PATHWAY®
CAPITAL MANAGEMENT

Private Market Environment

3RD QUARTER 2018

3Q18 Market Overview

Global equity markets were largely flat in the third quarter, though there were several notable exceptions, including the U.S. equity markets, which extended their record-long bull run to more than nine and a half years during the quarter. The MSCI All-Country World Index generated a 4.4% return in the third quarter but only a modest 0.8% return without U.S. stocks. Emerging markets remained under pressure during the quarter due to the strong U.S. dollar, rising oil prices, and concerns over the impact of an escalating trade war between the U.S. and China. In September, the Trump administration announced that it would impose tariffs on an additional $200 billion of Chinese goods, bringing the total amount under new levies to $250 billion. China retaliated by announcing tariffs on $60 billion of U.S. goods.

HIGHLIGHTS

- PE-backed M&A exit activity remained strong in 3Q18. PE firms sold companies worth just over $100 billion during the quarter, a 33% increase over 3Q17, which brought the YTD total to $308 billion.
- U.S.-based venture capital investment activity totaled $27.5 billion in 3Q18, the highest quarterly total since 3Q00 and 17% higher than in the prior quarter. 55 mega-round financings accounted for just over half of the amount invested during the quarter.
- Worldwide private market fundraising totaled $153 billion in 3Q18, an increase of over 40% from both the prior quarter and the year-ago period. There were 30 funds that raised at least $1 billion during the quarter, including three that raised over $10 billion each.

During the quarter, private equity firms continued to take advantage of favorable M&A market conditions to sell their portfolio companies at a brisk pace. Global M&A exit activity for private equity–backed companies totaled just over $100 billion in the third quarter—a 33% increase over the same period in 2017—which brought the year-to-date total to $308 billion, according to Mergermarket. At this pace, 2018 will surpass the record $388 billion in M&A exit activity logged in 2014. The robust pace of private equity–backed exit activity has been a key driver of private equity's strong performance and high level of distributions over the past several years. Technology companies accounted for the largest proportion (25.8%) of private equity–backed M&A exits during the quarter, according to data from Buyouts Insider. Notable exits in this sector include the sale of Vista Equity–backed Marketo to Adobe Systems for $4.8 billion and the sale of Genstar Capital–backed Accruent to Fortive Corporation for $2.0 billion.

Venture capital investment activity was elevated during the quarter, driven by a large number of mega-round financings (i.e., financing rounds of at least $100 million). In the United States, there were a record 55 mega-round financings completed, which accounted for just over half of total venture capital investment activity ($14.1 billion) during the quarter. Most notably, shared workspace provider WeWork and electric vehicle manufacturer Lucid Motors raised $1 billion from SoftBank's Vision Fund and from Saudi Arabia's Public Investment Fund, respectively, during the quarter. Through the first three quarters of the year, U.S. venture capital investment activity totaled $73.7 billion, placing 2018 on track to be the most active year for venture capital investments since 2000 (see U.S. Venture Capital section). The high level of funding activity is being driven by non-traditional venture investors, such as sovereign wealth funds and Softbank's Vision Fund. These non-traditional venture investors have participated in financing rounds that accounted for nearly 60% of total venture capital investment activity in the first three quarters of the year, according to Pitchbook-NVCA Venture Monitor.

Global buyout investment activity was relatively muted during the third quarter, although there were differences in trends among the major geographic regions. In the United States, buyout firms announced $63.2 billion in new transactions during the quarter, a decrease of 3% from the prior quarter but an increase of 4% from the third quarter of 2017. In Europe, buyout firms completed €23.1 billion of deals during the quarter, an increase of 8% from the prior quarter but a 13% decline from the year-ago period. The buyout industry overall has adopted a relatively cautious stance in light of the strong level of competition in the marketplace, high valuations, and uncertainty over the global macroeconomic outlook. Nevertheless, general partners continue to find opportunities to deploy capital. In particular, take-private transactions continue to be a strong area of interest for large-cap buyout managers. Two of the three largest buyout deals of the quarter were take-private transac-

Largest PE-Backed M&A Exits Announced in the Third Quarter

At September 30, 2018

Seller	Portfolio Company	Value (MM)
KKR	Sedgwick Claims Management	$6,700
Vista	Marketo	$4,750
Apollo, Bain, Oaktree	Aleris International	$2,600
KKR, Bregal Investments	Cognita Schools	$2,570
Blackstone Group	Gianni Versace	$2,120

tions, including the $6.9 billion buyout of Dun & Bradstreet led by CC Capital and Thomas H. Lee Partners.

