Private Equity Forecast & Desk Book 2014

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probity (prō′bĭ·tē)
n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.

Probitas Partners is pleased to present its *Private Equity Forecast & Desk Book 2014*. The purpose of this paper is to offer our forward view of likely trends for 2014 and beyond based on our review of 2013 and our ongoing dialog with (and surveys of) the global institutional investor marketplace. The paper starts with our forecast for this year, then presents a summary review of the dominant trends that shaped 2013 and the details behind those trends.

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Contents

Private Equity Outlook

Investors Begin to Focus on Market Risks As Cycle Matures

- Relatively high purchase price multiples, increasing leverage and the return of covenant-lite debt has a number of limited partners that invest in developed market buyout funds worried about returning to a new market peak. But most investors are not worried about a market meltdown similar to 2008; rather most expect a more normal market down-cycle.

- Increasingly, these investors are interested in managers with experience across cycles and who maintain pricing discipline in an expensive market.

Debt Funds Are Developing into a Distinct Private Equity Sector

- Investors seeking yield continue to look at an increasing array of illiquid debt vehicles in their private equity or special situations allocations, and the market is expanding rapidly to serve that demand.

- These credit vehicles increasingly provide the debt needed to support private equity transactions in Europe and North America where bank lending remains under stress.

Investors Turn Cautious on Emerging Markets

- Over the last year, investors have become more cautious in emerging markets as a number of the larger countries faced economic slowdowns or political turmoil.

- For private equity investors in particular, emerging market investors have grown disappointed by the slow pace of exits on commitments they made several years ago. Consequently, in a number of markets investors are taking a "wait and see" attitude as they await realizations.

Distressed Private Equity Broadens Its Definition

- Investors are broadening their interest in the sector beyond distressed debt for control and turnaround/restructuring funds, paying more attention to opportunistic credit funds that invest broadly outside corporate debt and special situations funds with flexible investment mandates.

- Investors are also looking to Europe for opportunity; strengthening bank balance sheets and the imminent implementation of Basel III are likely to result in increased transaction activity.

Separate Accounts Grow Increasingly Popular with Large Investors

- These accounts can offer tailored strategies at lower cost for large investors.

- There is increasing risk of skewed alignment of interest between larger separate account investors and smaller, traditional fund investors. This friction may impact governance negotiations in future Limited Partner Agreements.

- Separate account allocations are not as well tracked as traditional fund commitments. As a result, we believe that the growth of separate accounts understates the amount of capital targeting various private equity sectors.

Interest in Real Assets

- Though inflation in North America and Europe is extremely low, some investors are increasingly concerned that the high level of government debt issued to battle the Global Financial Crisis will result in sharply rising inflation at some point in the future.

- To hedge themselves, these investors increasingly target funds focused on real assets such as agriculture, mining, oil and gas, and timber that they believe will increase in value with inflation while providing a degree of downside risk protection.

Key Risks

- ***High Purchase Price Multiples:*** Purchase price multiples for large U.S. and European buyouts rebounded quickly after the Global Financial Crisis and remain high. Though these price levels have been beneficial to fund managers who have been exiting investments over the last two years, they make it more difficult to make new acquisitions at reasonable prices.

- ***Return of Covenant-Lite Debt:*** Covenant-lite debt is returning to the market as investors hungry for yield have been willing to purchase debt without these protections. While covenant-lite debt gives issuing firms more flexibility to deal with difficult future financing environments, it can saddle lenders with problem loans that may impact future liquidity and signals an end to an environment of moderate leverage on acquired companies.

- ***Scarcity of Experienced Managers in Emerging Markets:*** Private equity investors continue to look beyond the BRICs for emerging market growth exposure, but most of these markets lack deep benches of experienced and proven private equity managers. Increasingly, investors are likely to loosen their manager selection standards or allow for fund sizes for less-experienced teams to grow — trends that present increased risk in emerging markets.

Private Equity Fundraising

Private equity fundraising increased globally during 2013, driven by increases in North America and Europe that offset declines in Asia and Latin America. Established private equity investors' portfolio allocations continued to free up as exit activity surged during the year and significant cash was returned to investors.

North America

- Private equity fundraising increased by 14% over 2012's total (Chart I), driven largely by commitments to buyout funds, including a number of mega buyout funds that invest globally.
- During the first quarter of 2014, buyout fundraising soared 38% as investors continued to redeploy the large amounts of capital being returned to them — though fundraising in North America for distressed private equity funds also increased significantly.

Europe

- As Europe's economy slowly improved, European-focused fundraising increased by 30% during 2013, driven by buyout funds (Chart II).
- Middle-market country-focused funds remained a mainstay of the market in terms of the number of funds. Investors were focused on the stronger economies of Northern Europe, with Scandinavia, Germany, and the UK leading the way.
- Venture Capital fundraising rebounded but was still less than 10% of the market.

Asia

- Asian fundraising continued to fall during 2013, ending at 44% below 2011's market peak, driven by concerns about the slowing of the Chinese economy and the continued closure of the Chinese IPO market, which only reopened at the end of 2013 (Chart III).

Latin America

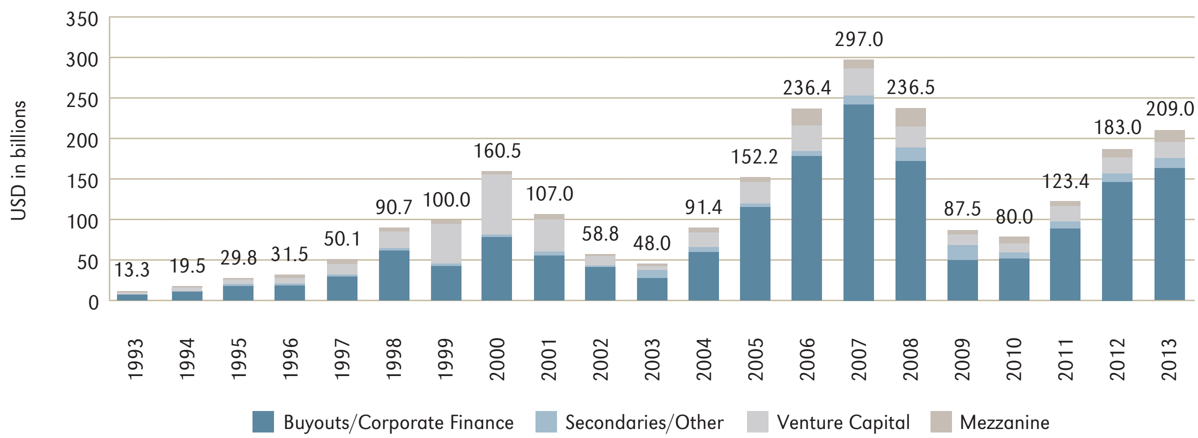
- Latin American fundraising declined (Chart IV) with much of this decline due to weakness in Brazil's economy.
- A number of the large Brazilian and Pan-Latin American funds managers are scheduled to fundraise in 2014, which is anticipated to be a stronger fundraising year.

"During the first quarter of 2014, buyout fundraising soared 38% as investors continued to redeploy the large amounts of capital being returned to them"

Other Emerging Markets

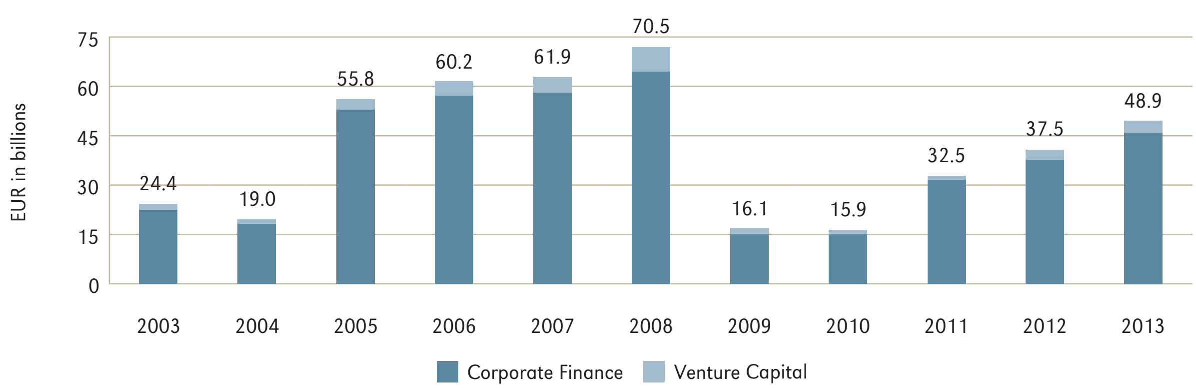
- Fundraising for other emerging markets is not detailed in a chart; these niche markets are fairly volatile and long-term trend lines are less meaningful. During 2013, $779 million was raised targeting Sub-Saharan Africa, $414 million was raised targeting MENA, and $1.2 billion was raised by multi-regional emerging markets funds.

Chart I Commitments to U.S. Private Equity Partnerships by Sector



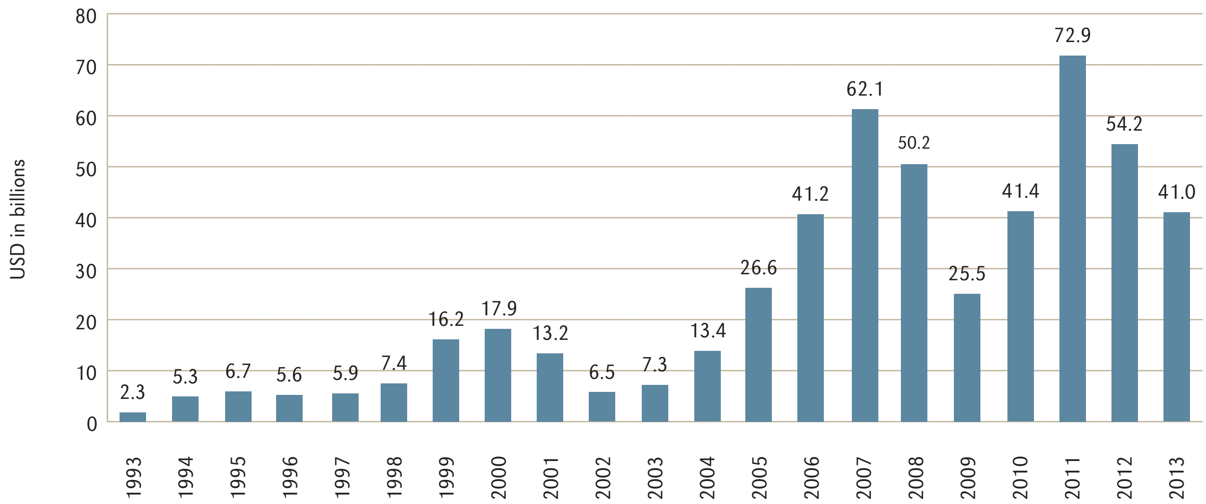
Source: Private Equity Analyst
Note: Does not include fund-of-funds

