Pathway Research

Private Market Environment

3RD QUARTER 2020

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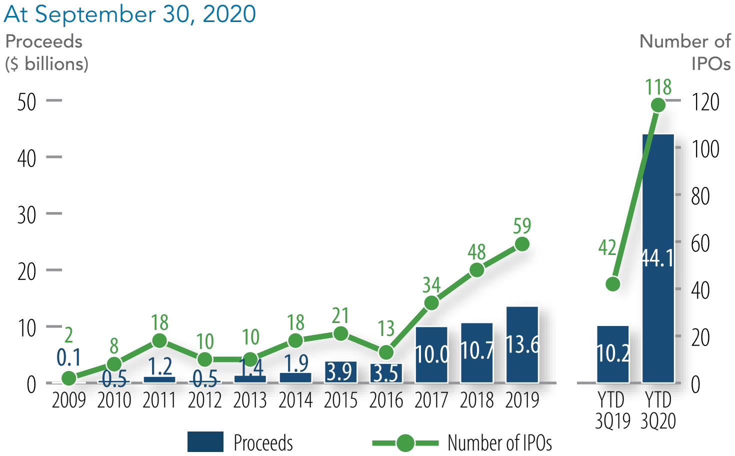
3Q20 Market Review

Global equity markets performed well in the third quarter of 2020, continuing the recovery from the first quarter's pandemic-induced selloff. The MSCI All Country World Index gained 8.2% in the third quarter, bringing the index's year-to-date return to 1.8%. The striking turnaround for the global index, which has rallied nearly 30% in the past two quarters, masks an uneven recovery across regional markets. While the three largest equity markets in the world (the United States, China, and Japan) have recovered all or nearly all of their losses for the year, many others remain firmly in the red. In the U.S., the continued strength and momentum of large technology stocks helped drive the S&P 500 and Nasdaq Composite to record highs in early September, although a pullback in the last few weeks of the quarter tempered overall gains. The S&P 500 gained 8.9% and the Nasdaq Composite gained 11.2% during the quarter, bringing their year-to-date returns to 5.6% and 25.4%, respectively. Fixed-income assets across the credit spectrum also performed well in the third quarter, supported by accommodative central bank policies that have kept interest rates at historically low levels around the world. In August, the U.S. Federal Reserve announced a change to its longstanding policy of targeting a 2% inflation rate to one where it would seek to target an average inflation rate of 2% over time. In effect, this policy shift allows the Federal Reserve to keep interest rates lower for longer periods of time. Notwithstanding the strong level of support from global central banks and the positive performance of most risk assets during the quarter, investors remain highly cautious entering the final quarter of the year due to the uncertain path of the global economic recovery, the mounting costs of the pandemic for large segments of the population, the resurgence of coronavirus infections around the world, and the upcoming U.S. presidential election.

SPACs Take Wall Street by Storm

Special purpose acquisition company (SPAC) IPO activity continued its blistering pace in the third quarter: 81 new SPACs raised $32.1 billion, bringing the year-to-date total to $44.1 billion raised by 118 SPACs, far exceeding any prior full-year total. SPACs, in their current form, have been in and out of favor since the early 2000s, but a confluence of factors has led to their prominence in and increasing relevance to both the private equity asset class and the broader capital markets in 2020. First, the U.S. IPO markets have been relatively inconsistent over the past two years, driven by volatility in the public equity markets. The coronavirus crisis greatly amplified this, shutting down almost all non-SPAC IPO activity from March to May. The relative ease of completing a SPAC IPO compared with a traditional IPO has attracted the interest of potential SPAC sponsors, as well as of private companies that view a merger with a SPAC as an alternative path to going public. Second, several highly successful SPAC business combinations have ignited investor excitement and interest in the structure. In April, Diamond Eagle Acquisition Corp. completed a merger with fantasy sports company DraftKings, sending the SPAC's shares soaring: investors that participated in the SPAC's IPO in 2019 had more than quintupled their investment by the end of the third quarter. Finally, the quality of both SPAC sponsors and companies that have agreed to be acquired by or merge with a SPAC has improved, driving increased interest from both institutional and retail investors.

Figure 1. U.S. SPAC IPO Activity
At September 30, 2020



Source: Bloomberg.

SPACs, a form of blank-check company, raise capital in an IPO for the purpose of acquiring or merging with one or more businesses or operating companies. A distinct feature of the structure is that SPACs are not allowed to identify an acquisition target prior to the completion of their IPO. Thus, potential investors in a SPAC (prior to the announcement or completion of an acquisition) assess the SPAC sponsor's ability to identify and complete an acquisition, as well as create shareholder value, based primarily on the sponsor's reputation, experience, and prior track record. Investors in a SPAC IPO purchase units, typically priced at $10 per unit by convention, that comprise one common share and a fraction of a warrant (provided as an incentive for IPO investors), with a strike price set above the unit's offering price. Following the successful public offering of a SPAC, the proceeds of the IPO are deposited into a trust account, and the sponsor has up to two years to complete an acquisition or merger, which is subject to shareholder approval. Prior to the announcement of an acquisition, SPAC common shares typically trade at a small discount to the per-share value of cash held in the trust account; however, there have been many instances where a pre-acquisition SPAC has traded significantly above this value based on speculation and the "star power" of the sponsor. Following the completion of its IPO, a SPAC sponsor will begin the process of identifying an acquisition target, structuring and negotiating the transaction, and seeking the approval of the SPAC's investors. Not all SPACs are able to successfully complete a business combination within their specified time frame; SPACs that are unable to complete a transaction are liquidated, and cash held in trust accounts is returned to investors.