Largest PE Investments Announced in the Third Quarter

At September 30, 2018

Buyer	Target	Value (MM)
CC Capital, Thomas H. Lee Partners	Dun & Bradstreet	$6,900
Carlyle Group	Sedgwick Claims Management	$6,700
Apollo	LifePoint Health	$5,600
CVC	Linde AG North American Gas Assets	$3,300
SJL Partners	Momentive Performance Materials	$3,100

Public Markets and Economy

United States

U.S. equity markets continued their winning streak in the third quarter, turning in some of their strongest quarterly results in years. The Dow Jones Industrial Average (DJIA), S&P 500, and Nasdaq generated quarterly returns of 9.6%, 7.7%, and 7.4%, respectively (see table 1). In late August, the current bull market became the longest in U.S. history, surpassing the prior record set from October 1990 to March 2000. During the quarter, investors shrugged off concerns about the country's trade war with China and rising interest rates and instead cheered robust corporate earnings and benign economic data. U.S. corporate earnings have been boosted by lower corporate tax rates that went into effect at the beginning of the year. Earnings for the S&P 500 increased by 25% in the second quarter of 2018, the highest quarterly growth rate since the third quarter of 2010, according to Factset.

U.S. real GDP grew at an annual rate of 4.2% in the second quarter, according to the most recent estimate from the Bureau of Economic Analyis (BEA). This was a significant increase over the year-ago period and the strongest quarterly growth rate since the third quarter of 2014. GDP growth was driven by growth in consumer spending, exports, and non-residential fixed investment and was offset by a decline in private inventories and residential fixed investment. The most-recent jobs report also indicates a healthy U.S. economy. Despite a lower-than-expected number of new jobs (due in part to the impact of Hurricane Florence), the U.S. unemployment rate declined by 0.3% during the quarter to 3.7%—the lowest rate since December 1969. The ongoing trade war with China has yet to make a significant impact to the U.S. economy, and most economists are expecting continued, albeit more-moderate, growth for the remainder of the year. In September, the Federal Reserve raised the target for its benchmark rate by 0.25% and signaled that it will likely have one additional rate-hike in 2018.

Europe

The euro area maintained a solid pace of growth in the second quarter, sustaining the same 0.4% quarter-on-quarter real GDP growth as in the first quarter, despite the threats of a trade war that emerged during the period. The quarter brought the continued expansion to an annual 2.2%. Motivated in large part by the robustness of European labour markets, the ECB confirmed plans to wind down its monetary stimulus program by halving monthly bond purchases to €15 billion starting in October. Monetary policy was also tightened in the UK, where the Bank of England raised its main rate for only the second time since 2007, to 0.75%. The ECB revised its near-term growth forecasts for 2018 and 2019 slightly down, to 2.0% (from 2.1%) and 1.8% (from 1.9%), respectively, while leaving its projection for 2020 unchanged at 1.7%. These downward revisions were principally due to weaker expected contributions from foreign demand.

During the quarter, the EU and Japan provided some welcomed positivity to an otherwise beleaguered global trade outlook when they signed the world's largest bilateral trade pact. The Economic Partnership Agreement is the result of five years of negotiation. The threat of trade war between Europe and the United States also appeared to recede somewhat, although it remains unresolved. Britain and the EU remained in the grips of the Brexit debate; however, the sides have not been able to find compromise. Theresa May's "Chequers" deal was rejected by the EU, and the EU summit in October—which had been expected to include the announcement of a withdrawal agreement—came and went without resolution. The risk of a no-deal Brexit appears to have increased, but all outcomes are still in play: the country's opposition Labour party passed a motion at its annual conference that allows for a second referendum.

Table 1 World Equity Markets
At September 30, 2018

	Total Return (%)[a] 3Q	YTD
North America		
United States (DJIA)	9.6	8.8
United States (S&P 500)	7.7	10.6
United States (Nasdaq)	7.4	17.5
Canada (S&P TSX)	-0.6	1.4
Europe		
United Kingdom (FTSE 100)	-0.7	0.9
Germany (DAX)	-0.5	-5.2
France (CAC 40)	3.4	6.3
Asia-Pacific		
Japan (Nikkei 225)	8.8	7.7
China (Shanghai SE)	0.3	-12.6
China (CSI 300)	-0.9	-12.8
Hong Kong (Hang Seng)	-2.5	-4.1
India (BSE Sensex 30)	2.6	7.4
Australia (S&P/ASX 200)	2.0	7.1
Korea (KOSPI)	0.7	-4.7
Latin America		
Brazil (Bovespa)	9.0	3.8
Mexico (IPC)	4.3	1.9

Source: Bloomberg.
[a]In local currency. Total return calculates price change with dividends re-invested.

The main European public markets were stable and broadly flat during the third quarter. The FTSE 100 and Germany's DAX lost 0.7% and 0.5%, respectively; France's CAC 40 returned a positive 3.4%. However, all three markets dipped by 6% to 7% shortly after quarter-end, in line with the global correction in the public markets.

Asia

The performance of Asian public equities was generally positive during the third quarter. Hong Kong's Hang Seng and China's CSI 300 were the only major public stock indices that generated a loss, contracting by 2.5% and 0.9%, respectively. The Chinese indices continued to be affected by weak market sentiment due to ongoing U.S.–China trade tensions and slowing growth. Japan's Nikkei 225, however, ended the quarter up 8.8%, trading at its highest level in 27 years, driven by a weak yen and earnings-growth optimism. India's BSE Sensex started the quarter strong, outperforming many other Asian indices due to healthy domestic demand, corporate earnings, and relatively lower energy prices. However, early gains were pared back and the index ended up 2.6% for the quarter as a result of the rupee weakening amid rising inflation and trade deficit concerns. Australia's S&P/ASX 200 posted a 2.0% gain during the quarter, driven by large-cap companies in the communications and technology sectors. The Nikkei 225, BSE Sensex, and S&P/ASX 200 are the only three major Asian indices to post a gain year to date.

