Pathway Research

# Private Market Environment

2ND QUARTER 2019

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# 2Q19 Market Review

Global equity markets performed well in the second quarter of 2019—albeit not without a fair amount of volatility—capping a stellar first half for most major equity indices. Early in the quarter, equity markets were buoyed by better-than-expected earnings reports and continued strength in the U.S. labor market. In May, however, stalled trade negotiations between China and the U.S. and an increase in tariffs from both countries sparked a sell-off in equities. Stocks experienced a rebound in June, fueled by comments from the Federal Reserve Board indicating a growing likelihood that it would cut its benchmark interest rate in the near term. The S&P 500 generated a 4.3% return in the second quarter, which brought the index's year-to-date return to 18.5%—its best first half of the year since 1997. Credit indices also performed well during the quarter as a result of a decline in yields across the major fixed income segments. In particular, the 10-year U.S. Treasury yield declined by 41 basis points in the second quarter to 2.00%, its lowest level since November 2016. Although financial markets have performed well thus far in 2019, there is significant uncertainty in the global macroeconomic outlook, and many investors are expecting continued volatility in the second half of the year.

## Global IPO Activity Increased Sharply in the Second Quarter

Following a subdued first quarter for new listings globally, IPO activity rebounded strongly in the second quarter as a result of improving investor sentiment and a slew of high-profile offerings. In Europe, IPO proceeds totaled €11.4 billion in the second quarter, a 15-fold increase from the prior quarter. In Asia, $29.6 billion was raised in new offerings, an increase of 39% from the prior quarter. In the U.S., 62 IPOs raised $27.1 billion during the quarter, an increase of 244% and 449%, respectively, from the prior quarter. Venture capital–backed companies accounted for $16.4 billion, or 61%, of total proceeds raised in the U.S.—the segment's largest quarterly total since the second quarter of 2012, when Facebook completed its IPO. The strong showing for venture capital was driven by the highly anticipated debuts of several technology unicorns, including Uber, Pinterest, Crowdstrike, and Zoom; however, it was another venture capital–backed company, Beyond Meat, that had the strongest showing, generating a return of more than 500% from its IPO price to the end of the second quarter. These successful offerings are expected to channel tens of billions back to venture capital firms and their investors and to help allay concerns over the industry's ability to effectively monetize its growing number of unicorn investments.

## Table 1. Largest PE-backed M&A Exits Announced in 2Q19

At June 30, 2019

| Seller | Portfolio Company | Industry | Region | Value (MM) |
|---|---|---|---|---|
| Apax Partners | Acelity | Healthcare | U.S. | $6,700 |
| EQT | Press Ganey | Healthcare | U.S. | $4,000 |
| Quantum Energy Partners, Post Oak Energy Capital | Oryx Midstream | Energy | U.S. | $3,600 |
| New Mountain Capital | Equian | Financial Services | U.S. | $3,200 |
| Altas Partners | Capital Vision | Healthcare | U.S. | $2,700 |

## 1H19 Global Buyout Investment Activity Down 24% from 1H18

Buyout investment activity remained lukewarm in the second quarter, belying fears of a heated market driven by significant amounts of dry powder and accommodative credit markets. Global buyout transaction activity totaled $69.2 billion in the second quarter, down 27% from the prior quarter. For the first half of 2019, global buyout transaction value totaled $167 billion, down 24% from the first half of 2018. General partners have remained disciplined overall in the face of relatively high valuations, strong competition from both strategic and financial buyers, and growing uncertainty in the global macroeconomic outlook. In Europe, private equity firms closed on €41.2 billion in buyout transactions in the first half of 2019, down 24% from the first half of 2018. The decline is attributable in part to a slowdown in UK-based buyout activity, as well as to a lower number of larger-sized (>€1 billion) transactions across the region. In the U.S., buyout investment activity totaled $43.4 billion in the second quarter, which brought the first-half total to $103 billion—a decline of 18% compared with the first half of 2018. At this pace, full-year 2019 would fall short of 2018's total and register the first year-over-year decline in U.S. buyout investment activity since 2009.

## Publicly Traded Private Equity Firms Seek to Increase Shareholder Value

In May, Apollo announced its intention to convert from a partnership structure to a corporation. The conversion, which is likely to be completed in the third quarter, is expected to broaden the firm's investor base, simplify tax-reporting requirements for shareholders, and increase liquidity in its stock. Apollo's announcement came less than a month after Blackstone announced that it was converting to a corporation (which subsequently took place on July 1) and follows Ares's and KKR's conversions, which took place in 2018. When completed, Apollo's conversion will leave Carlyle as the sole remaining major publicly traded private equity firm structured as a partnership in the U.S., although the firm is expected to follow suit in the third quarter (Oaktree Capital is also a publicly traded partnership but is being acquired by Brookfield Asset Management). These conversions were precipitated by changes to U.S. tax law in 2017 that lowered the corporate tax rate from 35% to 21% and thus lessened the impact of double taxation on profits that a corporation's shareholders would face. Another change that publicly traded private equity firms have recently adopted to increase shareholder value is to utilize distributable earnings (DE) as the key performance indicator in their earnings reports rather than economic net income (ENI). DE, which is driven by fee-earning assets under management and realized gains, is considered to be a less volatile metric than ENI, which includes the value of unrealized gains and losses in an investment portfolio.

