

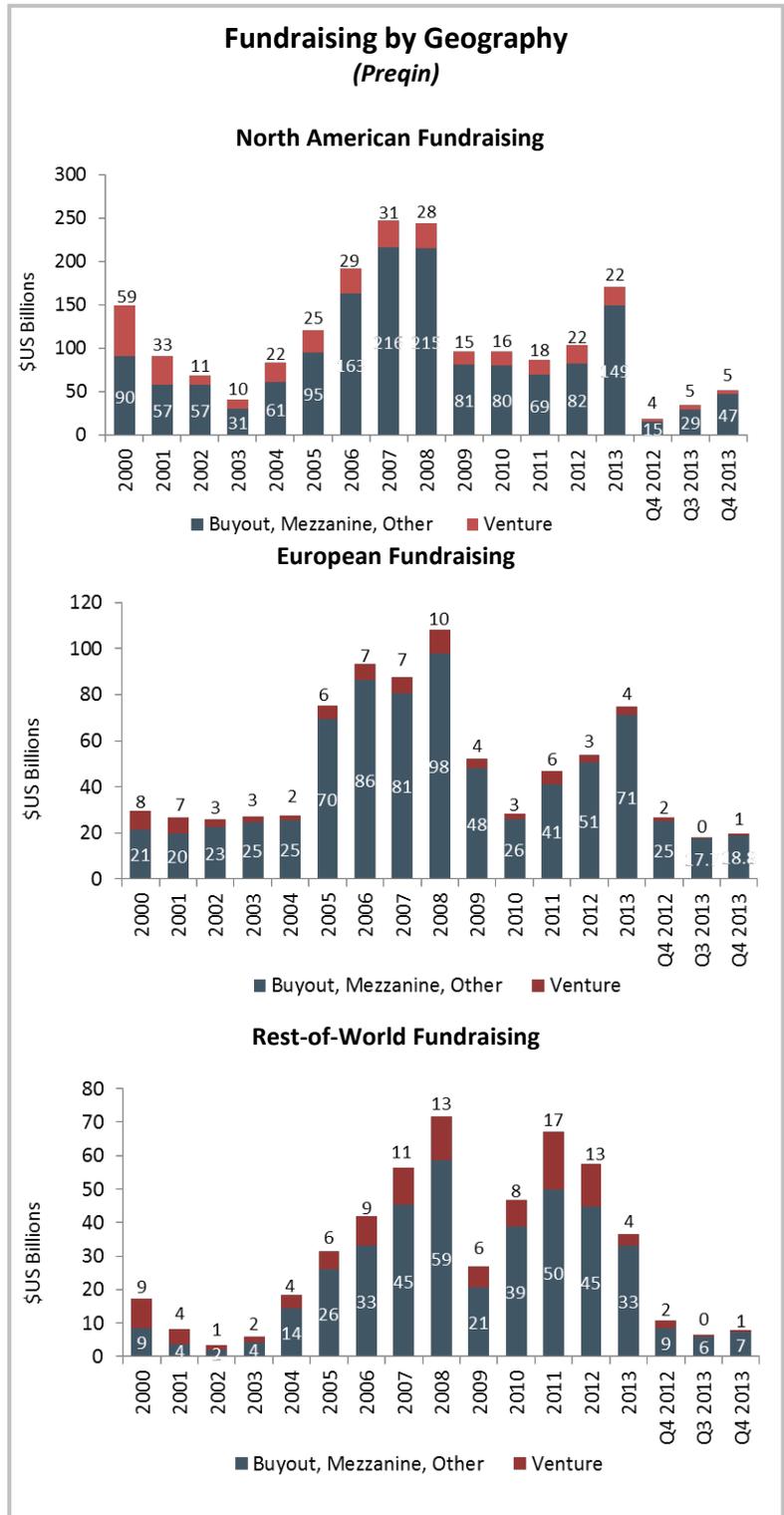
PRIVATE EQUITY | 4Q 2013 MARKET UPDATE

North American fundraising finished 2013 with a bang. The 4th quarter haul was up 52% quarter-over-quarter and 170% year-over-year. We continue to see evidence of strong fundraising support for several high-profile firms and in many cases LPs find themselves negotiating for allocation. The support cut across fund size, geography and strategy. Large cap names like Silver Lake, Apollo and CVC Europe and smaller names like Vista Foundation, Marlin and One Rock all hit and exceeded hard-caps.

