



HOULIHAN LOKEY

PRIVATE FUNDS GROUP

COVID-19: Private Equity Fundraising Outlook



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- The last decade has been one of unprecedented growth for the global economy, and private equity managers have been an undisputed beneficiary of such growth; assets managed by the industry have more than doubled since the global financial crisis (GFC), with firms now managing more than \$3.8 trillion in assets⁽¹⁾
- The COVID-19 global pandemic, in a matter of weeks, has fundamentally changed the trajectory of private markets, with both managers and investors alike taking pause to assess the impact on their portfolios
- Data suggests that both private equity firms and limited partners (LPs) with the willingness and ability to deploy capital will be best placed to capitalize on the opportunities created by the COVID-19 pandemic

Current LP Outlook Summary

- A robust survey comprised of a diverse set of LPs reveals LPs are generally operating in one of four categories, ranging from no change in operations to completely shut down for the time being
- As the pandemic has progressed, Houlihan Lokey's Private Funds Group (PFG) has noted that LPs are migrating toward these two ends of the spectrum

Investing Through Downturns

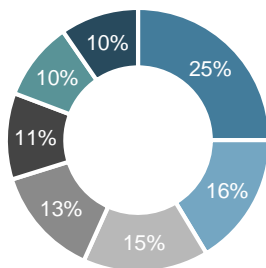
- Historically, times of market dislocation have yielded some of the most attractive windows to deploy capital
- Well capitalized managers are best placed to take advantage of these opportunities

Fundraising In Recessionary Environments

- Full extent of the LP pullback is not yet known; LPs are actively assessing the impact to their anticipated distributions and private equity allocations
- A small cohort of LPs are actively seeking managers to capitalize on attractive buying opportunities

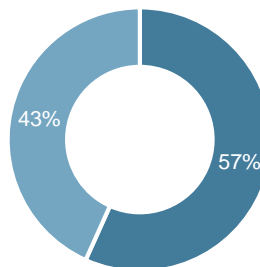
Limited Partners Surveyed

LPs Surveyed by Type (#)



- Fund of Funds
- Asset Manager
- Family Office
- Pension Plan/SWF
- Insurance Company
- Endowment and Foundation
- Consultant/Gatekeeper

LPs Surveyed by Geography (#)



- North America
- Europe and Middle East

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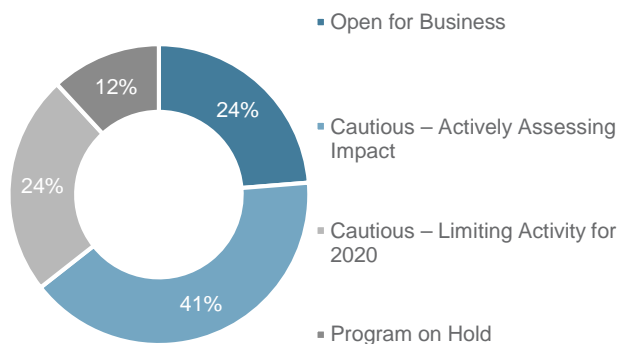
(1) Source: Preqin