Chart II Commitments to European Private Equity Partnerships by Sector



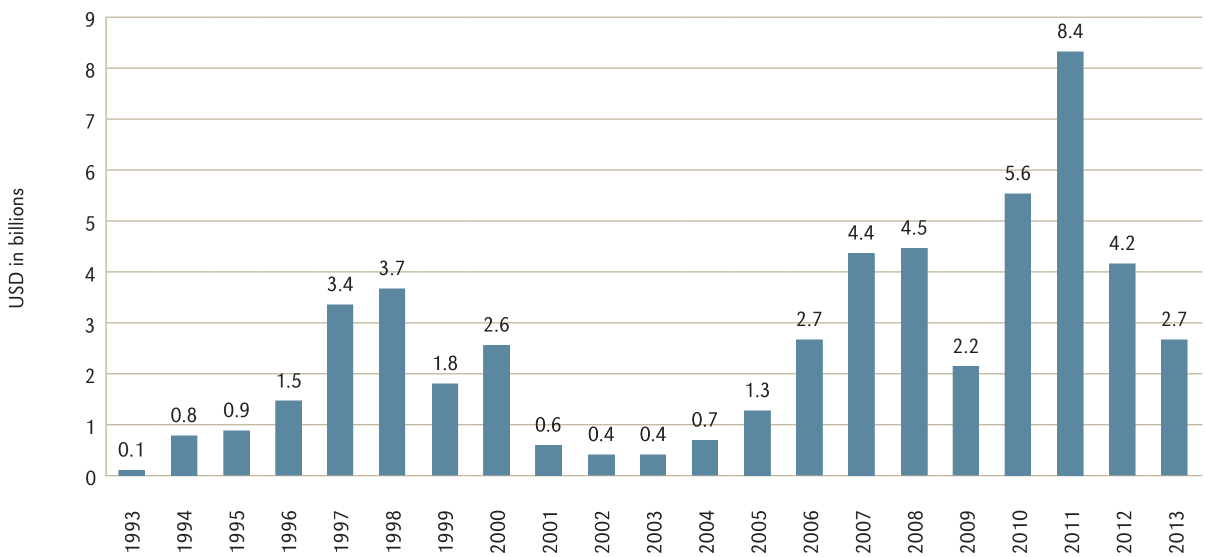
Source: Probitas Partners
Note: "Corporate Finance" includes buyout, growth capital, mezzanine, secondaries, distressed debt, and turnaround funds

Chart III Commitments to Asian Private Equity Partnerships



Source: Asian Venture Capital Journal

Chart IV Capital Raised for Latin American Private Equity Partnerships



Source: EMPEA, LAVCA

Deal Volume and Capital Overhang

Funds are raised to be profitably deployed during their investment periods. At a high level, deal volume and capital overhang statistics offer some insight into that process and where we are in the cycle.

Global Deal Making

- Global private equity deal volumes increased slightly in 2013, but have been roughly flat since 2010 and are still far below the peak year of 2007 (Chart V).

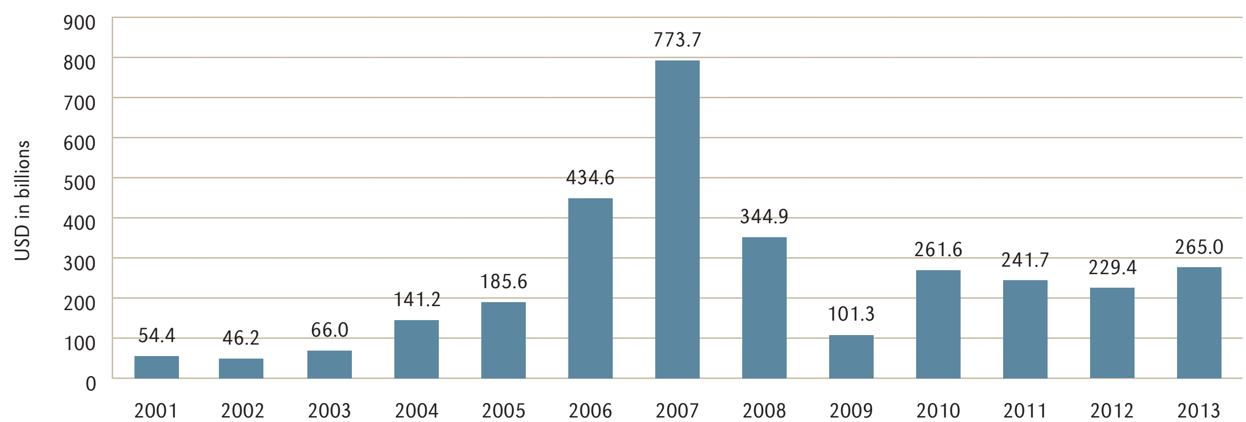
Capital Overhang or "Dry Powder"

- Because fundraising has revived more quickly than deal making, the amount of "dry powder" in uninvested commitments increased in 2013. This follows a decline in "dry powder" over the last three years as capital raised during the market peak years of 2006–2008 was invested slowly coming out of the Global Financial Crisis (Chart VI).

- Buyout funds drive the capital overhang numbers; buyouts remain the largest sector of the global private equity market.

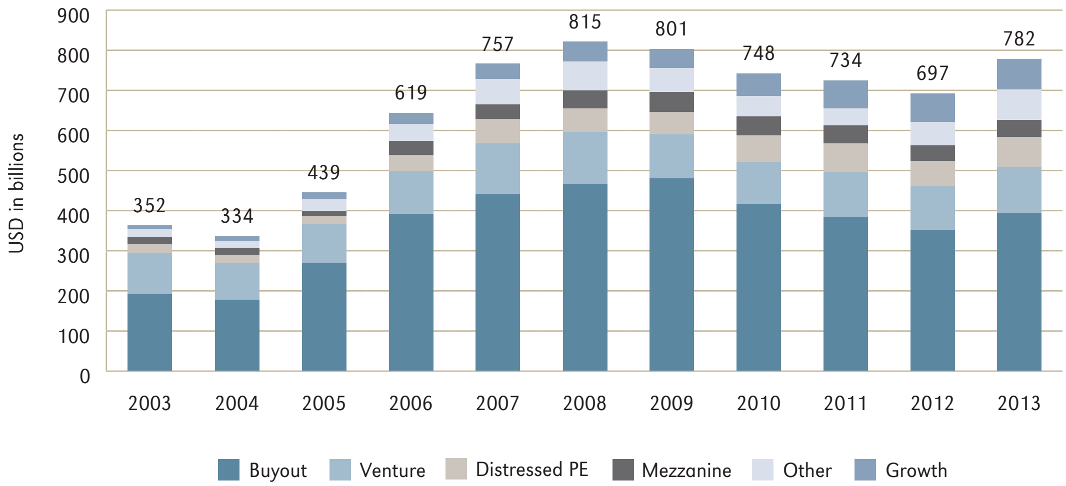
- North America has the largest capital overhang (Chart VII), but these totals include a number of U.S. headquartered mega buyout funds that invest globally.

Chart V Private Equity Deal Volume



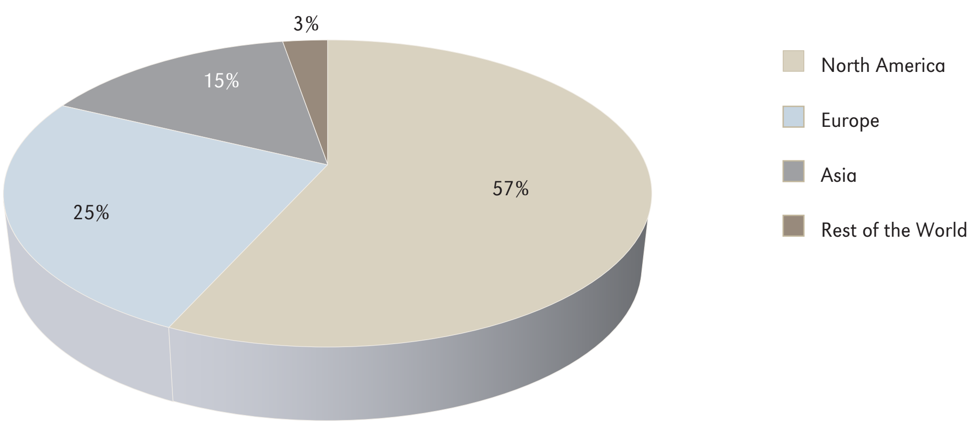
Source: Thomson Venture Economics

Chart VI Private Equity "Dry Powder" by Investment Strategy



Source: PREQIN

Chart VII Private Equity "Dry Powder" by Fund Focus, April 2014



Source: PREQIN

The Buyout Market: Investor Focus and Concerns

Buyouts are the largest segment of the North American and European private equity markets. Consequently, the following key factors affecting buyout investments significantly impact the performance of most institutional private equity portfolios:

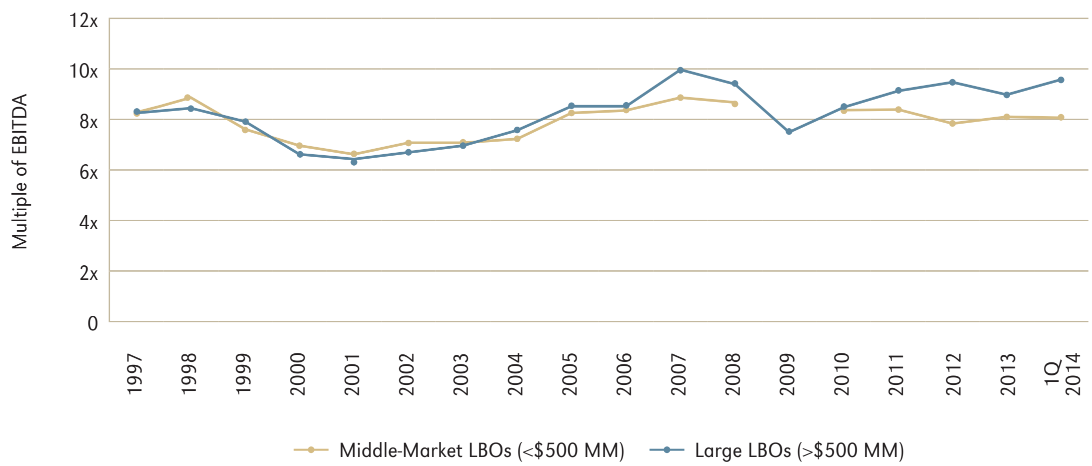
Purchase Price Multiples

- Purchase price multiples in both the United States and Europe increased sharply since the 2009 market trough, especially at the large end of the market. This trend continued into the first quarter of 2014 (Charts VIII and IX). That pattern deviates from the norm after a recession where multiples fall and remain low for a protracted period as fund managers remain conservative and sellers' price expectations are beaten down.

- The premium paid for large buyout deals compared to middle-market buyout deals has increased during this cycle, causing increased interest in middle-market buyouts as investors search for more attractive deal entry prices.

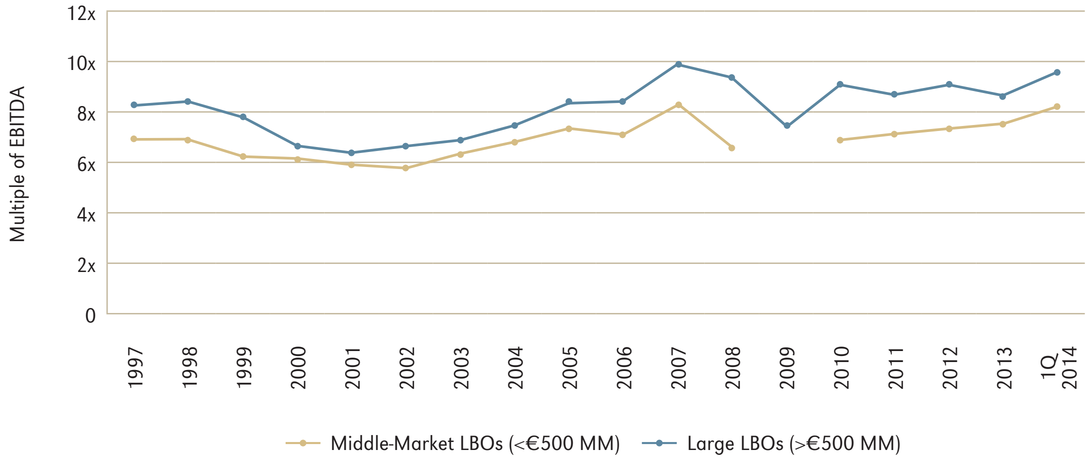
- The current high purchase price multiples offer an excellent opportunity to exit investments — especially for portfolio companies purchased before 2006 or during the 2009 trough — but makes it more difficult to purchase new companies at attractive prices.