While total fundraising was up, the strength in particular GPs is likely driven by a trend toward more concentrated LP commitments. Many large institutional investors have publicly announced a shift in strategy to reduce the number of GP relationships and put more money behind certain GPs.

The only notable weakness in fundraising continues to come out of Asia and other emerging markets. 2013 was the second straight double-digit decline in fundraising. Several notable managers fell short of their fundraising target and it wasn't unusual to see funds raise 40-75% of their intended target. There were a few exceptions including L Capital and KKR Asia which hit or exceeded their target. Fundraising is likely to pick up in 2014 with several higher profile managers beginning their fundraising process including Baring Asia, CDH, Hopu, and Abraaj... and Carlyle which has six different emerging market funds in market today.

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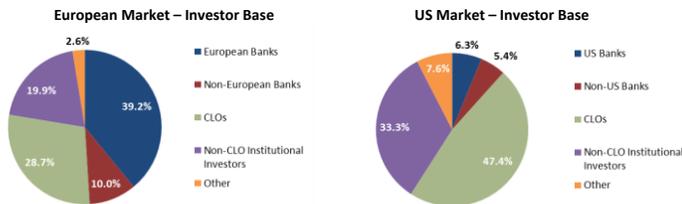
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Featured Note: A Comparison of the US and European Leveraged Loan Markets

The US and European leveraged loan markets have both seen strong recent activity, as investors continue to seek alternative methods for achieving higher returns. European companies have a more urgent near-term refinancing need than their US counterparts. Due to the lack of non-CLO institutional investors in Europe, this is an opportunity for US investors to allocate capital to a less-crowded market. Given the high correlation of returns between the two markets, investors should not view European credit as a way to diversify return streams. However, based on the current market dynamics in Europe, investors may find opportunities to diversify manager risk or earn a higher gross return in Europe compared to the US.

Market Makeup

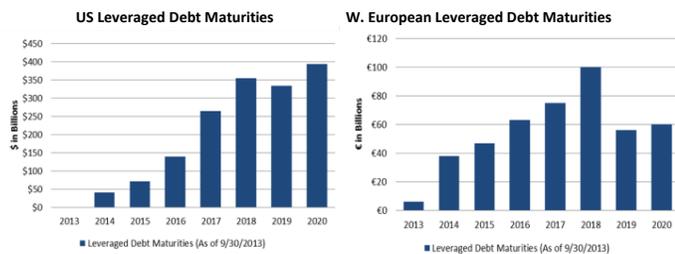
Europe has historically been a bank-driven market. However, due to regulatory constraints and active deleveraging, European banks have significantly reduced their market share. Europe's second largest debt investors, CLOs, have also scaled down as they face more stringent capital requirements and work to re-engage investor demand that was lost due to the global financial crisis. Meanwhile, the US CLO market has recovered somewhat since the crisis and is now the largest source of demand for US leveraged debt. US banks continue to hold a very small share of the local debt market, replaced by institutional investors such as pension funds and private equity funds.



Source: S&P LCD

Debt Maturities

Both the US and Europe have a significant amount of debt that will need to be paid off or refinanced during the next five years. The US and Western European markets have \$1.6 trillion and €439 billion, respectively, of leveraged debt that is scheduled to mature between 2014 and 2020.



Source: Credit Suisse (Includes high yield bonds and institutional leveraged loans)

US companies have been able to tap the readily available local debt market to “amend and extend” the bulk of these maturities. However, European companies (particularly those in the middle market) have not had this ability due to a less robust financing market. This has front-loaded European debt maturities and created a more urgent funding need than is present in the US.

Middle Market Competition

The middle market leveraged loan space is much more crowded in the US than it is in Europe. This has led to greater competition in the US, which has resulted in lower spreads for directly originated loans as well as higher prices in the secondary market. Part of the reason for the lack of competition in Europe is the large historical presence of European and non-European banks. As a whole, these two groups accounted for over 50% of the market until 2006 (this was as high as around 80% until 2004). Another reason has to do with the intra-continental approach typically taken by institutional investors in Europe – many investors cannot scale their models across multiple countries, nor can they navigate the region’s country-specific bankruptcy laws.