The potential economic benefits to a SPAC's sponsor are significant. Upon formation of a SPAC, the SPAC sponsor will typically acquire founder shares equivalent to 20% of the post-IPO total number of shares outstanding for nominal consideration (e.g., $25,000). These founder shares are considered the sponsor's "promote" and compensation for forming the SPAC, raising capital in an IPO, and identifying and completing an initial business combination. Sponsors also typically acquire warrants at the time of the IPO and use the proceeds to pay upfront IPO underwriting costs and to fund working capital for the SPAC. This is considered the sponsor's *at-risk* capital and is usually equivalent to 2.5% of the SPAC's public offering amount. Importantly, both founder shares and warrants become worthless if a SPAC is liquidated; thus, sponsors have a strong incentive to complete an initial business combination.

SPACs are impacting the private equity industry in several ways. SPACs provide an alternate route to the public markets and can have certain advantages to the traditional IPO route that can be appealing to private equity firms, such as a shorter process timeline, certainty of initial valuation, and a greater ability to deliver immediate cash proceeds to existing owners. So far in 2020, there have been several notable PE-backed companies that have gone public or that intend to go public via a merger with a SPAC, including Multiplan, Advantage Solutions, and Opendoor. There have also been an increasing number of private equity firms that have raised or are seeking to raise a SPAC, including Apollo, Cerberus, H.I.G. Capital, and TPG, raising concerns from limited partners about potential conflicts of interest and the sponsors' commitment to their private equity funds. Private equity firms that have raised SPACs have addressed these concerns by delineating their SPAC and private equity fund strategies and by clearly allocating firm and team resources across their various platforms. Additionally, some private equity firms are considering sponsoring a SPAC within their existing private equity funds, which may help mitigate potential conflicts. Still, we believe that this trend bears close monitoring by limited partners to ensure that interests remain closely aligned with general partners. SPACs have taken Wall Street by storm in 2020; however, there are signs that momentum is shifting, driven by the mixed performance of post-merger SPACs and oversaturation of the market. Despite the strong performance of several high-profile SPACs, the median return of the 25 SPACs that have completed a business combination in 2020 is –16.6% as of the end of the third quarter, according to Renaissance Capital. Notably, early in the fourth quarter, an H.I.G. Capital-sponsored SPAC raised 28% less than expected in its IPO, while a Cerberus-sponsored SPAC reduced its planned offering amount by 25%, indicating a limit to investors' appetite for the structure.

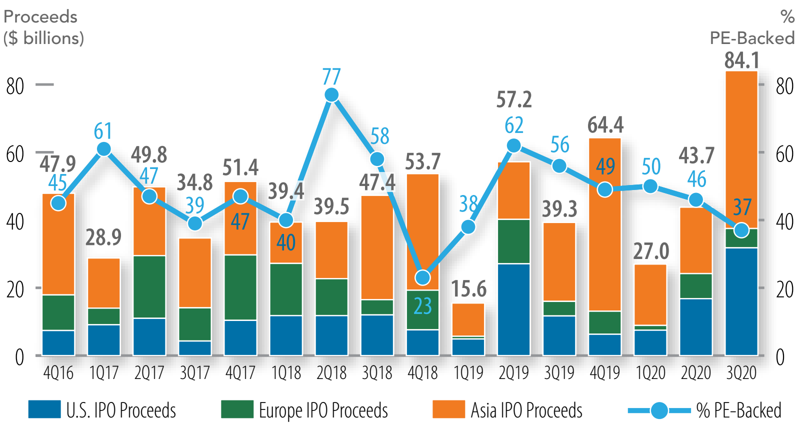
Global Exit Markets

Global exit market activity rebounded meaningfully in the third quarter as general partners sought to take advantage of rising equity markets and recovering valuations to generate liquidity for investors through a variety of different exit paths. Worldwide M&A exit value for PE–backed companies rose to $171 billion during the quarter, according to Mergermarket, an increase of over 350% from the prior quarter and the second-largest quarterly figure on record. The strong quarterly total was driven by a number of large transactions, including the $18.5 billion sale of venture-backed Livongo to Teladoc and the $11.0 billion sale of Thoma Bravo–backed Ellie Mae to Intercontinental Exchange. Despite the strong quarter, year-to-date M&A exit value totaled just $308 billion through September 30, 2020, its lowest annual pace since 2013.

IPO markets globally experienced a similarly strong quarter, driven by an active pace of new listings in both the U.S. and Asia. In the U.S., 37 PE-backed IPOs raised $18.1 billion in proceeds, an increase in value of 135% from the prior quarter and of 114% from the third quarter of 2019. Venture-backed companies were particularly active, accounting for 40% of proceeds raised and also for three offerings of greater than $1.0 billion in size: Snowflake ($3.9 billion), XPeng ($1.7 billion), and Unity Software ($1.5 billion). The market overall was receptive to new listings; however, PE-backed companies (58% average return) meaningfully outperformed non-PE-backed companies (20% average return). In Asia, 62 PE-backed IPOs raised $12.4 billion in total proceeds, an increase of 38% from the prior quarter. Despite the quarterly increase, PE-backed companies accounted for just 22% of total IPO volume in Asia, and the two largest Asian PE-backed companies to hold IPOs—KE Holdings and XPeng—did so on the New York Stock Exchange.

