TRESVISTA INVESTOR CONFIDENCE INDEX

U.S. MIDDLE MARKET PRIVATE EQUITY

QUARTERLY REPORT FOR Q1 2021

Catalyzing Your Impact

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EXECUTIVE SUMMARY

Back to form within a new normal. In the first quarter of 2021 we had a few key developments compared to 2020, though none as significant as the development of multiple effective COVID-19 vaccines. The deployment of vaccines across the country led to a precipitous drop in positive cases and fatalities, though more importantly allowed citizens to resume some element of a routine and allowed businesses the opportunity to thrive after seeing some tough days last year.

From an operational standpoint, respondents to this survey and clients we have spoken to have generally returned to levels of activity seen before the pandemic though with a few key logistical adjustments. While many have returned to the office, even more so have settled into a hybrid working environment, and a handful have even embraced remote working as the new standard. Whatever the case may be, investors are certainly making up for the lost time and momentum as we see more deals getting done more speedily in a virtual environment.

Some of the key themes we mentioned in our Q4 2020 report have continued into the first half of 2021 and in certain cases have become more prominent. Time spent on fund raising and diligence activities continues to increase as evidenced by more frequent conversations with LPs and a larger pipeline, respectively, while portfolio related worries are not as prevalent. Active deals in the pipeline have risen, though the expectation for competition has also gone up alongside. Based on the responses to the survey and ongoing conversations with investors, the worry around higher valuations is likely to persist given the record high levels of dry powder and a dearth of high-quality assets in the marketplace.

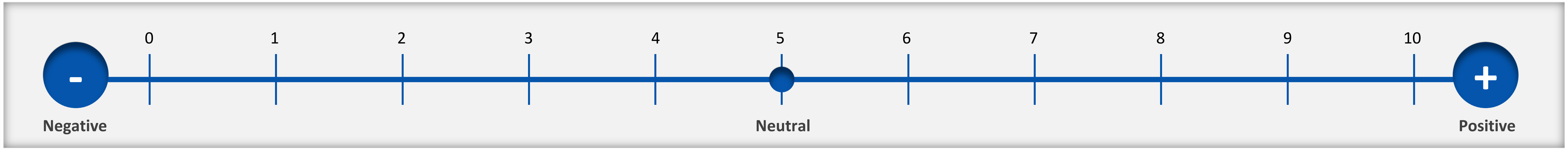
In terms of other key changes expected over the course of this year (provided there is no pull-back from another wave), we are likely to see in-person networking start to return in the back half of the year. Travel (at least domestically) seems close to being back to normal already and here’s hoping we continue moving towards being able to greet everyone in person sooner than later.

INDEX METHODOLOGY

The TresVista Investor Confidence Index for U.S. Middle Market Private Equity is an initiative to gauge the changing investor sentiment in the U.S. Middle Market Private Equity industry for the first quarter of 2021 compared to the fourth quarter of 2020

We asked investment professionals in the U.S. Middle Market Private Equity industry to fill out a survey that captured certain fund level information (AUM, fund size, sector focus, deal size preference, portfolio size, etc.) as well as their views on certain business areas to better understand where investor sentiment has been trending

The survey comprised of 20 questions and five main sections, namely, Time Allocation, Access to Capital & Financing, Deal Pipeline & Origination, Portfolio Management, and Valuation & Exit Opportunities



Responses for each question ranged from 0 – 10 on a sliding scale where (depending on the question) a score below 5 indicated a negative move in confidence, above 5 indicated a positive move in confidence and a score of 5 indicates no change/neutral from Q4 2020

The final Index value calculated reflects the weighted average value of all the sections and indicates the overall shift in investor confidence compared to the previous quarter

The index value also ranges from 0 – 10, where a value < 5 indicates decreasing investor confidence, > 5 indicates improving investor confidence and 5 indicates a neutral/no change in view compared to the previous quarter

TRESVISTA INVESTOR CONFIDENCE INDEX

KEY TAKEAWAYS

The TresVista Investor Confidence Index value for Q1 2021 stood at 5.6, slightly higher than the baseline score of 5, indicating a marginal improvement in investor confidence compared to Q4 2020. The consecutive increase in the last three quarters suggests that investors are finding ways to put capital to work and have been successfully navigating the disruption caused due to the pandemic. With portfolio-related worries not as prevalent and better-quality deals coming into the market, investors have been spending more time on deal-sourcing and diligence-related activities.

