Pathway Research

# Private Market Environment

2ND QUARTER 2020

CONTENTS

# 2Q20 Market Review

Global equity markets rallied sharply in the second quarter of 2020, defying concerns about the COVID-19 pandemic's impact on the global economy and reversing much of the prior quarter's losses. The MSCI All Country World Index gained 19.4% in the second quarter, the highest quarterly return since the second quarter of 2009, which brought the index's year-to-date return to –6.0%. U.S. stocks fared even better: the S&P 500 gained 20.5% and the technology-heavy Nasdaq index gained 30.9% during the quarter, which brought their year-to-date returns to –3.1% and 12.7%, respectively. The strong rally in global equities was spurred by the unprecedented scale of governmental response to contain the economic damage wrought by the crisis, the reopening of many countries' economies during the quarter, and optimism over the progress of developing a coronavirus vaccine. Additionally, investors welcomed signs that the pace of economic recovery may be stronger than anticipated, including an unexpected increase in U.S. nonfarm payrolls in May. Still, the speed of the market's rebound in the face of the ongoing pandemic, civil unrest, and a highly uncertain economic outlook has confounded many investors. Many stimulus measures that have blunted the economic impact of the pandemic, including extended jobless benefits, are set to expire in the coming weeks and months. Further, global efforts to contain the pandemic have had mixed results thus far. Although the rate of new infections has declined markedly in many countries, it has continued to increase or has remained troublingly high in others. In the U.S., a recent surge in new infections has prompted several states to reinstate measures to slow the spread of the virus, portending a bumpy recovery for the country's economy and labor market.

M&A activity declined significantly in the second quarter, hampered by the uncertainty and volatility in the marketplace, a wide gap between buyer and seller expectations, and still-constrained syndicated loan markets. Global M&A transaction value totaled $309 billion during the quarter, a decline of 48% from the prior quarter and of 69% from the year-ago period, according to Mergermarket. For the first half of 2020, M&A activity totaled $902 billion, a decline of 53% compared with the first half of 2019 and the lowest first-half total since 2010. As expected, the slowdown in deal-making activity also reached the buyouts market, which posted multi-year lows in both new investments and M&A exit activity during the quarter. In the U.S., announced buyout transaction value totaled $28.4 billion in the second quarter, a decline of 35% from the year-ago period and the lowest quarterly total since the first quarter of 2015. For the first half of the year, buyout transaction value totaled $66.7 billion, also down 35% from the first half of 2019. However, the decrease in buyout transaction value during the COVID-19 crisis thus far has been more muted than the decline seen during the global financial crisis (GFC), when buyout activity fell by more than 75% in both the U.S. and Europe. Although private

## Table 1. Largest PE-Backed M&A Exits Announced in 2Q20

At June 30, 2020

| Seller | Portfolio Company | Industry | Region | Value (MM) |
|---|---|---|---|---|
| Sofinnova Partners, Venrock | Corvidia Therapeutics | Healthcare | U.S. | $2,100 |
| Metalmark Capital, Silverhawk Capital Partners | Kissner Group | Industrials | Canada | $2,000 |
| Earlybird Venture Capital, Draper Esprit, Hummingbird Ventures | Peak Games | Consumer | Turkey | $1,800 |
| PAI Partners | Roompot Vakanties | Consumer | Netherlands | €1,000 |
| JC Flowers | NIBC | Financial Services | Netherlands | €1,000 |

equity firms have been focused on protecting their existing investments from the massive disruption caused by the pandemic, many general partners, heeding lessons learned from the GFC, have also been actively seeking opportunities to deploy capital during this crisis. Additionally, many general partners entered this crisis relatively well-positioned, with defensively structured portfolios and significant dry powder to invest. Notable buyout investments struck during the second quarter include the $4.3 billion carveout of Coty's professional and retail hair business, the €5.0 billion take-private buyout of Spanish telecom operator MasMovil, and the $8.7 billion take-private buyout of Chinese online classifieds company 58.com. Other areas of activity during the quarter include PIPE (private investment in public equity) transactions and growth equity financings. In one of the largest such financings on record, several private equity firms, including Vista Equity, Silver Lake Partners, and KKR, invested a total of $6.3 billion to support the growth of Jio Platforms, the telecommunications and technology division of Indian conglomerate Reliance Industries, in the second quarter.

Notwithstanding the strong rebound in equity markets during the quarter, many companies and industries have continued to struggle with the combined effects of deteriorating operating performance and heavy debt loads, which has led to a rise in corporate defaults and bankruptcies. The trailing 12-month U.S. high-yield default rate increased to 5.1% at the end of the second quarter, up from 2.9% in the prior quarter and the highest level since May 2010, according to Fitch Ratings. Default volume totaled $41.1 billion in par value during the quarter, breaking the prior quarterly record of $39.5 billion in the second quarter of 2009. Notably, however, approximately 70% of the quarter's default volume was accounted for by energy and telecommunications companies, including two companies, Chesapeake Energy and Frontier Communications, that accounted for almost half of the total. Both of these companies had been facing well-publicized difficulties, even prior to the onset of the crisis. Nevertheless, the pandemic's toll on the corporate sector continues to mount with other defaults during the quarter tied directly to the dislocation caused by the crisis, including the bankruptcy filings of 24 Hour Fitness, Hertz, J. Crew, J.C. Penney, and Neiman Marcus. Defaults are expected to remain elevated throughout the remainder of 2020, although much will depend on the path of the economic recovery. One bright spot is that the high-yield distress ratio, the percentage of high-yield bonds trading at spreads greater than 1,000 basis points over U.S. Treasuries, has declined significantly since the end of the first quarter, falling from 31% to 14% at the end of June. In comparison, during the GFC, the high-yield distress ratio peaked at 81% in November 2008 and did not decline below 15% until December 2009.

