ABBOTT CAPITAL

Q3 2023

PRIVATE EQUITY MARKET OVERVIEW

Venture Capital

U.S. Private Equity

Europe Private Equity

Secondaries

Abbott Capital Management, LLC

OVERVIEW

Higher for longer. Those were the words on many market participants' lips as the third quarter of 2023 ended. The U.S. economy grew nearly 5% (annualized) versus Bloomberg's forecast of 4.5% for the quarter, and the inflation rate held fairly steady at 3.7%, well above the Federal Reserve's 2% target. The robust economy appeared too hot for the Federal Open Market Committee's policy makers who held firm on rates in September, and dashed hopes of a more dovish stance in the fourth quarter. As a likely result, the three major U.S. stock market indices ended the quarter down circa 3%. As the fourth quarter opened, the U.S. Treasury yield curve finally began to flatten, but for what many would say is the wrong reason: the long end has risen, which generally implies expectations of continued inflation and higher-for-longer rates. In contrast, a curve that steepens (or an inverted curve, which we have had, that flattens) based on falling short-term rates would generally be consistent with perceived slowing inflation and, therefore, imminent rate cuts.

As the American consumer finally curtails post-Covid "revenge spending" of accumulated savings, higher credit card rates and newly resumed student loan repayments may finally contribute to the Fed's efforts and bring about a hoped-for soft landing by slowing inflation without tipping the economy into recession. Time will tell; the U.S. consumer has proven remarkably resilient in the past.

Meanwhile, monetary policy seems to be behaving more traditionally in Europe. The European Central Bank (ECB) has, like the U.S. Federal Reserve, been aggressive in hiking rates to tame inflation. By the end of the third quarter, the Eurozone annual inflation rate had fallen to 4.3% from 5.2% in August, and down from 9.9% a year earlier. The unprecedented rate hikes, bringing rates to a record high, have put the brakes on the economy: GDP contracted 0.1% in the third quarter following a modest rise in the second quarter. Germany and Italy dragged the overall figure negative, offsetting modest gains in France and Spain. At the same time, the ECB is encouraging state governments to tighten their belts, in part by reversing energy and other subsidies, which helped push many countries' deficits above the statutory ECB limit of 3%. In the shorter term, any pullback in stimulus will increase the inflationary pain felt by consumers as energy prices rise, but fiscal discipline is known to be seen by the ECB as a sine qua non for Euro stability.

VENTURE CAPITAL

FUNDRAISING

Through Q3 2023, U.S. venture capital raised $43 billion across 344 funds, which is roughly one-quarter of 2022's full-year figures of $173 billion across 1,278 funds. 2022 was a banner year for mega funds (greater than $1 billion), which represented nearly half of all capital raised for the year. However, it appears the trend is reversing in 2023 as fundraising dollars flow back to mid-cap funds ($100 million - $1 billion), which accounted for roughly 70% of capital raised.

DEAL ACTIVITY

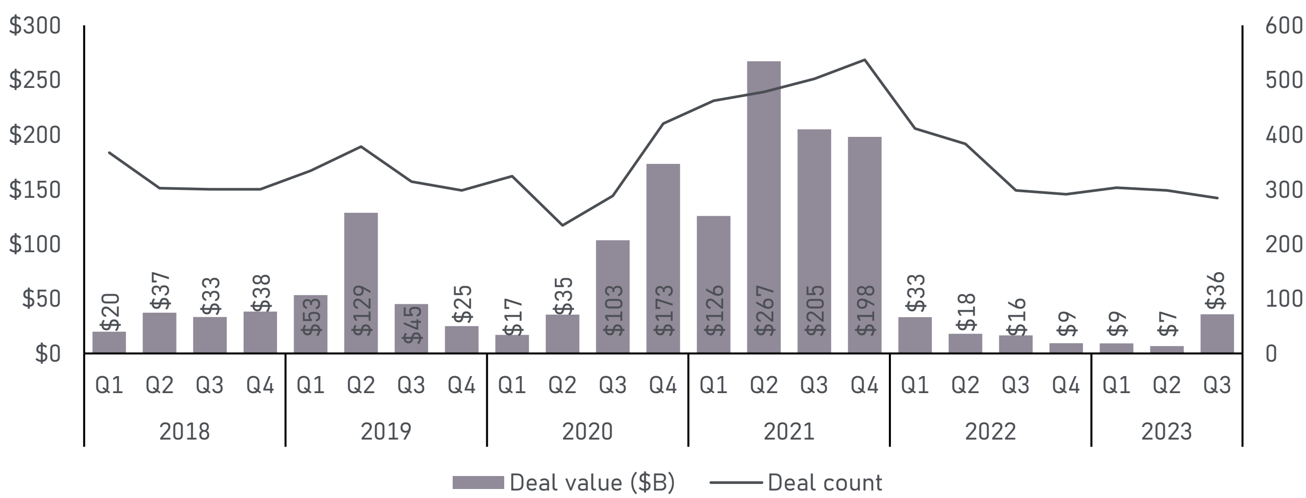
Deal count fell for the sixth consecutive quarter in Q3 2023 and was nearly half of Q1 2022's peak.