Q4 2020 - 5.24 — Investor Confidence Improving

Q1 2021 - 5.60 — Investor Confidence Improving

6.1 — TIME ALLOCATION

Investors spent more time on fund-raising, sourcing new deals, and new deal diligence activities in Q1 2021. We observed that larger funds spent relatively less time on portfolio management activities and relatively more time on deal sourcing and diligence activities compared to smaller funds

5.4 — ACCESS TO CAPITAL & FINANCING

Investors were having more frequent conversations with LPs around existing portfolio activities and new fund-raising initiatives in Q1 2021. Firms investing in the Entertainment & Hospitality sector on average were more engaged with LPs & lenders compared to other sectors

6.3 — DEAL PIPELINE & ORIGINATION

Investors saw more deal opportunities at the top of the funnel, a higher quality of inbound opportunities, had more active deals in the pipeline, and saw a larger volume of inbound opportunities in Q1 2021. Smaller funds had a relatively higher anticipation of competition for new deal opportunities

4.6 — PORTFOLIO MANAGEMENT

The Q1 2021 survey indicates towards a positive outlook for the year with investors expecting fewer distressed assets in their portfolio and having a lower anticipation of further funding needs for the existing portfolio. Firms with a smaller number of portfolio assets had a relatively higher anticipation of additional funding needs for their portfolio

5.7 — VALUATION & EXIT OPPORTUNITIES

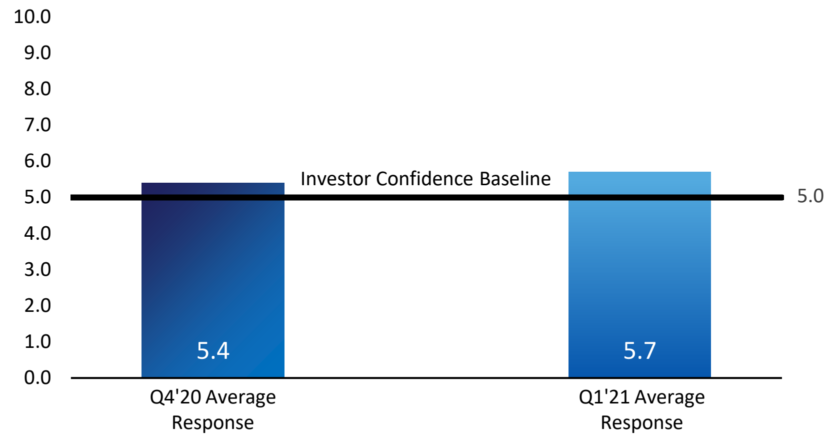
The expectation around valuation multiples for exits were meaningfully higher compared to Q4 2020. Firms investing in the Entertainment & Hospitality sector had relatively lower expectations of selling to strategic buyers vs. financial sponsors

Time Allocation

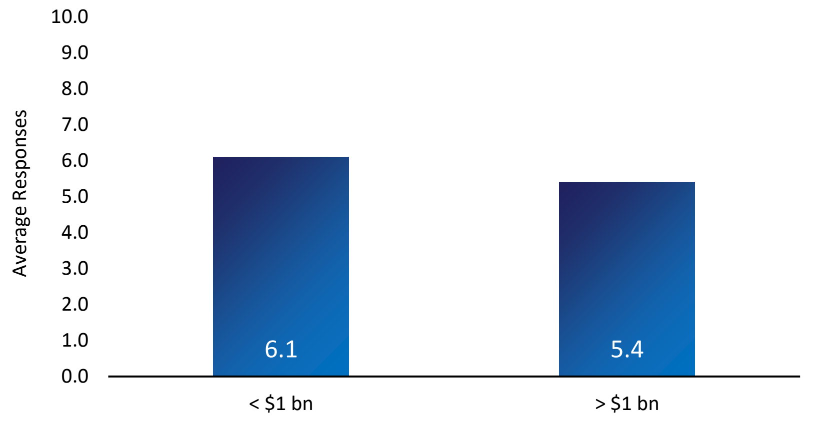
TIME ALLOCATION

TIME SPENT ON FUND-RAISING ACTIVITIES (Q1 2021 VS. Q4 2020)

