Pathway Research

Private Market Environment

1ST QUARTER 2020

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1Q20 Market Review

The COVID-19 pandemic derailed the global economy and upended financial markets in the first quarter of 2020, leading to steep losses for most risk assets and a flight to the relative safety of cash and developed markets government debt. The MSCI All Country World Index fell 21.3% in the first quarter, the worst quarterly loss since the 22.2% decline in the fourth quarter of 2008. At its low point, the index was down 31.7% from the end of 2019 before staging a strong rally in the last week of the quarter. The quarter-end rally was spurred by an unprecedented level of governmental response to contain the economic damage wrought by the crisis. In the U.S., this included a $2.2 trillion stimulus package, two emergency interest rate cuts and unlimited quantitative easing by the Federal Reserve, and new lending facilities to support main street businesses and corporate and municipal borrowers. In Europe, the European Central Bank (ECB) unveiled a €750 billion Pandemic Emergency Purchase Programme to buy government and corporate bonds, and the Bank of England cut its benchmark interest rate to its lowest level ever and expanded its bond buying program by £200 billion. The 10-year U.S. Treasury yield fell to an all-time low of 0.32% in early March and ended the quarter at 0.70%, down from 1.92% at the end of 2019. Oil prices tumbled during the quarter, ravaged by a collapse in demand due to the crisis and an ill-timed price war between Saudi Arabia and Russia. The West Texas Intermediate and Brent crude benchmarks each fell by more than 60% in the first quarter.

Widely adopted social distancing measures have slowed the rate of coronavirus infections and have helped to ease the burden on healthcare systems in many countries around the world. However, these social distancing measures have come at a great cost to the global economy: the International Monetary Fund is now projecting that global GDP will contract by 3.0% in 2020, significantly greater than the 1.7% contraction in 2009 during the global financial crisis (GFC). In the U.S., second-quarter GDP is projected to decline by an annualized rate of between 30% and 40%, and initial jobless claims have totaled more than 30 million since the pandemic was declared, greater than the total number of jobs created over the past decade. While there is some optimism that the strong global fiscal and monetary policy response to date will enable a relatively quick recovery, there remains tremendous uncertainty surrounding the coronavirus, its long-term impact on society and consumer behavior, if any, and the path toward a more-normal level of economic activity.

Impact on Private Markets

The crisis is expected to have a widespread impact on the private markets, although the magnitude will vary widely across investment strategies, industry sectors, and general partners and will depend on a multitude of factors, including the capital structure and market positioning of underlying businesses. The private markets have several structural advantages over other asset classes, which make them well suited to withstand market dislocations and crises, as they did during the GFC. The long-term nature of the private markets, the

Table 1. Largest PE-Backed M&A Exits Announced in 1Q20

At March 31, 2020

Seller	Portfolio Company	Industry	Region	Value (MM)
Ribbit Capital, Founders Fund, Felicis Ventures, Silver Lake	Credit Karma	Financial Services	U.S.	$7,100
Spark Capital, Kleiner Perkins, NEA, Index Ventures, Andreessen Horowitz	Plaid	Financial Services	U.S.	$5,300
Lightspeed Venture Partners, Sutter Hill	Forty Seven	Healthcare	U.S.	$4,700
Permira	Duff & Phelps	Financial Services	U.S.	$4,200
Providence Equity Partners	Galileo Global Education	Consumer	France	$2,830

stability of their capital base, and their active and control-oriented portfolio management model provides general partners the ability to take a longer-term view, move quickly and decisively to address issues at their portfolio companies, and take advantage of opportunities that arise. Additionally, as early as 2016, many general partners became particularly cognizant of late-cycle market dynamics and began adopting a more-conservative view in their underwriting and overall investment approach, focusing their investment activities on less cyclical industries and structuring their investments to ensure flexibility during a potential downturn. For example, software buyouts accounted for 28% of U.S. buyout transaction activity in 2019, compared with just 3% in 2007, according to data from Refinitiv. Software companies, particularly SaaS-based businesses, typically feature high growth rates, high retention rates, and recurring revenues and are expected to be fairly resilient during this crisis.

As expected, general partners have responded quickly to the crisis, with an overarching focus on protecting their portfolio companies and investments. General partners are assessing the pandemic's expected impact on their companies' business models, revenues, and cash flows. Many general partners have instructed their companies to preserve liquidity and to draw down on available revolver facilities for defensive purposes. They are working closely with management teams and operating partners to institute action plans and to prioritize resources and capital. General partners are also actively seeking opportunities to invest capital in the current environment. However, as we saw during the GFC, a wide gap between buyer and seller expectations and constrained credit markets will likely result in depressed investment activity levels in the near term. Still, there have been notable areas of activity in the midst of the crisis. For example, there has been a marked increase in PIPE (private investment in public equity) transactions, including a $1.2 billion preferred stock investment in Expedia led by Silver Lake and Apollo, a $535 million convertible debt investment in Wayfair led by Charlesbank and Great Hill Partners, and a $500 million convertible preferred investment in US Foods led by KKR.