## Table 2. Largest PE Investments Announced in 2Q19

At June 30, 2019

| Buyer | Target | Industry | Region | Value (MM) |
|---|---|---|---|---|
| EQT Partners | Nestle Skin Health | Healthcare | Switzerland | $10,120 |
| Carlyle | Cepsa | Energy | Spain | $4,800 |
| Leonard Green, Ares Management | Press Ganey | Healthcare | U.S. | $4,000 |
| Onex Corp | Westjet | Transportation | Canada | $3,700 |
| Apollo Global Management | Shutterfly | Consumer | U.S. | $2,700 |

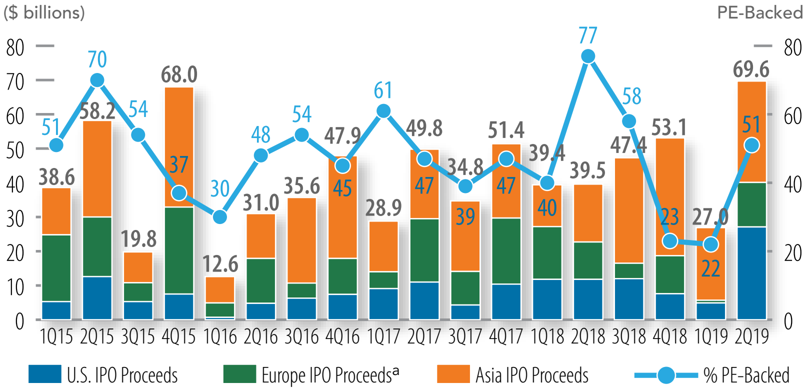
# Global IPO and M&A Exit Markets

Following a sluggish start to the year, global IPO markets rebounded strongly in the second quarter as a result of a number of high-profile listings that occurred worldwide. The increase in activity was particularly pronounced in the U.S., where 62 IPOs raised $27.1 billion in proceeds—an increase of nearly 450% from the $4.9 billion raised in the first quarter of 2019. U.S. IPO activity was buoyed by five listings of greater than $1.0 billion in size that collectively accounted for 57% of proceeds raised. The largest among these was the highly anticipated $8.1 billion listing of Uber, which was previously the highest-valued unicorn in the world and the largest U.S. IPO since Alibaba in early 2014. Despite pricing near the low end of its range, Uber went public at a market cap of more than $75 billion; this generated significant value for the company's early venture investors such as First Round Capital, Benchmark Capital, and Menlo Ventures. Although the company's share price traded down 8% on its first day of trading and finished the quarter just slightly above its IPO price, new listings overall were well received by the market, generating an average increase in price of 37% from IPO date to quarter-end. Uber was joined during the quarter by notable listings such as Avantor ($3.3 billion), Pinterest ($1.6 billion), and Chewy ($1.0 billion), as well as that of Slack, which went public via a direct listing at a market cap in excess of $23 billion.

In Europe, IPO markets raised aggregate proceeds totaling €11.4 billion, up from just €0.7 billion in the first quarter of 2019. Five IPOs raised greater than €1.0 billion, which represents 65% of the quarterly total. The largest listing was completed by Nexi, an Italian provider of payment solutions backed by Advent and Bain Capital, at €2.1 billion. In Asia, $29.6 billion was raised through 533 IPOs. Private equity remained a relatively small part of activity in Asia, accounting for just 16% of proceeds raised, but was responsible for one of the largest listings of the quarter: the $1.2 billion IPO of Hansoh Pharmaceutical. Quarterly global IPO activity through June 30, 2019, is shown in figure 1.

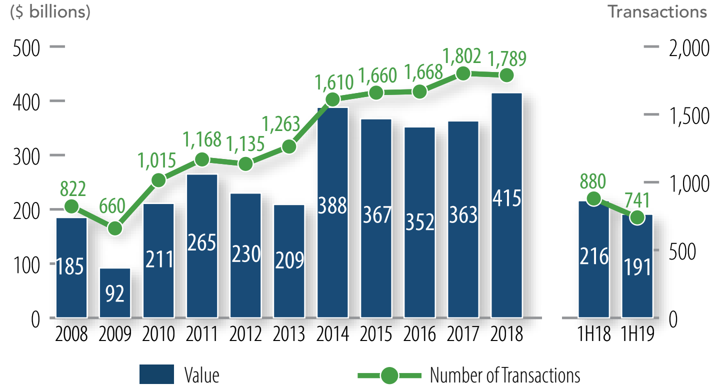
Global M&A exit market activity continued at a similarly strong pace in the second quarter, although the total exit value of $87.9 billion represented a 14% decline from the first quarter, according to Mergermarket. Activity was led by Apax Partners' $6.7 billion sale of Acelity to 3M and EQT's $4.0 billion sale of Press Ganey to a consortium of U.S buyout firms. Through June 30, 2019, global M&A exit value for 2019 totaled $191 billion, falling just 12% shy of the prior year's total but still the third-largest first-half figure since the Global Financial Crisis (GFC). Global PE-backed M&A exit value and volume through June 30, 2019, is presented in figure 2.