## Table 2. Largest PE Investments Announced in 2Q20

At June 30, 2020

| Buyer | Target | Industry | Region | Value (MM) |
|---|---|---|---|---|
| Warburg Pincus, General Atlantic | 58.com | Internet | China | $8,700 |
| KKR, TPG, Vista Equity, General Atlantic, Silver Lake, and L Catterton | Jio Platforms | Communications | India | $6,300 |
| KKR, Cinven, Providence Equity Partners | MasMovil | Communications | Spain | €5,000 |
| KKR | Coty (Professional Beauty and Retail Hair Business) | Consumer | U.S. | $4,300 |
| The Blackstone Group | Alnylam Pharmaceuticals | Healthcare | U.S. | $2,000 |

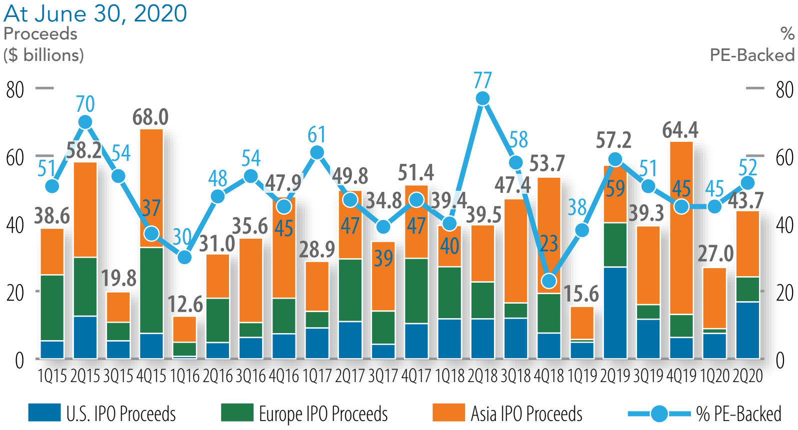
# Global IPO and M&A Exit Markets

Following a slow start to the year, IPO activity picked up in late May and continued at a moderate pace through the end of the quarter as stock markets bounced back sharply from COVID-19-driven declines. In the U.S., 38 IPOs raised $16.8 billion during the quarter, up 58% and 125%, respectively, from the prior quarter. In line with market trends, 86% of the quarter's proceeds were raised in June, including $2.5 billion from the IPO of Royalty Pharma and $1.1 billion from the IPO of private equity–backed ZoomInfo. Both companies appreciated in price by greater than 70% from IPO date to quarter-end, contributing to an average quarterly return of 59% for new listings. Similarly, in Europe, IPOs generated aggregate proceeds of €6.0 billion—a significant increase from the total of only €1.2 billion in the first quarter. However, almost three-quarters of the proceeds were attributed to two outsized listings: CPIC (€1.7 billion) and JDE Peet's (€2.6 billion). The IPO of JDE Peet's was completed in a fast-tracked process of only 10 days to minimize the risk of getting caught up in market volatility—an increasingly common trend for European IPOs completed in recent weeks.

The constrained nature of IPO markets through much of 2020 has led to the rise of another avenue for companies to reach the public markets: special purpose acquisition vehicles (SPACs). A SPAC, also known as a blank-check company, is a publicly traded investment vehicle that raises money from investors through an IPO with the sole purpose of executing an acquisition at a future date. Through July 23, 2020, 48 SPACs had raised $17.1 billion in proceeds during the year, according to Renaissance Capital—the largest annual amount on record. For a target company, going public through a SPAC holds certain attractions, including speed and a decreased reliance on market timing—attributes that have both become increasingly important in the current crisis. As a result, 20 companies have gone public through SPAC acquisitions this year, headlined by the $3.3 billion acquisition of electric vehicle maker Nikola in June and the $2.7 billion acquisition of daily fantasy and sports betting firm DraftKings in April. In July, Hellman & Friedman–owned Multiplan announced plans to go public through a merger with a SPAC, Churchill Capital Corp. III, at a valuation of $11.0 billion—the largest such deal in history.