Chart VIII Average U.S. LBO Purchase Price/Adjusted EBITDA Multiples



Source: Standard & Poor's LCD
Note: For middle-market LBOs, data from 2009 not statistically significant

Chart IX Average European LBO Purchase Price/Adjusted EBITDA Multiples



Source: Standard & Poor's LCD
Note: For middle-market LBOs, data from 2009 not statistically significant

Buyout Loan Volumes

- U.S. loan volumes for sponsored transactions continued to rebound strongly in 2013 in the large buyout market, actually exceeding the 2007 level (Chart X).

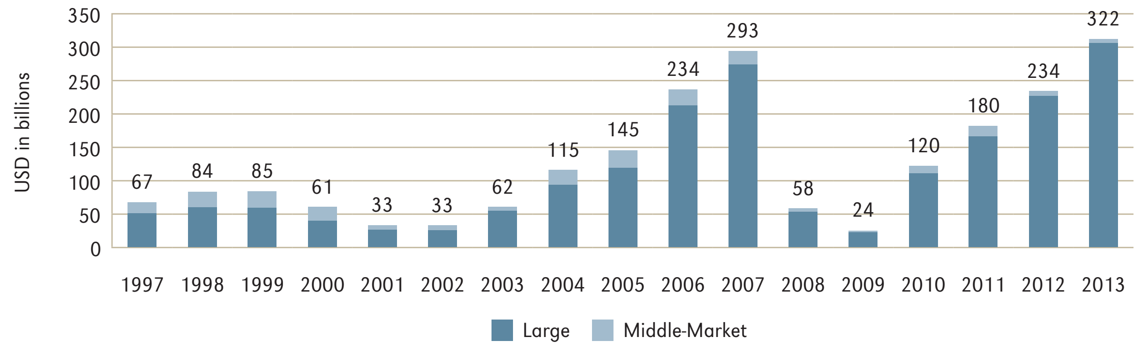
- Since 2010 much of the loan issuance was used to refinance loans used to buy companies during the market peak. Even in 2013, as deal volumes increased, 41% of the loan volume was used to refinance old deals while another 16% was used for dividend recaps (Chart XI). Only 25% of loans issued in 2013 were used to finance new leveraged buyouts, with another 9% used to finance add-on acquisitions made by portfolio companies.

- Over the last 18 months, investors hungry for yield have demonstrated increased willingness to take on "covenant-lite" structures in volumes not seen since the market peak.

- European loan activity rose in 2013 (Chart XII) but did not begin to approach pre-crisis levels. The Eurozone continued its slow economic recovery with many European banks still under stress — a scenario that led to the creation of a number of private funds that provide senior debt in support of buyouts or other corporate activity.

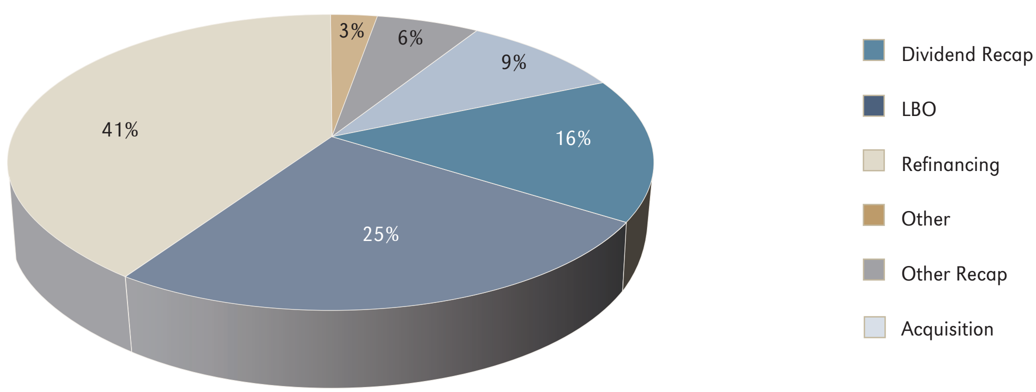
- The high-yield bond markets (not detailed in a chart here) have followed a very similar pattern to U.S.-sponsored loans, including a focus over the last four years on refinancing old debt.

Chart X U.S. Leveraged Sponsored Loan Volume



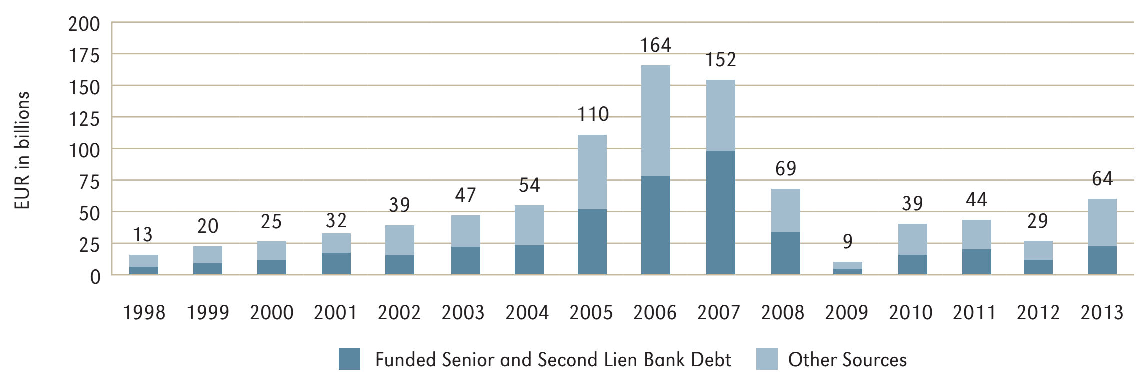
Source: Standard & Poor's LCD

Chart XI U.S. Leveraged Sponsored Loans by Purpose, 2013



Source: Standard & Poor's LCD

Chart XII European Buyout Loan Volume



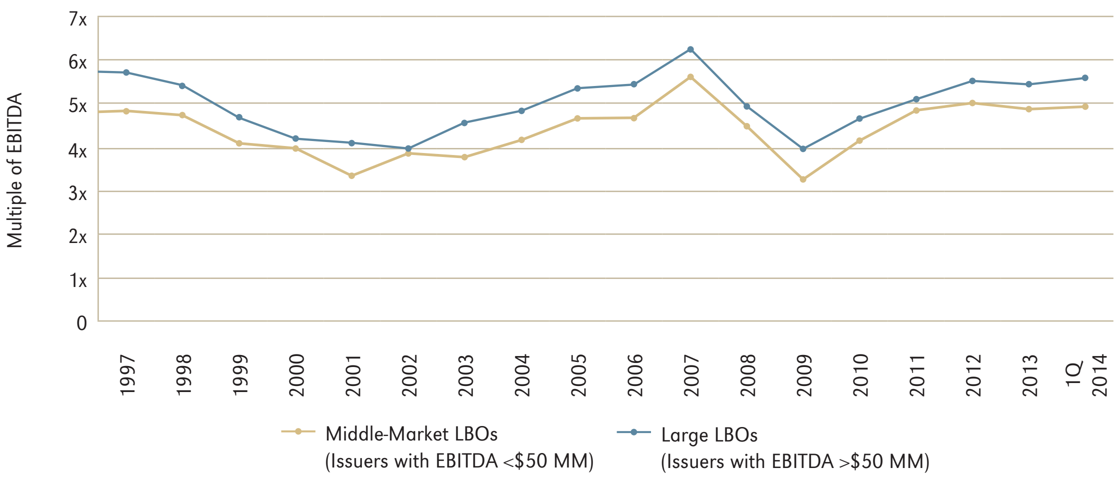
Source: Standard & Poor's LCD
Note: Reflects total sources of funding of initial and secondary buyouts by a private equity firm — excludes recaps, refinancing, etc.

Debt Multiples

- Debt multiples in the United States and Europe have rebounded since the market low in 2009 (Charts XIII and XIV), but banks remain more conservative in loan underwriting than they were at the market peak, requiring higher levels of equity in transactions. Debt multiples tick up in the first quarter of 2014 both in the United States and Europe.

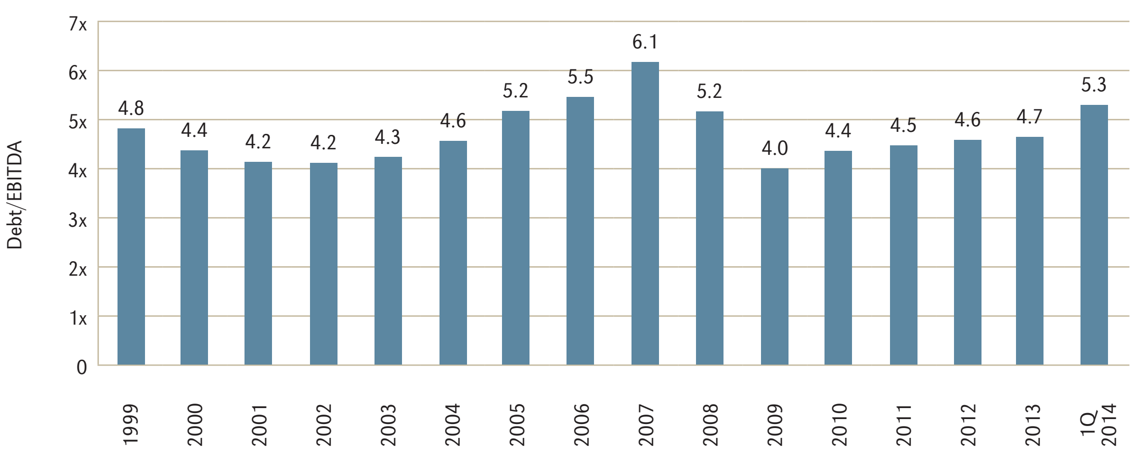
- The CLO markets that allowed banks to shrink balance sheet exposure by securitizing loans collapsed in 2008 and only began to rebound significantly in 2012. By year-end 2013, CLOs were already close to pre-crisis peak levels.

Chart XIII Average Debt Multiples of U.S. Corporate LBO Loans



Source: Standard & Poor's LCD

Chart XIV Average Debt Multiples of European Corporate LBO Loans



Source: Standard & Poor's LCD

U.S. Venture Capital

The U.S. venture capital market remains the largest, deepest, and longest-lived sector for venture investing, and consequently sets the patterns for much of this market globally.

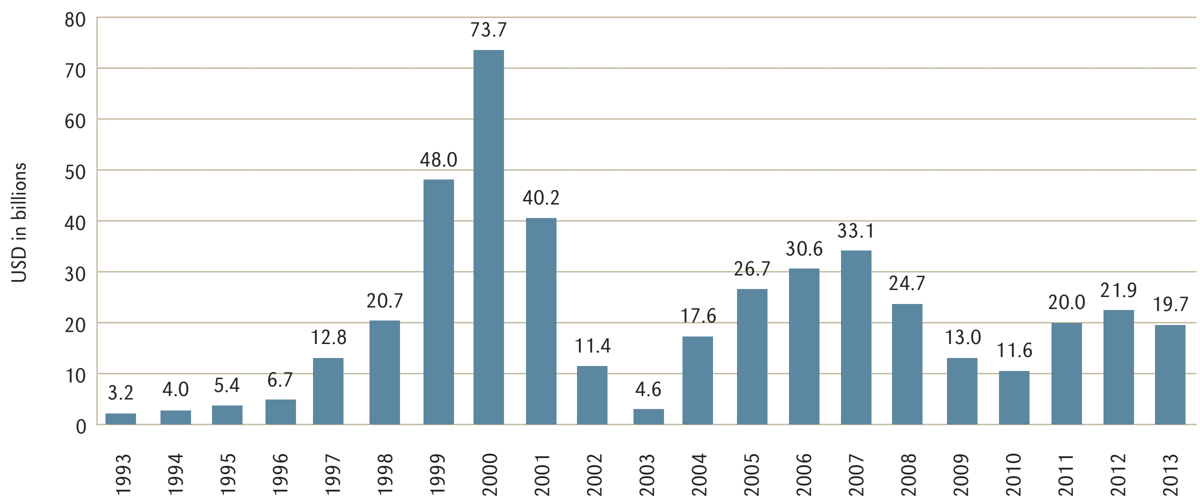
- Venture fundraising remained flat from 2011 and 2012 levels (Chart XV), a period during which buyout fundraising significantly rebounded.