**Figure 1. Quarterly Global IPO Activity**
At June 30, 2019




Source: Bloomberg, Renaissance Capital, PwC, and Pathway Research.
[a]Proceeds have been converted using the quarter-end exchange rate.

**Figure 2. Global PE-Backed M&A Exit Value & Volume**
At June 30, 2019

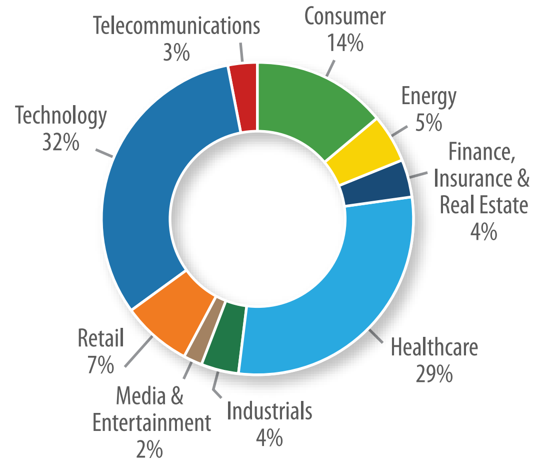



Source: Mergermarket.

# U.S. Buyout Markets

U.S. buyout investment activity totaled $43.4 billion during the second quarter, a decline of 27% from the prior quarter and of 33% from the year-ago quarter, according to Thomson Reuters and Pathway Research. The second-quarter total amounted to the lowest quarterly total since the first quarter of 2016 as a result of a limited amount of activity in the large end of the market and the lack of a deal valued at $5.0 billion or greater for the first time in the past six quarters. Just 10 investments of greater than $1.0 billion in size were announced during the quarter, the largest of which was the $4.0 billion acquisition by Ares Management and Leonard Green of Press Ganey, a provider of patient-satisfaction and performance-improvement services to the healthcare industry. The second-quarter total brought aggregate U.S. buyout activity for the first half of 2019 to $103 billion, down 18% from the $126 billion invested during the first half of 2018. Although the first-half total represented a meaningful decrease from the prior year, it also represented the third-largest first-half figure in more than a decade. U.S. buyout investment activity, through June 30, 2019, is illustrated in figure 3.

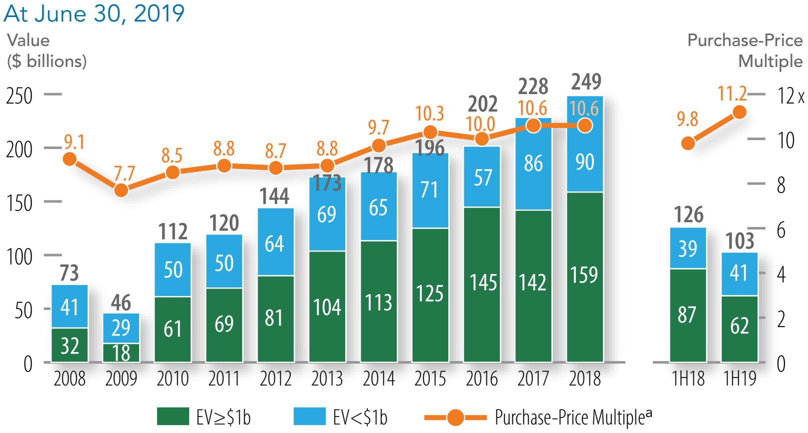
**Figure 4. U.S. Buyout Transaction Value by Sector**
At June 30, 2019
As a % of Transaction Value




Source: Thomson Reuters Eikon and Pathway Research.

The average purchase-price multiple for investments that closed during the second quarter rose to 11.3x EBITDA, according to S&P LCD. The quarterly figure brought the corresponding total for the first half of 2019 to 11.2x EBITDA (see table 3), up from the recent cycle peak of 10.6x EBITDA posted during each of the two prior years. The increase in valuations over recent years has been driven in part by the preponderance of technology- and healthcare-related buyouts, which typically trade at higher multiples than the overall market. The technology and healthcare sectors accounted for 61% of deal value in the second quarter of 2019, up from just 45% during 2018. The healthcare sector in particular saw strong interest during the quarter: healthcare investment activity totaled $12.6 billion—an increase of nearly 200% from the prior quarter—and accounted for five of the 10-largest deals announced. Notable healthcare deals during the quarter included the aforementioned acquisition of Press Ganey, the $2.7 billion acquisition of optometry practice operator Capital Vision Services by West Street Capital, and the $1.7 billion investment in healthcare data and analytics provider Definitive Healthcare by Advent International.

**Figure 3. U.S. Buyout Investment Activity**
At June 30, 2019




Source: Thomson Reuters, S&P LCD, and Pathway Research.
Notes: Amounts may not foot due to rounding.
EV=Enterprise value.
[a]Average PPM (as a multiple of trailing EBITDA) of all LBOs.