Deal value fell to $37 billion this quarter, its lowest level since Q4 2019. Consistent with recent years, quarterly deal count remained evenly distributed across pre-seed/seed, early, and late stages.

EXIT ACTIVITY

Q3 2023 saw $36 billion in exit value, which is more than double the prior two quarters combined. The increase was attributable to the uptick in IPOs this quarter, including the notable listings of Klaviyo and Instacart. However, it appears the public markets remain a challenge for late-stage companies seeking liquidity, as there was an IPO backlog of 75 companies at the end of Q3.

U.S. VENTURE CAPITAL EXIT ACTIVITY



Data Source: Q3 2023 PitchBook-NVCA Venture Monitor. Q4 2022 – Q3 2023 includes estimated deal count of 8, 23, 42, and 68 respectively.

U.S. PRIVATE EQUITY

FUNDRAISING

Through Q3 2023, U.S. private equity funds raised $242 billion. It appears unlikely that this year will reach 2022's record of $381 billion raised. However, the amount raised year to date still represents a significant accomplishment – this nine-month total nearly matches all of 2020 ($261 billion raised) and has already surpassed all of 2018 ($184 billion raised). The tepid exit market could be a contributing factor to the elongation of fundraising timelines, as LPs receive fewer proceeds to reallocate into new vehicles. Among U.S. private equity funds, the launch-to-close timespan has climbed to 15.6 months, which represents the lengthiest reading since 2011.

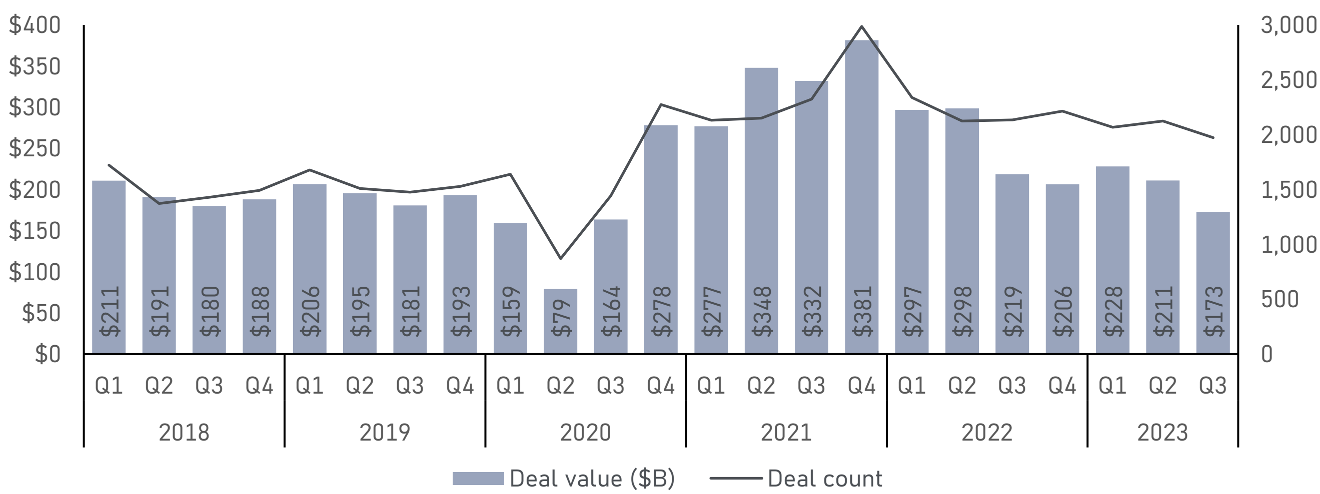
DEAL ACTIVITY

U.S. dealmaking declined in Q3 2023, with $173 billion of value recorded over 1,972 transactions (inclusive of 707 estimated deals). Notably, this decrease marks the first quarter since Q3 2020 in which deal value totaled under $200 billion. As a potential byproduct of a still-recovering credit environment after the Fed's rate hikes and Silicon Valley Bank's March 2023 collapse, sponsors have continued to pursue add-on transactions which are generally less dependent on new debt access. These acquisitions comprised nearly eight out of every 10 buyouts in Q3.