1 LP Outlook Summary

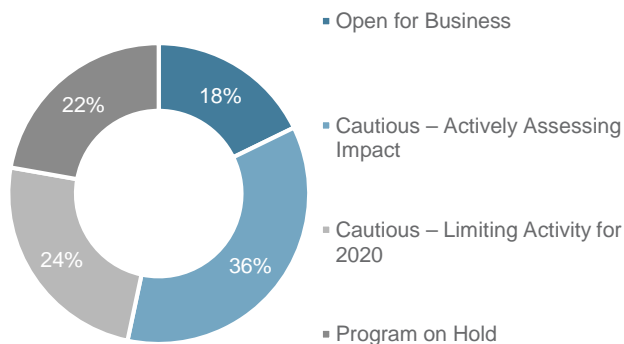
Current LP Sentiment Breakdown

- Early feedback confirms the majority of LPs are putting capital commitments with new managers on hold as they work to better understand the impact of the rapidly evolving crisis on their existing portfolios and the broader economy
 - Although LPs have put new investment activity on hold until further notice, they remain cautiously optimistic that activity will pick up once the pandemic abates
- Some “inertia” remains as LPs prioritize re-ups with core existing managers and select new relationships where they have already conducted extensive due diligence—albeit at smaller commitment sizes
- While the situation remains fluid, PFG has identified a small cohort of LPs who not only remain open for business but are actively seeking to capitalize on attractive buying opportunities

North America – LP Outlook (#)



Europe and the Middle East – LP Outlook (#)



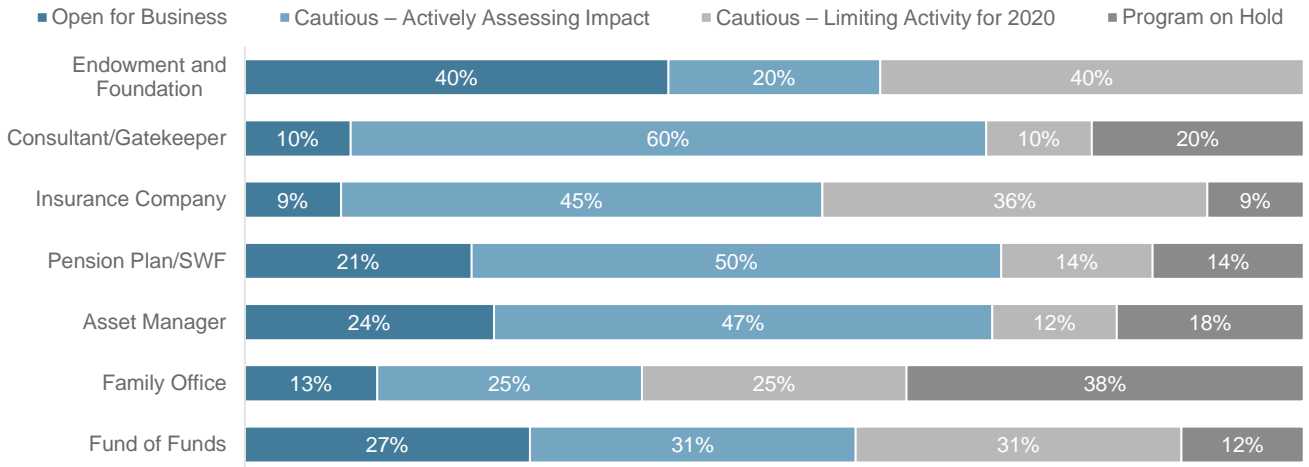
LP Outlook – Categorization Key

Program on Hold	<ul style="list-style-type: none"> ▪ LPs who have put their program on hold until further notice; adopting a wait-and-see approach until the pandemic abates
Cautious – Limiting Activity for 2020	<ul style="list-style-type: none"> ▪ LPs who have signaled their intent to limit commitments for the year; restricting investments to re-ups with existing GPs and most likely pausing new investments for the time being
Cautious – Actively Assessing Impact	<ul style="list-style-type: none"> ▪ LPs who have yet to make a definitive decision on their investment activity; actively monitoring the situation and selectively continuing advanced diligence on new managers and re-ups with existing GPs
Open for Business	<ul style="list-style-type: none"> ▪ LPs unphased by the current market conditions; either proceeding with business as usual, as they are well positioned to weather the downturn (under-allocation, well positioned portfolio, etc.), or looking to capitalize on the current market opportunity

1 LP Outlook Summary (cont.)

LPs Actively Assessing Their Programs

- All LPs are actively assessing the impact of the COVID-19 pandemic on their existing portfolio, with the majority continuing to proceed with commitments to GPs they are already in advanced stages of diligence with
- Private equity is a people business: travel restrictions have transformed business processes, and most LPs are unlikely to commit to new managers until those interactions can resume in person



COVID-19: Market Anecdotes

Sitting on 25% cash so don't anticipate any change to activity level this year. In fact, we sat out after the financial crisis so don't want to miss out on opportunity this time around.