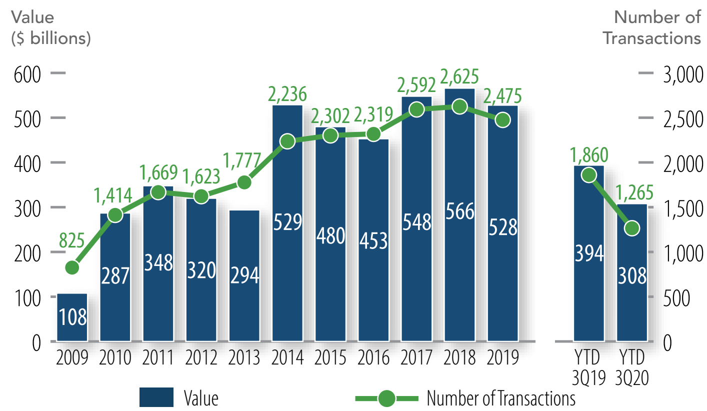
In addition to the strong M&A and IPO activity, the SPAC frenzy has begun to play a meaningful role in exit market activity for private equity investors. These exits, which are not included in M&A or IPO data figures but act in many ways as an alternative method of taking a company public, accounted for over $47 billion in PE-backed exit value during the third quarter. Notable acquisitions included the $11.0 billion acquisition of Hellman & Friedman–backed Multiplan in August and the $5.2 billion acquisition of CVC-, Leonard Green–, and Bain Capital–backed Advantage Solutions in September. SPAC-led acquisitions increased in each successive month during the third quarter, and through October 27, the number of active SPAC's searching for acquisition targets had grown to 172, according to spacinsider.com. While it remains to be seen whether or not the efficacy of SPACs will remain over the long term, SPACs have become a viable source of liquidity for PE-backed companies of all sizes in today's environment and an increasingly relevant topic as more general partners evaluate the opportunity to both sell companies to SPACs or to raise one themselves.

Figure 2. Quarterly Global IPO Activity
At September 30, 2020



Source: Bloomberg, Renaissance Capital, and Pathway Research.

Figure 3. Global PE-Backed M&A Exit Value & Volume
At September 30, 2020

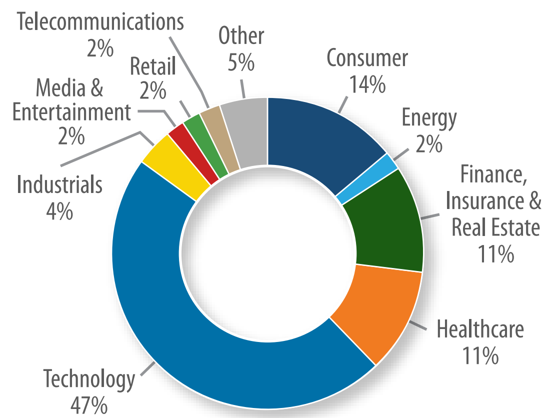


Source: Mergermarket.

U.S. Buyout Markets

Buyout investment activity in the U.S. experienced a resurgence in the third quarter as a result of both deal value and volume rising to near-term highs following two quarters of muted activity. During the quarter, buyout investment activity totaled $68.0 billion from 553 transactions, an increase of 168% from the prior quarter and the largest quarterly total since the third quarter of 2015, according to Refinitiv and Pathway Research. Activity was propelled by a return to more-traditional leveraged buyout investment structures, which in many cases had been put on hold during recent quarters due to constrained credit markets and a wide gap between buyer and seller pricing expectations. Large-market activity showed a similar recovery: after just four deals of $1.0 billion in size or greater were announced between March and June of 2020, 11 large-market deals were announced in the third quarter, accounting for 44% of total invested capital. This activity was headlined by two secondary buyouts: CD&R's $4.7 billion acquisition of Epicor Software from KKR and The Blackstone Group's $4.7 billion acquisition of Ancestry.com from an investor syndicate that included Permira Advisors, Spectrum Equity, and Silver Lake. The strong third quarter total brought year-to-date buyout investment activity to $128 billion, up 2% from the year-ago period. Private equity has remained an active participant in the M&A markets in 2020, accounting for 15% of total U.S. M&A value—its largest share since 2007.

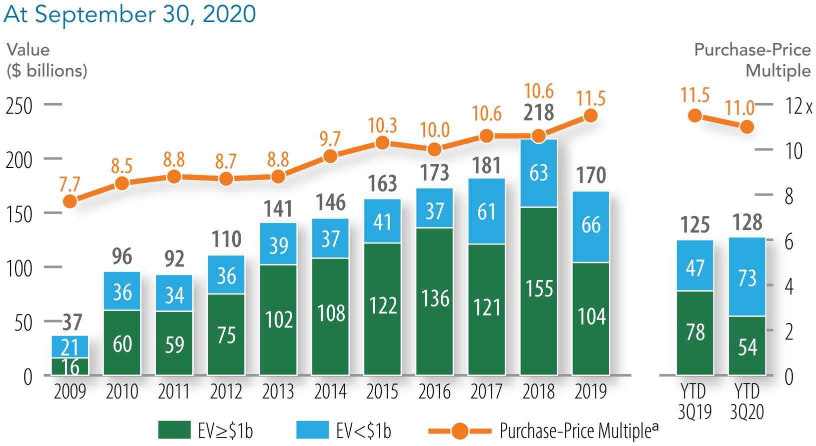
Figure 5. U.S. Buyout Transaction Value by Sector
At September 30, 2020
As a % of Transaction Value



Source: Refinitiv and Pathway Research.