At the time of this writing, most private equity firms had not yet reported first-quarter performance. Based on preliminary data, we expect that most funds will show a 5%–20% decline in performance for the first quarter, due in large part to a decline in public market valuation multiples, with significant variability across investment strategies and specific investments. The full extent of the impact of the pandemic is as yet unknown, and there is significant uncertainty in the economic outlook. Market conditions will likely remain volatile for the foreseeable future, which will pose challenges, as well as opportunities, for private equity firms. We expect that experienced and disciplined general partners will successfully navigate this crisis. For more information, our special report, *COVID-19 and the Impact on Private Equity*, is available to download at www.pathwaycapital.com.

Table 2. Largest PE Investments Announced in 1Q20

At March 31, 2020

Buyer	Target	Industry	Region	Value (MM)
Advent International, Cinven	Thyssenkrupp Elevator Unit	Industrials	Germany	$18,968
Advent International	Cobham	Industrials	UK	$5,225
Insight Partners	Veeam	Software	Switzerland	$5,000
Veritas Capital	DXC Healthcare Technology	Technology	U.S.	$5,000
Stone Point Capital, Further Global	Duff & Phelps	Financial Services	U.S.	$4,200

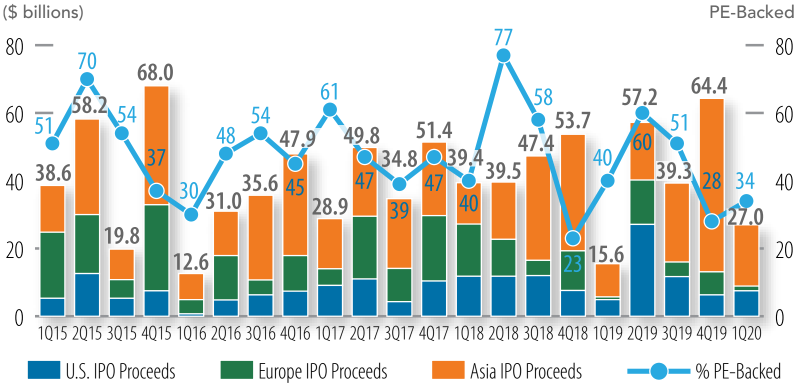
Global IPO and M&A Exit Markets

Global exit market activity fell sharply in the first quarter, hampered by the significant volatility and uncertainty caused by the coronavirus crisis. Worldwide M&A exit value for private equity–backed companies totaled $60.3 billion from 349 transactions, a decline in value of 45% from the year-ago period and the lowest quarterly total since the third quarter of 2013, according to Mergermarket. Most general partners have chosen to forgo planned sales for the time being rather than accept a steep discount to pricing expectations just months old. This has resulted in a number of sale processes being pulled from the market, including those for Thoma Bravo–backed healthcare security provider Imprivata and CapVest-backed medical supply developer Curium Pharma. In the first quarter, activity was instead driven by several strategic acquisitions of venture capital–backed companies by corporate buyers, most notably Intuit's $7.1 billion acquisition of Credit Karma in late February and Visa's $5.3 billion acquisition of Plaid in late January.

IPO activity worldwide similarly halted late in the first quarter amid a sell-off in the public markets that created little appetite for new offerings. In the U.S., 24 IPOs raised $7.5 billion during the first quarter, a decline of 40% in both value and volume from the quarterly average during 2019. Just two IPOs occurred in March, and just three have occurred since quarter-end, highlighting the abrupt halt in activity triggered by the pandemic. PE-backed companies continue to represent a meaningful share of new listings, accounting for 72% of proceeds raised during the quarter, including the two largest listings: the $1.9 billion IPO of PPD and the $1.4 billion IPO of GFL Environmental. In line with the struggles faced by the global public markets, both companies finished the quarter below their offering prices, contributing to an average return of –7% for new IPOs overall. The lone bright spot was the healthcare sector, which produced an average quarterly return of 19% and accounted for seven of the eight positive-returning IPOs of the quarter.