North American Public Pension

This is our last new commitment until we can better assess this environment.

North American Consultant

Capital is getting tighter by the day. Closing three deals on 3/31/20. Committee on Monday. Will be interesting. Remainder of the year looks grim for other investments in the pipeline. We will see.

North American Insurance Company

We are pencils down on all commitments until we understand the coronavirus fallout and its impact to our portfolio.

Middle East Family Office

Currently spending time going through the 90 GPs in our portfolio and assessing the likely impact of COVID-19. Current thinking is a 15–20% drop in NAV; but not too concerned with the long-term effect as the portfolio is very diversified.

European Asset Manager

At the moment we are spending most of our time focusing on the impact to co-investments and updating clients on status. In terms of new deals the bar is now even higher than it was before. We are open but extremely selective.

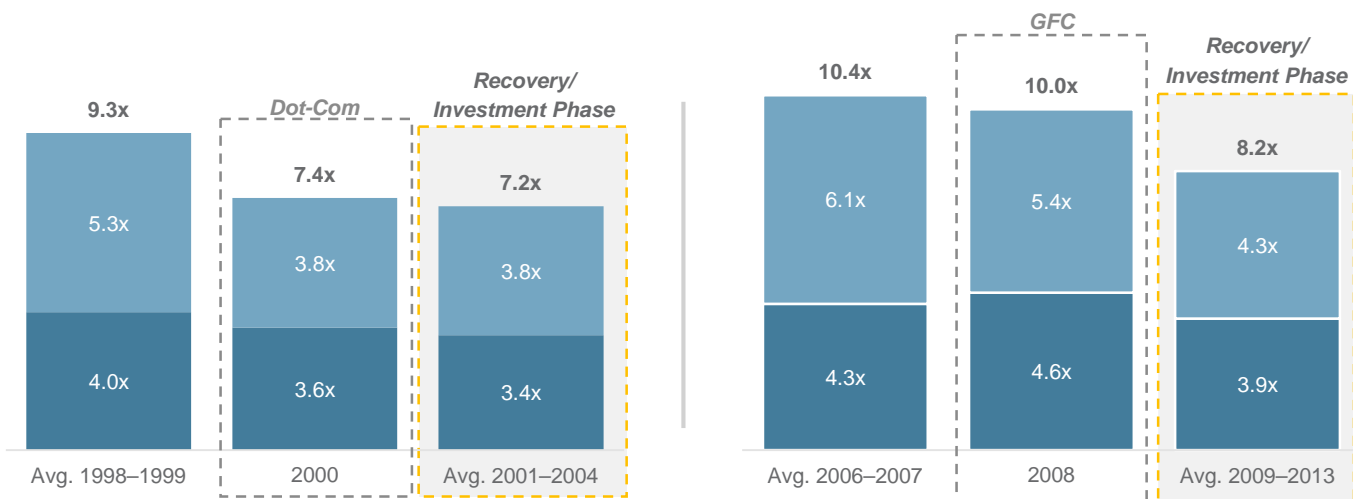
European Fund of Funds

2 Investing Through Downturns

Market Dislocations Yield Attractive Buying Opportunities⁽²⁾

- Historically, the periods directly following a market dislocation have resulted in more attractive valuations, albeit with more conservative capital structures