Purchase-price multiples (PPMs) have continued to remain elevated during 2020: through the third quarter, the average PPM for deals that closed during the year was 11.0x EBITDA, down just marginally from an average of 11.5x EBITDA in 2019, according to S&P LCD. A key driver of the sustained valuation levels has been the general partners' focus on targeting investments in industries that have shown the most resilience during the crisis—many of which frequently command higher valuation multiples than the broader market. Software investments, in particular, accounted for 32% of deal value during the third quarter, up from an annual average of 17% over the past five years. Software buyouts often feature companies with high growth rates, subscription-based recurring revenue models, strong cash flows, and exposure to different end markets and users. In many cases, the value of software-related businesses has actually been amplified during the pandemic because their platforms/services have played a key role in companies' transitions to work-from-home models.

Figure 4. U.S. Buyout Investment Activity
At September 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 1. Largest U.S. Buyouts Announced in 3Q20
At September 30, 2020

Buyer	Target	Industry	Value (MM)
The Blackstone Group	Ancestry.com	Internet	$4,700
Clayton Dubilier & Rice	Epicor Software	Software	$4,700
KKR	Global Atlantic Financial Group	Financials	$4,400
Leonard Green, TPG Capital	WellSky	Software	$3,000
EQT	EdgeConnex	Technology	$3,000

Source: Refinitiv and Pathway Research.

European Buyout Markets

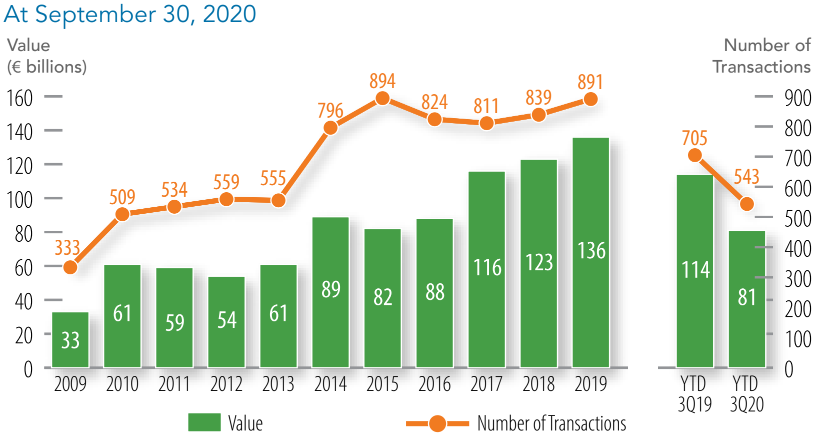
European buyout activity in the third quarter was at a level similar to the prior quarter: the aggregate transaction value of announced European buyouts was €19.1 billion, up 3% from the prior quarter, according to data provided by Refinitiv. The third-quarter total was 30% below the quarterly average for the five prior years. Although COVID-19 has slowed deal-doing across Europe, the pandemic—together with the limited progress in Brexit negotiations—has disproportionately held back buyout activity in the United Kingdom, where the aggregate transaction value for the third quarter was 67% below the quarterly average for the prior five years. As such, the UK currently represents only 13% of the European total—significantly below the 5-year average of 28%. In the third quarter, seven European upper-mid-market and large-cap buyouts with enterprise values in excess of €500 million were announced, but none were based in the UK.

The Nordics, however, were home to four of the seven largest buyouts and accounted for 37% of the aggregate value of European buyouts in the third quarter. This made the Nordics the most active European region by a significant margin: the total value of Nordic buyouts matches the aggregate value across the second-busiest region (Southern Europe) and third-busiest region (DACH).

The largest deal of the quarter was Bain Capital's public-to-private transaction of Ahlstrom-Munksjö, a Finnish materials business focused on fiber-based products. The tender offer, which is supported by Ahlstrom-Munksjö's board of directors, values the company at an enterprise value of €3.1 billion. This was followed by KPS's acquisition of substantially all assets of Garrett Motion, a Swiss provider of automotive technology, which were acquired out of bankruptcy for a transaction value of €1.8 billion.

Following muted activity during spring, European credit markets opened up widely in the third quarter. According to data from UBS, European primary high-yield issuance totaled €28.0 billion in the third quarter, the second-highest quarterly total in more than five years, surpassed only marginally by the €29.0 billion in issuance in the fourth quarter of 2017. In the first nine months of 2020, €58.8 billion was issued—6% above the average for the six prior years. As activity on the primary market increased, the cost of debt continued to edge downward through the third quarter, and spreads on BB-rated euro-denominated bonds ended the period at around 350 basis points. Overall, credit market conditions are considered to be conducive to leveraged buyout activity despite the ongoing macroeconomic uncertainties.