- 10-year horizon U.S. venture returns (detailed in Table I) are beginning to claw their way back from a weak decade of returns, decimated by the bursting of the Internet Bubble in 2000 and punctuated by negative 10-year horizon returns in 2010.

- Probitas Partners' recent private equity survey highlights investor interest in venture capital sectors going into 2014 (Chart XVI). Notable is the lack of interest in pure cleantech funds, as well as 44% of respondents who say they do not invest in venture capital, the highest level in the history of our surveys.

- Though a number of limited partners have given up on venture capital, other investors are hoping that reduced interest will result in less capital and therefore reduced competition for deals, resulting in more attractive pricing and increased returns.

Chart XV Commitments to U.S. Venture Capital



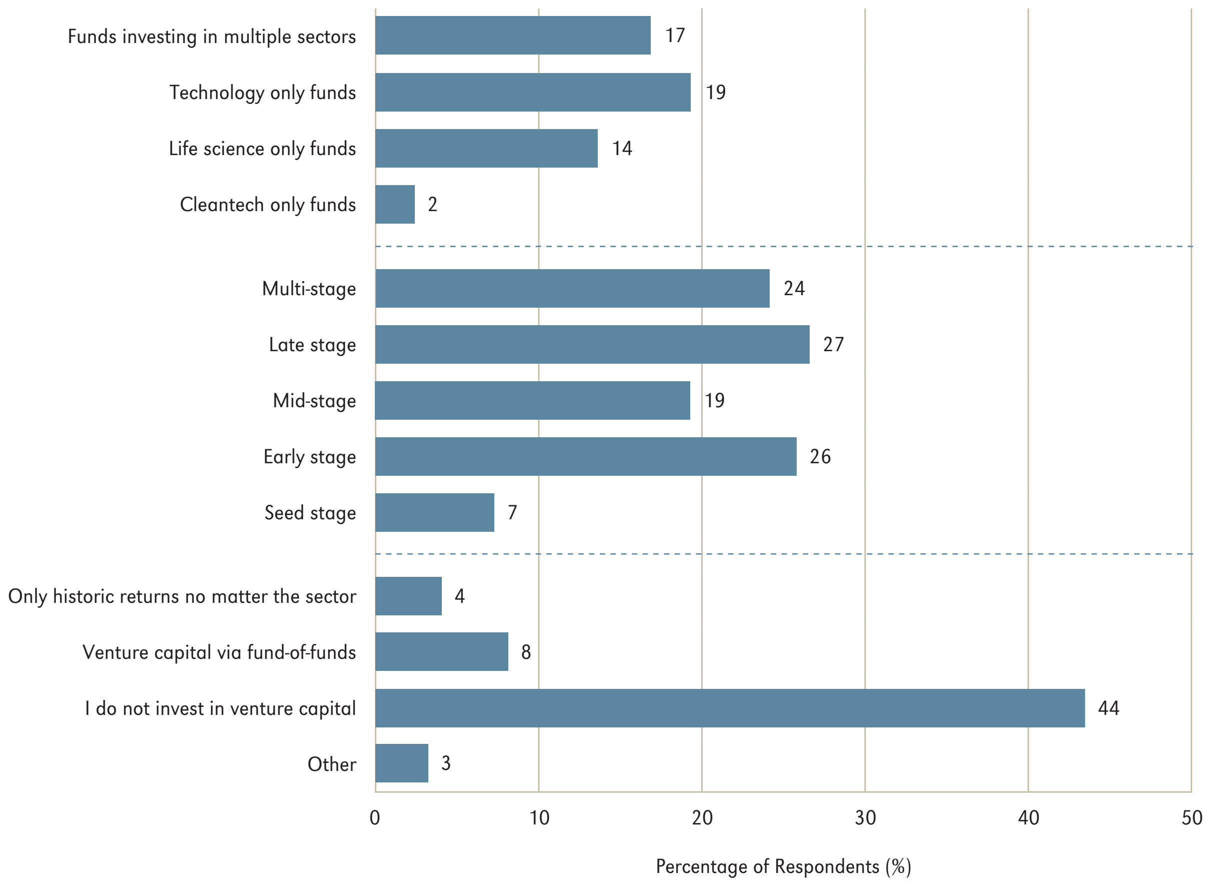
Source: Private Equity Analyst

Table I U.S. Venture Capital Index Returns

For the Period Ending	Quarter	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year
June 30, 2013	4.3	8.9	13.5	5.7	7.8	22.8	30.1
June 30, 2012	0.6	6.0	12.7	4.9	5.3	27.5	27.9
June 30, 2011	7.0	26.3	4.3	7.4	1.3	30.9	27.4
June 30, 2010	0.4	6.4	-2.7	4.4	-4.2	38.1	24.3
June 20, 2009	0.2	-17.1	1.3	5.7	14.3	36.3	22.7

Source: NVCA, Cambridge Associates

Chart XVI Most Attractive Venture Capital Sectors
In venture capital, I focus on funds active in the following sectors or stages (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

Distressed Private Equity

Investor activity in distressed private equity tends to be cyclical, surging as recessions roll through different economies or industry sectors and then receding to more normal baseline levels. The Global Financial Crisis and its long aftermath have been anything but normal in the following ways:

- The risks presented by the Global Financial Crisis were so intense that governments worldwide pumped unprecedented levels of liquidity into the system; an action that spurred on more refinancings than bankruptcies.

- Correlations across different geographies and asset types seemed to converge in late 2008 and early 2009, reducing the benefits of diversification.

- Banking regulators globally eased pressure on banks' distressed loan portfolios in the face of the Global Financial Crisis, granting them more leeway to "kick the can down the road" or "amend, extend and pretend" rather than deal proactively with troubled assets.

- As a result, the "wall of debt maturities" frequently discussed has been continually pushed back by ongoing waves of government created liquidity.

- To date, the "100-year flood" of distressed opportunities broadly anticipated in 2008 has become a more protracted affair, even as the Eurozone has slipped into a second recession.

Where Do We Stand Now?

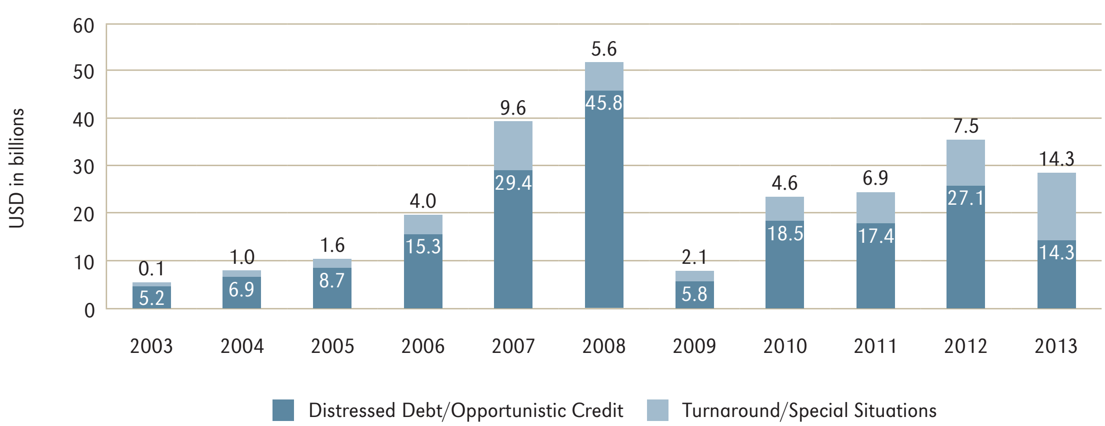
- 2013 was a strong year for turnaround/special situations fundraising (Chart XVII), driven by interest in large special situations funds.

- The largest funds tend to have global mandates (Charts XVIII and XIX), with the ability to shift resources depending upon where opportunities present themselves — though effective execution of global strategies does require a local presence.

- Many funds in the distressed sector run hybrid strategies that combine various skill sets to address different sectors. Going into 2014, investors seeking exposure in "pure play" distressed strategies remained most focused on value-added approaches that can generate attractive multiples (Chart XX). Distressed debt for control strategies, though popular with investors, are becoming more difficult to execute as increased competition makes it more difficult for fund managers to build positions that will give them a controlling stake in a company.

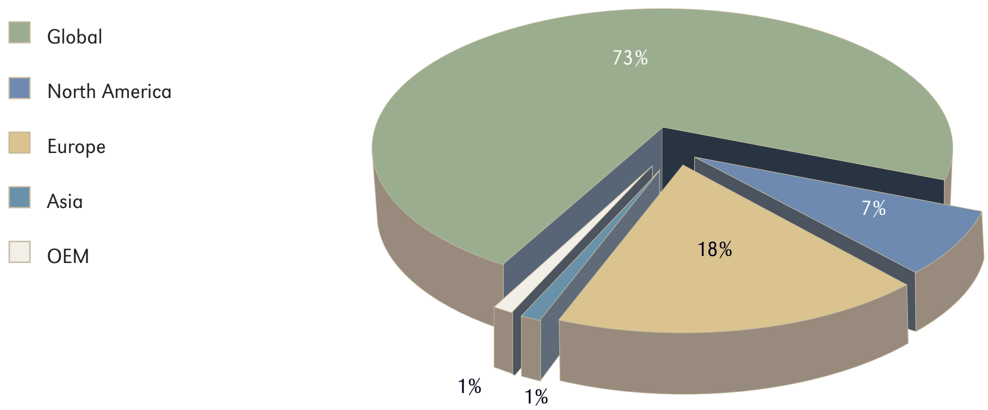
- Opportunities for distressed investing do not march in lock step globally or in different market sectors. Many investors feel that the phased implementation of Basel III over the next couple of years will result in increased asset sales from European banks. Others wonder whether the pattern of strongly increasing high-yield bond issuance (Chart XXI provides the U.S. example) will result in a sharp increase in default rates from their current low levels in the event of any economic weakness.