AVERAGE RESPONSE SCORE



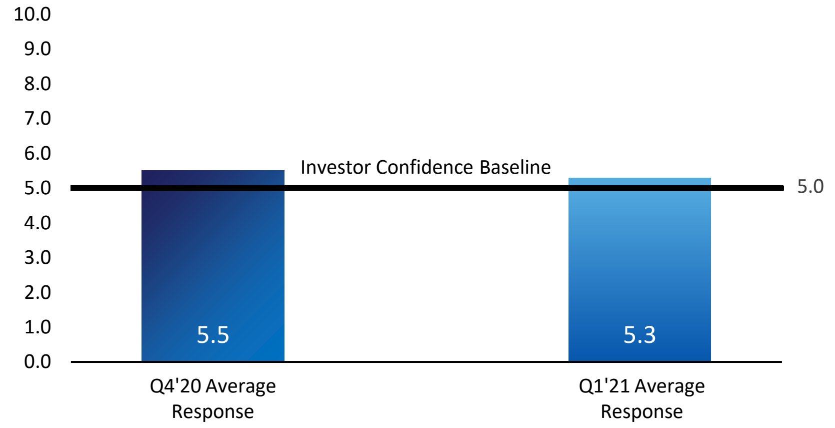
FIRMS WITH AN AUM LESS THAN $1 BN SPENT RELATIVELY MORE TIME ON FUND-RAISING ACTIVITIES



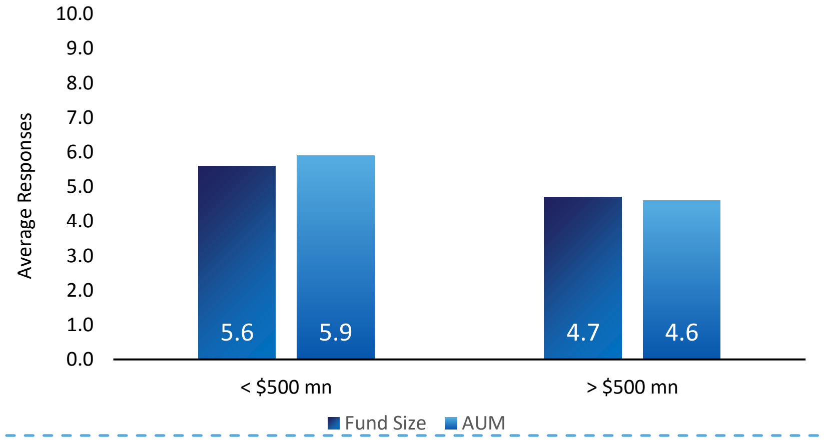
We asked our participants whether the time spent on fund-raising activities in Q1 2021 was lower or higher than Q4 2020. The average response of 5.7 in the Q1 survey indicated that more time was spent on fund-raising activities over Q4. The increase is relatively more prominent than the Q4 score of 5.4. The drivers of fund-raising that surfaced late in 2020, such as remote marketing, LP preference for incumbents, newer and emerging strategies, are also likely to feature prominently in 2021.