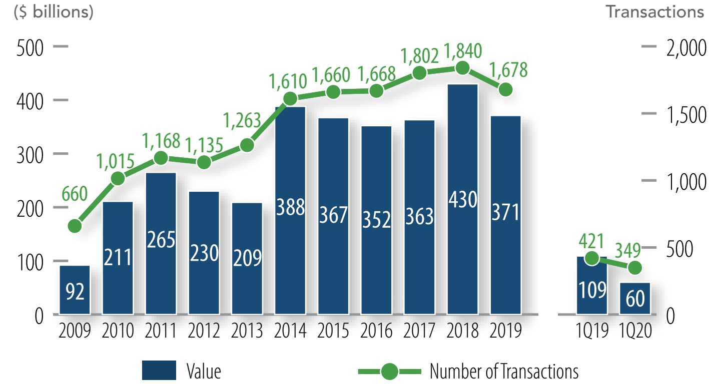
European IPO activity was at a low level in 2019 and has decreased further in 2020: in the first quarter, European IPOs generated aggregate proceeds of only €1.2 billion—a decrease of 80% from the prior quarter and the second-lowest quarterly total in more than seven years. The two largest listings accounted for just under half of total quarterly proceeds: Calisen (€396 million), a UK-based smart-meter company backed by KKR Infrastructure, and Musti Group (€182 million), a Nordic-based pet-care business backed by EQT. In Asia, 161 IPOs were completed in the first quarter, raising $18.1 billion—a decrease in proceeds of 65% from the prior quarter. PE-backed companies accounted for just 17% of proceeds raised, of which nearly half came from the $1.4 billion listing of SBI Card in India. At this point, it remains unclear when confidence in the stock markets will return, but a prolonged period of depressed activity globally appears likely.

Figure 1. Quarterly Global IPO Activity
At March 31, 2020



Source: Bloomberg, Renaissance Capital, and Pathway Research.

Figure 2. Global PE-Backed M&A Exit Value & Volume
At March 31, 2020



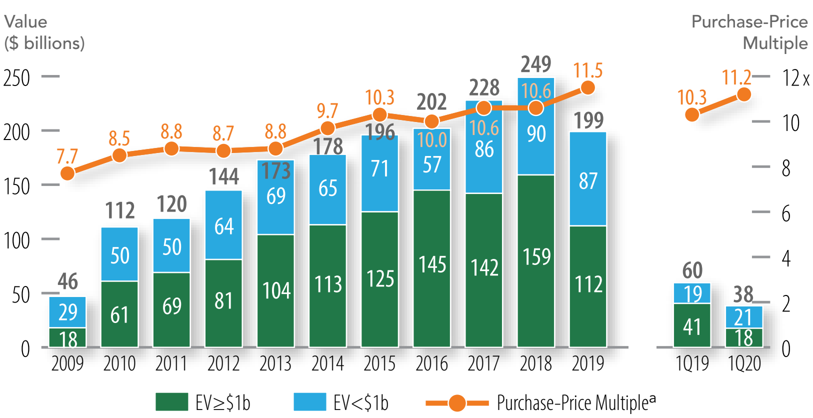
Source: Mergermarket.

U.S. Buyout Markets

Buyout activity in the U.S. slowed during the first quarter as investors grew wary of the rapidly expanding COVID-19 pandemic and the related effects of nearly nation-wide shelter-in-place directives. During the quarter, U.S. buyout activity totaled just $38.3 billion, down 29% from the prior quarter and 36% from the same period in 2019. Following a relatively normal pace in January, deal value declined in each subsequent month of the quarter, falling 32% in February as the strength of the virus became apparent and 13% in March as an official pandemic was declared and quarantine zones were expanded. Of the transactions announced in March, 50% of the total was due to Veritas Capital's $5.0 billion carve-out of DXC Technology's health and human services business—the largest U.S. buyout of the quarter. That transaction, in addition to a host of others that were announced both before and during the first quarter, remains in limbo as buyers assess changes to their underwriting assumptions and debt financing options. To date, however, only a limited number of agreed-upon transactions have collapsed in response to COVID-19, and many general partners are still indicating plans to move forward, albeit with increased potential for purchase-price or deal-structure modifications. According to Mergermarket, of the 57 M&A transactions greater than $1.0 billion announced in the first quarter with either a U.S. buyer or target, just two have been terminated; six have closed, and 49 remain pending. The largest among these is the €17.2 billion carve-out of the elevator business of German industrial conglomerate Thyssenkrupp by Advent International and Cinven, the largest buyout announced since the GFC.

In response to the crisis, most buyout managers have shifted their focus to preserving value in existing investments, which is expected to slow deal activity even further in the coming quarters. General partners are working closely with management teams and operating partners to evaluate debt capital structures, business models, cash flows, and revenue projections. Many general partners have instructed their companies to preserve liquidity and to draw down on available revolver facilities for defensive purposes. Companies may also consider accessing the Federal Reserve's $600 billion Main Street Lending Program, which will be open to PE-backed companies, subject to leverage restrictions, unlike the Paycheck Protection Program (PPP), which generally limits eligibility to companies with less than 500 employees, including employees from affiliated companies. As business resumes, buyout managers with sufficient capital will be well positioned to take advantage of a reset in market valuations, both for new platform investments and for add-on acquisitions for existing companies. In recent weeks, we have seen an increase in PIPE transactions led by private equity firms. These private investments in public companies typically feature downside protection, attractive dividend yields, and upside optionality while also providing companies access to much-needed capital while markets are constrained. Recent examples include the aforementioned Expedia, Wayfair, and U.S. Foods transactions, as well as those of The Cheesecake Factory and Outfront Media.

