PATHWAY
CAPITAL MANAGEMENT

Pathway Research

Private Market Environment

3RD QUARTER 2023

CONTENTS

3Q23 Market Review

The first-half rally in global equity markets sputtered during the third quarter in response to soaring bond yields and a growing market expectation that interest rates will remain elevated longer than initially forecast. Following three consecutive quarterly gains, the MSCI All Country World Index fell 3.3% during the quarter, bringing its year-to-date return to 10.5%. The broad decline was driven partially by the sharp rise in bond yields during the quarter, which dampened investor enthusiasm for riskier assets. The yield on 10-year U.S. Treasury notes rose to 4.59% at the end of September, up from 3.81% at the start of the quarter and the highest level since 2007. Yields jumped sharply in late September following the U.S. Federal Reserve meeting, in which the Fed indicated that it could raise rates once more during 2023 and that it is projecting fewer rate cuts in 2024 than previously expected due to the continued resilience of the U.S. economy. The Fed adjusted its projection for 2023 U.S. GDP growth sharply upward to 2.1%, up from 1.0% in its June meeting, while also raising the projection for 2024 to 1.5%. Despite seemingly positive economic progress, a lingering sense of uncertainty remains across the financial markets regarding the ability of central banks to navigate the narrow path toward a soft landing. Major banks have noted concern that the extended period of high rates is beginning to cut into corporate profits and cause distress, particularly in developing economies. Additionally, the conflict in Israel that began in early October has added to an already tense geopolitical environment, prompting fears that an expanded or prolonged conflict could drive further economic volatility.

In line with global M&A trends, private equity deal activity remained muted during the third quarter, although most private equity segments saw moderate increases in deal value relative to a sluggish second quarter. In the U.S., buyout investment activity totaled $61.9 billion, bringing the year-to-date total to $137 billion, down 21% from the same period in 2022. Third-quarter activity was driven by two outsized deals: the acquisitions of Worldpay by GTCR for $18.5 billion and Subway by Roark Capital for $9.6 billion. Outside of the handful of mega buyouts, the volume of deals remained low, impacted by constrained financing markets, uncertain valuation expectations, and general economic volatility. The cost and availability of debt in the current environment has led private equity firms to structure their investments more conservatively; namely, contributing more equity and utilizing less debt. The equity contribution rate for U.S. buyouts completed during the first three quarters of the year reached 50.8%—an all-time high—while the average leverage multiple fell to 5.1x EBITDA, the lowest level since 2012. Although purchase-price multiples have remained surprisingly steadfast through much of the recent economic turmoil, recent deal activity has indicated that market pressure is beginning to have a larger impact. According to data from PitchBook LCD, the average purchase-price multiple for completed buyouts during the third quarter fell to 9.5x EBITDA, down from 11.9x EBITDA for full-year 2022. Similarly, according to data from Burgiss, exit multiples for buyout-backed companies sold during the first half of 2023 dropped to 10.4x EBITDA, down from 12.6x EBITDA for full-year 2022.

Table 1. Notable PE-Backed M&A Exits Announced in 3Q23
At September 30, 2023

Seller	Portfolio Company	Industry	Region	Value (MM)
Hellman & Friedman, Silver Lake	Splunk	Software	U.S.	$28,000
TPG	Creative Artists Agency (CAA)	Entertainment	U.S.	$7,000
Encap Investments	Earthstone Energy	Energy	U.S.	$4,500
Thoma Bravo	Imperva	Cybersecurity	U.S.	$3,600
Francisco Partners	Forcepoint G2CI	Cybersecurity	U.S.	$2,450

Table 2. Notable PE Investments Announced in 3Q23
At September 30, 2023

Buyer	Target	Industry	Region	Value (MM)
GTCR	FIS Worldpay	Software	U.S.	$18,500
Japan Industrial Partners	Toshiba	Technology	Japan	$13,520
Roark Capital	Subway	Consumer Goods	U.S.	$9,550
TPG, Francisco Partners	New Relic	Software	U.S.	$6,500
Cinven	Synlab	Biotechnology	Germany	$2,941

A major topic of discussion for the private equity industry during the quarter was the potential for a re-opening of the IPO market and what that would mean for the host of private equity–backed companies that have been patiently waiting for a more accommodative window to access the public markets. In our prior quarter's report, we highlighted the need to see notable technology companies test the water as a true barometer for the market's willingness to re-open on a larger scale. The third quarter delivered on that front, although the results, at least at this point, have left more questions than answers. In mid-September, British chip design company ARM, owned by SoftBank Group, raised $5.2 billion in an IPO—the largest U.S. technology IPO since 2019. The following week, two venture capital–backed companies, Instacart and Klaviyo, hosted long-awaited IPOs, raising $660 million and $576 million, respectively. Although all three companies saw positive initial reception, aftermarket performance faltered in subsequent weeks, and all three companies were trading below their IPO prices by mid-October. Instacart, which had last raised capital in early 2021 at a valuation of $39.0 billion, priced its IPO at a valuation of $9.9 billion; Klaviyo, which had last raised capital in 2022 at a valuation of $9.5 billion, fared slightly better, securing a valuation of $9.2 billion. The muted performance of these listings has dimmed some of the near-term optimism that existed in early summer and is likely to extend the waiting period for private technology companies eyeing the IPO markets until conditions improve.