TIME SPENT ON EXISTING PORTFOLIO MANAGEMENT ACTIVITIES

AVERAGE RESPONSE SCORE



FIRMS WITH FUND SIZE AND AUM LESS THAN $500 MN SPENT RELATIVELY MORE TIME ON PORTFOLIO MANAGEMENT ACTIVITIES

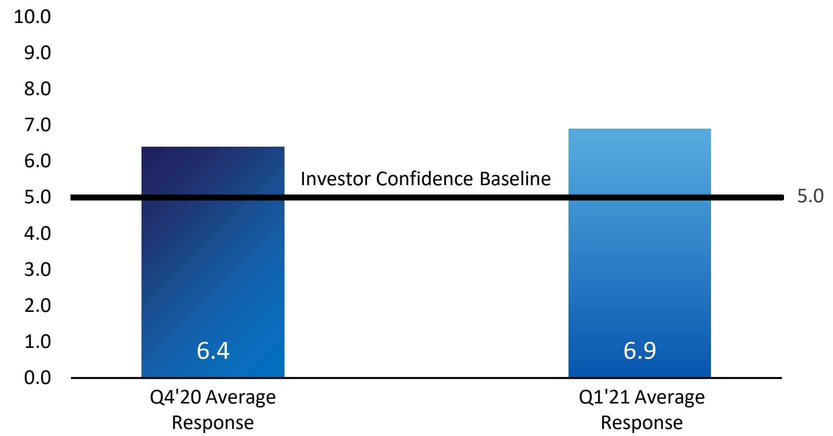


The average response on the time spent on managing the existing portfolio in Q1 2021 was 5.3. Although investors continue to engage with and support their portfolio companies, the response is slightly lower compared to the Q4 2020 survey score of 5.5, indicating that investors spent relatively less time on managing their portfolio companies.

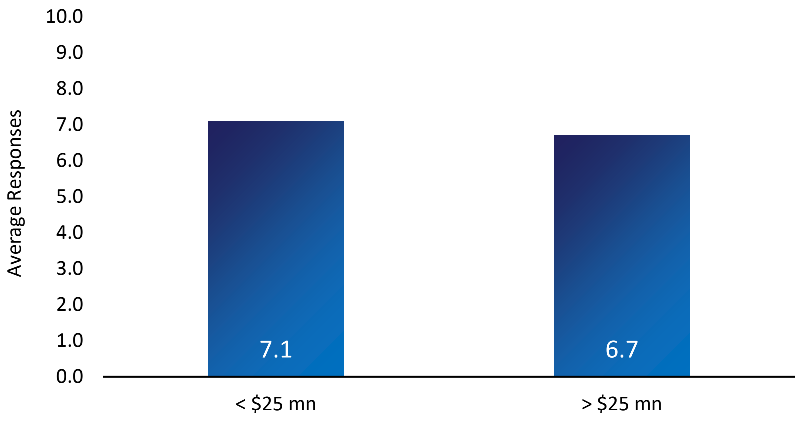
TIME ALLOCATION

TIME SPENT ON NEW DEAL DILIGENCE ACTIVITIES

AVERAGE RESPONSE SCORE



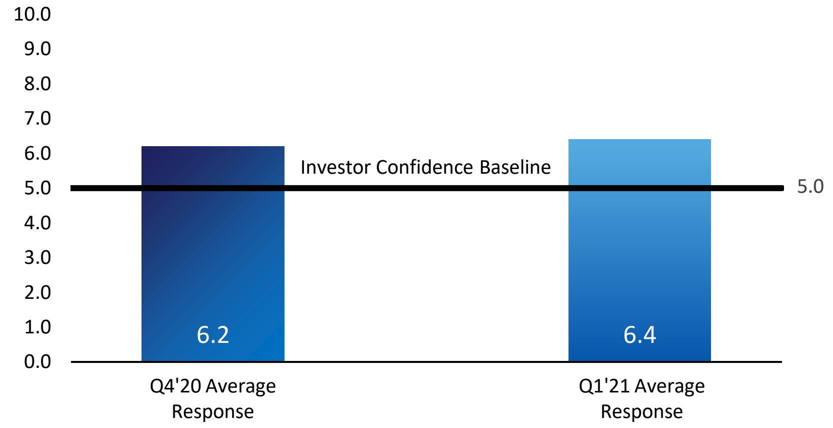
FIRMS WITH INVESTMENT CRITERIA (EBITDA) OF LESS THAN $25 MN SPENT RELATIVELY MORE TIME ON NEW DEAL DILIGENCE ACTIVITIES



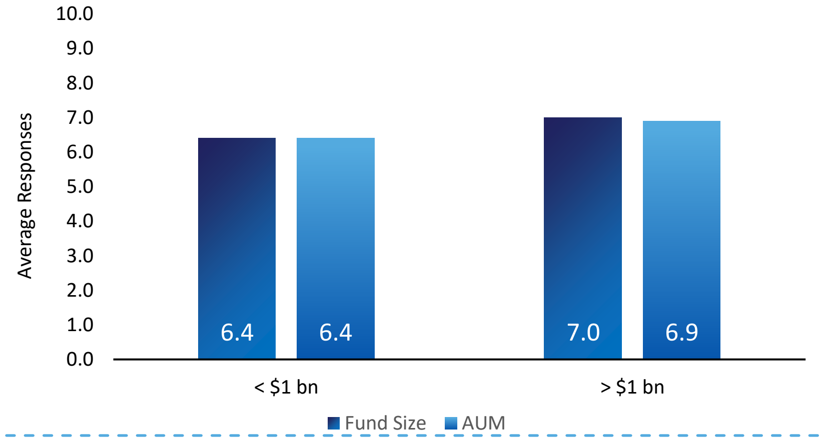
We asked our participants whether the time spent on new deal diligence activities in Q1 2021 was lower or higher than Q4 2020. The average response of 6.9 in Q1 indicated a healthy increase from Q4, as we saw investors continuing to build on the momentum for opportunities to put capital to work.