Figure 3. U.S. Buyout Investment Activity
At March 31, 2020



Source: Refinitiv, 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 March 31, 2020

	2007	2019	1Q20
Purchase Price/EBITDA	9.7x	11.5x	11.2x
Equity Contribution %	30.9%	43.5%	46.7%
Debt/EBITDA	6.0x	5.8x	5.3x
EBITDA/Cash Interest	2.1x	2.7x	3.2x

Source: S&P LCD.

European Buyout Markets

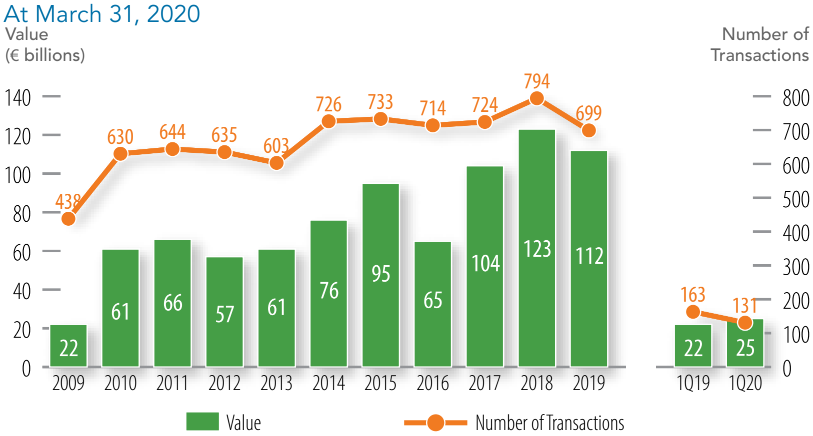
European buyout transaction activity totaled €25.4 billion in the first quarter, according to data provided by CMBOR. Although this represents a decrease of 45% from the record-breaking fourth quarter, it is broadly in line with the quarterly average of €25.0 billion for the past five years.

The COVID-19 pandemic led to declines in public markets starting in mid-February, but buyout activity continued to hold up well into March, supported by previously signed deals closing as planned. This may have been a key factor of stability in the upper end of the market, where the length of time between signing and closing can be significant. Twelve upper-mid-cap and large-cap buyouts with values of at least €500 million closed in the first quarter. They accounted for €20.3 billion in aggregate value, slightly above their quarterly average for 2019. This is in stark contrast to lower-mid-cap and small-cap buyouts valued below €500 million, which represented only €5.1 billion in aggregate value in the first quarter—down 40% from their quarterly average for 2019. The largest European buyout of the first quarter was Advent International's take-private of Cobham, a deal announced in July 2019, which valued this aerospace and defense business at €4.7 billion. This was followed by Thoma Bravo's €3.4 billion take-private of Sophos, a security software and hardware business, which had been approved by shareholders in December 2019.

Although COVID-19 has led to a slow-down in new investment activity, transactions have continued to be announced since the pandemic became widespread. Most prominently, Advent International and Cinven announced the €17.2 billion carve-out of Thyssenkrupp's elevators unit in late February, in what will be Europe's largest buyout since 2007 and likely the world's largest buyout in 2020.

In European credit markets, spreads on BB-rated euro-denominated bonds had been below 400 basis points since March 2016 and started 2020 at around 215 basis points—close to historic lows. They maintained this low level for the first half of the quarter but spiked to around 650 basis points in mid-March before ending the quarter at around 580 basis points. According to UBS, primary high-yield issuance totaled €19.4 billion in the first quarter—11% more than the quarterly average for the past five years. However, 90% of the quarterly total was issued in the first five weeks of the quarter, and no issuance was completed between late February and mid-April. At the moment, lenders appear hesitant to provide financing for new leveraged buyouts, and it remains to be seen how long it will take for credit markets to open up on a broad scale again.

Figure 4. European Buyout Transaction Value & Volume
At March 31, 2020



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

Table 4. Largest European Buyouts That Closed in 1Q20
At March 31, 2020

Buyer	Target	Country	Value (MM)
Advent International	Cobham	UK	€4,680
Thoma Bravo	Sophos Group	UK	€3,410
Hellman & Friedman	AutoScout24	Germany	€2,840
Hg Capital	P&I Personal & Informatik	Germany	€2,000
PAI Partners	Armacell International	Belgium	€1,400

