from US\$47b in the previous year.
- ▶ However, in aggregate, PE firms have raised US\$100b over the last 12 months, up 24% from the preceding 12 months.
- ▶ In the first half of 2019, PE firms announced infrastructure deals valued at US\$212b, down 7% from the same period a year ago, and on pace for the lowest total since 2015.
- ▶ Firms have a collective US\$217b in capital available for deals, up 23% from the beginning of this year. Nearly 84% of this amount is focused on opportunities equally in the Americas and Europe, while Asia-Pacific represents 8% of the industry dry powder.
- ▶ Between dry powder and capital already deployed in existing projects, infrastructure managers now have more than US\$600b in assets under management, according to Preqin data.

Top infrastructure funds raised in last 12 months

Fund	Target (US\$b)	Commitments (US\$b)	Type
EQT Infrastructure IV	US\$8.4	US\$10.1	Brownfield, greenfield, secondary stage
KKR Global Infrastructure Investors III	US\$7.0	US\$7.4	Brownfield, secondary stage
Stonepeak Infrastructure Partners III	US\$5.0	US\$7.2	Brownfield, greenfield
ISQ Global Infrastructure Fund II	US\$5.0	US\$7.0	Brownfield, greenfield, secondary stage
Ardian Infrastructure Fund V	US\$6.2	US\$6.9	Brownfield, greenfield

Source: Preqin

3. Infrastructure (cont.)

Environment and horizon

- ▶ Growing relevance of greenfield opportunities: Greenfield investment is expected to become a vital part of LPs infrastructure portfolio. By investing earlier in the asset lifecycle, an investor is expected to enjoy a significant return premium.
- ▶ Institutional investors that can accept the lower yield in the early years of a greenfield fund's life are well compensated through access to long-term yields.
- ▶ Technology is expected to impact infrastructure investments in the near future. It has created opportunities in several sectors, spanning transport, fiber broadband and energy infrastructure. The emergence of electric vehicles and their burgeoning adoption in Europe have resulted in a substantial need for mass charging infrastructure (an estimated EUR40-50b of investment is needed by 2030), thus generating broader investment opportunities.
- ▶ In addition to technology, with an increased focus on climate change, the demand for investments across clean energy, fibre, transport and social infrastructure, has also increased. For example: European Commission (EC) has launched its 'Action Plan' to mobilize the private sector, calling for the private sector to support the EUR180b of additional investment a year needed to transition to a low carbon economy.

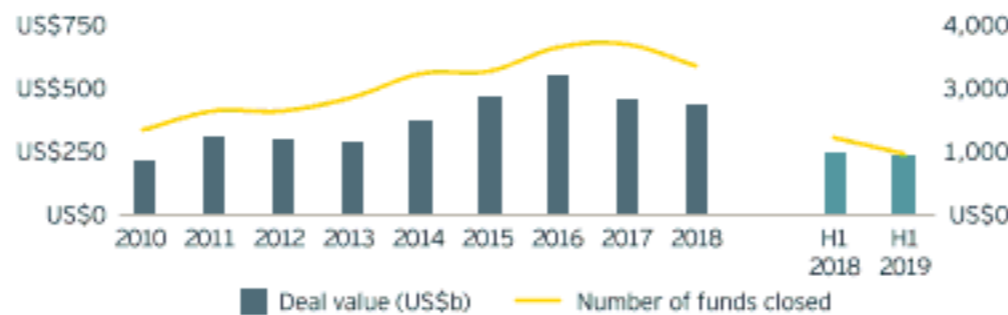
Infrastructure fundraising by year (US\$b) Source: Preqin



Infrastructure dry powder by region (in US\$b) Source: Preqin



Infrastructure deals by year (US\$b) Source: Preqin



Note: Only completed deals were considered.



4. Private credit

4. Private credit

Executive summary

- ▶ After a healthy start to private debt fundraising in 1Q19, the asset class witnessed a sharp decline in Q2 fundraising. Funds raised in 2Q19 dipped 32% from last year, to US\$28b.
- ▶ Credit funds closed over the first 6 months of 2019 dipped 19% from last year, to US\$52b.
- ▶ The aggregate capital raised in 2Q19 for mezzanine funds dipped by 93% over 2Q18, however, it went up by 38% for direct lending funds.
- ▶ However, the outlook for fundraising remains strong, with 214 funds currently on the road, seeking an aggregate US\$107b in fresh capital.