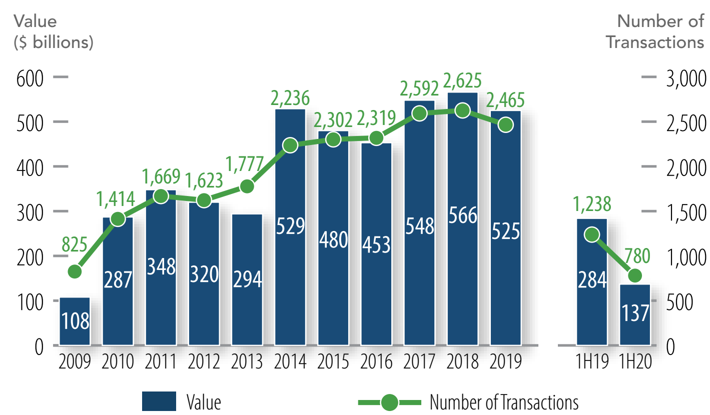
Unlike the momentum shown in the IPO markets late in the second quarter, M&A exit market activity declined to new lows during the period. Worldwide M&A exit value for private equity–backed companies totaled $34.1 billion from 263 transactions, according to Mergermarket—the lowest quarterly totals since the GFC. The two largest M&A exits during the quarter were the $2.1 billion buyout of venture-backed Corvidia Therapeutics by Novo Nordisk and the $2.0 billion buyout of private equity–backed Kissner Group by Stone Canyon Industries.

**Figure 1. Quarterly Global IPO Activity**
At June 30, 2020




Source: Bloomberg, Renaissance Capital, and Pathway Research.

**Figure 2. Global PE-Backed M&A Exit Value & Volume**
At June 30, 2020

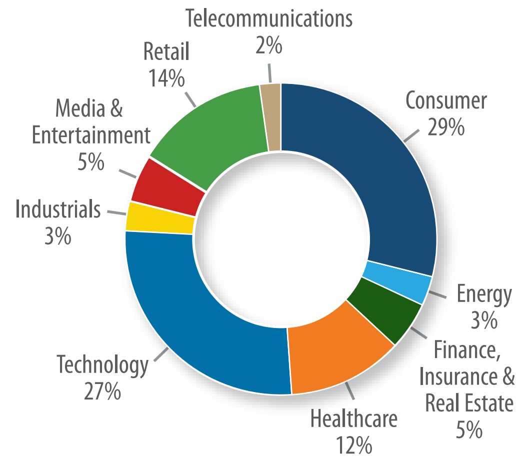



Source: Mergermarket.

# U.S. Buyout Markets

Buyout investment activity in the U.S. fell to $28.4 billion during the second quarter, its lowest level in more than five years, according to Refinitiv. The quarterly total represented a decrease of 26% from the prior quarter and of 35% from the first quarter of 2019, driven by a growing gap between buyer and seller pricing expectations, continued uncertainty regarding the length and impact of the COVID-19 pandemic, and due diligence challenges faced by general partners related to limitations on travel and the ability to conduct in-person meetings with prospective companies. Despite the sharp decline, investment levels remained well above those seen during the GFC, when just $26.8 billion was invested from the fourth quarter of 2008 through the third quarter of 2009. Given the limited financing options available for traditional LBOs in the second quarter, general partners instead looked to alternative deal structures for investments, including private investments in public equity (PIPEs), minority-structured equity investments, and corporate carve-outs. PIPE transactions, spurred by the decline in public market valuations early in the year, accounted for more than $4.0 billion in deal value during the quarter, including a $1.2 billion preferred stock investment in Expedia by Silver Lake and Apollo and a $535 million convertible debt investment in Wayfair by Great Hill Partners and Charlesbank Capital Partners. Other notable investments during the quarter include a $4.3 billion carve-out of Coty's professional and retail hair business by KKR and a $1.75 billion convertible preferred stock investment in Albertsons by Apollo, which helped pave the way for the company's long-awaited public offering at the end of June.

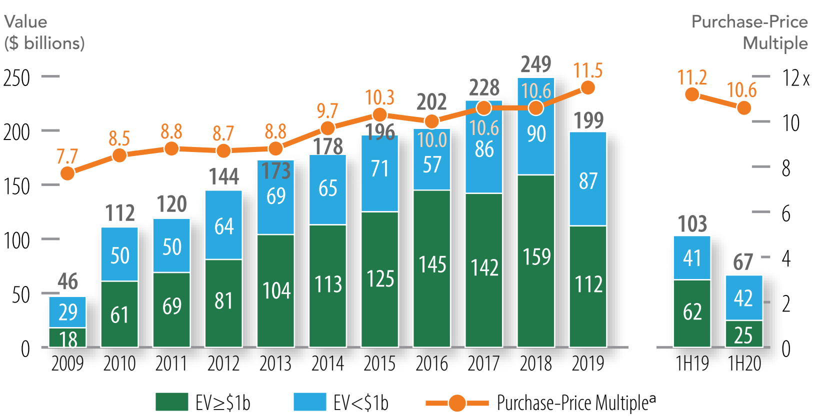
**Figure 4. U.S. Buyout Transaction Value by Sector**
At June 30, 2020
As a % of Transaction Value




SOURCE: Refinitiv and Pathway Research.

For investments that did close in the second quarter, general partners were forced to adapt to uncertain credit market conditions by taking a more conservative approach toward deal structuring. The average purchase-price multiple for deals that closed during the quarter dropped to 9.2x EBITDA, down from a recent peak of 11.5x EBITDA in 2019. Similarly, average leverage multiples declined to 4.9x EBITDA (down from 5.8x EBITDA in 2019), and average cash interest ratios, an assessment of a company's ability to pay interest, improved to 4.9x (up from 2.7x in 2019). Looking forward, although the private equity industry overall has maintained a cautious approach toward new investments, general partners willing to look for creative ways to source and structure investments have continued to find opportunities to deploy capital, particularly in the regions and industries that have shown the most resilience during the current crisis.