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

Asia Private Equity

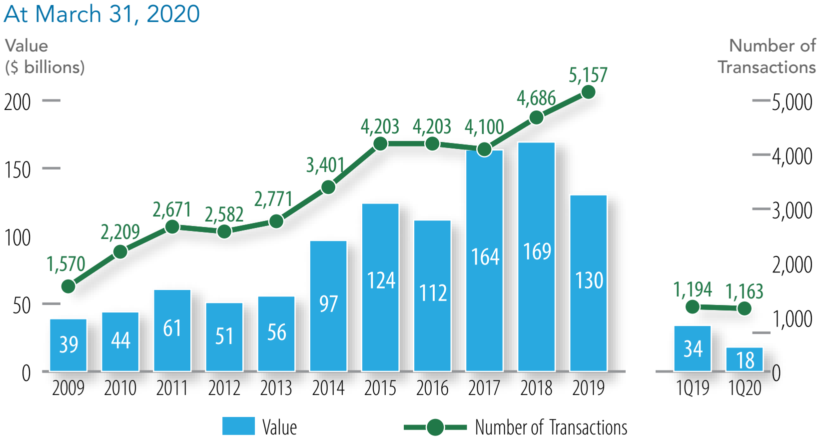
The emergence of COVID-19 and the impact it has had on the Asia-Pacific region was a key theme throughout the first quarter. China responded to the outbreak in Wuhan with the rollout of an aggressive national lockdown, which brought the country to a standstill. The strict public measures have helped shore up the situation in China: the number of cases peaked in February and has since decreased significantly. However, China has experienced a dramatic decline in economic activity due to the unprecedented shutdown: both manufacturing and non-manufacturing Purchasing Managers Indices (PMIs) posted record lows in February. With the easing of lock-down restrictions, China's economic activity has begun to recover. By March, more than 96% of large- and medium-sized businesses were back to operating, PMI had rebounded to 52.0, and key consumption indicators such as coal consumption and traffic congestion started to normalize back to 2019 levels.

Other Asian countries have not been spared from the economic repercussions of COVID-19. Japan's Nikkei ended the first quarter down 19.3% due to concerns of the pandemic's long-term impact and a higher-than-expected 7.1% annualized contraction of fourth-quarter GDP. Korea's KOSPI performed similarly, declining 20.2% as the economy shrank in the first quarter from a decrease in government spending and corporate investment. Although Southeast Asia has had relatively fewer coronavirus cases than its northern peers, many countries in the region began to implement stricter measures toward the end of the first quarter.

Because of the volatile public markets, restrictions on travel, and lower productivity, investment activity saw a steep drop during the first quarter. According to *Asia Venture Capital Journal* (*AVCJ*), private equity investment activity in Asia decreased by 48% from the prior quarter and by 46% year on year to $18.0 billion. China accounted for 48% of total private equity investment volume, including the region's only two investments of $1.0 billion or greater: the $3.0 billion investment in Kuaishou by Boyu and Sequoia and the $1.0 billion investment in Yuanfudao by Boyu, Hillhouse, and IDG.

The IPO markets also had a relatively subdued quarter: 161 companies raised $18.1 billion via public offerings on Asia-based exchanges—a 65% decrease in total proceeds compared with the prior quarter. PE-backed IPOs accounted for $3.0 billion of total proceeds raised in Asia during the first quarter, the most notable being the $1.4 billion listing of Carlyle-backed SBI Card on India's BSE.

Figure 5. Asian PE Transaction Value & Volume
At March 31, 2020



Source: *AVCJ*.

Table 5. Largest Asia PE Investments in 1Q20
At March 31, 2020

Buyer	Target	Country	Value (MM)
Boyu Capital, Sequoia Capital China, Yunfeng Capital	Kuaishou	China	$3,000
Boyu Capital, Hillhouse Capital, IDG Capital	Yuanfudao	China	$1,000
Glenwood	SKS Kolon PI	Korea	$524
Integral	Mamezou	Japan	$315
Centurium Capital	ANE Logistics	China	$300

Source: *AVCJ*.