Chart XVII Global Distressed Private Equity Fundraising



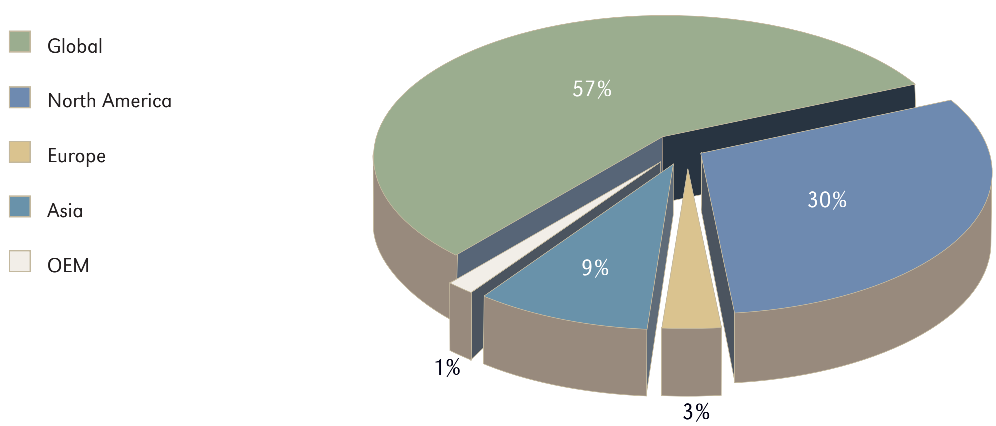
Source: Probitas Partners

Chart XVIII Capital Raised for Distressed Debt/Opportunistic Credit Funds, 2013 by Geography *(In terms of USD raised)*



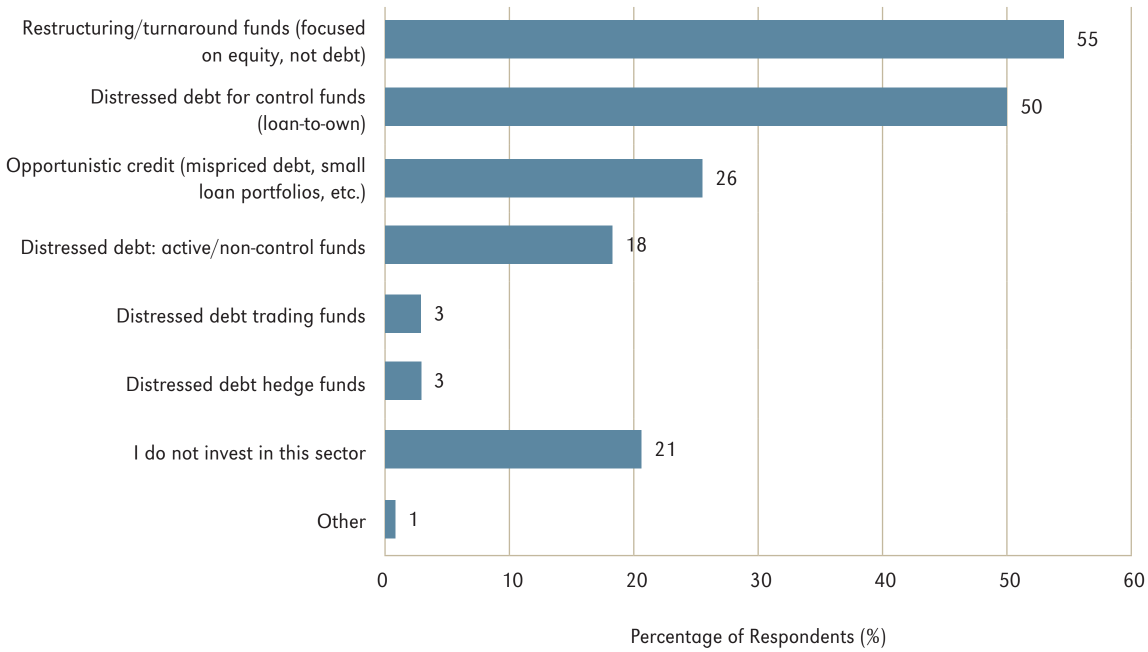
Source: Probitas Partners, PREQIN, Private Equity Analyst

Chart XIX Capital Raised for Turnaround/Special Situation Funds, 2013 by Geography *(In terms of USD raised)*



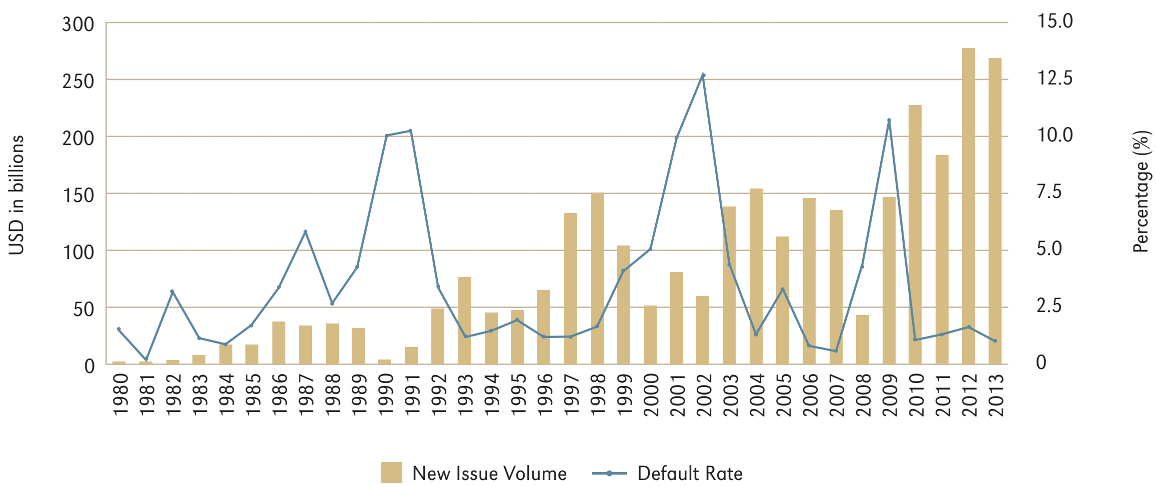
Source: Probitas Partners, PREQIN, Private Equity Analyst

Chart XX Distressed Investments
Within the distressed debt/restructuring sector, I am most interested in (choose no more than two):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

Chart XXI U.S. High-Yield Bond Issuance and Annual Default Rates: 1980–2013



Source: NYU Stern School

Asia: Continued Worries over China

"Fundraising for Asia-focused funds continued to decline in 2013"

Asia is distinctively split between the developed economies of Australia, Japan, and South Korea and the emerging markets of China, India, and Southeast Asia. In the emerging markets, growth capital — not control buyouts — continues to drive overall activity.

- As noted in Chart III of the opening section, fundraising for Asia-focused funds continued to decline in 2013, totaling 45% less than 2011 levels.
- There was a marked shift in geographic focus between 2011 and 2013 (Charts XXII and XXIII) from Greater China funds to Pan-Asian funds, driven in part by the final closing of KKR Asia II, the largest Asia-focused fund raised to date. This also resulted in a shift in the most popular Asian fund strategy from growth capital to buyouts in 2013 (Chart XXIV), though that change may reverse itself.
- Fundraising for China's funds denominated in both U.S. dollars and RMB continued to decline due to concerns over slowing economic growth and the closing of the local IPO market during 2013 (Chart XXV) with fundraising dropping by 31% from 2012 and by over two-thirds since its 2011 peak.
- Even with these declines, China is still the primary focus for investors targeting Asia, though the gap between it and other geographies has shrunken noticeably (Chart XXVI). Interest in Southeast Asia and Australia remains strong, while interest in Japan has increased as part of a first blush reaction to Abenomics. Interest in Indonesia has decreased while investors in India and Vietnam continue to be cautious as they await returns from investments previously made there.

Chart XXII Asian Fund Commitments by Geography, 2011

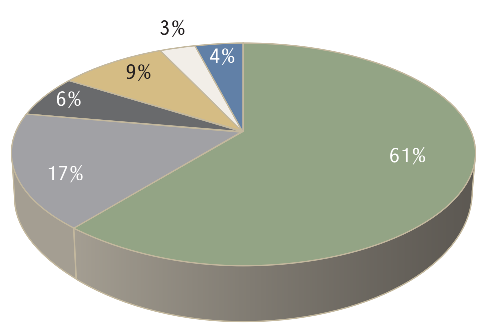
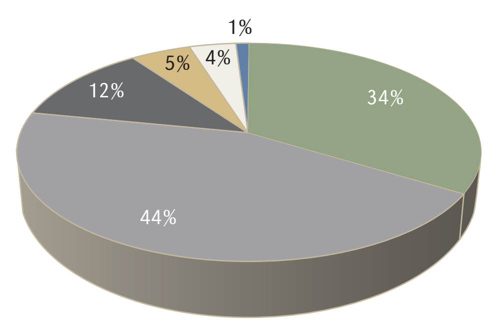


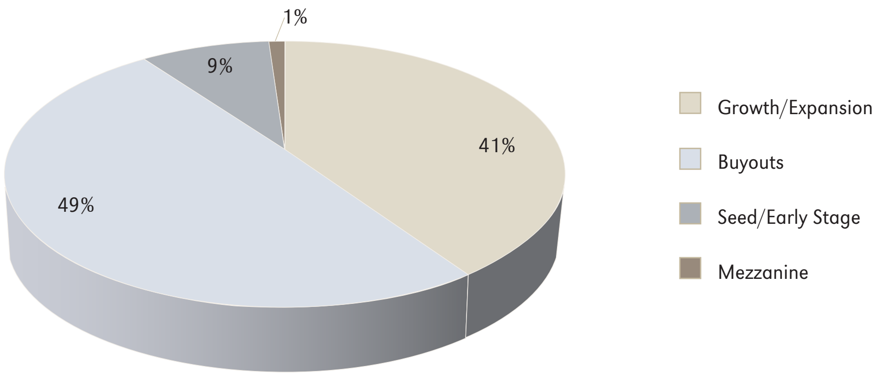
Chart XXIII Asian Fund Commitments by Geography, 2013



Greater China | Pan-Asia | Japan & South Korea | South Asia | South East Asia | Australasia