TIME SPENT ON SOURCING NEW DEALS

AVERAGE RESPONSE SCORE



FIRMS WITH FUND SIZE AND AUM MORE THAN $1 BN SPENT RELATIVELY MORE TIME ON SOURCING NEW DEALS



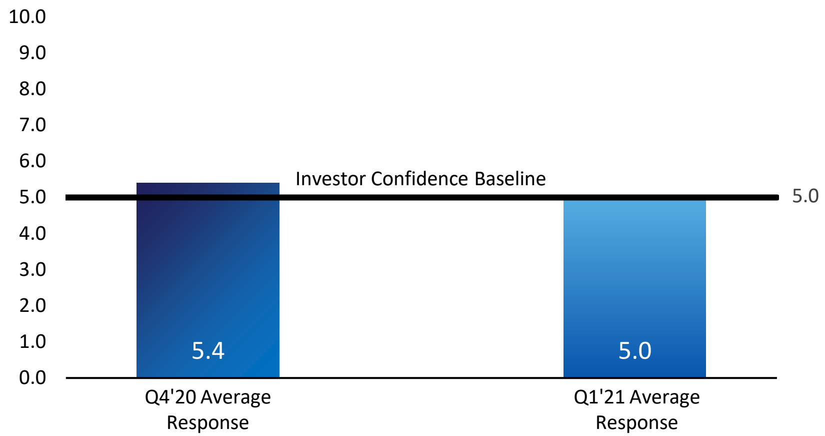
Similarly, the average response on time spent on sourcing new deals in Q1 2021 showed a score of 6.4. As fund-raising continued apace in Q1 2021, our respondents also highlighted a larger amount of uncommitted PE capital and continued aging of overall dry powder. The notable increase in the time spent on sourcing new deals suggests that sponsors are starting to feel some pressure to deploy capital.