**Figure 3. U.S. Buyout Investment Activity**
At June 30, 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 June 30, 2020

| | 2007 | 2019 | 1H20 |
|---|---|---|---|
| Purchase Price/EBITDA | 9.7x | 11.5x | 10.6x |
| Equity Contribution % | 30.9% | 43.5% | 45.0% |
| Debt/EBITDA | 6.0x | 5.8x | 5.1x |
| EBITDA/Cash Interest | 2.1x | 2.7x | 3.6x |

SOURCE: S&P LCD.

# European Buyout Markets

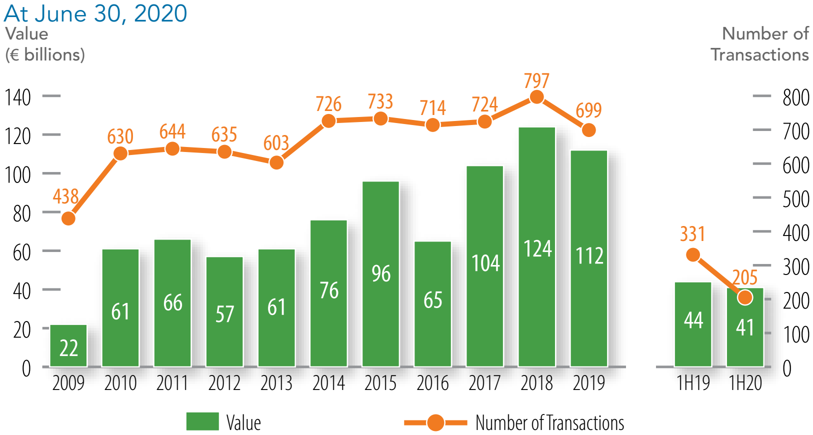
Although European buyout activity held up well in the first quarter as previously signed deals continued to close, it experienced a significant drop in the second quarter. According to data provided by CMBOR, the aggregate transaction value of European buyouts was only €12.8 billion in the second quarter—down 55% from the first quarter. This represents the second-lowest quarterly total in seven years (after €11.0 billion in the fourth quarter of 2016).

A single deal accounted for more than half of the second quarter's aggregate proceeds: KKR's €6.8 billion take-private of German publishing house Axel Springer. Notably, news of this transaction broke in May 2019, but the company's delisting from the Frankfurt stock exchange wasn't completed until April 2020. Excluding Axel Springer, the aggregate transaction value of European buyouts would have been €6.0 billion in the second quarter, constituting the lowest quarterly total since 2009 (when the quarterly average was €5.4 billion). Similarly, the second- and third-largest deals of the quarter—the €1.1 billion acquisition of LGC and the €940 million acquisition of Santé Cie, respectively—were completed in April 2020 but had been announced well ahead of the crisis, in November 2019 and January 2020, respectively. Beyond these large transactions, the European buyout market showed limited depth of activity in the second quarter, and the number of deals completed was the lowest in more than 20 years.

COVID-19 has led to a significant slow-down in investment activity. It should be noted, however, that a meaningful number of announced deals have yet to close. Most prominent among these is the €17.2 billion carve-out of Thyssenkrupp's elevators unit, which, if completed, will be Europe's largest buyout since 2007. Further, the rate of deal announcements appears to have picked up toward the end of the second quarter, including the €5.0 billion buyout of MasMovil and the €1.0 billion buyout of Roompot, which were both announced in June.

European credit markets experienced no primary high-yield issuance between late February and mid-April. Activity picked up only slowly thereafter, and issuance in June represented 60% of the quarterly total. According to UBS, European primary high-yield issuance totaled €11.4 billion in the second quarter—down 41% from the prior quarter. However, the pace improved toward and after quarter-end, and third-quarter activity is well on track to exceed the quarterly average for 2019. The pickup in new issuance coincided with a continued decrease in the cost of debt: following their peak at around 650 basis points in mid-March, spreads on BB-rated euro-denominated bonds have tightened further and ended the second quarter at just below 400 basis points.

**Figure 5. European Buyout Transaction Value & Volume**
At June 30, 2020




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

**Table 4. Largest European Buyouts That Closed in 2Q20**
At June 30, 2020

| Buyer | Target | Country | Value (MM) |
|---|---|---|---|
| KKR | Axel Springer | Germany | €6,800 |
| Astorg and Cinven | LGC | UK | €1,100 |
| Ardian | Santé Cie | France | €940 |
| Clayton, Dubilier & Rice | Huntsworth | UK | €597 |
| Warburg Pincus | Polyplus-Transfection | France | €500 |

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

# Asia Private Equity

During the second quarter, Asian countries started to ease restrictions and emerge from COVID-19-related lockdowns, to varying degrees of success. Having successfully managed to limit new infections to a consistently low level, China's economy recovered from a record 6.8% contraction in the first quarter to post 3.2% year-on-year GDP growth during the second quarter. The Chinese government rolled out numerous measures, including increased fiscal spending, tax relief, and cuts in lending rates and bank reserve requirements to restore growth and to boost consumer confidence.