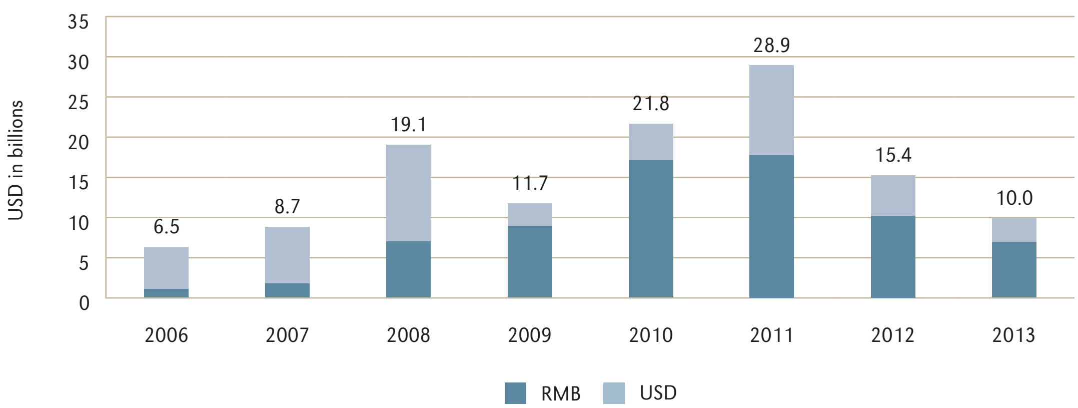
Source: Asian Private Equity Research

Chart XXIV Fund Strategies for Asia-Focused Funds, 2013



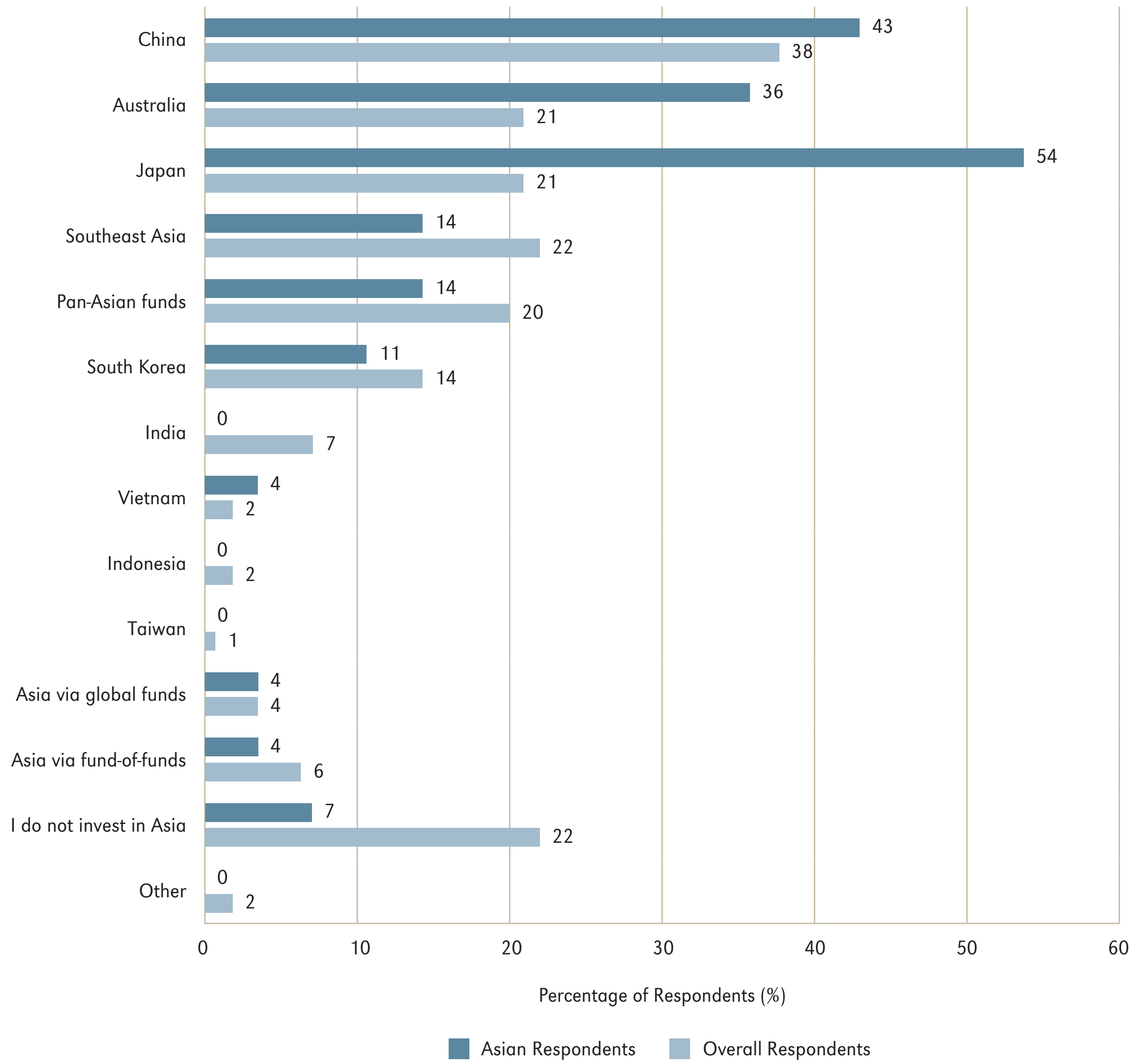
Source: Asia Private Equity Research

Chart XXV Commitments to China-Focused Funds by Fund Denomination



Source: Asia Private Equity Research

Chart XXVI Most Attractive Asian Markets; Asian Respondents vs. Overall Respondents
Which Asian markets do you find most attractive at the moment (choose no more than three):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

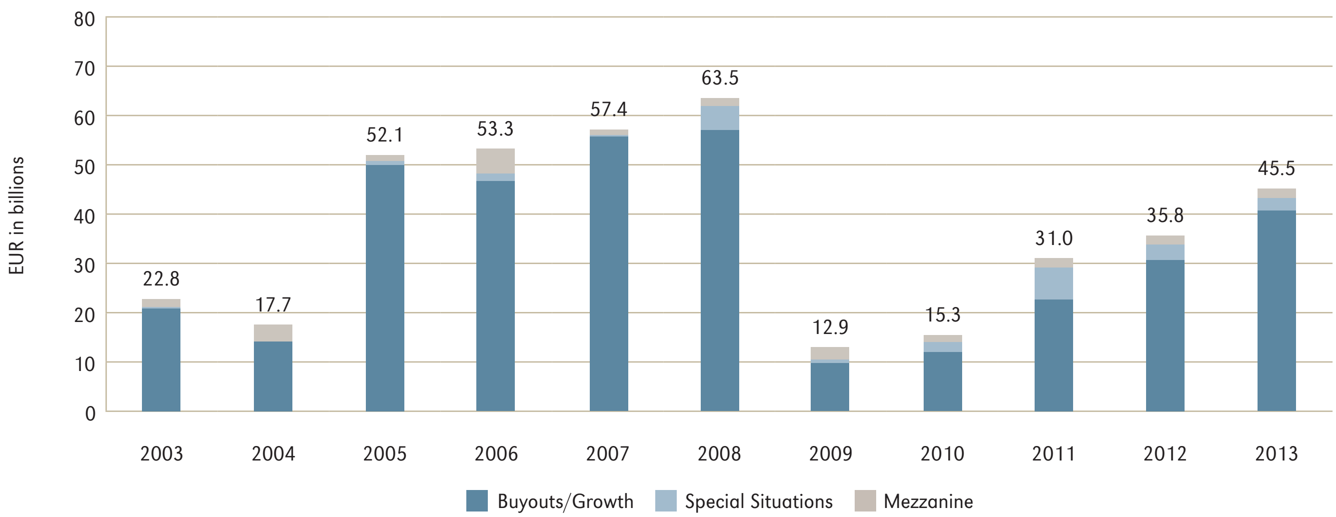
Europe Rebounds

Europe is the most developed private equity market with the longest history after the United States and is dominated by buyout funds. It is also a market under lingering pressure from a slower recovery after the Global Financial Crisis but is finally beginning to rebound.

- Corporate finance fundraising increased 27% in 2013 driven by strength in the buyout sector (Chart XXVII) as many large, established fund managers came back to market.

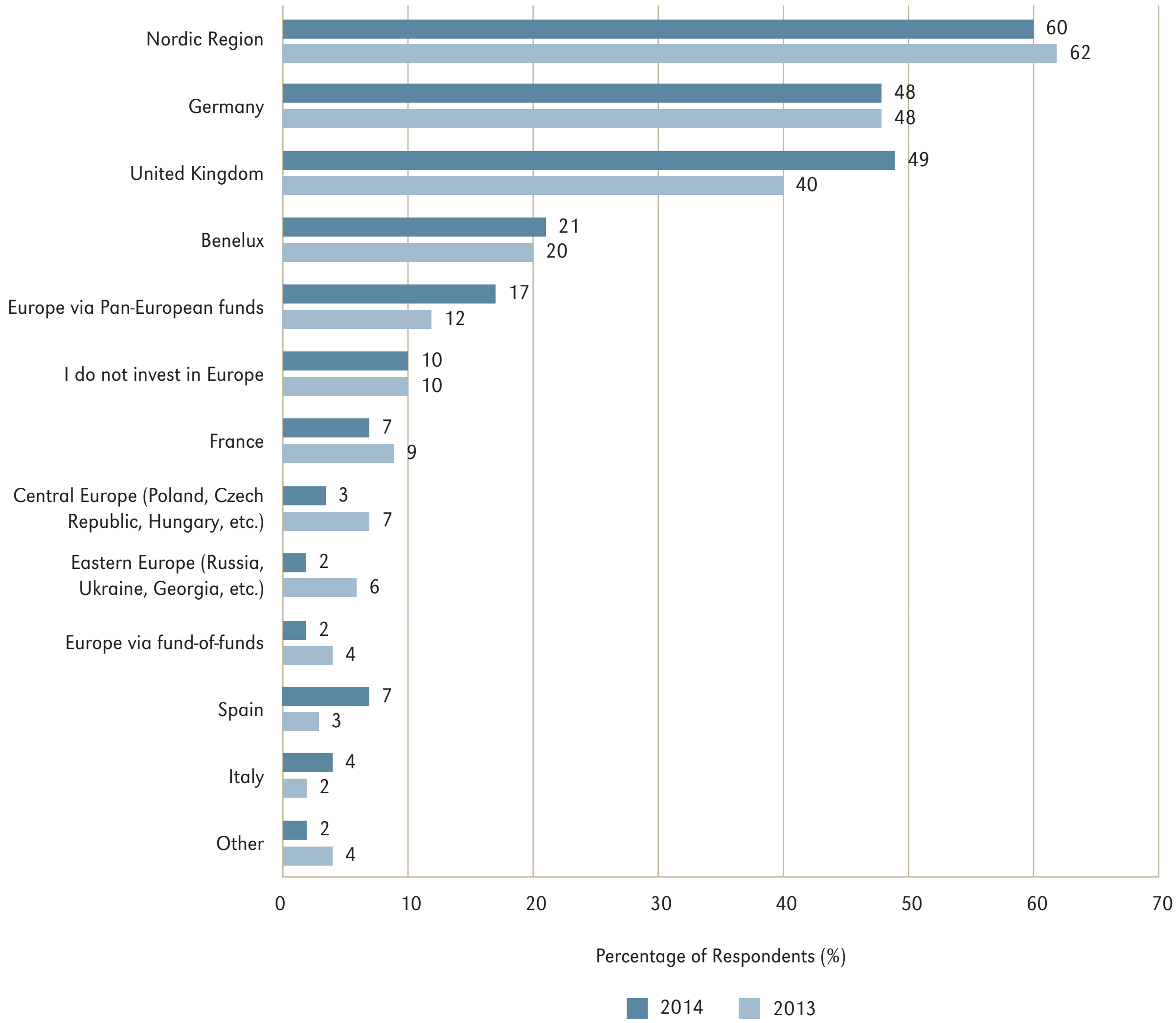
- Looking forward, our survey indicated strong interest in middle-market country-focused funds, especially those targeting the stronger economies of Northern Europe (Chart XVIII). Interest in Central and Eastern Europe was notably weak even before the major dispute between Russia and Ukraine.

Chart XXVII Commitments to European Corporate Finance Funds by Sector



Source: Probitas Partners

Chart XXVIII Most Attractive European Markets
For European country/regionally-focused funds, I find the most attractive markets to be (choose no more than three):

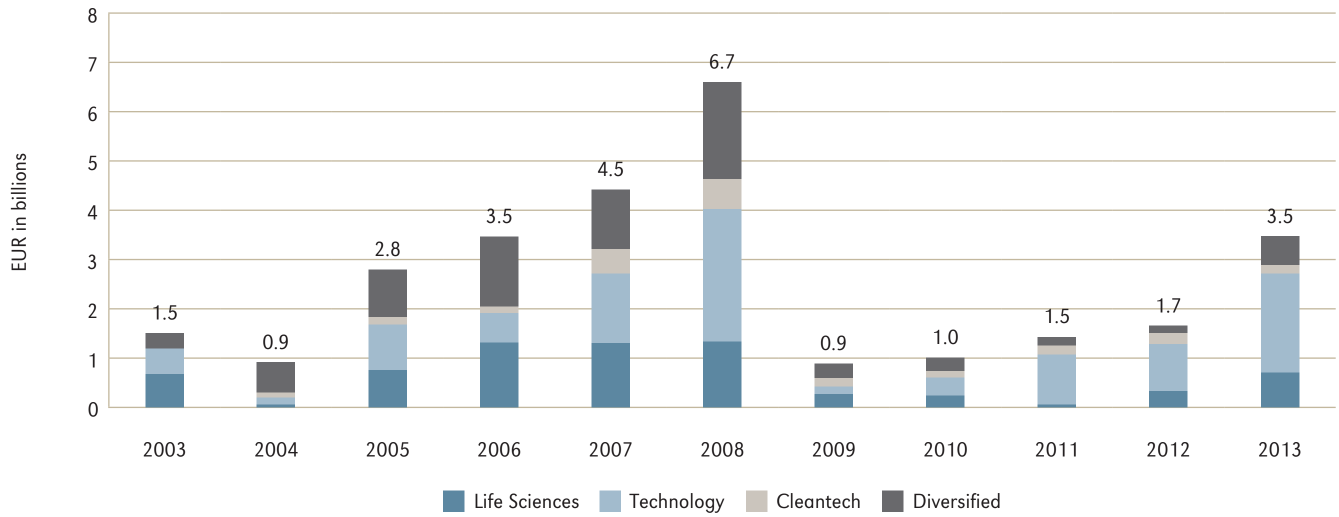


Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

- Investors were most interested in European venture funds that focused on technology (Chart XXIX), but even after 2013's increased fundraising level, it remains very much a niche. The best European fund managers continue to struggle to achieve comparable returns to top tier U.S. managers.