The private equity industry also found itself the subject, directly or indirectly, of a number of regulatory rulings issued during the quarter. In early August, the Biden administration released an executive order prohibiting U.S. investment in sensitive technology companies in China, including companies focused on technologies or products with applications related to military, intelligence, surveillance, or cyber-enabled capabilities. The order was prompted by national security concerns and marks the culmination of a multi-year stand-off between the U.S. and Chinese governments that has created much regulatory uncertainty and has posed a headwind for private equity and venture capital investors pursuing cross-border themes. Cross-border investment had already tumbled in recent quarters due to regulatory uncertainty and is likely to face an even larger impediment moving forward. According to data from PitchBook Data Inc., Chinese venture capital financings that included U.S. investors during the first three quarters of 2023 raised just $1.8 billion, on track for the slowest year since 2013. The order has also had a decoupling effect on several firms with a presence in both countries, who have sought to ease pressure on their investors by creating a clear bifurcation between regional strategies. Prominent venture capital firm Sequoia Capital, for example, announced plans to sever ties between its Asian and U.S. operations and manage them as independent firms moving forward.

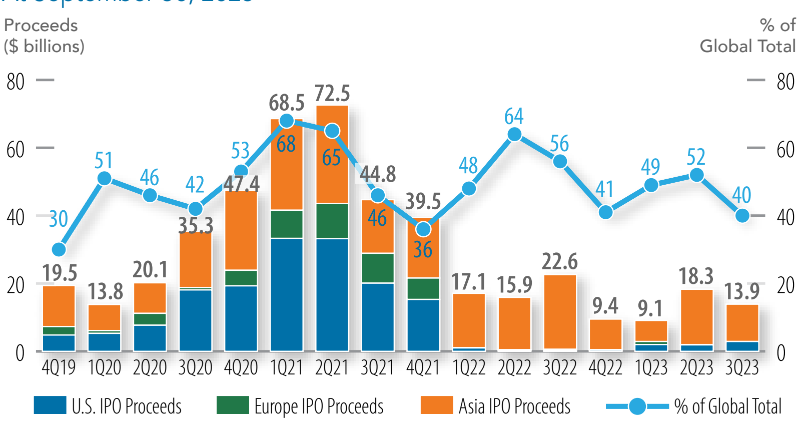
In late August, the U.S. SEC announced the final rules for a sweeping set of new policies focused on enhancing the regulation of private fund advisers. The proposal was initially issued in draft form in late 2022 and has been subject to much debate since that time. The rules aim to provide stronger protections for private market investors by developing a set of best practices focused on transparency, governance, and alignment between fund managers and limited partners. The rules include a number of regulations that, in practice, have become standard reporting procedures for most institutional private equity managers, including requirements to provide annual audited financials and quarterly reporting on all fees and expenses, as well as some new regulations, including limitations on preferential terms offered to certain investors through side-letter agreements and a requirement for private equity firms to provide a fairness or valuation opinion from an independent party for all GP-led secondary transactions. Opposition of the rules from various industry groups has centered largely on the additional costs associated with the new regulations, and a coalition of private market industry groups filed a lawsuit in early September questioning the SEC's authority to impose these regulations. On balance, however, the SEC's new rules for private fund advisers do not appear to pose a meaningful new burden to private equity firms but do promote increased transparency and help to ensure that proper protections are in place for all private market investors.

Global Exit Markets

Global M&A exit activity remained relatively flat during the third quarter, once again highlighting the "wait-and-see" nature of many investors in the current market. During the quarter, M&A exit activity worldwide totaled $118.9 billion, an increase of 5% from the prior quarter, according to Mergermarket data. Despite the quarter-over-quarter increase, the 2023 year-to-date total of $303 billion still represents a decrease of 44% from the same period last year. Many private equity firms have expressed a cautious sentiment toward selling performing companies in a still-uncertain market, which has led to a steady decline in the number of transactions completed. During the third quarter, the 399 exits announced globally marked the seventh-consecutive quarterly decline and the lowest quarterly figure since the pandemic-strickened second quarter of 2020. There were, however, several bright spots during the third quarter. The largest deal of the quarter was Cisco's $28 billion acquisition of public cybersecurity software company Splunk, which received public investment from both Hellman & Friedman and Silver Lake. This was followed by the sales of TPG-backed entertainment provider Creative Artists Agency to Artémis ($7.0 billion), Thoma Bravo–backed Imperva to Thales Group ($3.6 billion), and Francisco Partners–backed Forcepoint G2CI to TPG ($2.5 billion).