**Table 3. U.S. Buyout Investment Statistics**
At June 30, 2019

| | 2007 | 2018 | 1H19 |
|---|---|---|---|
| Purchase Price/EBITDA | 9.7x | 10.6x | 11.2x |
| Equity Contribution % | 30.9% | 40.1% | 42.1% |
| Debt/EBITDA | 6.0x | 5.8x | 5.7x |
| EBITDA/Cash Interest | 2.1x | 2.7x | 2.4x |

Source: S&P LCD.

# European Buyout Markets

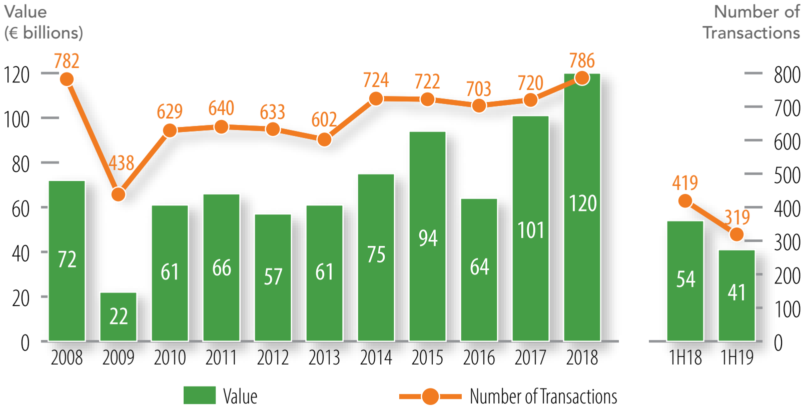
European buyout activity and trends experienced limited changes from the first quarter to the second quarter. According to data provided by CMBOR, the aggregate value of buyouts was €20.3 billion in the second quarter, down 3% from the prior quarter and 12% below the average for the past 20 quarters. European buyout transaction value and volume through June 30, 2019, are illustrated in figure 5.

The most significant development in the second quarter was the recovery of the aggregate value of UK buyouts, which reached its lowest level since the GFC in the first quarter against the backdrop of the original Brexit date. The value of UK buyouts completed in the second quarter totaled €5.8 billion—in line with the average for the 20 prior quarters. As a result, the UK regained the crown as Europe's largest buyout market, accounting for 29% of the region's total; however, the aggregate value of UK buyouts in the second quarter was driven by the largest deal of the quarter, which accounted for more than two-thirds of the UK's quarterly total (see table 4).

Travelport Worldwide, a UK-based travel commerce platform, was valued at €3.9 billion when it was acquired by a consortium comprising Siris Capital and Evergreen Coast Capital. This was followed by RRJ Capital's acquisition of Gategroup for €2.5 billion and Triton Partners' acquisition of IFCO Systems for €2.2 billion as the quarter's second- and third-largest deals, respectively. Overall, however, activity at the larger end of the market has continued to decline: only four deals valued at or above €1 billion were completed in 2Q19, down from five deals in the first quarter of 2019 and from a quarterly average of seven deals for 2017 and 2018. It appears that investors across size ranges but in particular at the top end of the market have become more cautious in an environment characterized by generally high valuations and continued political and economic uncertainty.

Following six months of somewhat muted activity, European credit markets regained momentum in the second quarter, with primary high-yield issuance totaling €19.8 billion, according to UBS. This represents a significant increase from the €9.4 billion issued in the first quarter of 2019 and the €6.8 billion issued in the fourth quarter of 2018 and is 15% above the quarterly average for the past five years. This increase in activity was achieved against the backdrop of smaller ups and downs in the cost of debt over the quarter. The spreads on BB-rated euro-denominated bonds ended the second quarter at 256 basis points. Overall, credit market conditions continue to be conducive to leveraged buyout activity.

**Figure 5. European Buyout Transaction Value & Volume**
At June 30, 2019




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

**Table 4. Largest European Buyouts That Closed in 2Q19**
At June 30, 2019

| Buyer | Target | Country | Value (MM) |
|---|---|---|---|
| Siris Capital & Evergreen Coast Capital | Travelport Worldwide | UK | €3,944 |
| RRJ Capital | Gategroup | Switzerland | €2,494 |
| Triton Partners | IFCO Systems | Netherlands | €2,214 |
| KKR | Exact Software | Netherlands | €1,500 |
| Cinven | INSEEC U. | France | €800 |