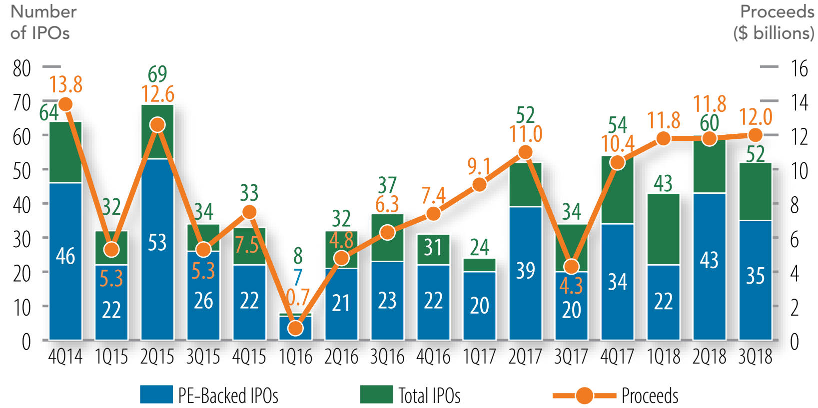
All of Asia's main economies continued on an upward growth trajectory, recording quarter-over-quarter real GDP growth. India's second-quarter economic growth of 8.2% improved on an already strong first quarter, powered by strong performance in the manufacturing and agricultural sectors, as well as by a boost in consumer spending on the back of government reforms. Headline GDP growth for China slowed to 6.7% during the second quarter—the slowest pace since 2016—as a result of the impact of Beijing's deleveraging campaign curtailing investment in infrastructure. Although headline growth remains above Beijing's full-year target of 6.5%, the slowdown comes as weakening domestic demand compounds with headwinds from the Sino-American trade war. Second-quarter economic growth in Japan rebounded from a weak first quarter, posting 3.0% growth. The growth was driven by domestic demand, despite tightness in the domestic labor market and a decrease in net exports.

IPO Markets Review

United States

During the third quarter, 52 companies raised $12.0 billion in proceeds on U.S. exchanges, continuing the IPO market's positive momentum over the past year. Quarterly IPO volume and proceeds represented substantial increases from the prior year and were well above historical averages. Notable issuances during the quarter included Eli Lilly's animal health division, Elanco ($1.7 billion); Chinese e-commerce platform Pinduoduo ($1.6 billion); and Chinese electric vehicle manufacturer NIO ($1.0 billion). Quarterly U.S. IPO activity through September 30, 2018, is illustrated in figure 1.

Figure 1 Quarterly U.S. IPO Activity
At September 30, 2018



SOURCE: Bloomberg, Renaissance Capital, and Pathway Research.

Private equity–backed companies raised $9.0 billion and accounted for 35 IPOs during the quarter—increases of 180% and 75% in proceeds and volume, respectively, compared with the year-ago period. Buyout-backed IPO activity during the quarter was led by the $880 million listing of commercial real estate firm Cushman & Wakefield, which was backed by TPG Capital and PAG Asia. Venture capital–backed IPOs experienced yet another active quarter: the $6.2 billion raised by 24 venture capital listings exceeded any other quarter in the past six years. Activity was driven by Pinduoduo, which was valued at nearly $24 billion based on an IPO price of $19.00 per share. Post-IPO, the company's share price experienced a 38% appreciation to $26.29 per share at quarter-end. Private equity–backed IPOs were well received by the market overall, generating an average return of 49% from IPO date to quarter-end, compared with only 2% for non-private-equity-backed listings. Consumer-focused companies generated the largest appreciation in share price, at 131%, although the figure was largely driven by one company, Tilray, which ended the quarter up nearly 750% from its IPO price of $17.00 in mid-July.

The U.S. IPO market so far this year has been an attractive route for companies seeking financing: 155 companies completed IPOs through September 30, 2018, raising $35.6 billion in proceeds and already outpacing the total amount raised in 2017. However, the recent downturn in global markets has left investors with uncertainty as the final months of 2018 approach. Chinese music-streaming provider Tencent Music—which has the potential to become one of the biggest technology IPOs to date at an estimated valuation between $25 billion and $30 billion—filed for a U.S. IPO in early October and postponed its offering due to the recent uptick in volatility, according to *The Wall Street Journal*. Accordingly, public equity market conditions are expected to play a significant part in determining IPO volume during the fourth quarter.