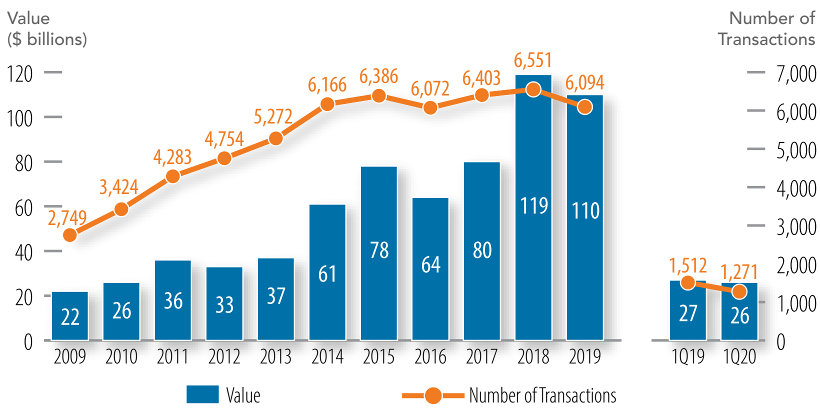
U.S. Venture Capital

U.S. venture capital investment activity remained strong during the first quarter, although the numbers do not yet fully reflect the impact of the COVID-19 pandemic. Deal volume fell for the third-consecutive quarter, but investment activity rose to $26.4 billion, according to the PwC/CB Insights MoneyTree™ Report. The first-quarter total represented an increase of 14% from the prior quarter and the seventh of the past eight quarters to exceed $25.0 billion in value. Mega-rounds (i.e., financing rounds of greater than $100 million) continued to spur investment activity, accounting for nearly half of deal value during the first quarter and contributing to a growing number of unicorns in the U.S. At quarter-end, the number of unicorns in the U.S. had reached 204, an all-time high. Similarly, participation from non-traditional venture capital investors has remained elevated: according to PitchBook Data, Inc., non-traditional investors accounted for nearly 56% of deal value in the first quarter, also a record high. Looking forward, as corporate and strategic investors evaluate their ability to make new investments in the wake of broader economic challenges, it remains to be seen whether this participation will continue. Perhaps most significant is the outlook for SoftBank Group, which, in the midst of fundraising for its second such vehicle, is estimated to report losses of nearly $17.0 billion during 2019 in its $108 billion Vision Fund, according to *The Wall Street Journal*.

Exit activity experienced a sharper decline in the first quarter as a result of public market losses in March impacting both potential buyers for venture-backed companies and the attractiveness of new public offerings. Venture capital M&A exit activity totaled $13.8 billion during the quarter, down 15% from the fourth quarter. Venture-backed IPO activity fell further, totaling just $1.8 billion raised from 10 listings—the lowest value raised in three years. The first quarter lacked an outsized offering, which is partially a reflection of the wariness harbored by investors following the mediocre performance of several large venture-backed IPOs in 2019.

Over coming quarters, the impact of the COVID-19 pandemic is expected to cause a broader slowdown in both investment and exit activity as general partners shift their focus toward managing existing portfolios. Although the current fundraising environment has left many investors well suited to continue supporting their portfolios (including $21.4 billion raised in the first quarter of 2020), general partners will be forced to evaluate the impact of supply chain disruptions, travel restrictions, and declining revenues on investment prospects in order to manage their cash runways through a challenging period for new financings. In a longer-term outlook, the COVID-19 pandemic may have other impacts on the venture capital industry as well, including the potential for further innovation and adoption of many quarantine-proven business models, like online learning, telemedicine, home fitness, and digital payments.

Figure 6. U.S. Venture Capital Transaction Value & Volume
At March 31, 2020



Source: PwC & CB Insights MoneyTree™ Report.

Table 6. Largest U.S. Venture Capital Deals in 1Q20
At March 31, 2020

Company	Select Investors	Value (MM)
Joby Aviation	8VC & AME Cloud Ventures	$590
Impossible Foods	Khosla Ventures	$500
Snowflake Computing	ICONIQ, Redpoint Ventures, Sequoia Capital & Sutter Hill Ventures	$479
Pony.ai	Morningside Venture Capital	$462
Toast	Bessemer Venture Partners, G Square Capital & Technology Crossover Ventures	$400

Source: PwC & CB Insights MoneyTree™ Report.

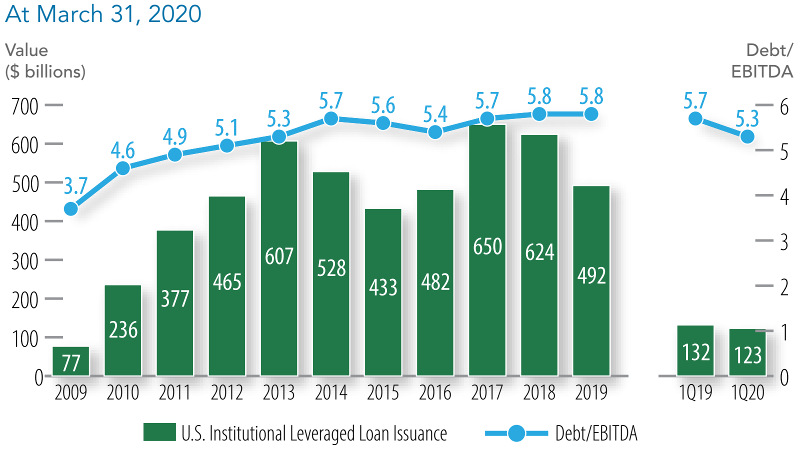
Private Credit Markets

Distressed Debt: Indicators of Distress Have Increased Significantly

Secondary leveraged credit markets were roiled by the coronavirus crisis in March, which led to the worst losses for non-investment-grade debt since the GFC and an abrupt end to a record-long credit cycle in the U.S. The S&P Leveraged Loan index fell almost 4.0% on March 18, the largest single-day loss in the index's history, and 12.4% for the full month, the worst monthly loss since October 2008. At its low point, the weighted average bid fell to 76.2, a post-GFC low, before ending the first quarter at 82.9. Loan market volatility, measured by the rolling 30-day standard deviation of daily returns, spiked to an all-time high of 165 in March, almost double the prior high reached during the GFC, according to S&P LCD. Credit spreads spiked during the quarter: high-yield bond spreads reached a post-GFC high of nearly 1,100 basis points in March before ending the quarter at 877 basis points over U.S. Treasuries. Shortly after the end of the quarter, the Federal Reserve announced that it was expanding the mandate of both its primary and secondary market corporate credit facilities (PMCCF and SMCCF) to include bonds that were rated investment grade as of March 22, 2020, but have since been downgraded to non-investment grade (fallen angels) to support the continued flow of credit to businesses. Additionally, through the SMCCF, the Federal Reserve can also acquire high-yield bond ETFs, thus providing support to the asset class. Investors responded favorably to the Federal Reserve's unprecedented actions to support the high-yield market: the major high-yield ETFs increased by more than 7% on the day of the announcement, the largest 1-day gain since the beginning of 2009.