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

# Asia Private Equity

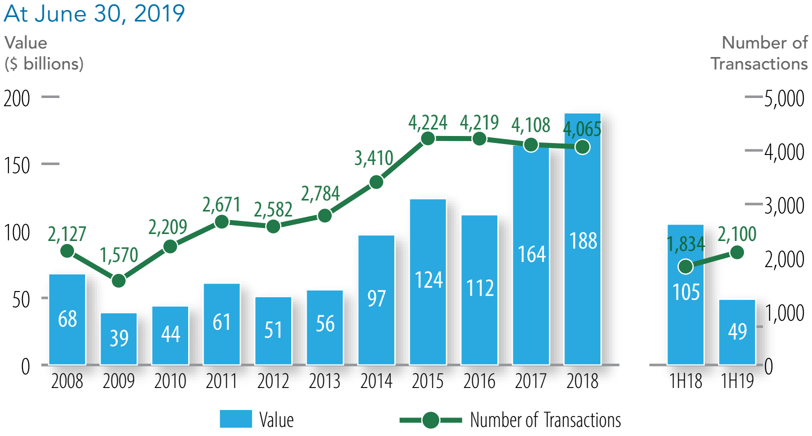
The Sino-American trade war continued to dominate headlines during the second quarter as a result of the U.S. raising tariffs on $200 billion of Chinese imports and Beijing retaliating with its own round of tariffs on U.S. goods. The trade dispute continues to create uncertainty and to weigh heavily on the region: China's economy slowed to 6.2% during the quarter, the lowest rate in 27 years, and the MSCI Asia ex Japan Index underperformed its global counterparts, including the MSCI World Index and major U.S. and European stock indices. In India, prime minister Narendra Modi's ruling Bharatiya Janata Party won 303 seats in the lower house of India's parliament during national elections, further increasing its substantial majority from the previous term. The BJP's victory is expected to provide greater clarity on policy outlook and long-term reforms.

The volatile financial and political climate has also resulted in a lower volume of private equity investments in Asia during the second quarter, likely exacerbated by the significant decline in renminbi fundraising in 2018 that occurred as a result of more-stringent policies on financial products. Overall, PE-backed investments amounted to $17.6 billion from 1,035 transactions in the second quarter—a decrease in transaction value of 45% quarter over quarter and of 74% year over year. Brookfield's $2.2 billion investment in Vodafone New Zealand was the largest private equity investment announced in Asia during the quarter (see table 5). Asian private equity transaction value and volume through June 30, 2019, are presented in figure 6.

Similarly, fundraising in the region was also relatively quiet during the second quarter. According to Bain & Company's 2019 *Asia Pacific Private Equity Report*, dry powder had increased to a record high of $317 billion at the end of 2018. The combination of excess dry powder, stricter Chinese policies, increased competition, and dampened PE-backed investment deal flow has contributed to lower levels of fundraising in the past few quarters. The two most notable fund closings during the quarter were those of Warburg Pincus China-Southeast Asia II ($4.3 billion) and DCP Capital Partners I ($2.5 billion).

Despite slower activity in the private markets, the IPO market picked up during the second quarter: 533 companies completed IPOs on Asian exchanges, raising $29.6 billion—an increase of 39% quarter over quarter and of 143% year over year, according to data provided by Bloomberg. China accounted for 53% of the quarter's IPO value, including the quarter's four largest IPOs. PE-backed IPOs accounted for an aggregate $4.8 billion, led by the listing of Hansoh Pharmaceutical, a Chinese drug maker, which was backed by Boyu Capital and Hillhouse.

**Figure 6. Asian PE Transaction Value & Volume**
At June 30, 2019




Source: *AVCJ.*

**Table 5. Largest Asia PE Investments in 2Q19**
At June 30, 2019

| Buyer | Target | Country | Value (MM) |
|---|---|---|---|
| Brookfield Asset Management | Vodafone New Zealand | New Zealand | $2,243 |
| Baring Asia, CICC & CITIC PE | JD Health | China | $1,000 |
| Blackstone | Geo Young Corp. | South Korea | $945 |
| Bank of China Group Investment–Led Consortium | Megvii Technology Ltd. (Face++) | China | $750 |
| Accel, Coatue & Sequoia India | UiPath India | India | $600 |

Source: *AVCJ.*

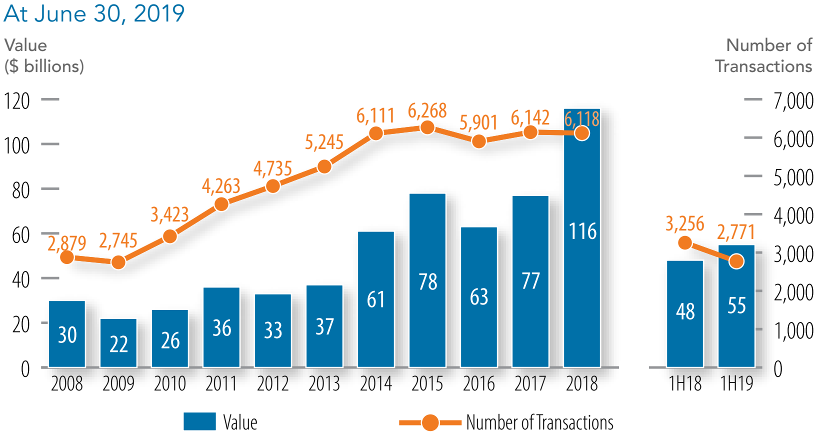
# U.S. Venture Capital

The venture capital industry flourished during the second quarter, propelled by an active pace of fundraising activity, continued growth in investment values, and a resurgent IPO market that contributed to a quarterly record for the number of venture-backed exits completed, according to Dow Jones VentureSource. The major story from the quarter was the number of high-profile IPOs that occurred, including the long-awaited IPOs of unicorn companies such as Uber, Slack, and Pinterest. These companies helped push quarterly venture-backed IPO proceeds to $16.4 billion through 37 listings, according to Renaissance Capital and Pathway Research, which represents the largest quarterly total in seven years. The quarter's prominent IPOs mark a significant milestone for the venture capital industry in that they have helped to allay concerns over general partners' abilities to monetize successful investments such as Uber—which had raised over $15 billion in equity during its 10 years as a private company—and are expected to send billions of dollars in liquidity back to companies, employees, venture funds, and limited partners.