Other major Asian countries that reopened their economies have not yet benefitted from the same recovery momentum. Japan lifted its state of emergency in May, but Tokyo is projecting its economy to shrink by 4.7% for the fiscal year ending March 2021. South Korea cut its 2020 GDP growth projection to 0.1%, which would be the country's worst annual GDP performance since 1998. Australia continues to struggle with the effects of the pandemic, amid a second wave of infections, and Singapore recorded a staggering 41.2% quarter-over-quarter drop in GDP for the second quarter. In spite of this, all major public stock markets in the region generated positive returns during the second quarter.

Private equity investment activity also recovered after lockdowns were eased across Asia. According to *Asia Venture Capital Journal* (*AVCJ*), private equity investment activity in Asia totaled $32.0 billion from 1,217 transactions, a 77% quarter-over-quarter increase in value and a 1% year-over-year decrease. China, one of the first countries to come out of lockdown, accounted for 43% of total investment value, followed by India, which accounted for 26%. The largest private equity–backed investments in Asia during the quarter were the $6.3 billion growth equity investment in India's Jio Platforms by a consortium of private equity firms that included Vista Equity, Silver Lake Partners, and KKR and the $1.5 billion investment in South Korea's H-Line Shipping by Hahn & Co.

The IPO markets maintained a steady level of activity: 120 companies raised $19.6 billion via public offerings on Asia-based exchanges, an 8% increase in proceeds from the prior quarter. Recent IPO activity has been propped up by Chinese companies returning to Hong Kong for secondary listings after the U.S. Senate approved a bill to audit and increase oversight on Chinese American Depositary Receipts (ADRs), making it more difficult for Chinese companies to be listed on U.S. exchanges. As a result, JD.com and NetEase, two of China's largest TMT companies listed on the Nasdaq, debuted on the HKSE in June. Private equity–backed IPOs accounted for $5.9 billion of proceeds raised, the most notable being the $404 million listing of TPG Capital–backed Kangji Medical in Hong Kong.

**Figure 6. Asian PE Transaction Value & Volume**
At June 30, 2020


Source: *AVCJ*.

**Table 5. Largest Asia PE Investments in 2Q20**
At June 30, 2020

| Buyer | Target | Country | Value (MM) |
|---|---|---|---|
| KKR, TPG, Vista Equity, General Atlantic, Silver Lake, and L Catterton | Jio Platforms | India | $6,300 |
| Hahn & Company, Hana Financial Group | H-Line Shipping | Korea | $1,458 |
| CITIC Private Equity, IDG Capital Partners | MGI Tech | China | $1,000 |
| Macquarie Korea | LG CNS | Korea | $808 |
| FountainVest Partners, Tiger Global | Zybang.com | China | $750 |

Source: *AVCJ*.

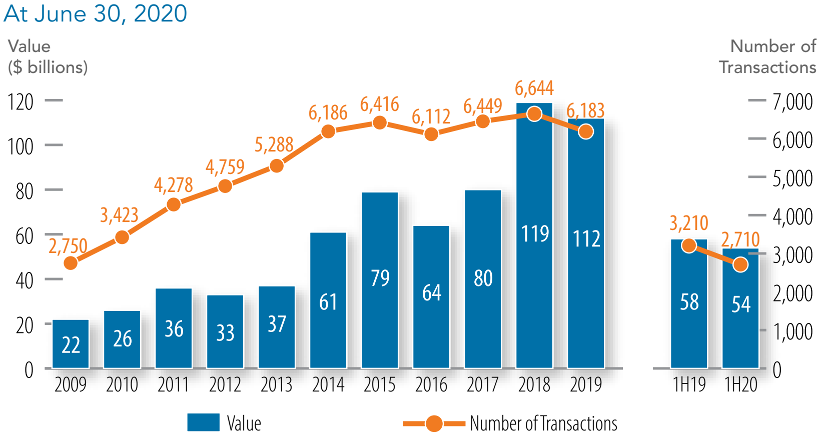
# U.S. Venture Capital

Contrary to the buyout and M&A exit markets, which continued to slow as a result of the impacts of the COVID-19 pandemic, the venture capital industry appeared stable during the second quarter. Venture capital investment activity in the U.S. totaled $26.9 billion through 1,374 transactions, according to the PwC/CB Insights MoneyTree™ Report. The second-quarter total brought investment activity for the first half of 2020 to $53.9 billion, a decrease of only 7% from the year-ago period. Although deal volume has declined in recent years from a 2018 high of 6,644 deals, mega-round activity (i.e., financing rounds of greater than $100 million) during the second quarter reached a record high of 69 deals, surpassing the previous record of 67 deals set during the second quarter of 2019. Mega-round financings accounted for 45% of all deal value for the quarter; however, although mega-round investment in late-stage companies bolstered second-quarter investment activity, the birth of new unicorn companies continued to subside, reaching a low of 11 companies during the second quarter. As opposed to elevating younger companies to unicorn status, investors doubled-down on strong-performing late-stage companies—such as Stripe, an online payment processing platform, and Doordash, an on-demand food delivery service—to both protect their investments and provide them the capital needed to capitalize on new growth opportunities that have arisen as a result of the pandemic.