After a decade of benign credit market conditions marked by low interest rates, robust debt issuance, and few signs of distress outside the energy markets, many believe that the pandemic has sparked the beginning of a new distressed debt cycle. Despite the strong level of governmental response to stem the fallout from the crisis, it is likely that many companies and industry sectors will struggle to withstand a prolonged severe contraction in revenues. Even outside of the most impacted sectors, such as energy, retail, and travel, a sustained downturn or delay in returning to prior demand levels may significantly impact many other companies and sectors as well. The high-yield distress ratio (percentage of bonds trading at spreads of 1,000 basis points or greater than U.S. Treasuries) ended the quarter at 29%, up from 8% at the start of the year and the highest level since the first quarter of 2016, according to Fitch Ratings. Similarly, the leveraged loan distress ratio (percentage of loans trading below 80) ended the quarter at 25%, up from 4% at the end of 2019, according to S&P LCD. Default rates, which are a lagging indicator, remained low at the end of the first quarter but are anticipated to increase in 2021 to their highest levels since the GFC.

Figure 7. U.S. Institutional Leveraged Loan Issuance
At March 31, 2020



Source: S&P LCD.

Figure 8. High-Yield Bond Spreads over U.S. Treasuries
At March 31, 2020

Source: BofA Merrill Lynch.

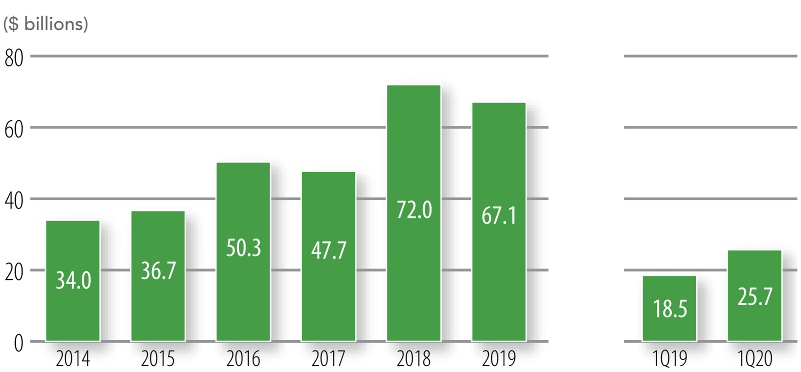
Infrastructure

The onset of the coronavirus has brought upon a new and unfamiliar environment for infrastructure investors. The sector-specific ramifications, both negative and positive, have not yet fully manifested and therefore remain uncertain. However, early indications point to the midstream energy and transportation sectors as being impacted most severely. Global travel restrictions have led to an unprecedented decline in both passenger levels and demand for oil, which, combined with an increase in oil supply from OPEC, has driven oil prices to below $20 per barrel. Although several assets in these sectors will face challenges and liquidity issues through this downturn, many investors have structured their investments to provide downside protection, either through the use of take-or-pay contracts or liquidation preferences, which should provide a means of protection against capital impairment. Contrarily, the demand for data continues to grow as the population remains at home, and many assets in the digital infrastructure sector continue to perform well. Although the effects of COVID-19 will be felt across all industries and subsectors, investors who maintained portfolios that are well diversified and have strong downside protections should be well positioned in the current economic climate.

Coming out of an exceptionally active year for investment pacing in 2019, activity moderated in the first quarter of 2020: nine infrastructure investments were announced totaling an aggregate value of $18.0 billion. Investment activity was driven by a consortium of investors, which included KKR and GIP, that placed a $7.4 billion bid to acquire a 49% stake in a critical pipeline asset from Abu Dhabi National Oil. Although deal activity has recently slowed as a result of the ongoing COVID-19 crisis, managers will continue to seek opportunistic investments over the next several months, particularly targeting carve-outs of attractive, non-core assets from counterparties who seek to maintain liquidity on their balance sheets.

Five private infrastructure–focused funds raised $25.7 billion in commitments during the first quarter, a 199% increase from the prior quarter and the strongest first-quarter total since the $28.5 billion raised in the first quarter of 2017. Brookfield Asset Management led fundraising activity during the first quarter, raising $20.0 billion for its fourth global infrastructure fund. Although fundraising activity was strong during the first quarter, the general economic slowdown and uncertainty created by the COVID-19 pandemic, combined with a decline in transaction activity, may impact the levels of capital raised in upcoming quarters. However, managers that began fundraising before the COVID-19 pandemic escalated to critical levels are able to continue to fundraise with electronic data sharing and virtual meetings, and a few notable managers are still expected to raise funds in 2020.