Correlation of Returns

One common reason that US investors allocate capital to European credit is because of the perceived diversification of returns. However, the 10-year correlation for the S&P Leveraged Loan Index and the S&P European Leveraged Loan Index is 0.87. This suggests a fairly weak diversification benefit for US investors. Nevertheless, European debt offers attractive gross returns and can still play a role for US investors in need of manager diversification.

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Performance
 (Preqin as of 6/30/2013)

Vintage Year	Internal Rate of Return						Total Value to Paid In Capital					
	Buyouts			Venture			Buyouts			Venture		
	Upper Quartile	Median	Lower Quartile	Upper Quartile	Median	Lower Quartile	Upper Quartile	Median	Lower Quartile	Upper Quartile	Median	Lower Quartile
2012	n/m	n/m	n/m	n/m	n/m	n/m	1.2x	1.0x	0.8x	1.0x	0.8x	0.8x
2011	n/a	n/a	n/a	n/a	n/a	n/a	1.2x	1.0x	0.8x	1.2x	1.1x	0.8x
2010	21.7	12.0	8.2	12.7	6.7	3.0	1.3x	1.2x	1.0x	1.3x	1.2x	1.0x
2009	19.7	11.9	5.4	25.7	8.6	-4.8	1.5x	1.3x	1.1x	1.7x	1.1x	0.9x
2008	18.0	9.7	5.1	20.2	12.0	3.7	1.5x	1.3x	1.1x	1.4x	1.2x	1.0x
2007	17.7	12.2	6.4	14.6	7.4	-2.3	1.5x	1.4x	1.2x	1.5x	1.2x	1.0x
2006	14.1	8.3	3.5	13.3	8.0	-5.7	1.7x	1.4x	1.2x	1.8x	1.4x	0.7x
2005	16.9	10.2	5.4	15.3	3.3	-5.6	1.8x	1.5x	1.2x	1.6x	1.1x	0.7x
2004	34.5	18.5	11.9	8.7	1.9	-1.4	2.3x	2.0x	1.7x	1.5x	1.1x	0.7x
2003	34.9	16.4	12.0	9.3	6.2	-0.8	2.6x	1.8x	1.2x	1.4x	1.2x	1.0x
2002	32.0	19.8	14.2	22.2	8.7	-7.8	2.3x	1.8x	1.5x	1.9x	1.4x	1.0x
2001	44.1	28.8	21.9	11.7	4.5	-2.9	2.9x	2.1x	1.9x	1.9x	1.3x	0.9x
2000	27.8	20.7	13.0	10.3	2.4	-4.3	2.4x	2.0x	1.6x	1.8x	1.1x	0.7x
1999	19.4	13.0	6.4	10.8	3.2	-14.4	2.1x	1.7x	1.4x	1.6x	1.2x	0.4x
1998	19.0	9.8	3.1	16.6	3.1	-6.8	1.9x	1.6x	1.3x	1.6x	1.1x	0.7x
1997	17.0	9.0	0.9	77.4	27.7	7.1	2.1x	1.5x	1.0x	3.6x	2.0x	1.1x
1996	22.5	13.6	-0.4	39.4	11.0	2.6	2.3x	1.8x	0.7x	2.4x	1.7x	1.0x
1995	23.6	14.6	1.8	95.4	30.7	4.8	2.3x	1.7x	1.1x	5.6x	3.0x	1.7x
1994	36.6	17.9	11.4	64.2	22.7	0.5	2.4x	2.0x	1.5x	5.8x	1.9x	0.7x
1993	28.1	16.4	6.3	61.7	25.0	2.6	2.9x	2.1x	1.2x	4.4x	2.6x	1.2x
1992	35.2	21.2	-0.9	31.0	13.3	2.7	2.5x	1.9x	1.0x	2.9x	1.6x	1.1x
1991	n/a	25.9	n/a	30.8	20.1	2.9	n/a	2.2x	n/a	3.0x	2.3x	1.3x
1990	22.1	15.9	7.9	26.6	14.7	6.3	2.5x	2.1x	1.3x	2.7x	2.0x	1.1x
1989	33.2	25.0	19.7	18.2	14.6	2.0	3.5x	3.1x	1.9x	2.3x	2.1x	1.0x
1988	n/a	12.8	n/a	32.1	22.4	10.0	n/a	2.1x	n/a	3.8x	2.8x	2.0x
1987	n/a	22.1	n/a	14.8	7.6	2.5	n/a	2.1x	n/a	2.0x	1.6x	1.2x
1986	n/a	n/a	n/a	10.3	8.0	3.3	n/a	n/a	n/a	2.0x	1.6x	1.3x
1985	n/a	n/a	n/a	19.9	17.1	11.5	n/a	n/a	n/a	3.2x	2.8x	2.1x