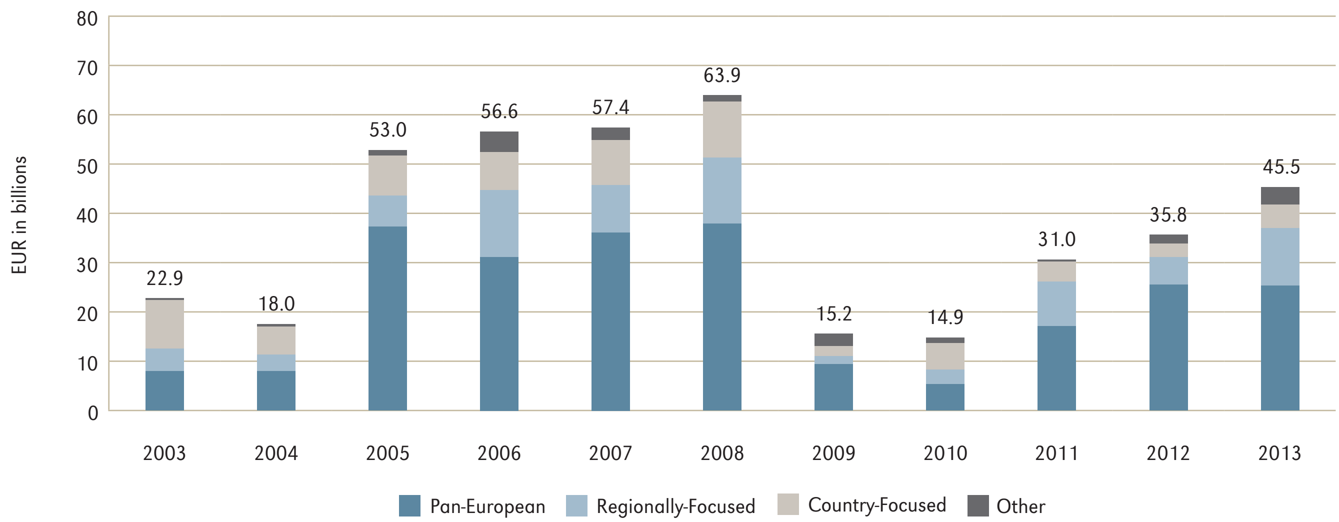
- Pan-European funds dominated overall fundraising totals (Chart XXX) as they tend to be larger vehicles, but regional and country-focused funds led the increase in commitments.

Chart XXIX Commitments to European Venture Capital Partnerships



Source: Probitas Partners

Chart XXX Commitments to European Corporate Finance Funds by Geography



Source: Probitas Partners
Note: "Other" includes commitments to funds with a geographic focus on Russia, Cyprus, Greece, and Turkey

Emerging Markets

Private equity fundraising for emerging markets was strong in the immediate aftermath of the Global Financial Crisis as economic growth in China bolstered its home market as well as a number of emerging market commodity exporters. That strength has weakened over the last couple of years as China's economy has slowed and the developed markets have strengthened.

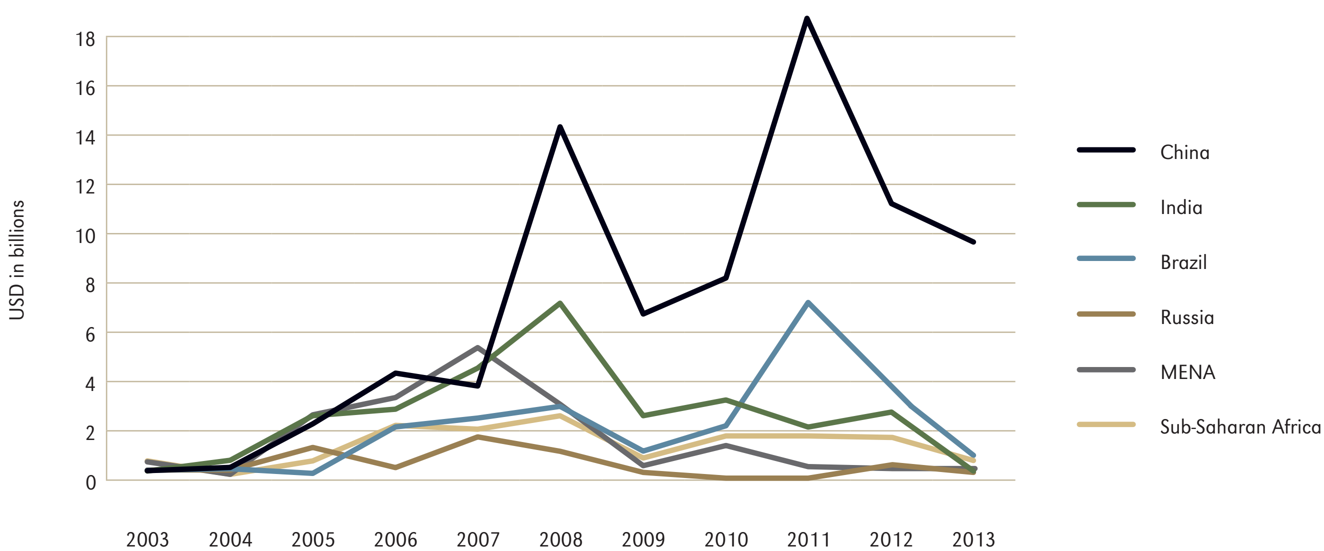
- Fundraising in China and Brazil has been extremely volatile over the last five years (Chart XXXI). Year 2013 was a down market in both countries because of economic concerns and stresses reflected in their public stock markets — and, in China, by the continued shutdown of the IPO market.

- India, another key BRIC private equity market, remained in a prolonged slump. Many investors committed heavily to Indian-focused funds in 2007 and 2008, but remain frustrated by a lack of exits and are reluctant to recommit. MENA funds have also been in a slump due to lackluster returns and increased political risk in North Africa and the Middle East.

- Russia has been the weakest of the BRICs in attracting private equity due to continued concern over effective property rights. In 2014, the turbulence between Russia and Ukraine is likely to further mute investor interest.

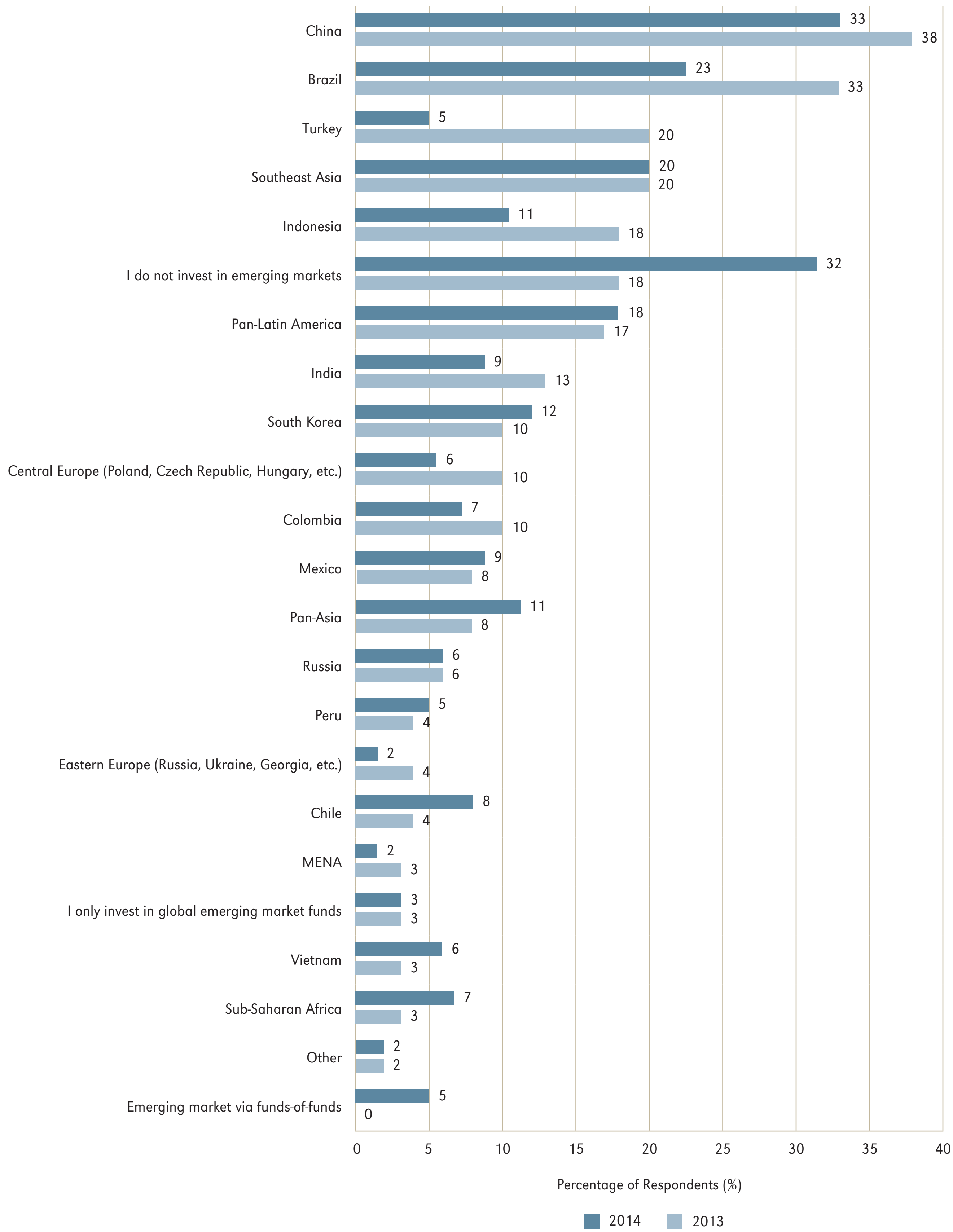
- Prospectively, we see continued moderation in China interest, with an even more marked decline in interest in Brazil, Turkey, and Indonesia (Chart XXXII). Notably, the number of survey respondents who declared that they were not investing in emerging markets nearly doubled, from 18% to 32%.

Chart XXXI Private Equity Capital Raised for Select Emerging Markets



Source: EMPEA

Chart XXXII Most Attractive Emerging Markets
Which emerging markets do you find most attractive (choose no more than four):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

Private Equity Credit Markets

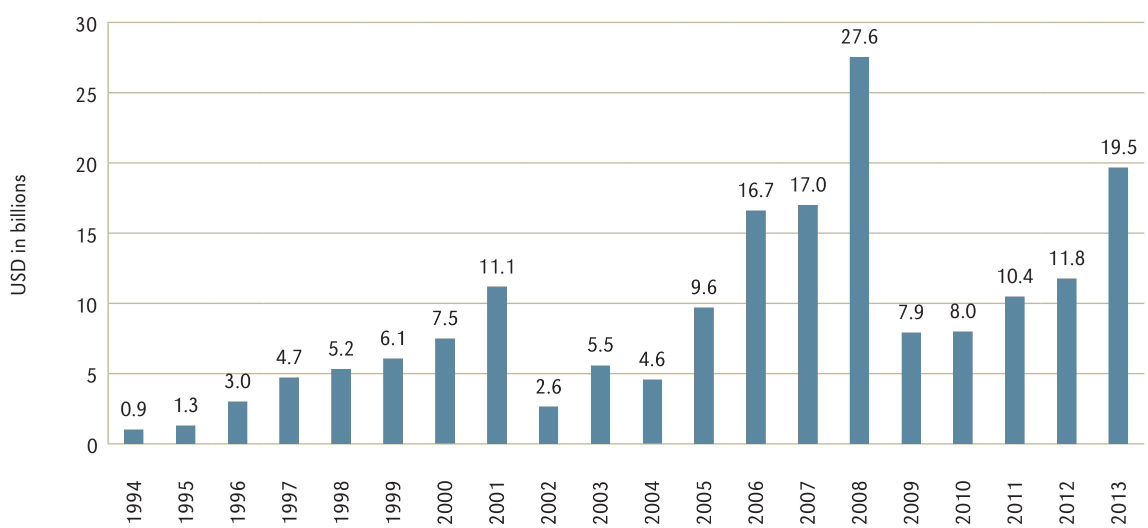
Private equity credit markets are going through a period of turmoil that is creating new opportunities. In response to stresses at banks in North America and especially Europe, a number of new vehicles have been launched targeting senior credit — some in private equity format, others in hedge fund or publicly listed formats. As a result, the information below does not comprehensively cover all the activity in the sector as it focuses on privately structured vehicles.