Figure 9. Global Private Infrastructure Capital Raised
At March 31, 2020



Source: PitchBook Data, Inc.

Table 7. Notable Infrastructure Deals in 1Q20
At March 31, 2020

Asset/Company	Acquirer	Industry	Region	Deal Size (MM)
ADNOC (Pipeline Unit)	Consortium (incl. KKR, GIP)	Midstream	UAE	$7,350
Viridor	KKR	Waste Management	UK	$4,900
El Paso Electric	J.P. Morgan	Utilities	U.S.	$4,300
Energy Assets Group	Asterion, EDF Partners	Utilities	UK	$626
Engie	Edelweiss Financial Services	Other Energy	India	$444

Source: PitchBook Data, Inc.

Private Equity Fundraising Market

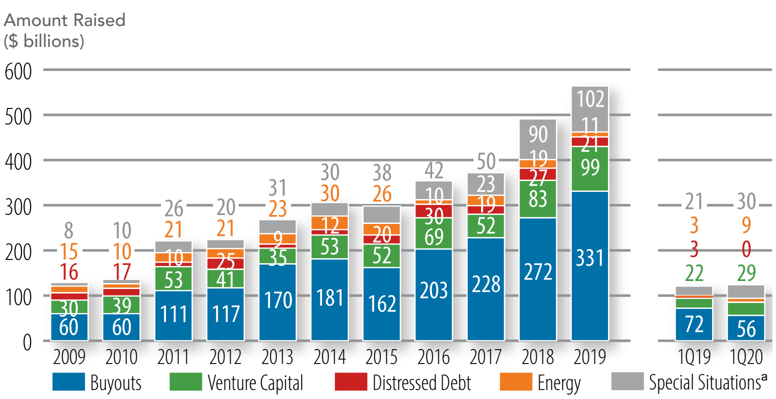
Despite the outbreak of COVID-19, worldwide private equity fundraising remained elevated in the first quarter, totaling $124.5 billion, according to data from Thomson Reuters and Pathway Research. The first-quarter total represented a 2% increase from the same period in 2019 and a decline of just 6% from the quarterly average of the two years prior. Activity during the quarter was driven by U.S.-focused funds, which raised $93 billion and accounted for 75% of the global total—the largest quarterly share in more than two years. U.S. fundraising was led by the final closings of Insight XI ($9.5 billion) and Trident VIII ($7.0 billion), the two largest funds raised during the first quarter. Several other notable managers have signaled that their upcoming fund closings will take place as planned in the coming quarters, including Silver Lake VI ($16.0 billion target) and Thoma Bravo XIV ($14.0 billion target), signaling confidence that investors will remain receptive to their offerings in spite of the tremendous uncertainty caused by the crisis.

First-quarter fundraising activity varied notably by strategy. Buyout funds worldwide raised just $55.7 billion during the quarter, a decline of 22% from the prior quarter and the lowest quarterly total since the second quarter of 2018. Venture capital funds, however, raised $28.8 billion, the largest quarterly amount since 2000. Six venture capital funds raised more than $1.0 billion, led by late-stage focused funds Lightspeed Select IV ($1.8 billion) and Founders Growth Fund ($1.5 billion). Distressed debt funds raised less than $500 million in the first quarter but are expected to experience increased fundraising activity throughout the remainder of 2020. We have seen a significant increase in the number of new funds being launched in the past two months by both traditional distressed debt and opportunistic credit managers to invest in opportunities arising from the current crisis.

Looking forward, despite the strong first-quarter total, the impact of COVID-19 on private equity fundraising is likely to be felt throughout the remainder of 2020 as both general partners and limited partners seek to assess the repercussions of the pandemic on their investment pipelines, existing portfolios, and capital availability. Limited partners will also have to navigate the so-called denominator effect, wherein sharper declines in investors' public market portfolios relative to their private equity portfolios lead to higher-than-expected exposures to the asset class. Additionally, investors face further challenges in maintaining due diligence standards in the wake of quarantine zones and shelter-in-place directives across much of the world.

Figure 10. Global Private Equity Fundraising by Strategy

At March 31, 2020



Source: Thomson Reuters 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 special situations and other fund strategies not classified as buyout-, venture capital–, credit-, or energy-focused.

Table 8. Notable Funds Raised in 1Q20

At March 31, 2020

Fund	Strategy	Region	Amount (MM)
Insight XI	Special Situations	U.S.	$9,500
Trident VIII	Buyouts	U.S.	$7,000
Energy Capital Partners IV	Energy	U.S.	$6,800
Baring Asia Private Equity Fund VII	Buyouts	Hong Kong	$6,500
Tiger Global Private Investment Partners XII	Special Situations	U.S.	$3,750

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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