EXIT ACTIVITY

Aside from the pandemic's nadir in Q2 2020, this year's third quarter exit activity produced the lowest reading since Q1 2013, with $44 billion across 275 deals (inclusive of 98 estimated deals). Median exit value rose to $400 million as of the end of the third quarter. This rise may be driven, in part, by zero recorded exits under $25 million in Q3.

U.S. PRIVATE EQUITY DEAL ACTIVITY



Data Source: PitchBook's Q3 2023 US PE Breakdown. Q4 2022 – Q3 2023 includes estimated deal count of 173, 295, 454, 707 respectively.

EUROPE PRIVATE EQUITY

FUNDRAISING

Through Q3 2023, European private equity fundraising activity continued to recover in terms of capital raised compared to 2022, with €86 billion raised across 79 funds (compared to 136 funds and €76.1 billion in the whole of 2022). Notably, fundraising in 2023 has been primarily driven by large and experienced buyout funds with the top three funds raising 58% of all capital raised to date.

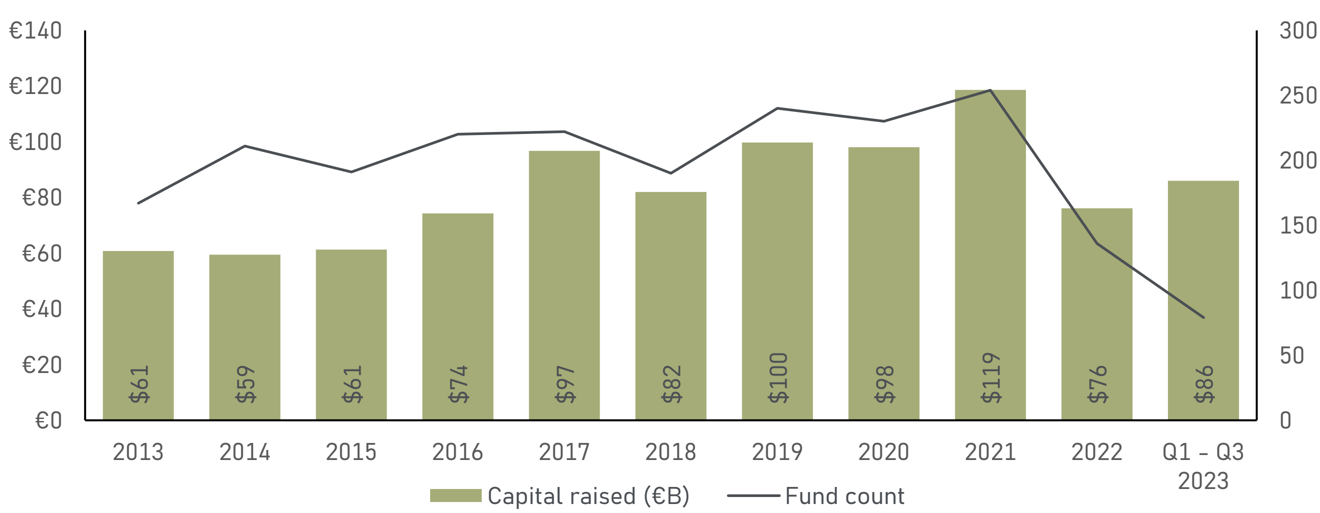
DEAL ACTIVITY

Dealmaking slowed in Q3 2023 in terms of value compared to Q3 2022 but increased in terms of deal count. In total, €155 billion was recorded across 1,916 investments (inclusive of 688 estimated deals), representing a year-over-year a decrease of 2.8% and increase of 11.5%, respectively. Although dealmaking slowed in aggregate value, median deal size spiked to €39 billion in Q3, its highest level since pre-2018.

EXIT ACTIVITY

Exit activity picked up significantly in Q3 2023, with 425 liquidity events (inclusive of 180 estimated deals) totaling €97 billion of value, representing a year-over-year increase of 30% and 62%, respectively, relative to Q3 2022. With a quarter of the year remaining, 2023 has already become one of the largest years for European mega-exits, second only to 2021. Arm's €44 billion IPO – the largest in a decade – could be largely attributed to the uptick in mega-exit value and overall median exit size.