Figure 6. European Buyout Transaction Value & Volume
At September 30, 2020



Source: Refinitiv and Pathway Research.

Table 2. Largest European Buyouts Announced in 3Q20
At September 30, 2020

Buyer	Target	Country	Value (MM)
Bain Capital	Ahlstrom-Munksjö	Finland	€3,060
KPS Capital Partners	Garrett Motion	Switzerland	€1,774
BC Partners	IMA Industria Macchine Automatiche	Italy	€1,415
EQT	Idealista	Spain	€1,300
Hg Capital	Visma	Norway	€1,222

Source: Refinitiv and Pathway Research.

Asia Private Equity

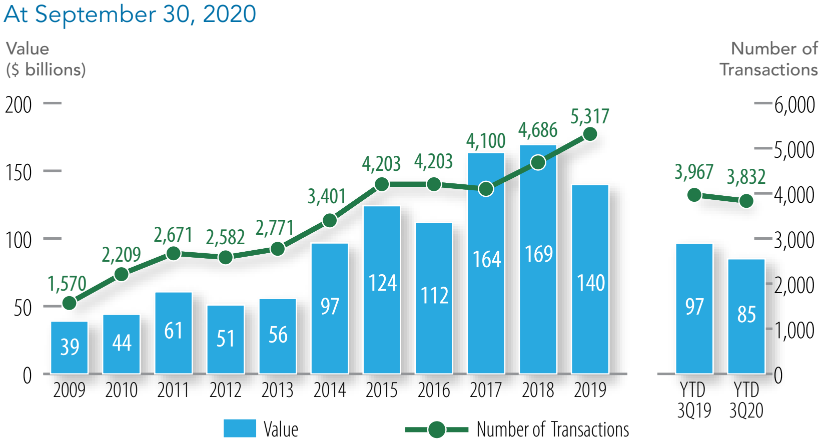
The Asia-Pacific region has been relatively successful in containing COVID-19, utilizing a combination of quarantines, border controls, aggressive testing, and contact-tracing measures. Most countries reopened economies to varying degrees, which helped position the region for a rebound in equity markets and economic data during the third quarter. During the quarter, all five of the region's largest economies posted their highest PMI figures since March of this year. In particular, China had a robust third quarter: its industrial output and retail sales for August posted its strongest numbers for the year, and the CSI 300 index appreciated by 11.2% quarter on quarter. Despite increased tensions with both the U.S. and India, China has managed to extend its second-quarter recovery by posting 4.9% year-on-year GDP growth during the third quarter and is on the path to be the only major economy in the world to post a positive year-on-year GDP growth rate.

Taiwan, Japan, South Korea, and India have also experienced substantial equity market recoveries, driven by a combination of business reopenings and policy stimulus. Notably, the Japanese economy has benefited from an unprecedented $2.2 trillion stimulus package rolled out over the past two quarters and has been relatively unaffected by Shinzo Abe's sudden resignation in September. New prime minister Yoshihide Suga is presumed to be supportive of Mr. Abe's economic reform and fiscal policies and is not expected to enact any sweeping changes.

During the third quarter, Asia private equity investment activity amounted to $29.4 billion from 1,274 transactions, a decrease in value of 8% quarter over quarter and of 3% year over year, according to data provided by *Asia Venture Capital Journal* (*AVCJ*). China was again responsible for the lion's share of investment activity at 53% of total investment value, followed by India (17%), South Korea (10%), and Japan (9%). The largest PE–backed investment in Asia during the quarter was Hillhouse's $1.5 billion equity investment in Contemporary Amperex Technology, a Chinese electric vehicle battery manufacturer.

The IPO markets saw robust momentum during the third quarter: 290 companies raised $46.6 billion via public offerings on Asia-based exchanges, a 138% gain over the second quarter's total proceeds. Notably, the new Shanghai Stock Exchange ("SSE") STAR Market has been functioning for more than 12 months and has attracted the attention of PE firms as an exit channel for innovative healthcare and technology companies. During the third quarter, eight of the top 10 PE-backed IPOs, and 70% of the total capital raised via PE-backed IPOs, were on the SSE STAR Market, the most notable being the $818 million listing of IDG Capital-backed Qi An Xin Technology Group.

Figure 7. Asian PE Transaction Value & Volume
At September 30, 2020



Source: *AVCJ*.

Table 3. Largest Asia PE Investments in 3Q20
At September 30, 2020

Buyer	Target	Country	Value (MM)
Hillhouse Capital Management	Contemporary Amperex Technology	China	$1,514
Silver Lake Partners	Reliance Retail	India	$1,279
Bain Capital Asia	Nichii Gakkan	Japan	$1,175
Hillhouse Capital Management	JD Health	China	$830
Sequoia Capital, Yunfeng Capital, Tencent	Evergrande Property Services	China	$768

Source: *AVCJ*.