Venture capital investment activity in the U.S. similarly continued at a rapid pace during the second quarter, totaling $28.7 billion invested in 1,409 transactions, according to the PwC/CB Insights MoneyTree™ Report. The second-quarter totals represented increases of 10% in value and 3% in volume relative to the prior quarter, marking the first quarterly increase in transaction volume in the past year. Activity continued to be driven by mega-rounds (i.e., financing rounds of greater than $100 million), which accounted for 47% of all funding and helped contribute to a 26% quarter-over-quarter increase in median deal size. In total, a record 64 mega-rounds were completed during the second quarter, up from the prior record of 55 such rounds completed during the third quarter of 2018. The strong quarterly total brought venture capital investment for the first half of 2019 to $54.9 billion, the largest first-half total since 2000. U.S. venture capital transaction value and volume through June 30, 2019, are illustrated in figure 7.

The largest transaction during the second quarter was the $1.15 billion investment in autonomous driving company Cruise Automation by a consortium that included General Motors, SoftBank's Vision Fund, and asset manager T. Rowe Price. The investment is a prominent example of the varying types of investors and the amount of capital available in the current marketplace to support high-growth venture capital companies. During the quarter, non-traditional investors, such as corporates, mutual funds, and private equity firms, led the six-largest investments made and participated in rounds accounting for 49% of total capital invested, according to the Pitchbook-NVCA Venture Monitor. In July, SoftBank announced that it had secured over $100 billion in pledges for its second Vision Fund. The largest U.S. venture capital deals during the second quarter are listed in table 6.

**Figure 7. U.S. Venture Capital Transaction Value & Volume**
At June 30, 2019




Source: PwC & CB Insights MoneyTree™ Report.

**Table 6. Largest U.S. Venture Capital Deals in 2Q19**
At June 30, 2019

| Company | Select Investors | Value (MM) |
|---|---|---|
| Cruise Automation | General Motors | $1,150 |
| DoorDash | Coatue Management, Darsana Capital Partners & Dragoneer Investment Group | $600 |
| UiPath | Accel, Coatue Management & Sequoia India | $600 |
| SpaceX | Ontario Teachers' Pension Plan | $536 |
| SoFi | Marketplace Funds & Third Point Ventures | $500 |

Source: PwC & CB Insights MoneyTree™ Report.

# Private Credit

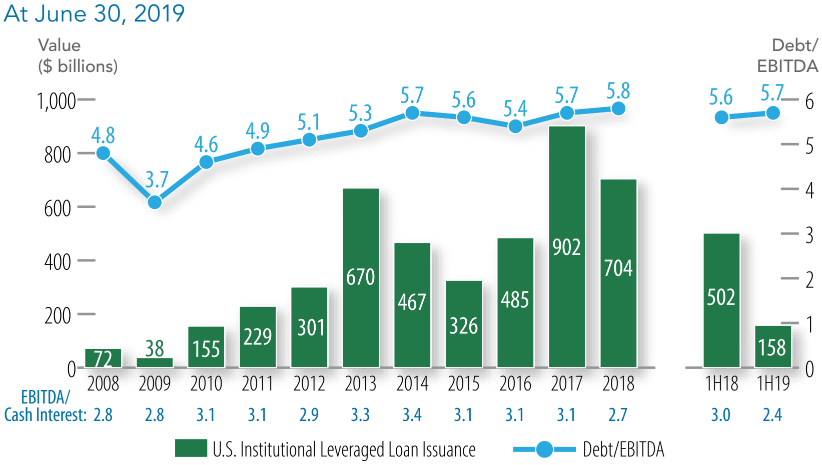
## Performing Credit: Leveraged Loan Issuance Tumbled in 1H19 on Weak M&A and Refinancing Volume

U.S. institutional leveraged loan issuance remained tepid in the second quarter, bringing the first-half 2019 total to a paltry $158 billion—a decline of 69% from the same period in 2018, according to JP Morgan. At this pace, 2019 is on track to be the lowest year for institutional leveraged loan issuance since 2015. The steep decline in issuance was the result of a slowdown in global M&A activity in the first half of the year (including PE-backed investment activity) and lower refinancing and repricing volumes. Additionally, strong buyside demand for high-yield loans led many corporate borrowers to utilize the high-yield market for their financing needs: U.S. high-yield issuance totaled $137 billion in the first half of 2019, a 20.0% increase over the first half of 2018, according to SIFMA. The yield to maturity (YTM) for the S&P Leveraged Loan 100 index was 6.26% at the end of the second quarter, up slightly from the end of the first quarter. The effective yield for the ICE BofA ML High Yield index ended the second quarter at 5.90%, down 46 basis points from the prior quarter and the lowest level since January 2018. CLO issuance remained robust during the first half of the year: in the U.S., total CLO issuance reached $63.8 billion, less than $2 billion lower than 2018's record-setting pace, according to Thomson Reuters LPC. U.S. institutional leveraged loan issuance through June 30, 2019, is presented in figure 8.

