

Private Equity Insights

SECOND EDITION | Q4 2015

CURRENT QUARTER PERFORMANCE SUMMARY

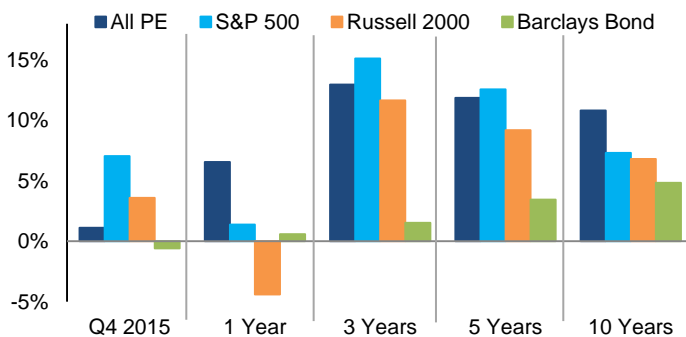
The GX Private Equity Index saw an overall return of 1.11% in the fourth quarter of 2015 with buyout and venture capital recovering modestly from their losses reported in 2015Q3 and private debt extending its loss by -0.88% (see Exhibit 1). The recent fluctuations in private equity returns resonate with the increased volatility in the public market in the second half of 2015. For the full year, the GX Private Equity Index returned 6.55% outperforming major public equity and fixed income indices (see Exhibit 2) in the U.S.

Exhibit 1: Private equity performance by strategy

	All PE	Buyout	VC	Private Debt
2015 Q4	1.11%	1.29%	1.87%	-0.88%
2015 Q3	-1.37%	-1.63%	-0.51%	-1.27%
2015	6.55%	6.05%	12.13%	1.69%

Source: State Street Global Exchange, as of Q4 2015.

Exhibit 2: Investment horizon returns



Source: State Street Global Exchange, DataStream, Barclays Capital US Aggregate Bond Index (Total returns as of Q4 2015).

Continued on the right column of page 3.

VENTURE CAPITAL IN 2016: THE BEST OF TIMES OR SOMETHING ELSE?

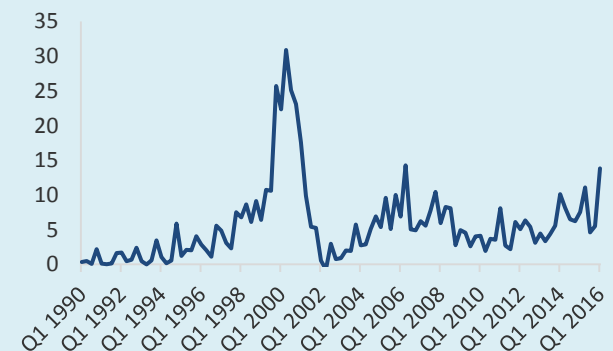
Insights from the Private Capital Research Institute

By Leslie Jeng and Josh Lerner



At first glance, venture capital today looks like it is continuing its fabulous run that has characterized the past few years. The most dramatic bullish indicator was the extent of fundraising by venture organizations in the first quarter of 2016. According to figures compiled by the National Venture Capital Association and Thomson Reuters, total fundraising by U.S. groups almost reached \$12 billion, raised by a total of 57 funds. The three largest funds-- Founders Fund VI, Accel Growth Fund IV, and Norwest Venture Partners XIII--each raised \$1.2 billion or more. This quarter was the best quarter in terms of dollars raised since the second quarter of 2006, when \$14.3 billion was raised (see Exhibit 3).

Exhibit 3: U.S. venture capital raised by quarter (\$Billion)



Source: Thomson Reuters

Continued on page 2.