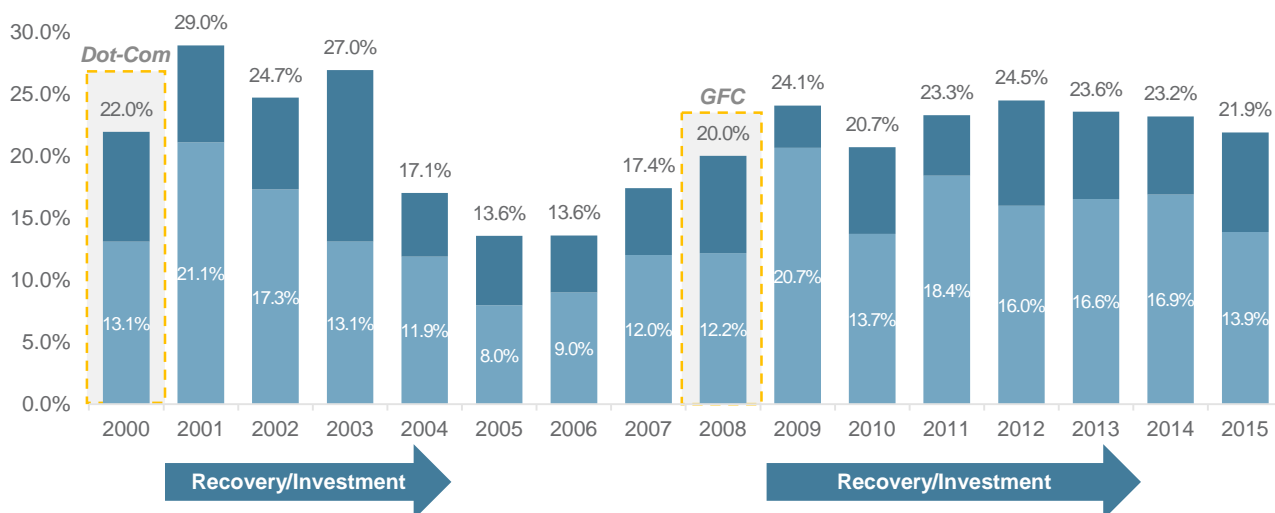
■ Equity/EBITDA ■ Debt/EBITDA □ EV/EBITDA



Strongest Vintages Began Investing During Downturns⁽³⁾ (IRR)

- Managers with capital to deploy coming out of a downturn have historically generated outsized returns

■ First Quartile ■ Median Quartile



(2) Source: McKinsey Global Private Markets Review 2019; Private Markets Come of Age; Pitchbook.com

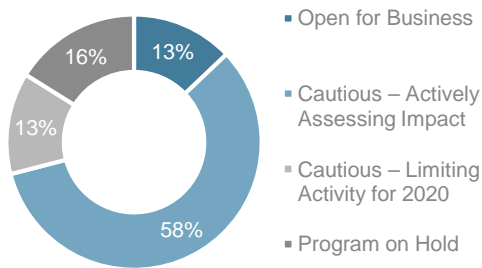
(3) Source: Burgiss; U.S. Buyout Benchmarks

3 Fundraising in Recessionary Environments

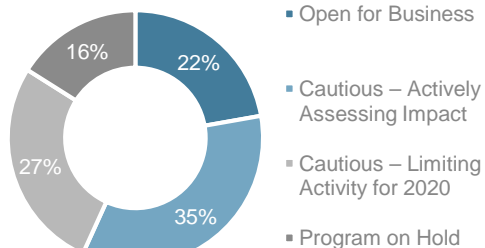
Fluid Situation: Extent of Pullback Not Yet Known⁽⁴⁾

- LPs are beginning to operate at opposite ends of the spectrum and have either put all investments on hold until further notice or are actively seeking to capitalize on attractive buying opportunities
- As the pandemic has continued, more LPs are beginning to retreat from the market

LP Outlook as of March 1–18 (#)