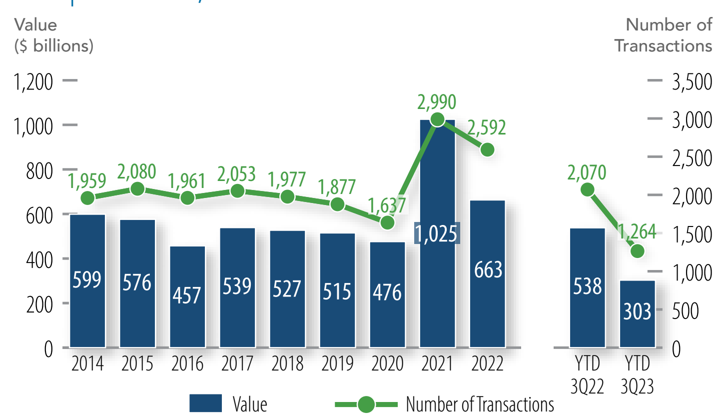
Following a handful of private equity–backed IPOs in late June, there was much speculation over the summer regarding the potential for a U.S. IPO market revival during the second half of 2023; however, the subsequent months proceeded to remain quite slow. During the third quarter, just nine private equity–backed companies held IPOs in the U.S., raising $2.9 billion in proceeds. It was not until mid-September that Instacart and Klaviyo, two notable venture-backed companies, held long-awaited IPOs, marking the first significant venture-backed technology IPOs since 2021. The performance of the two listings was mixed: Instacart finished the quarter trading 9% below its IPO price; Klaviyo finished 9% above. While both companies have traded down further through October and remain below their most-recent private financing valuations, they are exceptional wins for their early-stage venture capital investors, which included Sequoia Capital, Canaan Partners, and Summit Partners. Aftermarket performance for recent IPOs more broadly faltered during the quarter, although it has exceeded the overall market: the Renaissance IPO Index, which measures the performance of companies that have gone public in the U.S. in the past three years, decreased by 3.0% during the quarter but has increased by 27.8% from the start of the year. Looking forward, a resurgent IPO market still very much depends on the trajectory and stability of the global economic recovery. While recent equity market volatility has dampened near-term enthusiasm, there remains a healthy backlog of companies ready to access the public markets that will be keeping a watchful eye on conditions over the coming months.

Figure 1. Quarterly Global PE-Backed IPO Activity
At September 30, 2023



Source: Bloomberg, Renaissance Capital, and Pathway Research.

Figure 2. Global PE-backed M&A Exit Value & Volume
At September 30, 2023

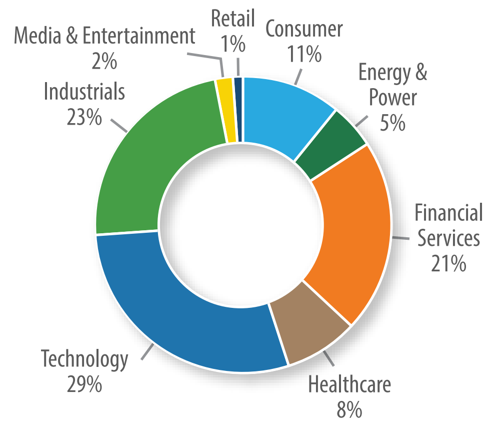


Source: Mergermarket, Dealogic, and Pathway Research.

U.S. Buyout Markets

U.S. buyout investment activity rebounded moderately during the third quarter following a slow first half in 2023. According to data from Refinitiv and Pathway Research, U.S. buyout investment activity totaled $61.9 billion in the third quarter—a 132% increase from the prior quarter and a 55% increase from the same quarter in 2022. This performance was driven primarily by two mega buyouts: GTCR's carveout of fintech company Worldpay for $18.5 billion and Roark Capital's acquisition of restaurant chain Subway for $9.6 billion. As a result, large-cap transactions (i.e., transactions with enterprise values of $1.0 billion or greater) accounted for $48.8 billion, or 79% of total value, during the quarter. The volume of deals announced during the quarter remained low, however, and buyout managers continue to grapple with a number of headwinds, including high interest rates and still-wide bid–ask spreads. Buyout managers have adapted to these challenges by focusing their efforts on high-quality, resilient businesses and by structuring their investments more conservatively. During the first three quarters of 2023, according to PitchBook LCD, the equity contribution rate for U.S. buyouts reached an all-time high of 50.8%, while the average leverage multiple fell to 5.1x EBITDA, the lowest level since 2012.

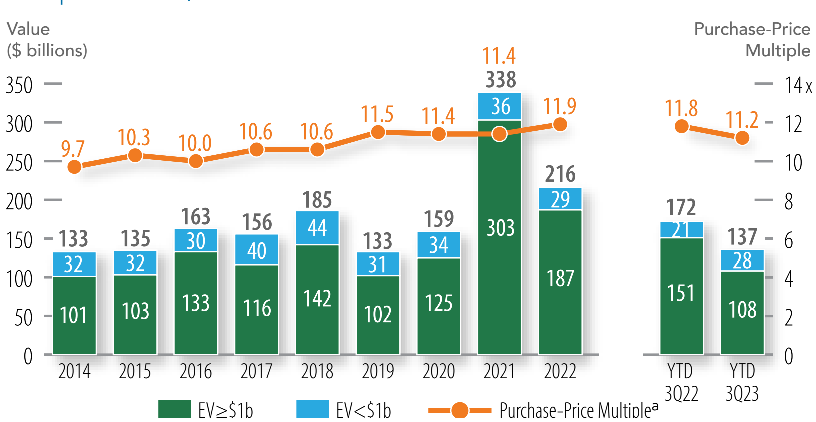
Figure 3. YTD 3Q23 U.S. Buyout Transaction Value By Sector



Source: Refinitiv and Pathway Research.