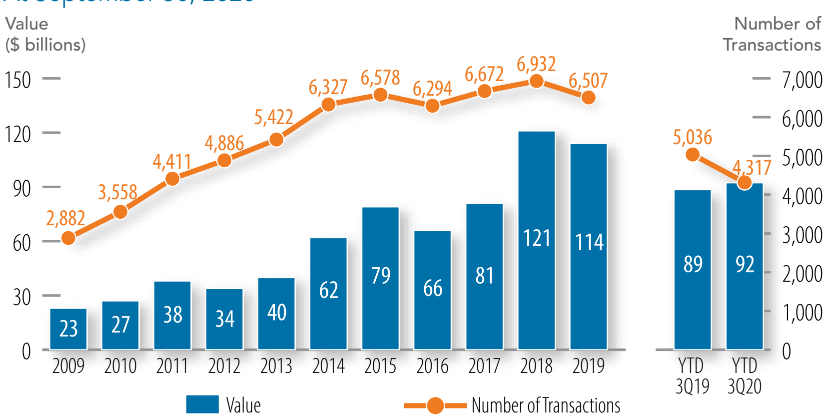
U.S. Venture Capital

Venture capital investment activity continued to accelerate during the third quarter, priming 2020 to be the most active year since the dot-com bubble in 2000. Investment activity in the U.S. totaled $36.5 billion through 1,461 transactions, according to the PwC/CB Insights MoneyTree™ Report, bringing the year-to-date total to $92.3 billion. The elevated activity during the third quarter was buoyed by a record-breaking amount of mega-round financings (i.e., financing rounds of greater than $100 million) and a surge in late-stage deals. Mega-round activity reached new highs: a record 88 deals, constituting 54% of investment activity, were completed. To date, mega-round investment activity in 2020 has reached $45.2 billion and is on track to exceed the 2018 record of $57.9 billion. Led by SpaceX ($1.9 billion) and Epic Games ($1.5 billion), the five largest deals of the quarter each targeted a late-stage company and accounted for 14% of total investment activity. Unicorn births experienced a meaningful uptick during the third quarter (17), ending four consecutive quarters of decline. While current market uncertainty has reduced the number of investments being made in seed- and early-stage rounds, late-stage activity has shown little change: general partners have continued to deploy capital in mature companies capable of capitalizing on growth opportunities and market needs brought about by the pandemic.

Driven by strong performance and increased investor confidence in the public markets, venture-backed IPO activity was robust during the third quarter. Venture-backed offerings raised $12.9 billion through 29 offerings, headlined by the $3.9 billion IPO of ICONIQ- and Sequoia-backed Snowflake. The Snowflake IPO marked the largest venture-backed offering since the $8.1 billion IPO of Uber during the second quarter of 2019. Third-quarter IPO proceeds alone almost matched the proceeds of the past four quarters combined. Mirroring the second quarter, healthcare IPOs dominated new listings, accounting for 69% and 30% of IPO count and proceeds, respectively. Altogether, venture-backed listings traded up an average of 60% from IPO date to quarter-end, outpacing both the 25% average return for non-venture-backed IPOs and the 11.2% quarterly return of the Nasdaq Composite.

Although IPO markets were accommodative for venture-backed companies during the quarter, M&A exit market activity remained sluggish, dropping to a 5-year low of $7.5 billion in exit activity and experiencing the third-consecutive quarter of decline. The third-quarter M&A total brings year-to-date exit activity to $32.5 billion, a 39% decline from the year-ago period. Accounting for over one-third of exit activity during the quarter was Uber's $2.6 billion acquisition of Founders Fund– and Spark Capital–backed Postmates, which was initially poised as an IPO candidate. Uber sought the acquisition to bolster its meal-delivery division amid losses generated by the company's ride-hailing services due to COVID-19.

Figure 8. U.S. Venture Capital Transaction Value & Volume
At September 30, 2020



Source: PwC & CB Insights MoneyTree™ Report.

Table 4. Largest U.S. Venture Capital Deals in 3Q20
At September 30, 2020

Company	Select Investors	Value (MM)
SpaceX	Fidelity Investments & Legendary Ventures	$1,901
Epic Games	KKR & Lightspeed Venture Partners	$1,530
Affirm	Founders Fund, Spark Capital & Lightspeed Venture Partners	$500
Diligent	Clearlake Capital Group & Insight Partners	$500
Bright Health	Bessemer Venture Partners & New Enterprise Associates	$500

Source: PwC & CB Insights MoneyTree™ Report.

Private Credit Markets

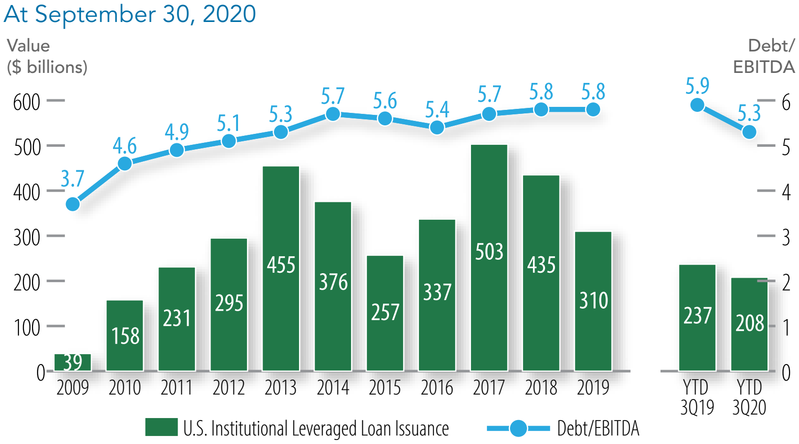
Leveraged Loan Issuance up 69% in 3Q; Direct Lending Market Stabilizes