VENTURE CAPITAL IN 2016 – CONTINUED FROM PAGE 1

Once we turn to the investment side, however, the outlook is less cheery. The volume of venture deals worldwide fell to \$25.5 billion in the first quarter of 2016, according to CB Insights (see Exhibit 4a). The invested capital was down from \$39.0 billion two quarters before. There was a similar (though less dramatic) slippage in the number of transactions worldwide. The pattern was driven by a decline in activity in both the United States and (more dramatically) China (see Exhibit 4b and c). Far fewer companies crossed the billion dollar valuation threshold than in 2015: in total, there were five new “unicorns” by CB Insights’ count, compared to 25 new billion-dollar firms in each of the second and third quarters of 2015 (see Exhibit 5).

Exhibit 4a: Global quarterly financing trends to VC-backed companies (Q1 2011 - Q1 2016)

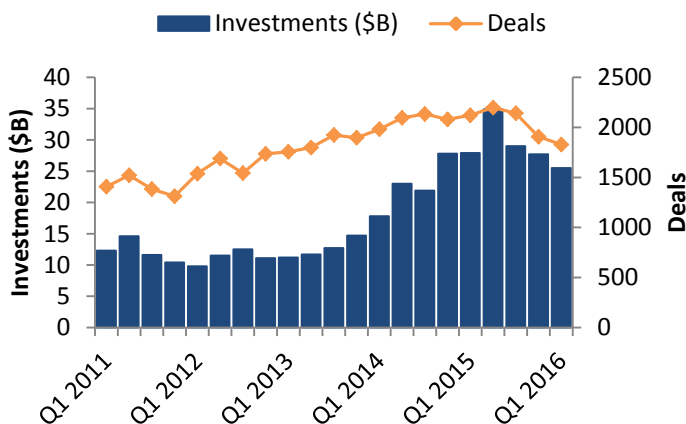


Exhibit 4b: U.S. quarterly financing trends to VC-backed companies (Q1 2011 - Q1 2016)

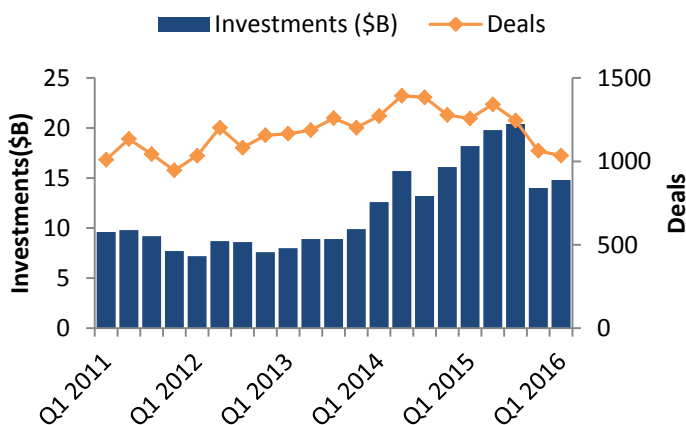
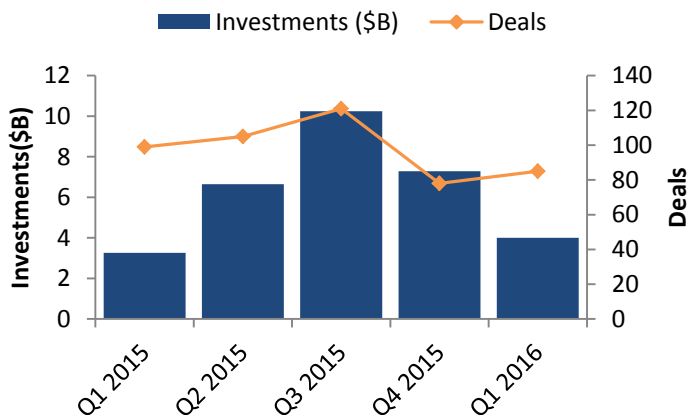
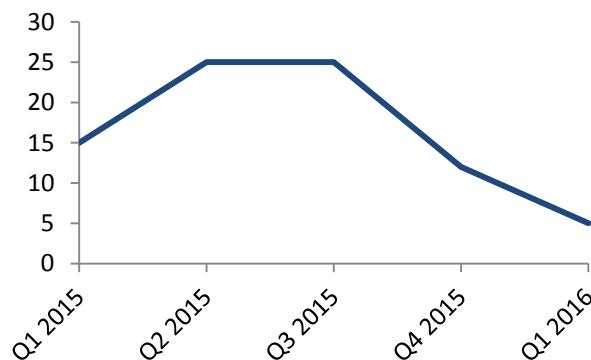