Although valuations have continued to remain elevated through recent market turmoil, there were signs of moderate change during the third quarter. The average purchase-price multiple for transactions completed in the quarter fell to 9.5x EBITDA, which brought the year-to-date average for 2023 to 11.2x EBITDA, down from 11.9x EBITDA in 2022. This decline corresponded with a shift in the sectors with the most deal activity. Following a technology-centric buyout market in 2022, activity in other segments has rebounded during 2023. Technology buyouts account for just 29% of annual buyout value thus far in 2023, down from 59% for full-year 2022, whereas deal value in the industrials and financial services sectors have both well surpassed their full-year 2022 totals, accounting for 23% and 21% of annual deal value, respectively.

Figure 4. U.S. Buyout Investment Activity
At September 30, 2023



Source: Refinitiv, PitchBook 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 September 30, 2023

	2007	2022	YTD 3Q23
Purchase Price/EBITDA	9.7x	11.9x	11.2x
Equity Contribution %	30.9%	45.8%	50.8%
Debt/EBITDA	6.0x	5.9x	5.1x
EBITDA/Cash Interest	2.1x	2.9x	2.5x

Source: PitchBook LCD.

European Buyout Markets

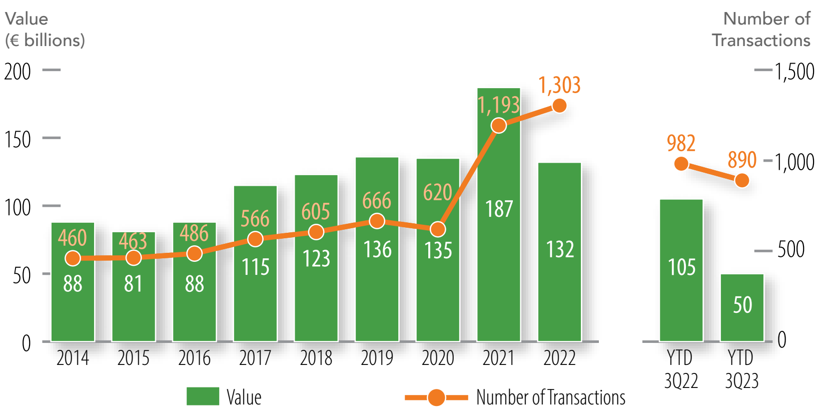
European buyout activity has remained relatively subdued in 2023, primarily due to challenging macroeconomic conditions, disparities in valuations, and increased financing costs. These headwinds have prompted investors to exercise more caution and, therefore, have led to an overall slowdown in the pace of deal execution. This trend was particularly pronounced at the start of the year with record-low levels of activity in the first quarter. This was followed by a rebound in the second quarter, only to decline once more in the third quarter. The aggregate transaction value of announced European buyouts amounted to €17.4 billion, down 29% quarter on quarter and 21% year on year. Consequently, cumulative European buyout activity for the first three quarters amounted to €49.5 billion, the lowest level since 2013.

The large-cap segment of the market, which comprises deals with enterprise values exceeding €1 billion, witnessed a decrease in transaction value during the quarter. The total value of the three deals announced in this segment amounted to €5.4 billion, significantly below the €10.6 billion recorded in the prior quarter. The quarter's two largest transactions were the take-private of Synlab, a German-based medical diagnostic services provider, by Cinven at an enterprise value of €2.8 billion and the take-private of Kahoot, a Norwegian online game-based learning platform, led by the private equity division of Goldman Sachs Asset Management at an enterprise value of NOK 17.2 billion, or approximately €1.5 billion.

In contrast, the aggregate value of mid-market deals, which range from €250 million to €1 billion in enterprise value, saw a 34% increase from the prior quarter. Two of the three largest deals in this segment were also take-private transactions. Permira acquired Ergomed, a UK-based biotechnology company, while Inflexion acquired DWF, a UK-based law firm. As illustrated this quarter, take-privates have continued to play a prominent role in the European buyout market in 2023: four of the six largest deals of the year belong to this category.

According to UBS, European primary high-yield issuance totaled €9.0 billion in the third quarter. While this represents a 38% quarter-on-quarter decrease, it still signifies a sustained recovery in activity throughout 2023: with total high-yield issuance in the first nine months of the year of €36 billion, 2023 is up 107% from the prior year period. In the third quarter, the spread on BB-rated euro-denominated bonds started at 338 basis points and appeared to continue the second-quarter trend of further tightening before ultimately reverting to a spread of 337 basis points by quarter-end. The more stable credit environment has improved the overall buyout investment climate, but there is still a considerable gap in activity when compared with levels observed between 2017 and 2021.

Figure 5. European Buyout Investment Activity
At September 30, 2023



Source: Refinitiv and Pathway Research.