The U.S. leveraged credit markets were firmly accommodative in the third quarter: both the syndicated loan and high-yield bond markets showed healthy levels of new issuance, a continued rally in the secondary markets, and tighter pricing for new loan and bond issues. In the leveraged loan market, new institutional loan volume totaled $75.2 billion in the third quarter, an increase of 69% from the pandemic-impacted second quarter, according to S&P LCD. Although institutional leveraged loan issuance remains 12% below last year's pace through the first three quarters of the year, overall sentiment is decidedly stronger now than at any time since March. With the supply of new acquisition financings still constrained because of a slowdown in the M&A market, borrowers took advantage of strong demand to launch opportunistic financings to refinance existing debt or to fund a dividend to equity owners. Dividend recap loan issuance totaled $15.8 billion, or 21% of total volume during the third quarter—the highest proportion since the fourth quarter of 2010. New-issue all-in yields fell significantly during the third quarter: single B-rated leveraged loans were priced to yield an average of 5.03% in September, down nearly 100 basis points since June. One key driver of support for the leveraged loan market has been the rebound in CLO fundraising activity. CLOs, which are the primary buyer of institutional leveraged loans, raised $25.4 billion in the third quarter—an increase of 43% over the prior quarter.

In the direct lending markets, lenders appear to have regained their footing after spending much of the second quarter managing their portfolios through the COVID-19 crisis, ensuring that their funds and portfolios have sufficient capital to meet revolver drawdowns, reviewing consent and amendment requests, and working with sponsors to assess their portfolio companies' liquidity needs. Although there is still tremendous uncertainty in the macroeconomic outlook, and lenders with exposure to hard-hit industry sectors continue to prepare for adverse outcomes, many direct lenders are encouraged by the resilience their portfolios have shown thus far and are now actively seeking new financing opportunities to invest in. According to Proskauer's Private Credit Default index, the default rate for senior secured and unitranche loans was 4.2% in the third quarter, down from 8.1% in the second quarter.

The secondary credit markets continued to rally in the third quarter: the S&P Leveraged Loan and the ICE BofA U.S. High Yield indices generated quarterly returns of 3.5% and 4.7%, respectively, bringing both indices to marginally below break-even for the year. High-yield default volume during the third quarter was markedly lower than in the prior quarter ($15bn vs. $41bn), although default rates remain elevated compared with pre-pandemic levels. The trailing 12-month high-yield default rate was 5.6% at the end of the third quarter, up from 5.1% in the second quarter, according to Fitch Ratings.

Figure 9. U.S. Institutional Leveraged Loan Issuance
At September 30, 2020



Source: S&P LCD.

Figure 10. High-Yield Bond Spreads over U.S. Treasuries
At September 30, 2020

Source: BofA Merrill Lynch.

Infrastructure

Infrastructure fundraising activity remained strong in the third quarter: six private infrastructure funds were raised, totaling $15.7 billion—an increase of 51% over the second quarter of 2020. Antin Infrastructure IV was the largest fund that closed during the quarter, raising $7.4 billion. Other notable funds raised during the quarter include Patria Infrastructure Fund IV ($2.0 billion) and GI Data Infrastructure Fund ($1.8 billion). Fundraising is expected to accelerate throughout the remainder of the year: several managers that are currently fundraising plan to hold closes toward the end of the year.

Following a period of limited activity as managers sought to gain more clarity regarding the impacts of the COVID-19 pandemic, investment activity ramped up during the quarter. Aggregate infrastructure deal value totaled $7.9 billion, an increase of 69% from the second quarter. At the forefront of deal activity was OMERS's acquisition of nearly 20% of TransGrid, an operator of an electricity transmission network, from Kuwait Investment Authority for $1.4 billion. Another notable deal during the quarter was CPV Three Rivers Energy Center, a planned 1,250 megawatt natural gas–fueled combined-cycle electric generation facility, which received $1.3 billion of development capital from a consortium of investors.

Private infrastructure has garnered increased demand from institutional investors due to its ability to generate stable, long-term returns with reliable cash yield. However, as private infrastructure has matured and assets have reached a stable operating stage, additional substrategies have begun to emerge to more appropriately match the risk/return profile of these assets to fund terms. For example, core-plus and opportunistic infrastructure managers who seek significant value-creation and shorter holding periods to generate capital appreciation are able to utilize a traditional 10- to 12-year fund term. However, many core and super core managers have been raising longer-term funds (20 to 25 years or more) or evergreen fund structures to better match the fund's terms to the underlying assets' return profile. The longer fund term also promotes credibility for public-private partnerships: some governments have been frustrated with private investors selling assets halfway through their life cycle for outsized returns. As more investors look to private infrastructure as a means to supplement their cash-yielding fixed-income portfolios, these long-hold, low-risk strategies have gained in popularity. However, with the longer term comes a unique set of investor considerations, such as managing conflicts surrounding redemptions and the calculation and payment of carried interest to the manager. With this in mind, understanding a fund's terms, strategy, and governance is imperative when evaluating a commitment to a long-term investment vehicle.

Figure 11. Global Private Infrastructure Capital Raised
At September 30, 2020

Source: PitchBook Data, Inc.