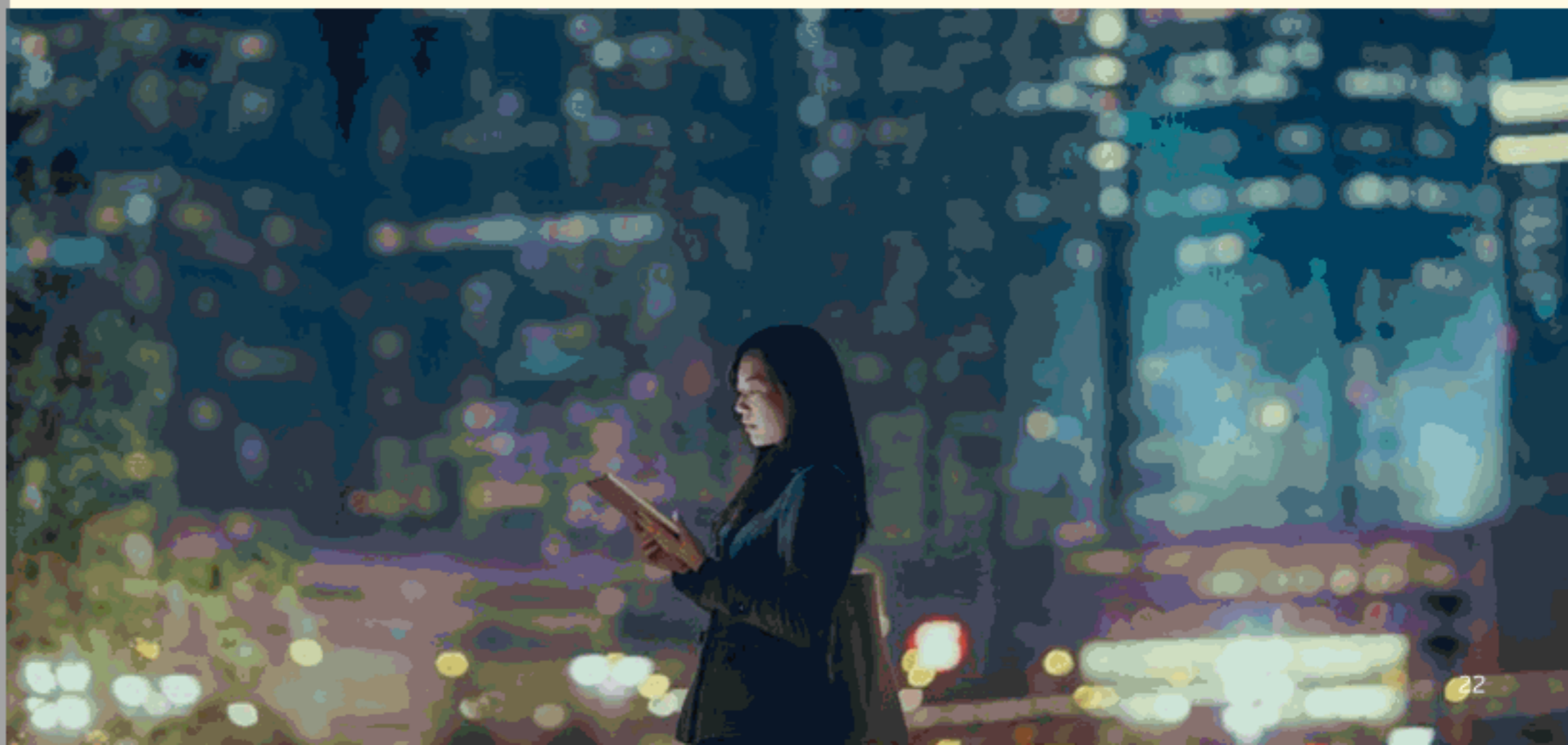
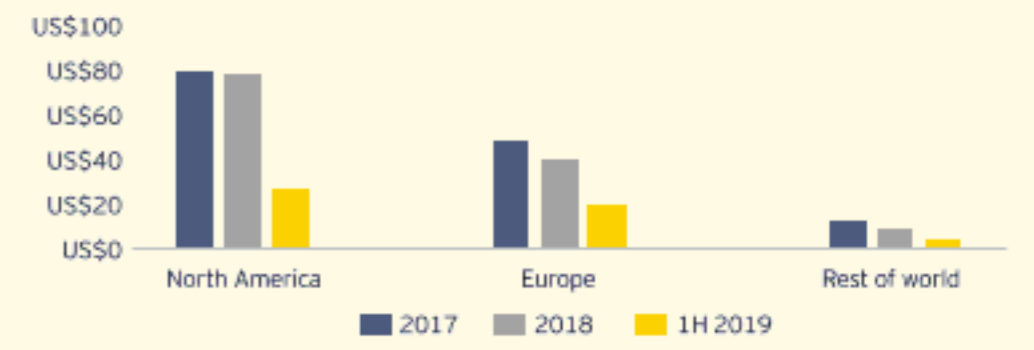
Current state

- ▶ In line with broader fundraising environment for private capital, fundraising for credit vehicles also slowed down in 2Q19.
- ▶ Firms closed 67 separate vehicles in 1H19 with aggregate commitments of US\$52b, down 19% from previous year.
- ▶ Fundraising for direct lending vehicles witnessed an upswing of 72% over the past six months. It saw closing of 33 funds worth US\$29b during his period.
- ▶ Mezzanine funds witnessed a decline in traction from investors over the last six months. Fundraising fell by 90% to US\$2b in 1H19 as compared to US\$20b in previous year. Though the fundraising stats in 2019 are lower than that in preceding year, analysts expect that it will pick pace in next few months.