Table 4. Largest European Buyouts Announced in 3Q23
At September 30, 2023

Buyer	Target	Country	Value (MM)
Cinven	Synlab	Germany	€2,791
Goldman Sachs Asset Management	Kahoot ASA	Norway	€1,460
One Rock Capital Partners	Constantia Flexibles	Austria	€1,124
Wendel	Scalian	France	€965
Permira	Ergomed	UK	€775

Source: Refinitiv.

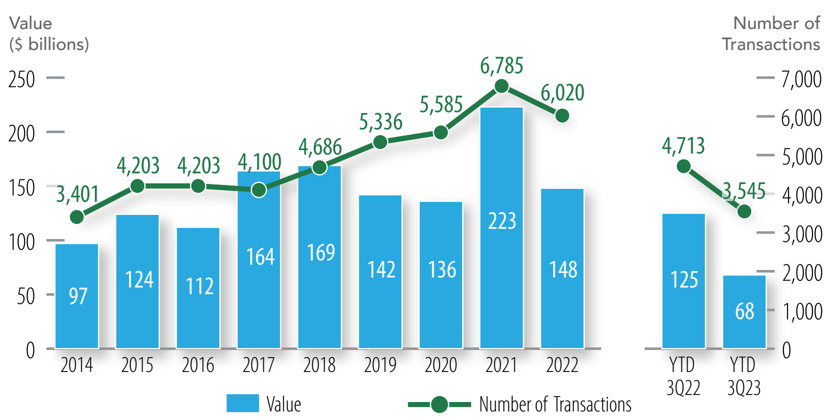
Asia Private Equity

The third quarter saw a further cooling in the Asia private equity market: according to *Asia Venture Capital Journal* (*AVCJ*), investment activity totaled $20.3 billion from 1,085 deals—a 20% decline in value from the prior quarter and the lowest amount in a decade. The decline was not unexpected, especially after the Biden administration signed an executive order aimed at prohibiting U.S. investments in sensitive technology companies in China over national security concerns. There remain a lot of open questions regarding the scope of restrictions and how they will ultimately be implemented, but both USD investments and fundraising in China have already tumbled further as investors have grown weary of the escalating regulatory pressure and have put major deployment and capital raising activities on hold. However, RMB-denominated private equity transactions, which made up 85% of quarterly investment activity, held fast at its 18-month average as entrepreneur preferences shifted toward the local currency given exit channel options. USD capital has played a part in the resilience of RMB activity: USD funds have made use of the qualified foreign limited partners (QFLP) investment scheme to participate in RMB-denominated transactions.

Private equity investment activity has also been subdued across the rest of Asia: the region (excluding China) experienced a 48% year-to-date decrease in transaction volume compared with the same period last year, a drop even more pronounced than that of the Chinese market (40% decrease year to date). However, the broader slowdown in investment activity belies positive tailwinds in certain markets like Japan, which is on track to record three straight years of transaction value growth given several pending deals in the large-cap space, including the ¥2 trillion (~$13.5 billion) take-private transaction of Toshiba, which is set to delist as early as December.

During the third quarter, 239 companies raised $21.2 billion via public offerings on Asia-based exchanges, down 12% from the second quarter. China's A-share continued to dominate Asia public offering activity, although there are signs that the momentum is slowing. In August, the China Securities Regulatory Commission (CSRC) signaled its plan to slow down domestic IPO approvals to support public market valuations and stability. Although the CSRC intends for a more gradual tightening, the news caused a steep decrease in total China A-share issuance: only 9% of the quarterly public offering proceeds came in September. As private equity investors continue to assess their options for a public market exit, some have turned their eyes to the Hong Kong Stock Exchange's Chapter 18C, a new listing regime for pre- or early-commercial-stage specialist technology companies. Although it remains early and there has not yet been a successful filling under the new regime, Chapter 18C provides technology investors another exit option in addition to the Nasdaq and Shanghai STAR Board.

Figure 6. Asia PE Transaction Value & Volume
At September 30, 2023



Source: *AVCJ*.

Table 5. Notable Asia PE Investments in 3Q23
At September 30, 2023

Buyer	Target	Country	Value (MM)
Japan Industrial Partners	Toshiba[a]	Japan	$13,520
ICBC Capital, CCB Investments	Runpeng Semiconductor	China	$1,742
EQT Partners	SK Shieldus	South Korea	$1,498
Advent International	Suven Pharmaceuticals	India	$1,158
China Life Private Equity, CDH Investments, CICC Capital	Hithium	China	$621

Source: *AVCJ*.
[a]Not included in 3Q23 PE transaction value. Tender offer was approved in September, and the company is set to be delisted as early as December.