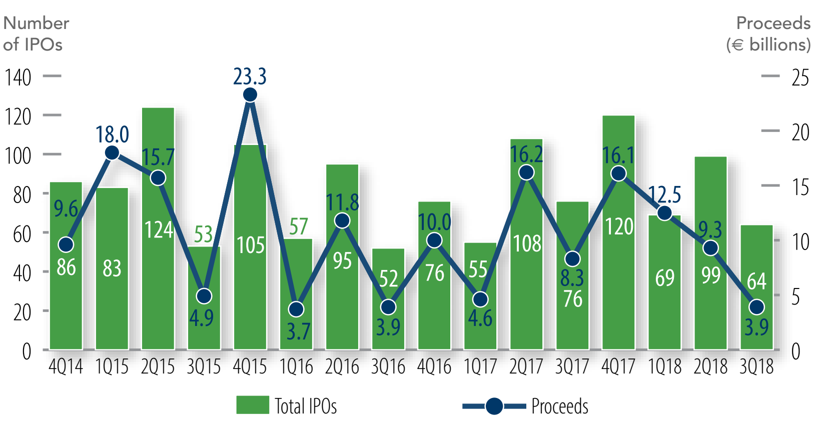
Europe

Following a brief spike in volatility in early 2018, public markets calmed down around mid-year and, in the third quarter, were close to the low volatility levels prevalent during 2017. Despite reduced volatility, company owners appear to have remained wary in an environment characterized by substantial political uncertainty. Against this backdrop, European IPO activity declined for the third-consecutive quarter: aggregate proceeds totaled €3.9 billion in 3Q18, down 58% from 2Q18 and 76% from the recent peak in 4Q17. Although it is not uncommon for the third quarter to be relatively quiet, the third quarter of 2018 was also 53% below the same period last year. Quarterly European IPO activity through September 30, 2018, is illustrated in figure 2.

Notably, almost half of the aggregate European IPO proceeds for the third quarter can be attributed to a single listing: SIG Combibloc, a provider of carton packaging for beverage and food producers, raised €1.7 billion through an IPO on the SIX Swiss Exchange. Other IPOs during the third quarter were substantially smaller, and the average proceeds per IPO were only €60.9 million (half the average of the past five years).

The aforementioned SIG Combibloc, which is backed by Onex, represents the only notable private equity–backed IPO in the third quarter. In the current environment, private equity owners have increasingly preferred private exits, which promise faster liquidity. The public exit channel, where sponsors typically maintain exposure for substantial periods following an IPO, may appear less attractive in an environment characterized by significant long-term political and economic uncertainties. The select private equity–backed IPOs completed recently were met with mixed responses following their debuts: SIG Combibloc traded within its IPO price range, but Aston Martin and Funding Circle, backed by Investindustrial and Index Ventures, respectively, both traded significantly down post-IPO.

Figure 2 Quarterly European IPO Activity
At September 30, 2018



Source: PwC.

Quarterly IPO proceeds often experience a substantial step up in the fourth quarter. Although the pipeline for the final quarter of 2018 remains full—including further sizable listings, such as Knorr-Bremse—it remains to be seen if companies deem the current environment sufficiently attractive to execute their IPO plans. Several planned marquee IPOs were pulled around quarter-end, including Cepsa, the Spanish oil refiner that had been billed as the largest European oil IPO in a decade, Volvo Cars, and the TDR-backed company, LeasePlan.

Asia

During the third quarter, 244 companies completed IPOs on Asian exchanges, raising $30.8 billion—an increase of 83% over the prior quarter and of 49% year over year. The quarterly increase in IPO activity was due to higher IPO volume and a larger average listing size. The Hong Kong Stock Exchange accounted for $14.4 billion, or 47% of IPO proceeds raised in Asia during the third quarter, hosting eight of the 10 largest IPOs in the region during the period. Notable listings included the $6.9 billion IPO of China Tower Corporation, the $4.8 billion IPO of Xiaomi Corporation, and the $4.3 billion IPO of Meituan Dianping.

According to the *Asian Venture Capital Journal* (*AVCJ*), 28 private equity–backed IPOs in Asia accounted for $11.1 billion, or 36% of total proceeds raised, during the third quarter. Quarterly proceeds raised represented an increase of 3% quarter over quarter and of 22% year over year. The three largest private equity–backed IPOs in Asia were those of the aforementioned Xiaomi and Meitaun Dianping, which were both backed by IDG Capital, and China Everbright–backed Hope Education's $412 million IPO on the Hong

Kong Stock Exchange. Hong Kong dominated the private equity–backed IPO market, accounting for 91% of proceeds; India (4%), Japan (3%), Korea (2%), and China (1%) accounted for the remaining balance.

Infrastructure

The infrastructure asset class continues to command a strong and growing interest from institutional investors seeking to diversify their portfolios. During the third quarter, unlisted infrastructure funds raised an aggregate $37.1 billion of capital, which represented a 113% increase over the same period one year prior, according to Preqin. During the period, North America–focused infrastructure funds represented the large majority of this amount, closing on $26.6 billion across eight vehicles. Europe-focused infrastructure funds represented the second-most-active fundraising category during the quarter, raising $9.0 billion through eight vehicles. Year to date, $70.3 billion in total unlisted infrastructure commitments have been raised, which represents an increase of 18% over the first three quarters of 2017.