Exhibit 4c: China investment activity (VC-backed companies, Q1 2015 - Q1 2016)



Source: CB Insights and KPMG

Exhibit 5: Venture capital-backed companies entering the unicorn club



Source: CB Insights and KPMG

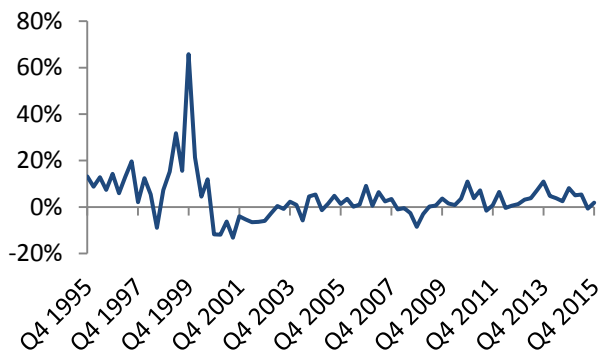
Similar signs of weakness can be seen in venture capitalists’ existing portfolios as well. State Street’s venture capital index indicates that the returns in the third and fourth quarters of 2015 were unattractive: -0.6% and 1.9%, respectively (see Exhibit 6). These numbers are a far cry from the levels seen in the two previous years, when quarterly returns averaged nearly 6%.

Thus, there is an apparent paradox: very robust fundraising markets on the one hand, and a softening investment climate on the other. In many respects, there is a historical echo here. The second through fourth quarters of 2000 saw venture capitalists pull in a cumulative \$79 billion in fundraising (again according to Thomson Reuters). The fundraising level in each of these quarters was greater than any other quarter before the second quarter of 2000. These three quarters remain to this day the three highest fundraising quarters ever, yet occurred even as NASDAQ valuations

continued the dramatic drop that had begun in the spring of 2000.

With the benefit of hindsight, the record haul in the last quarter of 2000 proved disastrous. It allowed many venture capitalists to continue to fund companies with very limited prospects, thereby “throwing good money after bad.” The availability of funding prolonged the venture capital downturn that followed the NASDAQ crash. Many groups eventually realized that they had raised far too much funding. The subsequent years saw over 20 VC firms, including such names as Kleiner Perkins, Charles River Ventures, and Accel Partners, return a significant fraction of the funds they raised to their LPs.

Exhibit 6: Quarterly venture capital return



Source: State Street Global Exchange, as of Q4 2015

It is an open question as to how the robust fundraising in early 2016 will be seen. Will it fuel the resumption of the kind of growth seen in recent quarters? Or will it lead to the same kind of hangover that the 2000 fundraising extravaganza did?

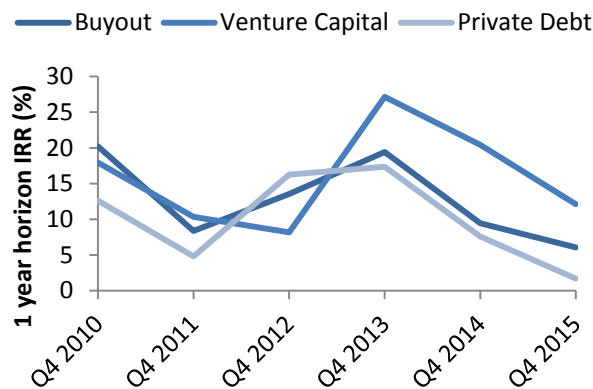
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The Private Capital Research Institute is a not-for-profit 501(c)(3) corporation formed to further the understanding of private capital and its global economic impact through a commitment to the ongoing development of a comprehensive database of private capital fund and transaction-level activity supplied by industry participants. The PCRI, which grew out of a multi-year research initiative with the World Economic Forum, also sponsors policy forums.