Venture Capital Markets

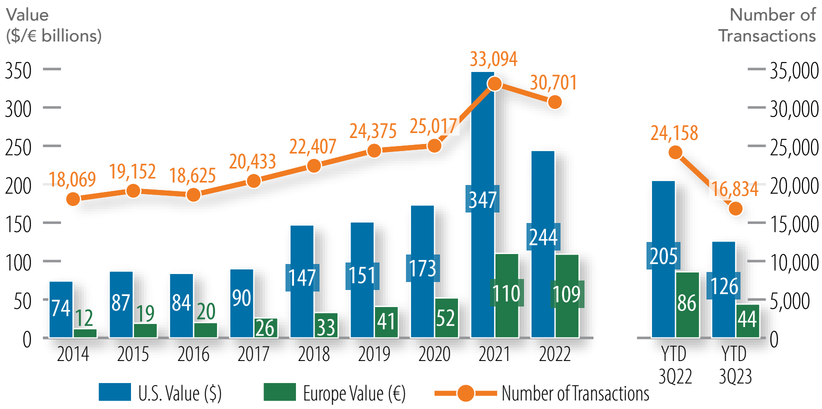
The venture capital markets remained constrained through the third quarter: investment activity slumped further relative to prior quarters, fundraising challenges remained prevalent, and startups yet again navigated a tumultuous landscape. According to data from PitchBook-NVCA Venture Monitor, investment activity in the U.S. totaled $36.7 billion during the third quarter—the lowest venture deal value in five years. Quarterly deal volume has stabilized over the past year but remains lower compared with 2020 and 2021 levels. In Europe, the venture capital industry has experienced similar challenges, but recent results have trended more favorably. Early-stage deal activity in Europe has been sequentially increasing since the first quarter, with managers taking a long-term view on investments that are less reliant on the near-term exit markets. Third-quarter deal value ticked up by 7% from the prior quarter though was still below the figure from the third quarter one year ago.

In the U.S., the venture capital market has experienced a widespread slowdown:

- Seed-Stage—Third-quarter deal activity declined further to pre-pandemic levels, with just $3.2 billion invested across 1,214 deals. Some of the feedback from investors has been related to a focus on founder quality and increased levels of due diligence ahead of a round being formalized. This type of increased scrutiny at the seed stage is common during periods when the broader market and technology landscape is uncertain.
- Early-Stage—Deal activity continued its downward quarter-over-quarter trend: just $8.5 billion was invested across 1,341 deals, the lowest quarterly figure since the third quarter of 2017. As investors triage problems in their existing portfolio, selectivity and focus continue to be a priority for new early-stage investments.
- Late-Stage—Dealmaking declined once again in the third quarter, excluding Amazon's $4.0 billion investment in Anthropic. Numerous late-stage managers have delayed their fundraising plans until later next year, while nontraditional investors have continued to withdraw from this segment of the venture market. Although high-quality companies have had success in raising capital, many other late-stage startups have had no choice but to pursue creative financing solutions or seek down-rounds.

On a positive note, the exit markets showed signs of life for the first time in a number of quarters—the $35.8 billion in total exit value is the highest since the fourth quarter of 2021—underpinned by several large liquidity events. Most notably, two large venture-backed companies, Instacart and Klaviyo, held IPOs during the quarter. Although it remains too early to determine if the IPO window is truly open, companies that go public are poised to face a host of challenges, including elevated interest rates, lower multiples, reductions from peak valuations, and an uncertain macroeconomic backdrop.

Figure 7. Venture Capital Transaction Value & Volume
At September 30, 2023



Source: PitchBook-NVCA Venture Monitor Report.

Table 6. Notable Venture Capital Deals in 3Q23
At September 30, 2023

Company	Select Investors	Region	Value (MM)
Anthropic	Amazon, Calm Ventures, Firestreak Ventures	U.S.	$4,000
Verkor	EQT Ventures	Europe	$2,100
Redwood Materials	Capricorn Investment Group	U.S.	$997
Databricks	Andreessen Horowitz, Franklin Venture Partners	U.S.	$500
Getir	G Squared, Revo Capital	Europe	$500

Source: PitchBook Data, Inc.

Private Credit Markets

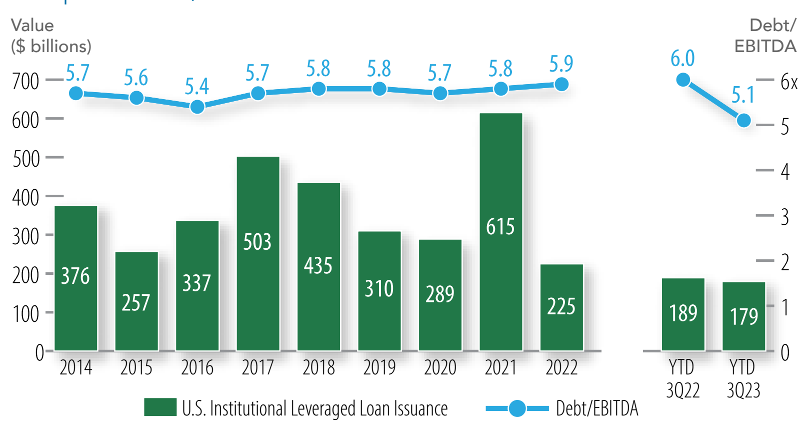
Leveraged credit market conditions continued to ease in the third quarter, driven by improving market sentiment, still-low levels of distress among non-investment-grade companies, and firmer secondary market trading levels. U.S. institutional leveraged loan issuance totaled $76.6 billion in the third quarter, an increase of 52.9% over the prior quarter and the highest quarterly total since the first quarter of 2022, according to PitchBook LCD data. The weighted average bid price of the Morningstar Leveraged Loan index ended the quarter at 95.6%, up from 92.4% at the end of 2022. Private equity sponsors took advantage of the window of opportunity to raise $21.8 billion in syndicated loans to finance new buyout activity, including the carveout of payments company Worldpay by GTCR and the acquisition of healthcare company Syneos led by Elliot Management and Veritas Capital. The increasing availability of the syndicated loan markets is welcomed by private equity firms that have faced limited financing options outside the direct lending markets for much of the past year. Nevertheless, private credit firms continued to show that they are a viable option to lead large-scale financings for private equity sponsors. In August, a consortium of direct lenders refinanced a $4.1 billion syndicated term loan for Vista-backed financial technology company Finastra with a $5.3 billion unitranche term loan, one of the largest private credit loans on record. Public-to-private refinancing activity has helped mitigate the slowdown in primary direct lending activity (driven by the significant decline in M&A activity) year-to-date 2023. Market conditions overall remain favorable for direct lenders, but increased competition to agent new facilities has led to spread compression of approximately 50 basis points since the beginning of the year.