Global infrastructure deal flow remained strong during the third quarter, during which infrastructure funds deployed $82.9 billion. Notably, each of the prior 12 quarters has seen more than $80 billion in global aggregate infrastructure deal value. North American deal flow represented the bulk of this amount at $36.0 billion through more than 200 deals during the period, followed by European deal flow at $24.2 billion through more than 170 deals. Reflecting the growing interest in sustainability, renewable energy represented 57% of total deals year-to-date September 30, 2018, up from 49% in 2017 and from 45% in 2016.

One particular area of notable recent interest by North American infrastructure managers has been the midstream sector. Over the past two quarters, several sizable transactions have been announced, including Brazos Midstream, Moda Midstream, and Discovery Midstream. Investors remain particularly keen on energy-related infrastructure projects in the Permian Basin in West Texas, an area that exhibits some of the lowest breakeven prices for oil and gas drilling. A lack of takeaway capacity in the region is seen by many as a limitation for drillers in the Permian as a result of the demand for midstream services continuing to outpace the supply of available transportation infrastructure and pipelines—a trend that is expected to continue well into 2019. This represents a potential driver of future growth for oil and gas pipeline, processing, and storage infrastructure projects.

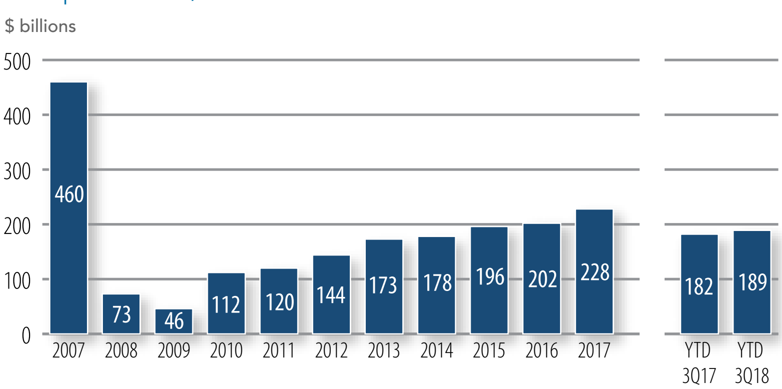
Private Equity Investment Activity

U.S. Buyout Investment Activity

U.S. buyout investment activity totaled $63.2 billion during the third quarter—a decrease of 3% from the prior quarter but an increase of 4% from the year-ago quarter, according to data from Thomson Reuters. The 245 transactions during the quarter represented an increase of 28% from the prior quarter and the largest quarterly figure of the year. The energy sector experienced particularly notable activity: energy-related buyouts totaled $10.6 billion, or 17% of total buyout activity, which equaled a 28% increase from the second quarter of 2018 and ranked just below the consumer sector for the most active industry. This total included five energy-related buyouts of greater than $750 million, led by EnCap Flatrock Midstream–backed Moda Midstream's $2.6 billion purchase of Oxy Ingleside Energy Center. Although buyout investment activity remains elevated, the increase in activity has been more moderate for private equity–backed transactions than for the overall market. The year-to-date 2018 total of $1.3 trillion for the U.S. M&A market and of $189 billion for the U.S. buyout-backed M&A market represent increases of 50% and of 4% from the year-ago period, respectively.

Levels of competition between both private equity firms and other financial and strategic buyers remained high in the third quarter, which drove the average purchase-price multiple for U.S. buyouts during the quarter to 11.0x EBITDA, according to S&P LCD. The figure drove the year-to-date average up from a slightly more moderate first-half of the year (average of 9.8x EBITDA) to 10.5x EBITDA—in line with the average during 2017. In addition to the high level of competition, one driver of higher valuations in the current marketplace is the prevalence of technology-related buyouts; these transactions often command higher valuation multiples and have represented 28% of deal volume in 2018, up from just 8% in 2007. The pricing environment has forced general partners to be selective and to focus on high-quality assets for which they have strong conviction in their investment theses and value-creation initiatives. General partners have also increasingly pursued complex transactions such as carve-outs or take-private transactions in order to find value. During the third quarter, examples of these types of investments included the $6.9 billion take-private of Dun & Bradstreet by Thomas H. Lee Partners and CC Capital and the $3.3 billion carve-out of Linde AG's North American gas business by CVC Capital Partners.

Figure 3 U.S. Buyout Transaction Value
At September 30, 2018



Source: Thomson Reuters and Pathway Research.

Table 2 U.S. Buyout Investment Statistics
At September 30, 2018

	2007	2017	YTD 3Q18
Purchase Price/EBITDA	9.7x	10.6x	10.5x
Equity Contribution %	30.9%	41.3%	39.6%
Debt/EBITDA	6.0x	5.7x	5.8x
EBITDA/Cash Interest	2.1x	3.1x	2.8x

Source: S&P LCD.