As the IPO markets ground to a halt toward the end of the first quarter, second-quarter IPO activity experienced a rapid bounce-back. Venture-backed IPO activity increased 112% from the prior quarter, led by a surge in healthcare IPOs. During the second quarter, 17 venture-backed healthcare companies went public and traded up an average of 55% at quarter-end. The success of second-quarter offerings was further supported by the outsized performance of the broader public markets. The Nasdaq index achieved a 31% return during the second quarter, the highest quarterly return since the fourth quarter of 1999.

Although the public markets presented an attractive exit option for general partners, M&A exit markets for venture-backed companies dried up during the second quarter, dropping to a near 4-year low of $8.9 billion in exit value. Deal volume also reached record lows: only 131 deals were completed during the second quarter, most notably the $2.1 billion sale of Corvidia Therapeutics to Novo Nordisk and the $1.0 billion sale of Personal Capital to Great-West Lifeco. Uncharacteristically, corporate investors remained active in the venture capital markets, partaking in a record 26% of deals during the second quarter despite market volatility. Notwithstanding the activity levels seen during the quarter, there remains significant uncertainty in the venture capital industry regarding the length and severity of the current pandemic. As such, general partners continue to maintain a primary focus on supporting existing investments and ensuring that they have sufficient capital to weather the ongoing crisis.

**Figure 7. U.S. Venture Capital Transaction Value & Volume**
At June 30, 2020




Source: PwC & CB Insights MoneyTree™ Report.

**Table 6. Largest U.S. Venture Capital Deals in 2Q20**
At June 30, 2020

| Company | Select Investors | Value (MM) |
|---|---|---|
| Stripe | Andreessen Horowitz, General Catalyst, Sequoia Capital | $600 |
| Sana Biotechnology | Altitude Life Science Ventures, Amity Ventures, ARCH Venture Partners | $481 |
| DoorDash | Durable Capital Partners, Fidelity Investments | $400 |
| Indigo Ag | Flagship Pioneering, Riverstone Holdings | $300 |
| Robinhood | New Enterprise Associates, Ribbit Capital, Sequoia Capital, Unusual Ventures | $280 |

Source: PwC & CB Insights MoneyTree™ Report.

# Private Credit Markets

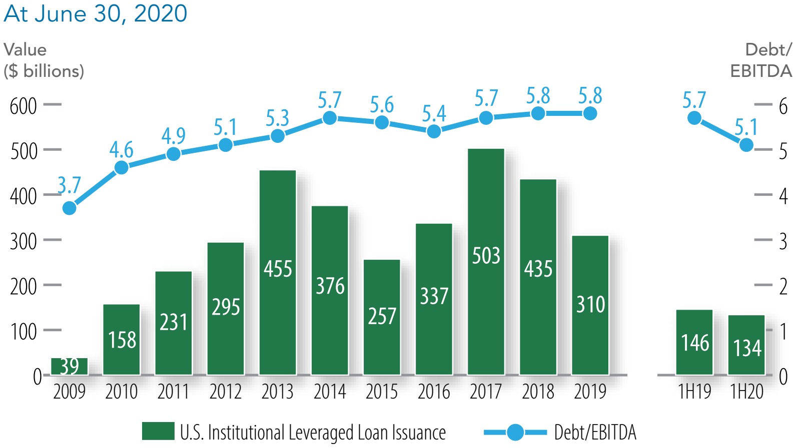
## Primary Markets: Leveraged Loan Markets Remain Constrained; High Yield Hits Record

Leveraged credit market conditions eased overall in the second quarter, although there was a clear bifurcation between the leveraged loan and high-yield markets. Institutional leveraged loan issuance totaled $44.6 billion in the second quarter, a decline of 50% from the prior quarter and the lowest quarterly total since the first quarter of 2016, according to data from S&P LCD. Activity in the leveraged loan market has slowly improved since March, when issuance came to a standstill, but remains well below historical levels. There are several factors constraining the leveraged loan markets, including a still-recovering secondary market, continued outflows from loan funds, and a steep decline in new CLO formation. CLOs, which are the primary buyer of leveraged loans, have been hamstrung since the onset of the crisis due to investor concerns about the health of CLO portfolios. U.S. CLO issuance totaled $35.1 billion in the first half of 2020, a drop of 47% from the first half of 2019. In contrast, high-yield issuance totaled $140.5 billion in the second quarter, nearly double the prior quarter's issuance and smashing the prior quarterly record of $105.1 billion in the second quarter of 2014. The high-yield market has been fueled by several factors, including the establishment of the Federal Reserve's various asset purchase and liquidity programs aimed at the corporate debt market and record investor inflows into high-yield funds and ETFs during the quarter. The effective yield for the ICE BofA U.S. High Yield index ended the quarter at 6.81%, down from 9.20% at the end of the first quarter.