Private credit fundraising (US\$b) Source: Preqin



Private credit fundraising by region (US\$b) Source: Preqin





Environment and horizon

- ▶ The outlook for the asset class in 2019 remains positive. Stable demand for financings driven by high transaction activity continues to serve as a tailwind for institutional investors in private debt. Investors have generally increased allocations to floating-rate private debt investments to protect against interest rate increases and obtain stable yield.
- ▶ Uptick in emerging markets interest expected: While most of private credit's growth has been centered around the established markets of the US and Europe, there are signs that emerging regions are also gaining traction. A survey by Preqin suggested that within emerging markets, the largest proportion (33%) of investors feel China presents favorable opportunities, followed by other regions in Emerging Asia (23%).

- ▶ **Private debt market expected to double in size by 2023:** As per a recent report by Private Equity International, Private Debt - Preparing for Unknown, the market is expected to expand to double its size from 2018 over a period of five years, i.e., 2023. The report also emphasis on the fact that GPs and LPs are increasingly focussing on specific sector expertise as asset valuation, increased competition, financial stability concerns and shift toward covenant-lite structure favor borrower and legal risks. A key solution to address the prevailing climate change is to lay greater focus on expense management, productivity and explore opportunities for leveraging transformative potential technology.

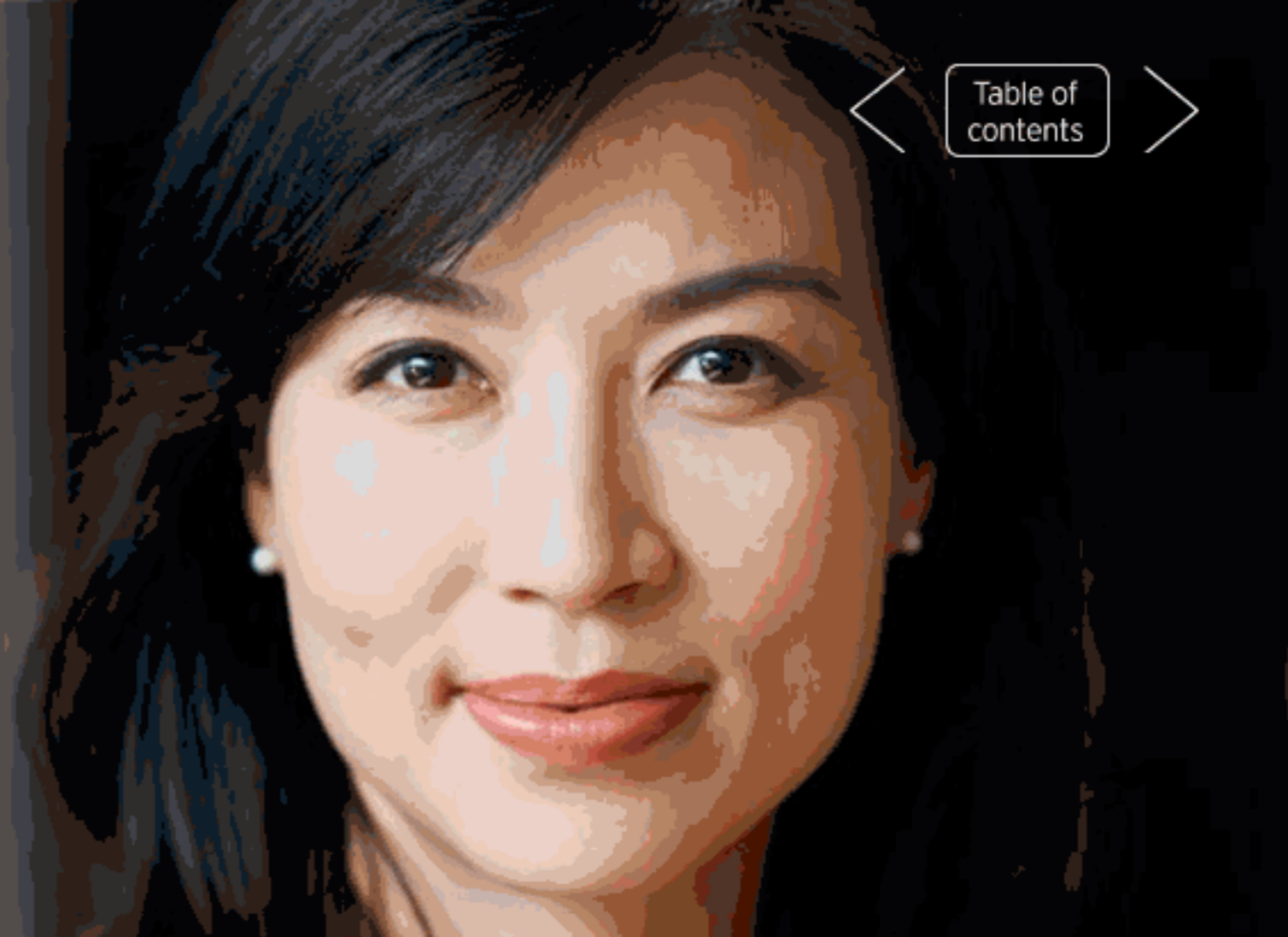
Mezzanine fundraising (US\$b) Source: Preqin



Direct lending fundraising (US\$b) Source: Preqin



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