

FIRST HALF 2015 MARKET COMMENTARY

A Choppy Global Economy

In July, the International Monetary Fund cut its projection of global economic growth in 2015 from 3.5 to 3.3%. The U.S. economy's slow-but-steady growth, as well as Europe's somewhat improved prognosis over the Greek debt crisis, are presently being overshadowed by the slowdown in economic growth in China and the broader emerging markets.

Private Equity Rides a Wave of Capital

Following the last few years of record distributions, fundraising in the U.S. and Europe was especially strong in the first half of the year, while Asia stayed in line, and the rest of the world was more subdued. Investment activity in Europe and Asia rebounded in the first half of 2015 relative to the first half of 2014. However, investment activity in the U.S. and the rest of the world moderated, as the overall environment continued to be more conducive to selling than buying.

The first half of 2015 also saw entry multiples for U.S. and European buyout deals hitting 10x EBITDA,* yet healthy "dry powder" levels for buyout funds of approximately \$460 billion† globally suggest general partners are exercising discipline. Finally, liquidity volumes for most regions trended down compared to the record setting pace in first half of 2014. Investors did benefit from liquidity options offered by the growing and dynamic secondary market in limited partner interests.

HarbourVest Outlook

Going forward we remain cautiously optimistic that the global private equity market will weather the major transitions underway, including rising interest rates in the U.S. and a shift to a more consumer-led economy in China. The short term may see more volatile equity markets, which may dampen asset prices and make IPOs more challenging, but the fundraising pipeline should remain strong following four consecutive years of distributions outpacing capital calls.

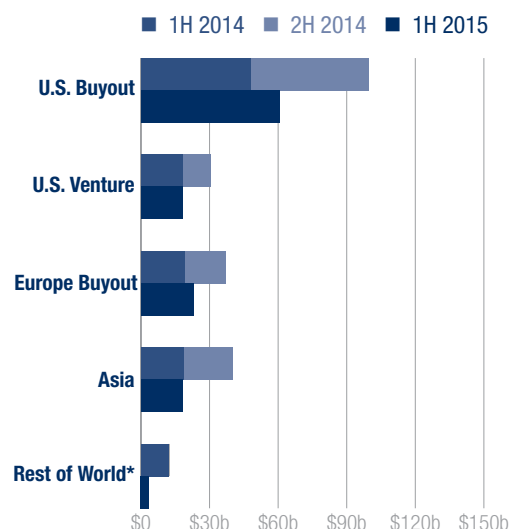
"The overall environment continued to be more conducive to selling than buying."

* S&P Capital IQ
† Preqin

Global Private Markets Overview

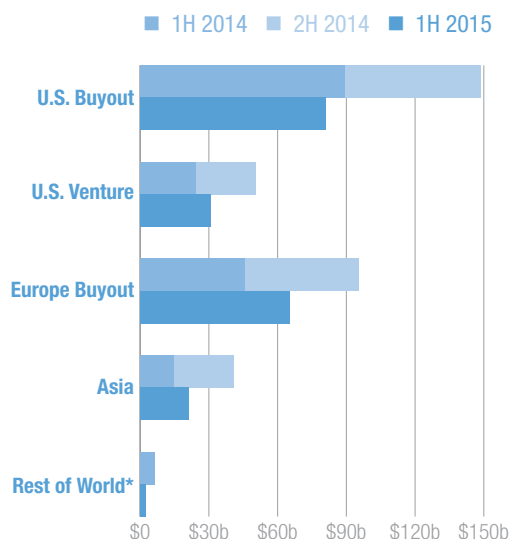
FUNDRAISING

- **U.S. Buyout** Limited partner confidence remains strong as a result of healthy distributions and liquidity – fundraising is on pace to surpass the \$100 billion raised in 2014
- **U.S. Venture** Strong first half 2015 fundraising was on pace with first half 2014 level, but is expected to slow in the second half of the year as a number of the larger and more prominent general partners completed fundraising over the past two years
- **Europe** Fundraising was up 20% in the first half of 2015 compared to the prior year, with a number of larger buyout funds back in the market
- **Asia** Fundraising in the first half of 2015 was similar to the first half of 2014, with the full year expected to be in line with 2014
- **Rest of World** Fundraising slowed in the first half of 2015, hindered by weakening currencies, slowing growth in China, and falling commodity prices. Sub-Saharan Africa remains one of the strongest regions attracting new capital



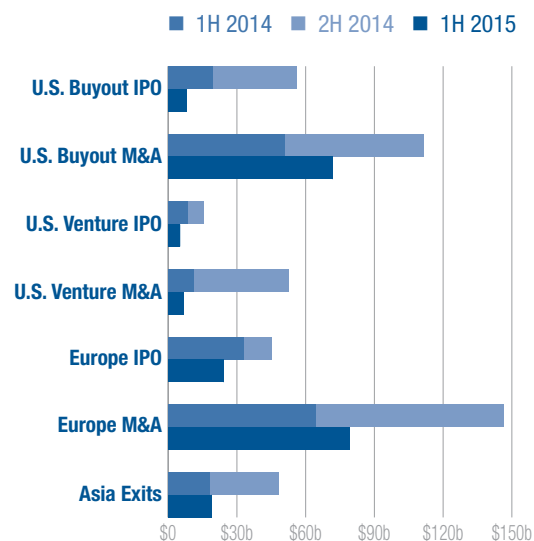
INVESTMENTS

- **U.S. Buyout** Investment activity slowed in the first half of 2015 compared to the first half of 2014 – prices remained elevated (approximately 10x EBITDA) given the run up in public markets, availability of cheap credit, and competition from strategic acquirers – technology remained a hot sector
- **U.S. Venture** Investment activity continued to be robust and on pace to surpass the \$50 billion deployed in all of 2014
- **Europe** Investment activity grew 44% in the first half of 2015 compared to the first half of 2014, driven by an improving growth outlook in some European countries and continued strong liquidity and flexibility in European debt markets, which also contributed to high entry multiples
- **Asia** Investment levels saw a significant 44% jump from the prior year, with “New Economy” (technology, media, telecom) sectors experiencing rapid growth, especially in China and India
- **Rest of World** Investment activity slowed as economic growth across these markets diminished in first half of 2015



