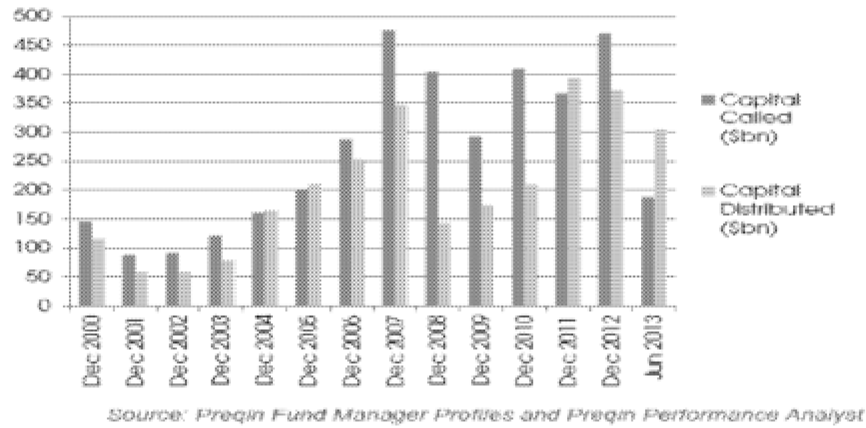
Theme III

Where do we stand in the private equity cycle?

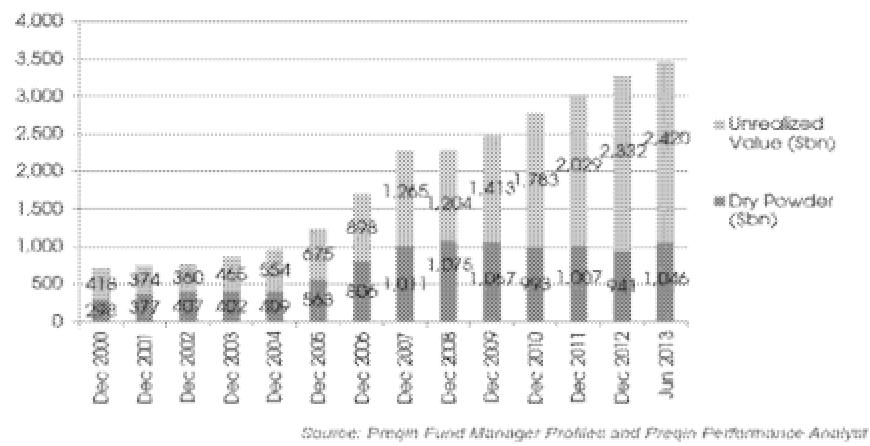
With the private equity financial model heavily linked to economic cycles, investors in the stocks need to be especially mindful of the cyclical impact on these stocks – both perceived and real, even if the secular trends are very positive, as they are right now. From a distributable earnings perspective, we see the PE business remaining in the healthy part of a realization cycle, that appears to still be in the early-to-middle innings. This realization cycle is likely to be especially heavy given the strong fundraising leading up to the financial crisis and the elongated investment cycles during the downturn, with the market not strong enough to provide attractive exit points, leaving the portfolio 'inventory' to age. This began to change in 2011-12, and as Figure 32 below shows, accelerated in 2013 (tallied through mid-year from Preqin). As Figure 33 shows, private equity funds are also sitting more valuable portfolio positions waiting to be harvested.

Figure 32: Private Equity Annual Amount Called-Up and Distributed



Source: Preqink

Figure 33: All Private Equity Assets under Management



Source: Preqin