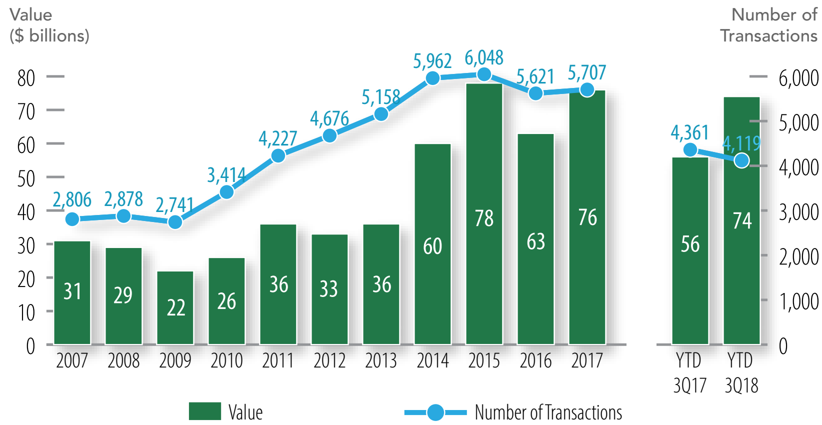
U.S. Venture Capital Investment Activity

U.S.-based venture capital investment activity reached a current cycle high in the third quarter, totaling $27.5 billion through 1,229 transactions, according to the PwC/CB Insights MoneyTree™ Report. The quarterly investment total represented the largest figure since the third quarter of 2000 and an increase of 17% from the second quarter (the second-largest quarterly figure over that period), despite a decrease in deal volume of 18%. Notably, the deal volume represented the lowest quarterly total in nearly six years and a 42% decrease from the 3Q00 total, highlighting the impact that deal size has had on the current market surge. Fifty-five mega-rounds (i.e., financing rounds of greater than $100 million) occurred during the third quarter—the most of any quarter on record. The quarterly total was led by later-stage companies, which drew $9.0 billion in funding, including four of the six largest investment rounds held. The two largest rounds raised during the quarter were those of shared workspace provider WeWork and electric car developer Lucid Motors, which each raised $1.0 billion in single-investor financing rounds. Through September 30, 2018, annual U.S.-based venture capital investment activity totaled $73.7 billion, an increase of 32% over the same period during 2017. U.S. venture capital transaction value and volume, through September 30, 2018, is illustrated in figure 4.

In line with the surge in mega-round activity during the quarter, the third quarter also represented a record for new U.S.-based *unicorns* (privately held venture capital–backed companies valued at $1.0 billion or greater), during which

16 new unicorns were created. The quarter brought the global unicorn count to its highest figure ever, despite the offsetting impact of a significant increase in exit activity for these companies during 2018. In 2018 through mid-August, 23 unicorns held IPOs worldwide, and another 11 unicorns have been sold via M&A, according to Crunchbase. The aggregate exit activity represents an increase in deal volume from the full-year 2017 and 2016 totals of 31% and 113%, respectively, and accounts for nearly $250 billion in exit value created, based on current public share pricing. Notable exits during the year include Walmart's $16.0 billion acquisition of Flipkart, Microsoft's $7.5 billion acquisition of Github, Xiaomi's $4.7 billion IPO in Hong Kong (market cap of over $50 billion), and the direct listing of Spotify on the New York Stock Exchange at a market cap of approximately $23 billion. The increase in unicorn exit activity should be seen as an encouraging sign for venture capital firms and other investors who have long held concerns about the ability to successfully monetize these investments at such large valuations.

Figure 4 U.S. Venture Capital Transaction Value & Volume
At September 30, 2018



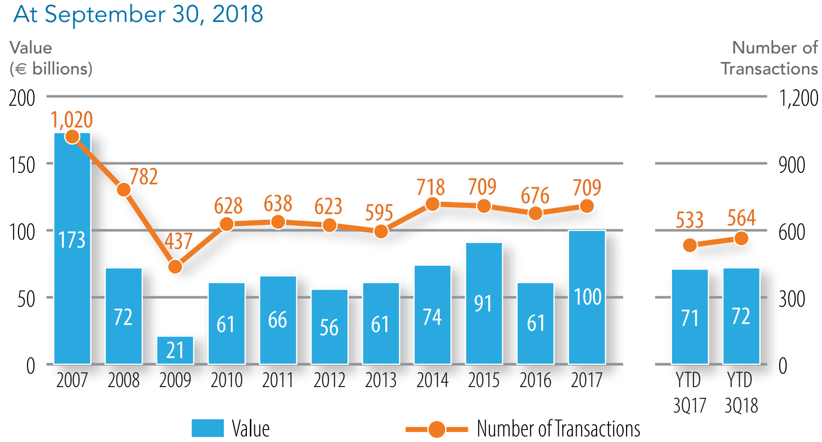
SOURCE: PwC & CB Insights MoneyTree™ Report.

Europe

The aggregate value of European buyouts completed in the third quarter was €23.1 billion, according to data provided by CMBOR. This represents an increase of 8% from the prior quarter and is 12% above the quarterly average of the past five years. European buyout transaction value and volume through September 30, 2018, are illustrated in figure 5.