Leveraged loan default rates reversed a year-long upward trend in the third quarter, driven by a default-free September that brought the trailing 12-month default rate for the Morningstar Leveraged Loan Index to 1.27%, down from 1.71% at the end of the second quarter, according to PitchBook LCD. The leveraged loan distress ratio, which measures the percentage of the leveraged loan market trading below 80% of par, ended the third quarter at 4.4%, down from 6.0% in the prior quarter. Similarly, the high-yield bond default rate declined slightly from 2.6% at the end of the second quarter to 2.5% at the end of the third quarter, according to Fitch Ratings. Despite the relatively benign readings, many analysts continue to anticipate a meaningful increase in default rates and distressed debt over the near-to-mid term as economic headwinds mount due to aggressive monetary tightening. Highly levered companies, including many private equity–backed companies, are experiencing significantly higher debt-servicing costs and weakening balance sheets, leaving them particularly vulnerable to a slowdown in the economy or a deterioration in business conditions. However, many companies have taken advantage of more-accommodative credit markets to refinance debt or execute amend-and-extend transactions, pushing out their debt maturities and reducing refinancing risk. Leveraged loan refinancing activity totaled $38.7 billion in the third quarter, which helped reduce 2024 maturities to less than $18 billion, from $75 billion at the end of 2022.

Figure 8. High-Yield Bond Spreads over U.S. Treasuries
At September 30, 2023

Source: BofA Merrill Lynch.

Figure 9. U.S. Institutional Leveraged Loan Issuance
At September 30, 2023



Source: PitchBook LCD.

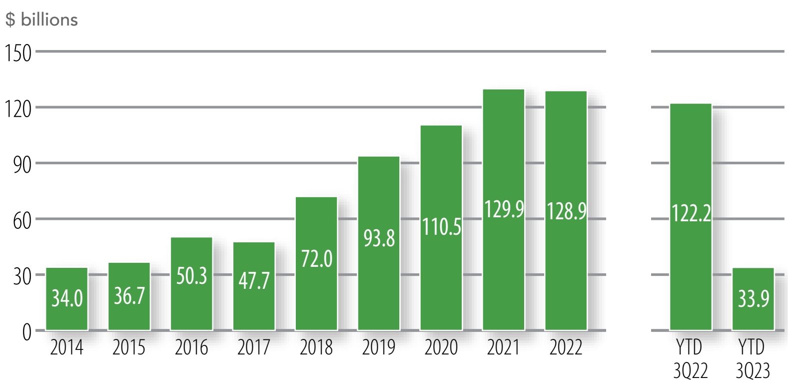
Private Infrastructure Market

Global infrastructure fundraising activity remained subdued during the third quarter. According to PitchBook Data Inc. and Pathway Research, nine funds raised a combined $10.1 billion. This represents a decrease of 45% from the prior quarter and of 23% from the third quarter of 2022. Activity was driven primarily by Blackstone Green Private Credit Fund III, which reached its hard cap of $7.1 billion. This represents the largest energy transition debt fund raised to date and accounted for 70% of the quarter's total infrastructure fundraising. Fundraising activity is expected to increase through the end of the year and into 2024 because many large infrastructure funds are targeting closes in the near future.

Global infrastructure investment value totaled $7.5 billion during the third quarter, which is roughly consistent with investment activity during the prior quarter. Notable deals in the third quarter included EQT's $3.0 billion public-to-private LBO of Radius Global Infrastructure, a global aggregator of rental streams underlying wireless cell tower sites, and the $1.6 billion investment in the concession of the Paraná Lote 1 highway system in the south of Brazil by Patria and PIF.

In early September, CVC Capital Partners announced its strategic acquisition of DIF Capital Partners, a global infrastructure manager with over €15 billion in assets. Shortly thereafter, Bridgepoint Group announced its acquisition of Energy Capital Partners, a global energy and renewables manager. These are just two examples of consolidation within the infrastructure sector occurring as a result of global asset managers looking to build their infrastructure capabilities to capitalize on high levels of investor interest in the sector. From a strategic standpoint, these transactions allow for established asset management firms that have not cultivated internal capabilities to gain access to an established investment platform. Consolidation is not limited to just broad private asset managers. In early 2023, Digital Bridge acquired AMP Capital's infrastructure business to expand its capabilities outside digital infrastructure. For selling firms, these transactions can accomplish multiple objectives, such as helping address founder succession or allowing for expanded distribution of an infrastructure manager's product offerings.