EUROPE PRIVATE EQUITY FUNDRAISING



Data Source: PitchBook's Q3 2023 European PE Breakdown.

SECONDARIES

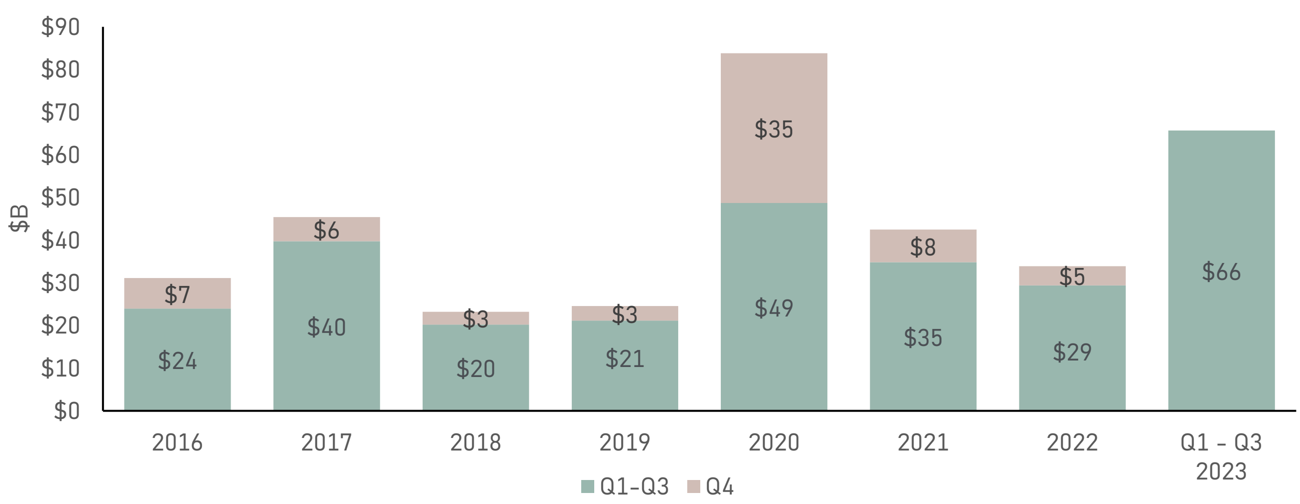
FUNDRAISING

Secondary fundraising was up significantly in Q3 2023 with $4 billion in aggregate capital raised globally vs. $6 billion raised in Q3 2022. The $66 billion of capital raised in the first three quarters of the year exceeded the entire amount raised in each of 2021 ($42 billion) and 2022 ($34 billion). The number of funds closed in the third quarter remained relatively stable at 14 (when compared to the 13 closed in Q2 2023), but up significantly from the just six funds closed in Q3 2022.

DEAL ACTIVITY

Unlike fundraising, deal value for the quarter was weaker when compared to the prior year, with PJT Partners estimating between $15 and $20 billion of transactions (down approximately 20% versus Q3 2022).

SECONDARY FUNDS CAPITAL RAISED



Data Source: Preqin historical fundraising data for secondaries and direct secondaries funds. Downloaded 10/23/2023. Data based on total fund size at final close.

ABOUT ABBOTT

Abbott Capital Management, LLC was founded in 1986 with the objective of providing long-term continuity and accountability in private equity portfolio management. As an independent investment adviser specializing in the creation and management of private equity investment programs, Abbott manages assets for a global investor base comprised of public, corporate, and multi-employer pension funds, foundations, endowments, family offices, and high net worth individuals.

SOURCES

Unless otherwise noted, with respect to private equity information, data sourced through: PitchBook's Q3 2023 US PE Breakdown and PitchBook's Q3 2023 European PE Breakdown.

Unless otherwise noted, with respect to venture capital information, data sourced through: Pitchbook's Q3 2023 PitchBook-NVCA Venture Monitor.

Unless otherwise noted, with respect to secondaries information, data sourced through: PJT Partners, Q3 2023 Market Insight. October 2023 and Preqin historical fundraising data for secondaries and direct secondaries funds downloaded on 10/23/2023.

IMPORTANT INFORMATION

Past performance is not a guide to future results and is not indicative of expected realized returns.

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