This growth in the aggregate value of buyouts was driven by a small number of large deals: in the third quarter, eight deals with enterprise values of at least €1.0 billion were completed. Together, they represented €17.4 billion in transaction value, or 75% of the quarterly total—the highest total and share for large deals since the GFC. By contrast, the mid market—which comprises deals with enterprise values between €100 million and €1 billion and typically represents the backbone of overall buyout activity—experienced a significant drop in activity. The aggregate value of mid-market deals completed in the third quarter of 2018 was only €3.5 billion, down 71% from the prior quarter and 66% below the quarterly average of the past three years. The largest deal of the quarter was KKR's €6.8 billion carve-out from Unilever of Upfield Foods, a Netherlands-based producer of plant-based spreading, cooking, and baking products, first announced in December 2017. This was followed by Silver Lake's acquisition of Zoopla, a UK property website, for €2.5 billion.

Figure 5 European Buyout Transaction Value & Volume
At September 30, 2018

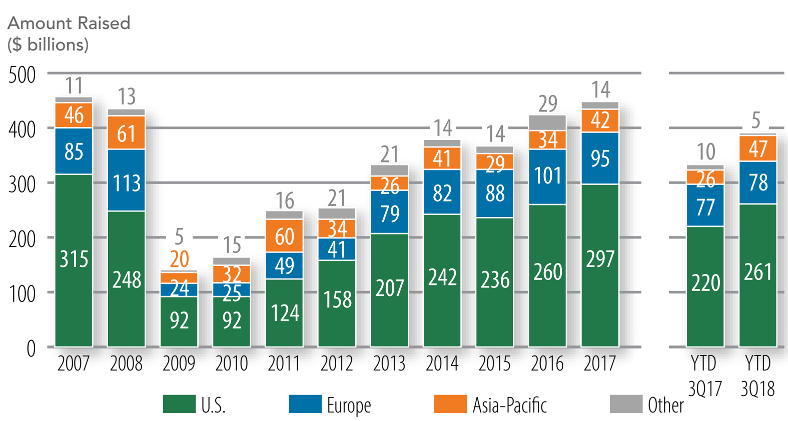


SOURCE: CMBOR, Ernst & Young, and Equistone Partners Europe.

Just as overall activity was driven by a few large deals, so was the geographic spread of activity. Zoopla accounted for more than half of the aggregate value of UK buyouts during the quarter, but despite this, the UK total dropped by 52% from the second quarter. In France and Germany, which had just one large deal between them, buyout activity continued the downward trajectory of the prior quarter. Germany in particular saw minimal activity: although a decent number of deals were completed in the country, all were in the small-cap market, and the aggregate value of buyouts was only €0.2 billion in the third quarter.

Activity in European credit markets also decreased somewhat in the third quarter: according to UBS, primary high-yield issuance totaled €14.6 billion, down 35% from the prior quarter and 15% below the quarterly average of the past three years. Spreads on BB-rated euro-denominated bonds have continued to increase from their low of 185 basis points in January and ended the third quarter at 265 basis points. Overall, however, the cost of debt remains low compared with long-term averages, and credit market conditions continue to be conducive to leveraged buyout activity.

Figure 6 Worldwide Private Market Fundraising
By Region
At September 30, 2018



Source: Thomson Reuters, Preqin, and Pathway Research.
Notes: Fundraising amounts are based on net amounts raised, which are adjusted for fund-size reductions.
Comprises buyout, venture capital, private credit, energy, infrastructure, and other fund strategies.
Data is continuously updated and is therefore subject to change.
Amounts may not foot due to rounding.

Asia

According to *AVCJ*, Asia-based private equity investment activity totaled $31.0 billion from 1,015 transactions during the third quarter, which represents a decrease in value of 36% quarter on quarter and of 41% year on year. China was once again responsible for the largest share of activity at 57%, followed by India (17%), Singapore (8%), and Taiwan (5%). During the third quarter, the largest private equity–backed investments in Asia were the Alibaba Group– and Softbank-backed $3.0 billion investment in China's Ele.me, the KKR-backed $1.6 billion investment in Taiwan's LCY Chemical, and the Lightspeed- and Sequoia-led consortium's $1.0 billion investment in India's OYO Rooms. The majority of third-quarter private equity investments were expansion/growth capital investments, which totaled $19.6 billion, or 63% of total invested capital. Expansion/growth capital investments were followed by buyout transactions at $4.9 billion (16% of invested capital). Venture capital investments accounted for 15%; other transaction types (PIPEs, turnaround/restructuring) accounted for the remaining amount. Information technology led all industries at $17.5 billion (56% of invested capital) as a result of a large volume of transactions and a number of high-profile deals valued at over $1 billion. This was followed by medical-related companies, which accounted for 79 deals and over 11% of invested capital during the quarter.