## Distressed Debt: Secondary Credit Markets Continue to Stabilize; Defaults Rise in the Second Quarter

Secondary credit markets staged a strong recovery in the second quarter, mirroring the rebound in equity markets. The S&P Leveraged Loan index generated a return of 9.7% during the quarter, which improved its year-to-date return to –4.6%. Similarly, the ICE BofA U.S. High Yield index generated a return of 9.6% during the quarter, which brought its year-to-date return to –4.8%. The weighted average bid for the loan index increased to 89.9% at the end of the second quarter, up from 82.9% at the end of the first quarter and a current-crisis low of 76.2% in mid-March. Despite the marked improvement in the secondary markets, high-yield and leveraged loan default rates, which are lagging indicators, increased to their highest levels (5.1% and 3.9%, respectively) since the GFC. High-yield default volume totaled $41.1 billion in par value in the second quarter, nearly 13 times greater than in the prior quarter and breaking the prior quarterly record of $39.5 billion in the second quarter of 2009, according to Fitch Ratings. Most of the quarter's default volume was driven by companies that were already deeply troubled prior to the pandemic. Still, there were other defaults during the quarter that have been directly tied to the dislocation caused by the pandemic, including those of 24 Hour Fitness, Hertz, J. Crew, J.C. Penney, and Neiman Marcus. Defaults are expected to remain elevated throughout the remainder of 2020, although much will depend on the path of the economic recovery.

**Figure 8. U.S. Institutional Leveraged Loan Issuance**
At June 30, 2020




Source: S&P LCD.

**Figure 9. High-Yield Bond Spreads over U.S. Treasuries**
At June 30, 2020


Source: BofA Merrill Lynch.

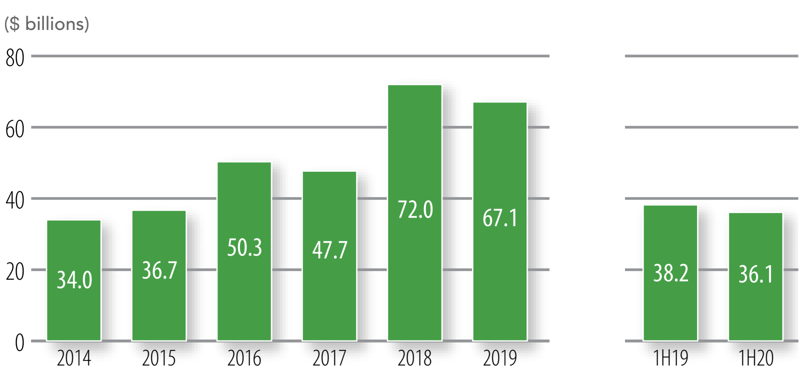
# Infrastructure

The economic slowdown and uncertainty created by the COVID-19 pandemic contributed to a general slowdown in fundraising activity during the second quarter: six private infrastructure funds raised a total of $10.4 billion, a decrease of 47% from the second quarter of 2019. In aggregate, however, the $36.1 billion raised through the first half of 2020 is only $2.0 billion shy of the amount raised during the same period in 2019. Second-quarter activity was driven primarily by BlackRock, which finished a multi-year fundraising for its third Global Energy and Power Infrastructure fund at $5.1 billion, accounting for roughly half of the capital raised (49%). Other notable funds raised during the quarter include Copenhagen Infrastructure IV ($1.6 billion), InstarAGF Essential Infrastructure Fund II ($1.2 billion), and EIG Global Project Fund V ($1.1 billion). A healthy pipeline of managers who have begun or are planning to begin fundraising soon is expected to accelerate activity in the second half of the year.

Investment activity also experienced a slowdown during the quarter: aggregate infrastructure deal value totaled $4.6 billion, a decrease of 74% from the first quarter and of 90% from the second quarter of 2019. At the forefront of deal activity was the announcement that Telefónica entered into a definitive agreement to sell 10,000 German cell towers to Telxius, a telecom infrastructure business owned by KKR Infrastructure, for a value of more than $1.6 billion. KKR made another notable investment in the communications sector during the quarter, committing $1.0 billion to a new hyperscale data center builder in Europe, Global Technical Realty. Managers are continuing to optimistically invest in infrastructure sectors that are well-positioned to generate strong returns in the current dynamic environment, but it is likely that they will proceed with caution as long as the COVID-19 pandemic is impacting the economies in which they operate.

Although communications has been a keen sector of interest for several years, the pandemic has highlighted the significance of the sector through a sudden increase in professionals working from home, schools conducting classes remotely, and an increased demand for home entertainment. This increase in demand is not only intuitive, but also empirical: for example, Comcast reported a 212% increase in videoconferencing, a 40% increase in VPN traffic, and a 38% increase in videostreaming year-over-year in the U.S. in March 2020. The rapid rise in data demand has heightened the need for private investment in communication infrastructure assets and services. At an aggregate deal value of more than $3.6 billion, communications accounted for 78% of deal-flow activity during the second quarter. Although the increase in demand is pointing in a positive direction for the sector, managers are still respecting the importance of building resilient, reputable businesses that can be relied on as service-providers during such a dynamic time.

**Figure 10. Global Private Infrastructure Capital Raised**
At June 30, 2020




Source: PitchBook Data, Inc.