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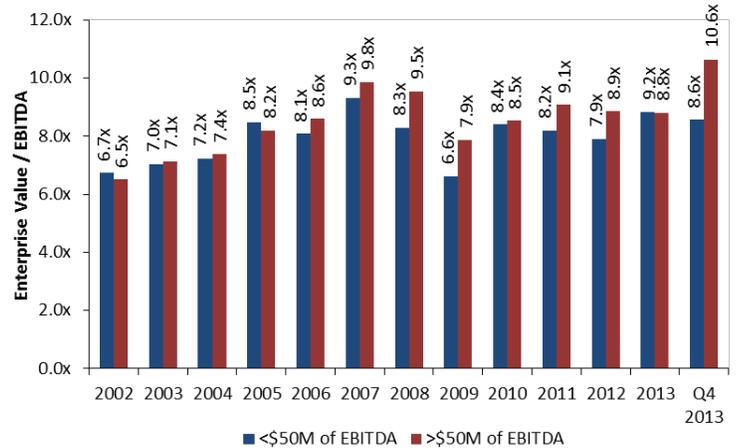
The volume of private equity deals in 2013 was approximately 10% lower than 2012 and 2011 levels. However, the aggregate value of announced deals is slightly higher. This results in the highest average deal size since 2007. Valuations are also at or near peak levels. Smaller company purchase price multiples (EBITDA <\$50 million) are greater than larger companies (EBITDA > \$50 million) for the first time since 2005 and are at peak levels. Larger company multiples are also high, but in line with the last couple of years. In Q4, multiple for larger companies spiked to 10.6x, which is over a half turn higher than any yearly level in the last 10 years.

Hefty valuations are being driven by frothy debt markets. Average debt to EBITDA levels are greater than 5x across the market, nearing 2005-2007 buyout boom peak highs.

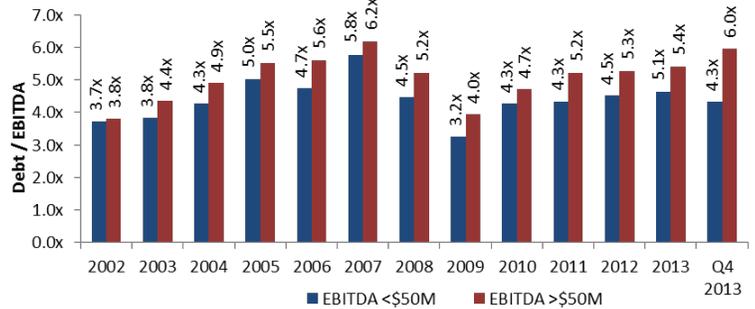
Equity capitalization of smaller companies increased in 2013 to levels seen in 2009 following the financial crisis. This matches a 10-year high. It's a tale of two cities however, as equity contributions for larger companies have fallen to 2007 levels. We believe this speaks to the ability of larger companies to more broadly access the capital markets.