## Distressed Debt: Indicators of Distress Remain at Low Levels

Indicators of distress in the leveraged credit markets remain at low levels overall. The trailing 12-month (TTM) high-yield default rate in the U.S. was 1.8% at the end of the second quarter, up from 1.4% at the end of the first quarter, according to Fitch Ratings. The slight uptick was driven by several large defaults that occurred in the second quarter, including the Chapter 11 filing of chemicals manufacturer Hexion and the distressed debt exchange by retailer Neiman Marcus. Similarly, the TTM high-yield default rate in Europe was 1.5% at the end of the second quarter, up slightly from 1.2% in the prior quarter. The high-yield distress ratio (the percentage of bonds trading at spreads greater than 1,000 basis points over treasuries) remained just below 10% at the end of the second quarter, little changed from the prior quarter. Although distressed debt investment activity has been relatively light over the past several years, many distressed debt investors believe that accommodative credit markets are masking weaknesses for many companies that are vulnerable to rising interest rates or a slowdown in economic growth.

**Figure 8. U.S. Institutional Leveraged Loan Issuance**
At June 30, 2019




Source: JP Morgan and S&P LCD.

**Figure 9. High-Yield Bond Spreads over U.S. Treasuries**
At June 30, 2019


Source: BofA Merrill Lynch.

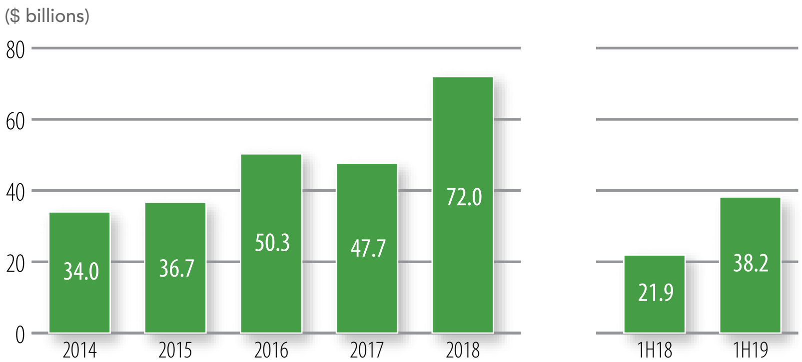
# Infrastructure

The strong fundraising pace in infrastructure continued during the second quarter: eight private infrastructure–focused funds raised $19.6 billion in aggregate capital commitments, which brought total capital raised in 2019 to $38.2 billion—a 74% increase from the first two quarters of 2018. Second-quarter fundraising activity was driven by three funds: Macquarie European Infrastructure Fund VI (€7.0 billion), GSO Energy Select Opportunities II ($4.5 billion), and Digital Colony Partners ($4.1 billion), which accounted for approximately 80% of total capital raised during the quarter. Fundraising in the second half of the year is expected to continue to be strong: several of the largest infrastructure managers, including Global Infrastructure Partners and Brookfield Infrastructure Partners, are currently fundraising for their latest vehicles. Global private infrastructure capital raised through June 30, 2019, is presented in figure 10.

During the second quarter, 22 private infrastructure deals were completed at an aggregate value of $44.8 billion. Aggregate infrastructure deal value in the first half of 2019 totaled $52.1 billion, a 56% increase from the first half of 2018. Public-to-private transactions drove the acceleration of investment activity during the quarter: the three-largest transactions were take-private transactions and represented 65% of the capital deployed during the quarter. EQT and Digital Colony's $14.3 billion take-private acquisition of Zayo Group, an independent provider of bandwidth infrastructure, and IFM Investors' $10.3 billion acquisition of Buckeye Partners, owner and operator of one of the largest diversified networks of integrated midstream assets, represented the two-largest investments completed during the quarter by a financial buyer (see table 3).

A sector that has garnered increased interest from infrastructure managers over the past several years is digital infrastructure. With data demand growing at a rapid rate and the roll-out of 5G expected in the near term, investment in digital infrastructure assets, such as fibre networks, towers, and data centers, has been increasing in recent years and has become a larger portion of infrastructure portfolios. These assets have become critical to a functioning economy and are typically supported by long-term, inflation-linked contracts, thereby positioning them as a strong fit for infrastructure portfolios. Private investment in digital infrastructure has experienced steady growth over the past five years, with a compounded annual growth rate of 16.2%. In the first half of 2019, nine digital infrastructure deals were completed, representing $17.5 billion in total value.

**Figure 10. Global Private Infrastructure Capital Raised**
At June 30, 2019




Source: Pitchbook.