**Table 7. Notable Infrastructure Deals in 2Q20**
At June 30, 2020

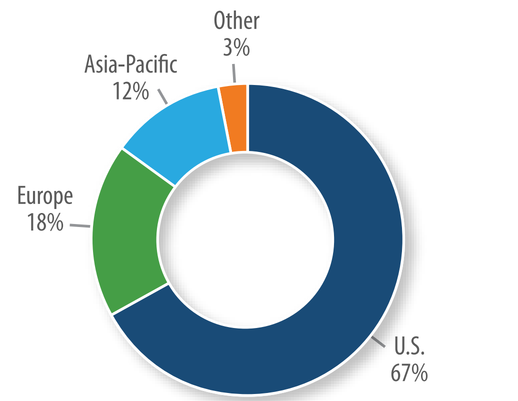
| Asset/Company | Acquirer | Industry | Region | Deal Size (MM) |
|---|---|---|---|---|
| Telefonica | KKR | Communications | Germany | $1,637 |
| Global Technical Realty | KKR | Communications | UK | $1,000 |
| Camelback Midstream | ArLight Capital Partners | Midstream | U.S. | $400 |
| Emerald Tower | Blackstone, John Hancock | Communications | Ireland | $359 |
| TierPoint | Argo, Wafra, Macquarie | Communications | U.S. | $320 |

Source: PitchBook Data, Inc.

# Private Equity Fundraising Market

Worldwide private equity fundraising activity continued at an active pace during the second quarter, belying speculation that virtual due diligence processes and a much lower pace of investment activity would have a material impact on the fundraising market. During the quarter, private equity firms globally raised $121 billion, according to data from Refinitiv and Pathway Research, marking a decline of just 5% from the prior quarter and of 18% from the same period in 2019. The second-quarter figure brought the total amount raised during the first half of 2020 to $248 billion, down 8% from the first half of 2019 but still the second-largest amount raised in the first half of any year on record. Although challenges imposed by the COVID-19 pandemic resulted in just 351 funds holding closes during the quarter—the lowest total in two years—fundraising value was upheld by large fundraisings from established managers. In the U.S. alone, managers raised 21 funds larger than $1.0 billion in size, led by Clayton, Dubilier & Rice XI ($10.0 billion) and Francisco Partners VI ($7.5 billion). The largest fund raised during the quarter was London-based CVC Capital Partners VIII, which held several interim closes during the second quarter en route to its final close in early July at €21.3 billion—the largest European buyout fund on record. The fund accounted for 65% of capital raised in Europe during the quarter and contributed to a quarterly increase of 121% in Europe-focused fundraising activity.

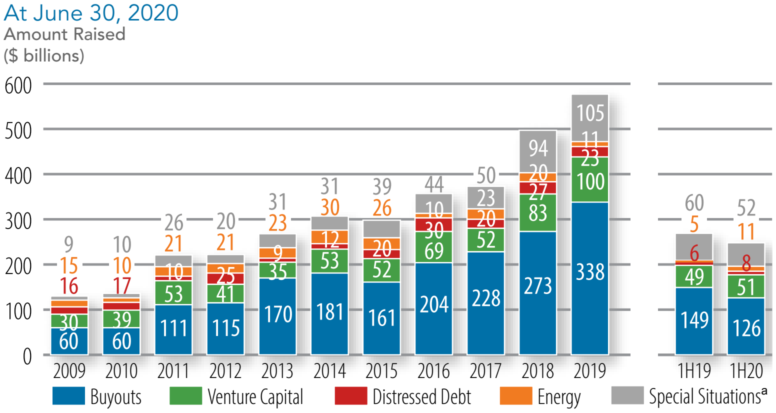
**Figure 12. Global Fundraising by Region**
At June 30, 2020




Source: Refinitiv 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.

Fundraising activity by strategy varied during the second quarter. Buyout and venture capital managers raised $70.3 billion and $22.2 billion, respectively, both falling roughly in line with their quarterly averages over the past three years. Energy-focused funds raised just $1.4 billion during the quarter, driven by significant uncertainty in the oil and gas markets. Distressed debt funds experienced a sharp uptick in activity, raising $11.3 billion—an increase of 250% from the same quarter in 2019. Although significant, the quarterly fundraising total for distressed-related funds remained just a portion of the greater than $50 billion in targeted commitments we estimated that distressed and opportunistic credit managers had launched fundraising processes for during the early parts of the crisis. Notable distressed debt funds raised during the quarter include Ares Special Opportunities Fund ($3.5 billion) and KKR Dislocation Opportunities Fund ($3.4 billion).

**Figure 11. Global Private Equity Fundraising by Strategy**
At June 30, 2020




Source: Refinitiv 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 2Q20**
At June 30, 2020

| Fund | Strategy | Region | Fund Size (MM) |
|---|---|---|---|
| CVC Capital Partners Fund VIII | Buyouts | France | €21,300 |
| Clayton, Dubilier & Rice Fund XI | Buyouts | U.S. | $10,000 |
| Francisco Partners VI | Buyouts | U.S. | $7,450 |
| Clearlake Capital Partners VI | Buyouts | U.S. | $7,068 |
| MBK Partners Fund V | Buyouts | China | $6,500 |

## 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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