LIQUIDITY

- **U.S. Buyout** IPO activity was down from the prior year, while M&A activity remained strong and secondary sales continued to generate meaningful liquidity
- **U.S. Venture** IPO activity fell slightly in the first half of 2015 from the prior year, with life sciences continuing to lead; M&A activity was also down slightly from 2014
- **Europe** Following a strong year for exits in 2014, liquidity remained strong in the first half of 2015, with M&A exit totals surpassing the first half of 2014
- **Asia** First half 2015 exits were slightly ahead of the first half of 2014, with some uncertainty about the second half of the year given the temporary shutdown of the IPO market in China, as well as growth deceleration in China and Australia
- **Rest of World** The exit environment remains challenging given faltering economic growth, falling commodity prices, and the continued strength of the U.S. dollar



Sources: Thomson Reuters, Buyouts Magazine, S&P Capital IQ, Unquote Data, MergerMarket, AVCJ, APER, EMPEA, supplemented by HarbourVest analysis of other activity in the market

* Rest of World 2014 data represents a full year.

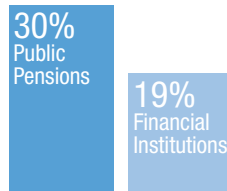
GLOBAL SECONDARY MARKET UPDATE

HarbourVest 1H 2015 Deal Flow Statistics

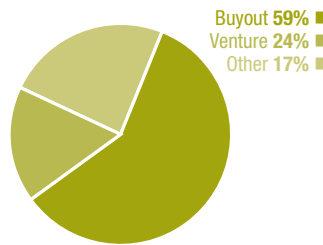
HarbourVest Deals Evaluated
(\$ Billions)



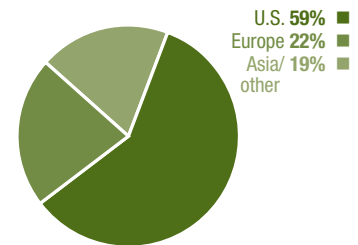
Largest Source of Deal Flow



Deal Flow by Asset Type



Deal Flow by Geography



Source: HarbourVest deal flow statistics

Secondary Market Activity Continues Pace with Prior Year's Record

- Following record secondary market activity in 2014, the \$15 billion of transaction volume in the first half of 2015 was in line with the \$16 billion estimated in the first half of 2014
- Key factors driving deal flow included public pension plans seeking to sell large portfolios of fund interests and the recent trend of general partner-led whole fund liquidity solutions
- Market pricing remains high – average high bids for all secondaries were 92% of net asset value (NAV) in the first half of 2015, up from 91% during the first half of 2014 – driven by a strong liquidity environment and continued rising private market valuations
- Buyout funds continued to be the highest priced assets in the market, averaging 95% of NAV during the first six months of the year

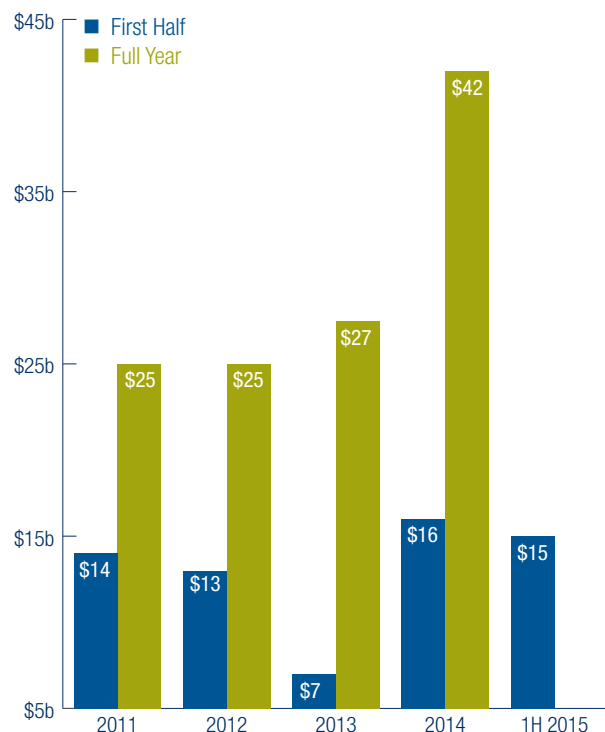
The proliferation of general partner-driven liquidity solutions over the last two years has resulted in a surge in market activity and represents an attractive opportunity for secondary buyers. These deals can often be viewed as a win-win-win:

- Existing limited partners looking for liquidity are able to sell in an organized process
- Secondary buyers have the ability to invest into an attractive pool of assets
- General partners can provide capital back to their investors while raising fresh capital for existing or new investments and can sometimes see their economics reset as a way to provide better incentives going forward

These transactions are complex and time consuming to execute, but have fueled incremental opportunities in the market. Meanwhile, the continued regulatory pressure placed on global banks and insurance companies, combined with an increasing trend toward proactive portfolio management by institutional investors, are paving the way for another strong year of secondary market activity.

Source: Cogent

Estimated Secondary Market Transaction Volume



Source: Cogent Partners and HarbourVest (Estimated)

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