Pricing and Credit Statistics (S&P LCD)

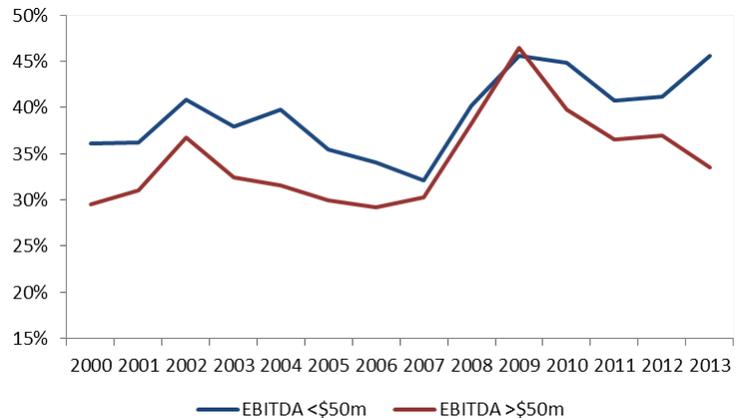
Purchase Price Multiple



Average Debt to EBITDA



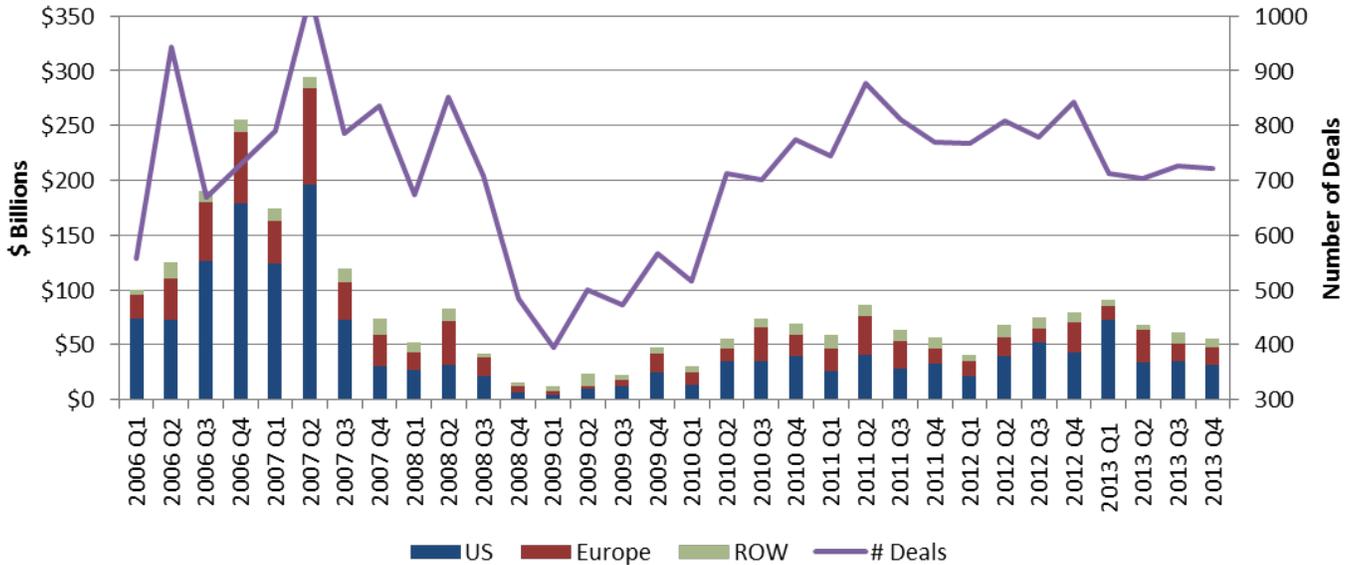
Equity Capitalization



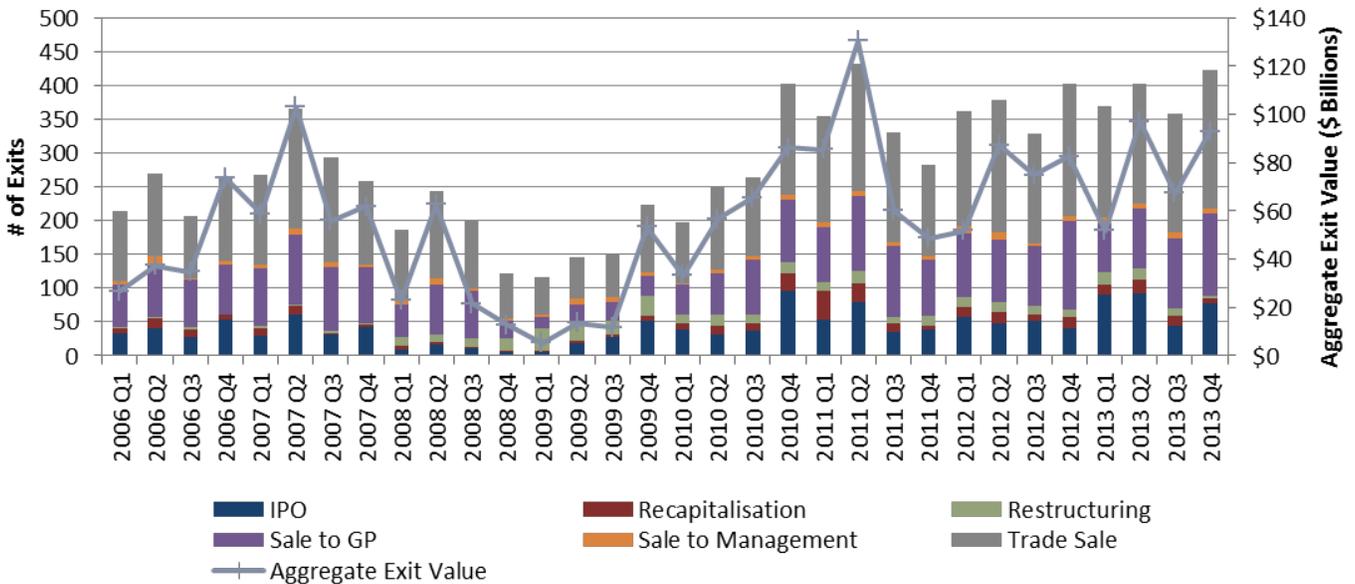
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Deal Volume (Preqin)

Aggregate Value of Private Equity Deals by Region



Aggregate Number and Value of Exits by Exit Type



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The 4th quarter of 2013 saw another 24 venture backed IPOs, marking the 3rd straight quarter of 20 or more venture backed IPOs and a 90% year-over-year increase from the 4th quarter of 2012. Of particular note was the public market interest in biotech companies in 2013. Biotech IPOs represented over 50% of the IPOs in 2013, a stark change from the investor apathy toward the sector the previous five years.

As venture investors cheer the continued improvement in the exit market, they may need to check their enthusiasm with respect to new investments in their portfolios. As the exit markets give hope, valuations have been increasing to new highs. Ann Lemont of Oak Investments recently stated, “the primary issue for technology venture capitalists in 2014 is valuations.” Data released from Pitchbook show that pre-money median valuations were up at every investment stage in 2013 and in most cases reached record highs. Coupled with anecdotal stories like 3 year old Nest Lab’s \$3.2 billion exit to Google or 2 year old Snapchat turning down a \$4 billion offer from Google – all point toward reasons for caution in the venture market.