CURRENT QUARTER PERFORMANCE SUMMARY – CONTINUED FROM PAGE 1

The recent trend in rolling, one-year IRRs shows venture capital outperformed buyout and private debt in the past three years. However, in recent two years we saw a cool-down from the peak of 2013 (see Exhibit 7), which coincided with the public equity market in the same period.

Exhibit 7: One year horizon IRRs by strategy

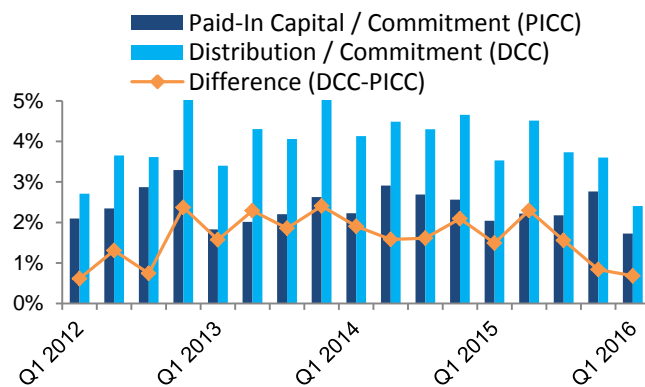


Source: State Street Global Exchange, as of Q4 2015.

Cash Flow Activity

Private equity distributions have outpaced capital calls in the past four years. However, the gap between distributions and capital calls (as ratios to commitment) has narrowed, thanks to the sharp drop in distributions towards the beginning of 2016 (see Exhibit 8).

Exhibit 8: All private equity cash flow activity ratios

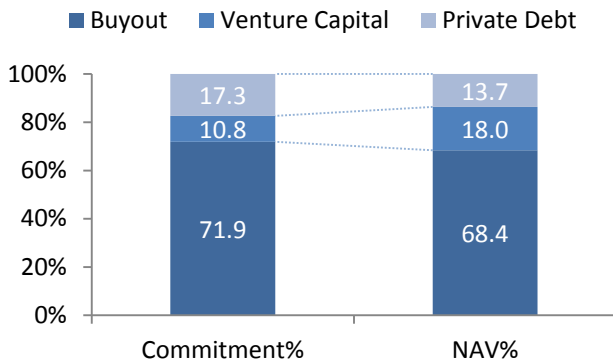


Source: State Street Global Exchange, as of Q1 2016.

Valuations

Venture capital valuations have caught many investors' attention recently. In Exhibit 9, we find that although venture capital only represent 10.8% of the past ten years' total commitments to private equity, the remaining value of venture capital swelled to 18% of that of all private equity.

Exhibit 9: Commitment and NAV weights (vintage year 2006-2015)



Source: State Street Global Exchange, as of Q4 2015.

ABOUT THE GX PRIVATE EQUITY INDEX

Participants in private capital markets need a reliable source of information for performance and analytics. Given the non-public nature of the private equity industry, collecting comprehensive and unbiased data for investment analysis can be difficult. The GX Private Equity Index (“GXPEI”) addresses the critical need for accurate and representative insight into private equity performance.

Derived from actual cash flow data of our Limited Partner clients who make commitments to private equity funds, GXPEI is based on one of the most detailed and accurate private equity data sets in the industry today. These cash flows, received as part of our custodial and administrative service offerings, are aggregated to produce quarterly Index results. Because the GXPEI does not depend on voluntary reporting of information, it is less exposed to biases common among other industry indexes. The end result is an index that reflects reliable, consistent and unbiased client data, and a product that provides analytical insight into an otherwise opaque asset class.

- Currently comprises more than 2,500 funds representing more than \$2.2 trillion in capital commitments.
- Global daily cash-flow data back to 1980.
- The Index has generated quarterly results since Q3 2004.
- Published approximately 100 days after quarter-end.

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