Figure 10. Global Private Infrastructure Capital Raised
At September 30, 2023



Source: PitchBook Data, Inc.

Table 7. Notable Infrastructure Deals in 3Q23
At September 30, 2023

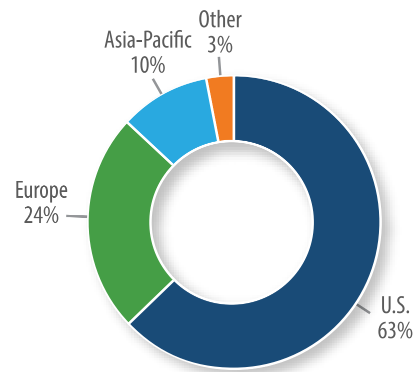
Asset/Company	Acquirer	Industry	Region	Deal Size (MM)
Radius Global Infrastructure	EQT	Telecom	U.S.	$3,000
Paraná Lote 1	Patria Investments, Saudi Arabia's Public Investment Fund	Transportation	South America	$1,600
SK Shieldus	EQT	Industrials	Asia	$664
Enel Green Power Hellas	Green Investment Group	Renewables	Europe	$381
HICL Infrastructure PLC (Portfolio of UK Assets)	Equitix, John Laing Group, KKR	Social Infrastructure	UK	$324

Source: PitchBook Data, Inc.

Fundraising Market

Indications of a challenging fundraising environment became more evident in the third quarter: worldwide private equity fundraising totaled $126 billion, a decline of 34% from the prior quarter and the lowest quarterly amount since the second quarter of 2020, according to data from Refinitiv and Pathway Research. The total brought aggregate private equity fundraising for the first three quarters of the year to $465 billion, down 22% from the same period in 2022. The slowdown in activity is reflective of both the highly selective nature of many limited partners in the current environment and a reduction in funds coming to market due to the slowing pace of deployment since the start of 2022. During the third quarter, just 379 funds held closes globally, down 45% from the quarterly average during 2022. The resulting pressure has forced many private equity firms to elongate fundraising periods and target more-modest fund sizes than in recent years, which overall serves as a healthy point of moderation relative to the rapid growth seen for much of the past decade.

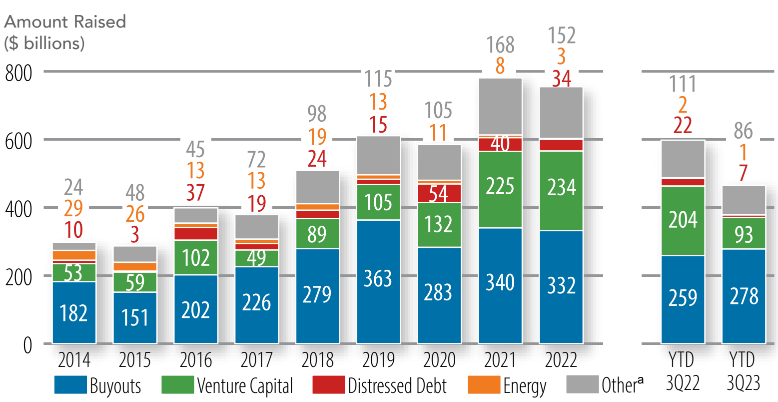
Figure 11. YTD 3Q23 Fundraising by Region



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.

Buyout and venture capital managers have experienced widely different fortunes in the fundraising market during 2023. Venture capital fundraising, which reached a record $234 billion in 2022, has fallen sharply during 2023 due to a slowdown in investment pace pushing back many fundraising timelines and an overall sense of uncertainty across the industry following the sharp correction in public market technology valuations. Through the first three quarters of the year, venture capital funds raised just $92.8 billion, down 54% from the same period in 2022. Buyout fundraising, on the other hand, is on pace for its most active year on record. Buyout funds have raised $278 billion globally thus far in 2023, up 7% from the pace of last year. While the number of funds to hold closes has been relatively modest (–36% year over year), activity in the large-cap sector has continued to drive capital commitments to the industry. The 10 largest funds raised during the year have accounted for $134 billion in commitments, or 48% of the annual buyout total. Notably, CVC Capital Partners IX held a final close at €26.0 billion in commitments during the third quarter, the largest buyout fund on record.

Figure 12. Global Fundraising by Strategy
At September 30, 2023



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 3Q23
At September 30, 2023

Fund	Strategy	Region	Amount (MM)
CVC Capital Partners IX	Buyout	Europe	$29,200
H.I.G. Middle Market LBO Fund IV	Buyout	U.S.	$5,500
Audax Private Equity Fund VII	Buyout	U.S.	$5,250
Alpine Investors IX	Buyout	U.S.	$4,500
ASTORG VIII	Buyout	Europe	$4,389

Source: Refinitiv and Pathway Research.

About Pathway Capital Management, LP

Founded in 1991, Pathway provides private market portfolio 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 $100 billion to more than 1,000 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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