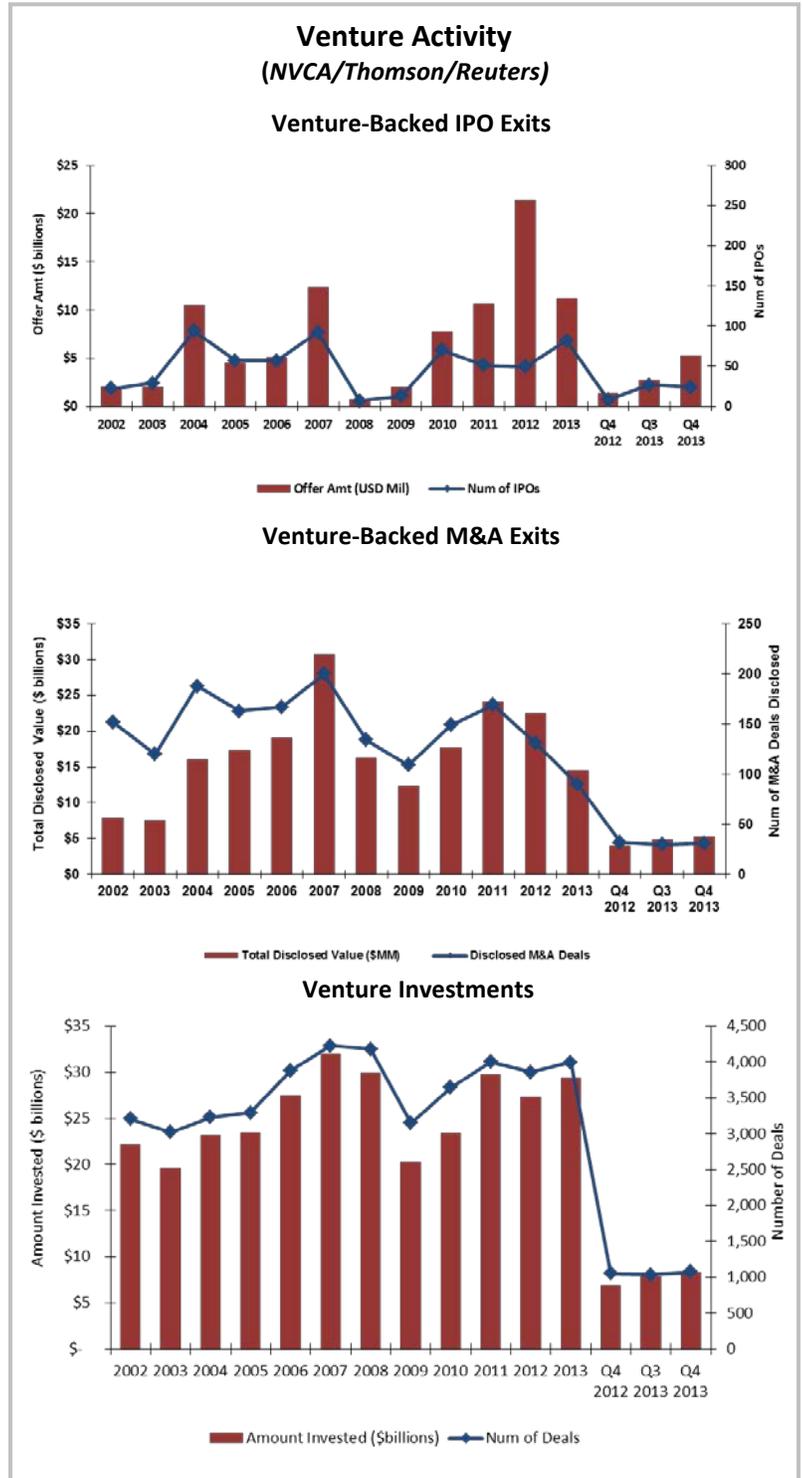


Table 1: Glossary of Terms

Distributions to Paid-in Capital (DPI)	The amount a partnership has distributed to its investors relative to the total capital contribution to the fund
Early Stage Venture	A fund investment strategy involving investment in companies for product development and initial marketing, manufacturing and sales activities
Financial Accounting Standards (FAS)	The Financial Accounting Standards Board (FASB) is a private, not-for-profit organization whose primary purpose is to develop generally accepted accounting principles (GAAP) within the United States in the public's interest
J-Curve	The curve realized by plotting the returns generated by a private equity fund against time (from inception to termination). The common practice of paying the management fee and a start-up cost out of the first draw-down does not produce an equivalent book value. As a result, a private equity fund will initially show a negative return. When the first realizations are made, the fund returns start to rise quite steeply. After about three to five years, the interim IRR will give a reasonable indication of the definitive IRR. This period is generally shorter for buyout funds than for early-stage and expansion funds
Lower Quartile IRR	The point where 75% is above the quartile and 25% below
Pooled Internal Rate of Return	A method of calculating an aggregate IRR by summing cash flows together to create a portfolio cash flow and calculate IRR on portfolio cash flow
Large Buyout	Issuers with EBITDA of \$50 million or more
Late Stage Venture	A fund investment strategy involving financing for the expansion of a company which is producing, shipping and increasing its sales volume
Middle-market Buyout	Issuers with EBITDA of \$50 million or less
Top Quartile IRR	The point where 25% of the sample is above the quartile and 75% below
Total Value to Paid-in Capital (TVPI)	Calculation performed by adding the residual value and the distributions received (cash out) and dividing that amount by the total capital contributed (cash in)

Table 2: Data Sources

S&P Leveraged Commentary & Data Bloomberg Preqin Capital IQ Private Equity International National Venture Capital Association New York Times Financial Times Wall Street Journal The Deal PitchBook Data, Inc.
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