- The mezzanine debt sector has the longest history in private funds, and most of the fundraising activity in Chart XXXIII before 2009 is strictly for these funds. Since then, we have tried to track private credit funds as well, though that process is more difficult. 2013's fundraising number is a post-crisis high, though it is a conservative estimate.

- Going into 2014, private equity investors in search of yield were focused on options outside of mezzanine, the traditional private equity credit sector (Chart XXXIV). A number of investors targeting opportunistic credit did so out of distressed private equity allocations instead of credit allocations. (Probitas Partners tracks opportunistic credit fundraising as part of the distressed private equity totals.)

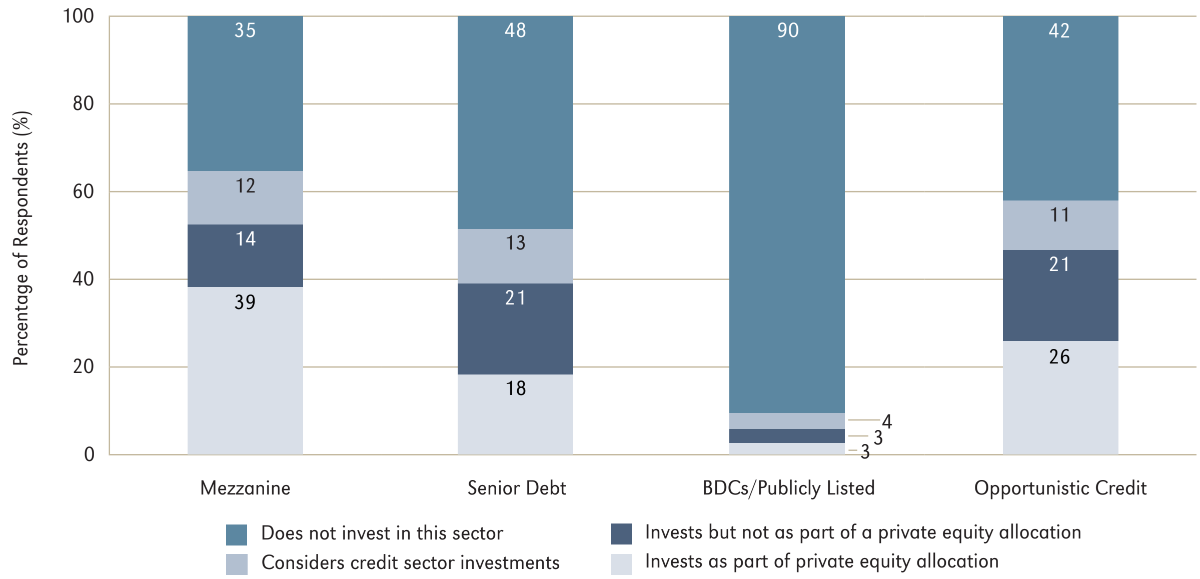
"A number of new vehicles have been launched targeting senior credit"

Chart XXXIII Global Mezzanine and Credit Fundraising



Source: Probitas Partners

Chart XXXIV Credit
In the credit sector, my firm:



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

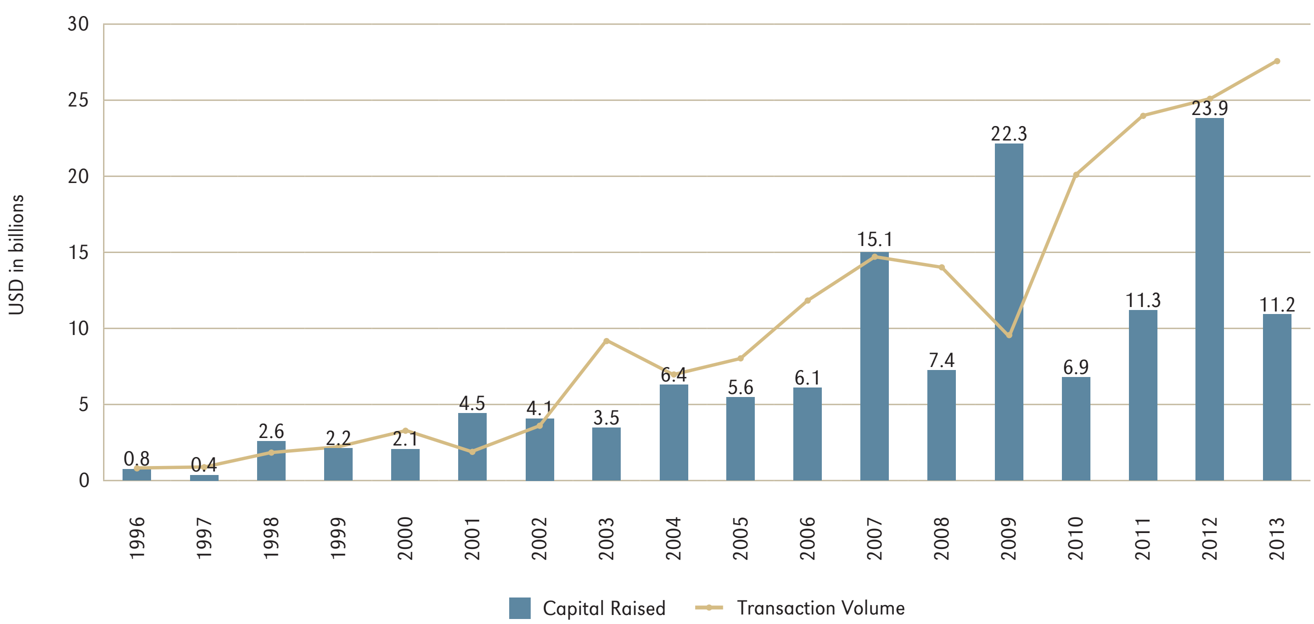
The Secondary Market

- Fundraising fell significantly in 2013 from its all-time high in 2012 (Chart XXXV), though that decline was due more to the timing of a few large funds coming to market rather than a sharp fall in investor interest. Indeed, even as fundraising fell, transaction volume hit a new high during the year.

- Annual fundraising totals for secondary fund specialists over the last seven years have been highly volatile, driven at least as much by the timing of fund raises for large funds that dominate the sector as it has been by changing investor demand.

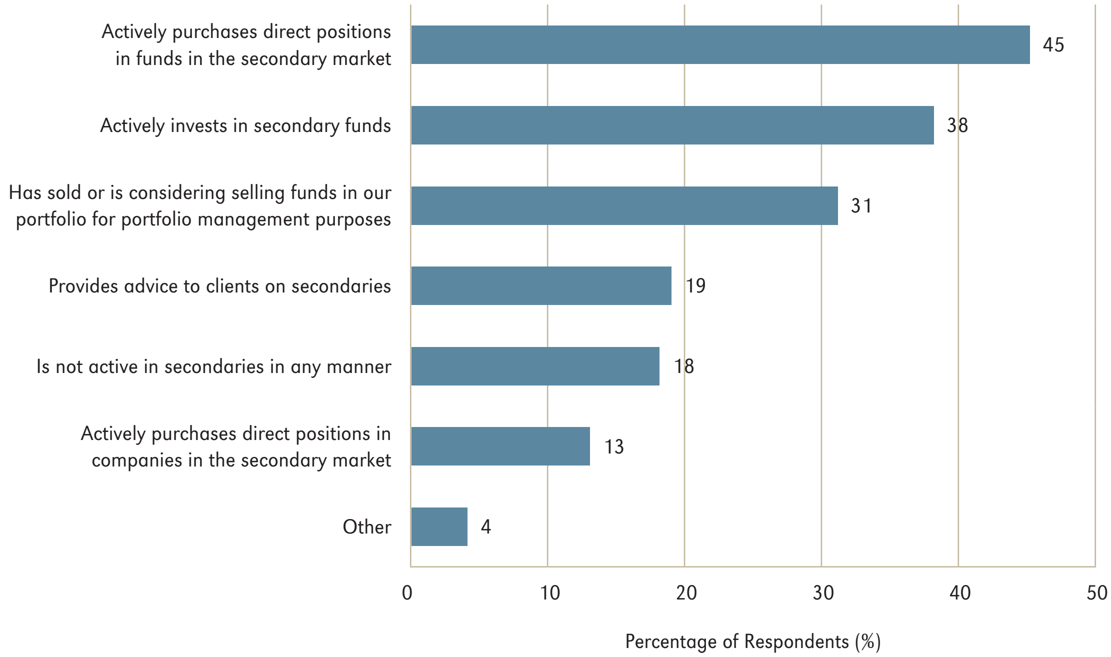
- Large, sophisticated investors are increasingly buying positions directly instead of investing through specialized secondary funds (Chart XXXVI); when combined with amounts targeting secondaries through primary funds-of-funds, the amount of capital focused on secondaries in Chart XXXV is understated, perhaps substantially.

Chart XXXV Secondary Market Transaction Volume and Capital Raised by Secondary Fund Specialists



Source: Probitas Partners

Chart XXXVI Secondary Market Investments
In the secondary market, my firm (choose all that apply):



Source: Probitas Partners' Private Equity Institutional Investor Trends for 2014 Survey

Real Assets

Real assets are a relatively new area of private equity investing separate from the real estate and infrastructure sectors with few funds in the sector having long track records, and consequently, trend line analysis having very little meaning. The sector has developed impetus from sovereign wealth funds and public sector pension plans with long-term perspectives that are interested in assets that can act as inflation hedges while providing downside protection through investments in hard assets. In addition, there are a number of opportunistic strategies developing in certain sectors that focused on allied sectors — such as food processing, storage or logistics — that do not directly invest in commodities, in the same way that many buyout funds have invested in midstream energy companies for years.

The sub-sectors of real assets include the following:

- ***Agriculture:*** The newest sector with many first-time funds. The major focus is on producing farm or pastureland, though a number of funds will also invest in allied logistical areas such as grain silos.

- ***Metals and Mining:*** Another newer area, though there are very few managers who have been active since the 1990s. As with agriculture, a few funds also invest in allied logistical areas.

- ***Oil and Gas:*** Though there are a number of private equity and infrastructure funds that invest broadly in energy, usually in midstream transactions, relatively few institutional funds invest solely in oil and gas exploration and production, the focus of this sector.

- ***Timber:*** Timber investing has the longest institutional investing history among real assets, though more of that investment has been made through separate accounts instead of through funds.

- ***Shipping and Aviation Assets:*** A few investors consider the purchase of ships or aircraft real assets, though there are very few funds in this sector. Though the underlying assets are certainly physical, they are not commodities. These markets are very cyclical and certain fund managers are focused on this sector through distressed private equity funds and not from real asset platforms.

"[Real Assets have] developed impetus from sovereign wealth funds and public sector pension plans with long-term perspectives"

Very few institutional investors have dedicated allocations to real assets. Depending on the individual fund strategy, they may invest through their private equity allocation or through inflation-linked or special situations mandates that have a broad investing remit. Many funds in the sector also have significant emerging markets exposure, reflecting the geographic location of assets with strong competitive advantage.

As always, we would be happy to provide you with more details on any of the information contained in this piece, or otherwise assist you in your investment or fundraising endeavors. Please reach out to our team via the contacts presented on the back cover of this paper.

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