**Table 7. Notable Infrastructure Deals in 2Q19**
At June 30, 2019

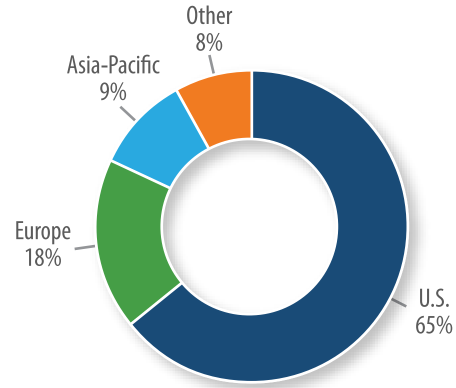
| Asset/Company | Acquirer | Industry | Region | Deal Size (MM) |
|---|---|---|---|---|
| Zayo Group | EQT & Digital Colony | Telecommunications | U.S. | $14,300 |
| Buckeye Partners | IFM Investors | Midstream Energy | U.S. | $10,300 |
| El Paso Electric | JP Morgan Asset Mgmt. | Power–Diversified | U.S. | $4,300 |
| ADNOC Pipeline Unit | BlackRock & KKR | Midstream Energy | United Arab Emirates | $4,000 |
| IP-Only Telecommunication | EQT | Telecommunications | Sweden | $2,146 |

Source: PitchBook.

# Fundraising Market

During the second quarter, private market funds worldwide raised $152 billion, according to Thomson Reuters and Pathway Research, which brought the total amount raised during the first half of 2019 to $301 billion. The quarterly total represented an 8% increase from the prior quarter and the 11th-consecutive quarter that more than $100 billion was raised. Second-quarter activity was largely attributable to elevated fundraising levels in the U.S. The $98.5 billion raised in the U.S. constituted the second-highest quarterly amount on record. U.S.-based managers raised 22 funds larger than $1.0 billion in size. At $17.5 billion, Advent International Global Private Equity IX was the largest U.S. buyout fund raised since Apollo Investment Fund IX's record-setting $24.6 billion fundraising during the third quarter of 2017. Other notable U.S. funds raised include growth equity–focused TA XIII ($8.6 billion) and credit-focused GSO Energy Select Opportunities II ($4.5 billion). Global fundraising by strategy through the second quarter of 2019 is illustrated in figure 11; global fundraising by region is illustrated in figure 12.

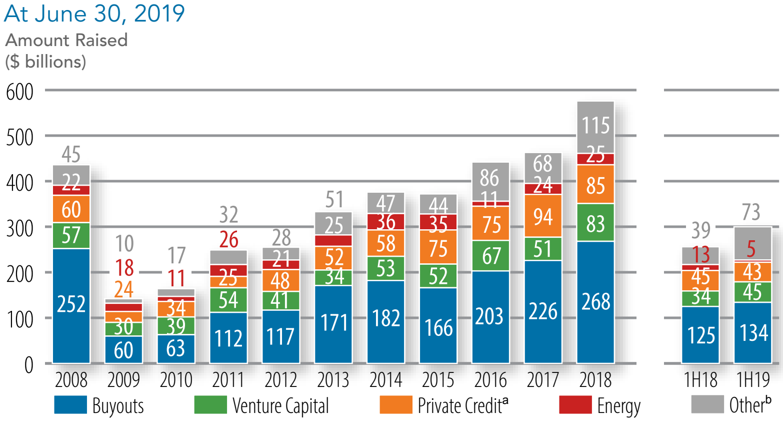
**Figure 12. Global Fundraising By Region**
At June 30, 2019
As a % of Amount Raised




Source: Thomson Reuters, Pitchbook, and Pathway Research.
Notes: Percentages are based on net amounts raised, which are adjusted for fund-size reductions.
Data is continuously updated and is therefore subject to change.

The quarter-over-quarter uptick in fundraising was driven by increases in activity in the venture capital and other private equity (e.g., infrastructure, generalist, and special situation) strategies, which each posted near-record-setting quarterly totals. Venture capital funds raised $25.4 billion in the second quarter, the highest quarterly total since the first quarter of 2001. The surge in venture activity was driven by four funds that raised greater than $1.0 billion, including NEA 17, which raised $2.7 billion, and Andreessen Horowitz LSV Fund I, which raised $2.0 billion. Other private equity strategies accounted for $39.2 billion of capital raised during the quarter, just slightly below the record $39.6 billion raised in the third quarter of 2018. The strategy was led by three large infrastructure funds that collectively accounted for 50% of the quarterly total, the most notable being Macquarie European Infrastructure Fund VI, which held a final close at €7.0 billion in aggregate commitments. Buyout and direct lending funds experienced modest declines in activity relative to the first quarter, raising $64.7 billion (7% decrease) and $14.0 billion (18% decrease), respectively. Despite the quarterly declines, both strategies still achieved active quarters relative to historical averages and remain on pace to surpass their corresponding totals from 2018.

**Figure 11. Global Fundraising by Strategy**
At June 30, 2019




Source: Thomson Reuters, Pitchbook, 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. • Amounts may not foot due to rounding. • [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.

**Table 8. Notable Funds Raised in 2Q19**
At June 30, 2019

| Fund | Strategy | Region | Amount (MM) |
|---|---|---|---|
| Advent International GPE IX | Buyout | U.S. | $17,500 |
| The Seventh Cinven Fund | Buyout | UK | €10,000 |
| TA XIII | Growth | U.S. | $8,600 |
| GSO Energy Select Opps Fund II | Energy | U.S. | $4,450 |
| Warburg Pincus China–Southeast Asia II | Generalist | China | $4,250 |

## 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 $85 billion to more than 700 private market investments.

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