Table 5. Notable Infrastructure Deals in 3Q20
At September 30, 2020

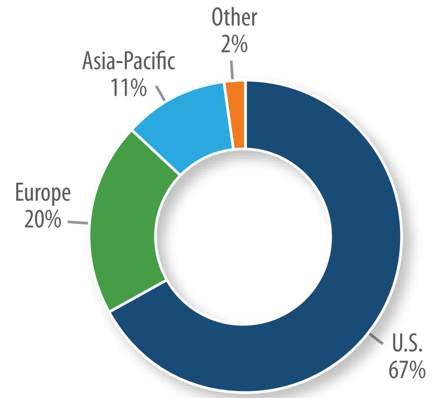
Asset/Company	Acquirer	Industry	Region	Deal Size (MM)
TransGrid	OMERS	Utilities	Australia	$1,386
CPV Three Rivers Energy Center	Consortium	Other Energy	U.S.	$1,300
APFC (Infrastructure Assets Portfolio)	The Blackstone Group	Various	Various	$1,000
Dow (Storage Terminals)	Vopak & BlackRock	Storage	U.S.	$620
ReNew Power	Actis	Renewables	India	$403

Source: PitchBook Data, Inc.

Private Equity Fundraising Market

Worldwide private equity fundraising activity maintained a robust pace through the third quarter, continuing to defy concerns over the pandemic's potential impact on the fundraising markets. According to data from Refinitiv and Pathway Research, private equity firms raised $153 billion globally during the quarter, an increase of 24% from the prior quarter and a decline of just 1% from the year-ago period. The amount raised in the third quarter brought year-to-date global fundraising activity to $406 billion, down just 4% from the same period one year prior. Large fundraisings by established managers continued to underpin overall fundraising activity: managers in the U.S. raised 15 funds larger than $1.0 billion in size, led by Silver Lake Partners VI ($18.2 billion), the largest fund raised during the quarter, and Oaktree Opportunities Fund XI ($12.0 billion). This growth was contrasted by a decline in the number of funds raised: the 360 funds that held closes during the quarter represented a decline of 21% from the third quarter of 2019 and also represented the lowest quarterly total in more than two years. The third-quarter total was driven by strong levels of activity in both the U.S. and Europe, which each experienced a quarter-over-quarter increase in capital raised of approximately 28% and which collectively accounted for 87% of the global quarterly total.

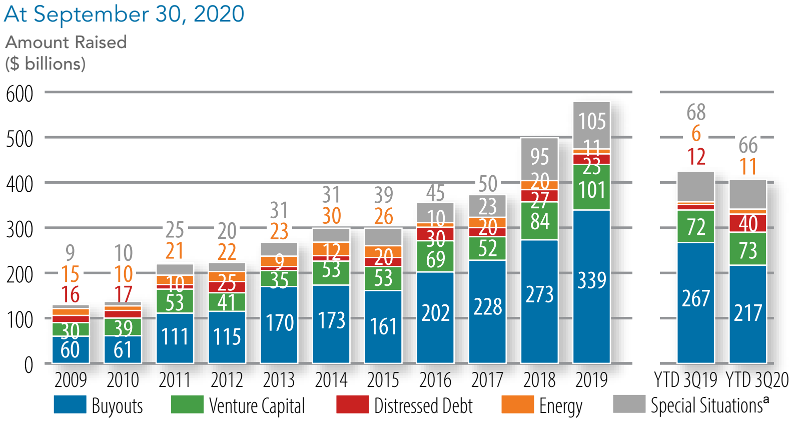
Figure 13. Global Fundraising by Region
At September 30, 2020



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 investment strategy was led by the buyout and distressed debt strategies. Buyout managers raised $95.8 billion, a quarterly increase of 48% and the second-largest quarterly amount raised by the strategy since 2001. Distressed debt funds continue to attract significant investor interest: $25.4 billion was raised during the quarter, the largest quarterly amount since 2001. Distressed debt funds accounted for 17% of total global fundraising during the quarter, more than double the strategy's 10-year historical average. In response to dislocation opportunities created by, or expected to be created by, the pandemic, distressed debt managers have raised more capital through the first three quarters of 2020 than in any full year on record. Notable distressed debt funds raised during the quarter include the aforementioned Oaktree Opportunities Fund XI ($12.0 billion) and West Street Strategic Solutions Fund I ($6.4 billion). Venture capital funds raised $17.8 billion during the quarter, a decline of 27% from the prior quarter.

Figure 12. Global Private Equity Fundraising by Strategy
At September 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 6. Notable Funds Raised in 3Q20
At September 30, 2020

Fund	Strategy	Region	Amount (MM)
Silver Lake Partners VI	Buyouts	U.S.	$18,150
Oaktree Opportunities Fund XI	Distressed Debt	U.S.	$12,000
KKR Asian Fund IV	Buyouts	Hong Kong	$10,550
West Street Strategic Solutions Fund I	Distressed Debt	U.S.	$6,400
Nordic X	Buyouts	UK	€6,100

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.

Pathway is registered as an investment adviser with the SEC in the United States and as a portfolio manager and exempt market dealer in Ontario, Quebec, and Saskatchewan, Canada. Pathway's wholly owned UK subsidiary is regulated in the UK by the Financial Conduct Authority. Pathway's wholly owned Hong Kong subsidiary is regulated in Hong Kong by the Securities and Futures Commission.

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