Fundraising Market

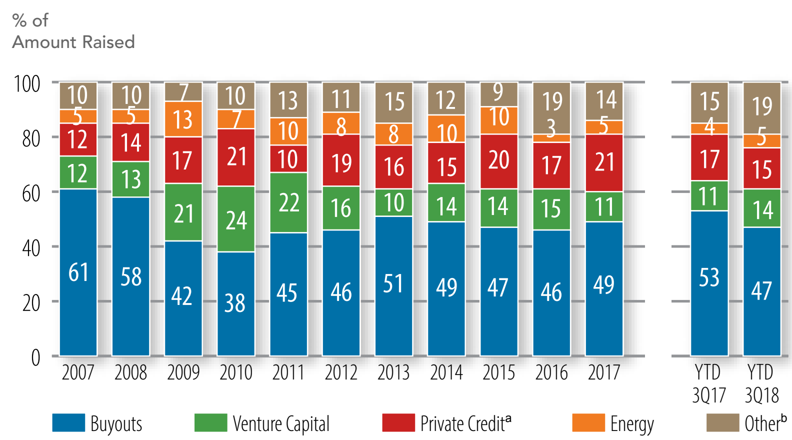
Private market fundraising peaked in the third quarter, totaling $153 billion, according to data from Thomson Reuters. The quarterly figure is the largest since the first quarter of 2008 and represents an increase of just over 40% from both the prior quarter and the third quarter of 2017. Activity during the third quarter was driven primarily by large-cap and infrastructure fundraising. Notably, 30 funds raised $1.0 billion or greater during the quarter, accounting for 71% of the quarterly total. This included three funds—Hellman & Friedman Capital Partners IX, Vista Equity Partners VII, and Hillhouse Fund IV—that raised greater than $10.0 billion, accounting for 23% of the third-quarter total. The active quarter brought year-to-date fundraising for 2018 to $391 billion, up 17% from the same period in 2017 and on pace to achieve the largest annual total on record.

In line with the global total, fundraising activity in the United States hit record heights in the third quarter, totaling $113.1 billion. The figure ranked 25% higher than the $90.4 billion raised in the first quarter of 2008—the second-largest quarter on record. Although the third-quarter total was slightly inflated by three large-cap U.S.-based infrastructure funds that pursue global mandates (an aggregate $21.6 billion of commitments raised in 3Q18), the fundraising market in the region for established, proven managers remains accommodative overall, highlighted by the 24 funds that were able to raise $1.0 billion or greater in the United States during the quarter. Similarly, fundraising hit record levels in Asia during the third quarter: $24.6 billion was raised in the region, an increase of 21% from the prior quarterly record set in the fourth quarter of 2008. The regional total was driven by China-based Hillhouse Fund IV, which became the largest Asia-focused fund on record, with $10.6 billion in commitments. Of particular note, Asia-focused fundraising accounted for 16% of the global total, surpassing the quarterly amount raised in Europe for the first time in over six years. The Europe-focused total, which equaled just $14.7 billion, accounted for its smallest percentage of the worldwide total since the first quarter of 2011. The modest quarterly total came despite the region hosting the fourth-largest fundraising worldwide during the quarter, the €6.5 billion raised by Ares Management for its fourth European direct-lending fund.

Quarterly fundraising by strategy was broadly based: each core strategy aside from private credit saw a quarter-over-quarter increase in proceeds raised. The categories of buyout and other private equity strategies (e.g., infrastructure, generalist, and special situations) experienced their most-active quarter, accounting for 42% and 28% of the quarterly total, respectively. The buyout strategy was driven by large-cap U.S. buyout funds, including the aforementioned closings of Hellman & Friedman IX and Vista Equity Partners VII. The other private equity strategy was driven by infrastructure funds, which experienced a record quarter. Six infrastructure funds raised $1.0 billion or greater during the quarter, including three that each raised greater than $7.0 billion. The largest among these was the $7.4 billion closing of KKR Global Infrastructure Fund III.

Private credit strategies raised $17.4 billion during the quarter, a decrease of 20% from the quarterly average of the past two years. Direct-lending funds were the primary driver of activity for credit fundraising, accounting for 92% of the strategy's quarterly total.

Figure 7 Worldwide Private Market Fundraising
By Strategy
At September 30, 2018



Source: Thomson Reuters, Preqin, and Pathway Research.
Notes: Fundraising amounts are based on net amounts raised, which are adjusted for fund-size reductions.
Data is continuously updated and is therefore subject to change.
[a]Comprises distressed debt, subordinated debt, and senior direct lending strategies.
[b]Comprises infrastructure, special situations, and other fund strategies not classified as buyout-, venture capital–, credit-, or energy-focused.

About Pathway Capital Management, LP

Founded in 1991, Pathway provides private market fund solutions for institutional investors worldwide. Pathway manages capital on behalf of some of the largest corporate and public pension plans, government entities, and financial institutions around the globe. Since its formation, the firm has committed more than $80 billion to more than 675 private market investments.

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CALIFORNIA
Pathway Capital Management, LP
18575 Jamboree Road, 7th Floor
Irvine, CA 92612
Tel: 949-622-1000

RHODE ISLAND
Pathway Capital Management, LP
500 Exchange St.
Suite 1100, 11th Floor
Providence, RI 02903
Tel: 401-589-3400

LONDON
Pathway Capital Management (UK) Limited
15 Bedford Street
London WC2E 9HE
Tel: +44 (0) 20 7438 9700

HONG KONG
Pathway Capital Management (HK) Limited
Champion Tower, Level 44
3 Garden Road, Central, Hong Kong
Tel: +852-3798-2580

www.pathwaycapital.com

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