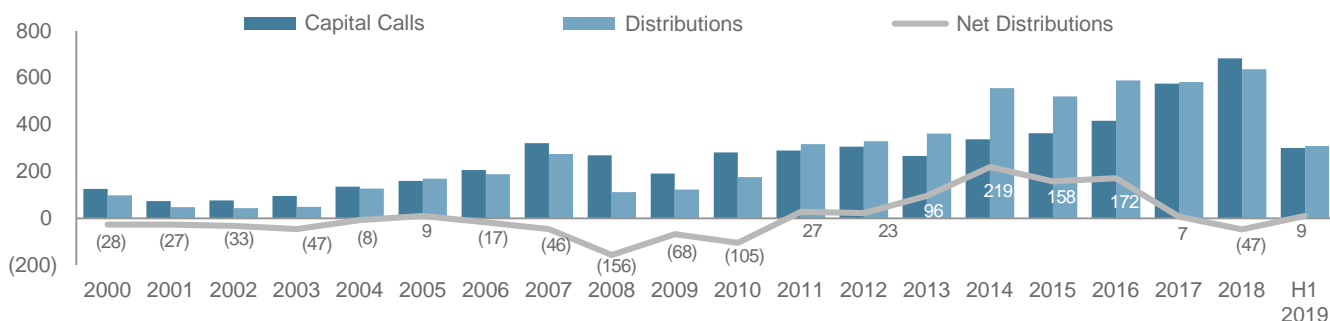


LP Outlook Beyond March 19 (#)



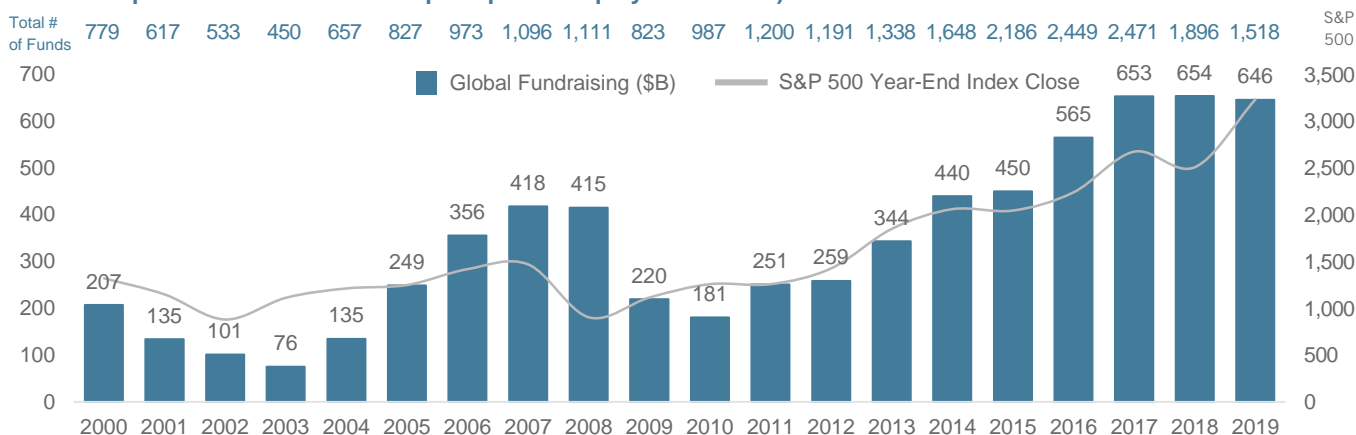
Distributions Fund New Capital Commitments⁽⁵⁾ (\$B)

- The anticipated slower pace of distributions due to COVID-19 will impact future commitments



Fundraising Markets Closely Mirror Public Market Movements⁽⁶⁾ (\$B)

- Public markets tend to be a leading indicator for the strength of private equity fundraising (i.e., the denominator effect: public market declines impede private equity allocations)



(4) Source: Houlihan Lokey PFG LP survey data beyond March 19 is inclusive of feedback from March 19, 2020, to April 3, 2020

(5) Source: Preqin

(6) Source: Preqin – Total number of funds is inclusive of general private equity, special situations, and turnaround strategies; WSJ year-end closing amounts of the S&P 500 Index

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