Access to Capital & Financing

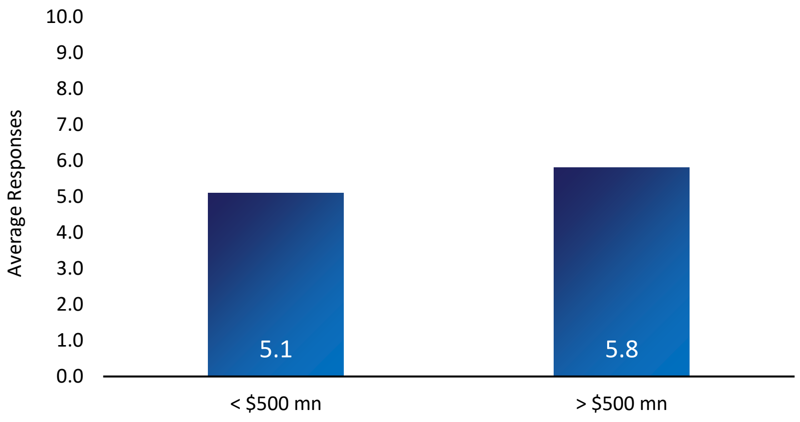
ACCESS TO CAPITAL & FINANCING

CONVERSATION WITH LPS AROUND EXISTING PORTFOLIO ACTIVITIES

AVERAGE RESPONSE SCORE



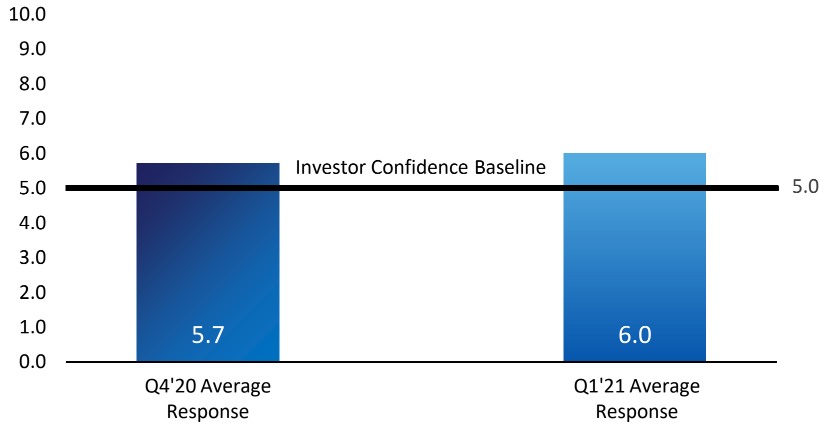
FIRMS WITH FUND SIZE MORE THAN $500 MN HAD RELATIVELY MORE FREQUENT CONVERSATIONS WITH LPS



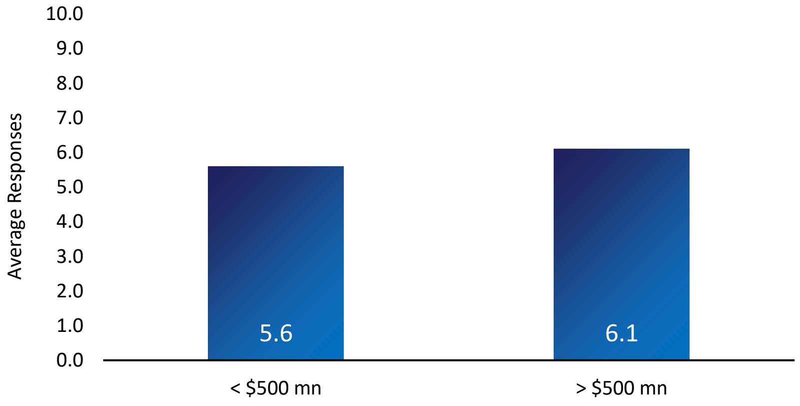
We asked our participants whether the conversation with LPs around existing portfolio activities in Q1 2021 were less or more frequent than in Q4 2020. The average response in the Q1 survey was 5.0, which indicates that LP worries around portfolio related activities have leveled off. As the economic outlook continues to improve, GPs are expected to spend more time on fund-raising activities compared to portfolio management.

CONVERSATION WITH LPS AROUND NEW FUND-RAISING INITIATIVES

AVERAGE RESPONSE SCORE



FIRMS WITH AUM MORE THAN $500 MN HAD RELATIVELY MORE FREQUENT CONVERSATIONS WITH LPS

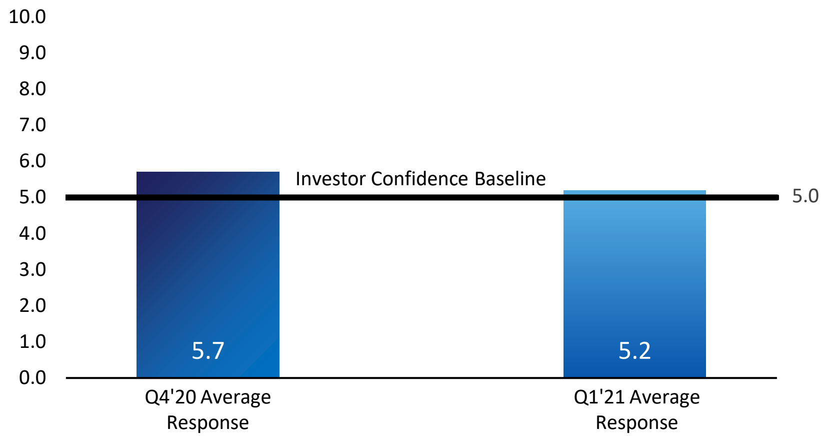


The average response on conversations with LPs around new fund-raising initiatives showed a score of 6.0 in the Q1 2021 survey, implying another significant increase when we look at the Q4 2020 survey score of 5.7. Back-to-back increases highlight that investors are still in the market to raise additional capital despite a record amount of dry powder waiting to be deployed.

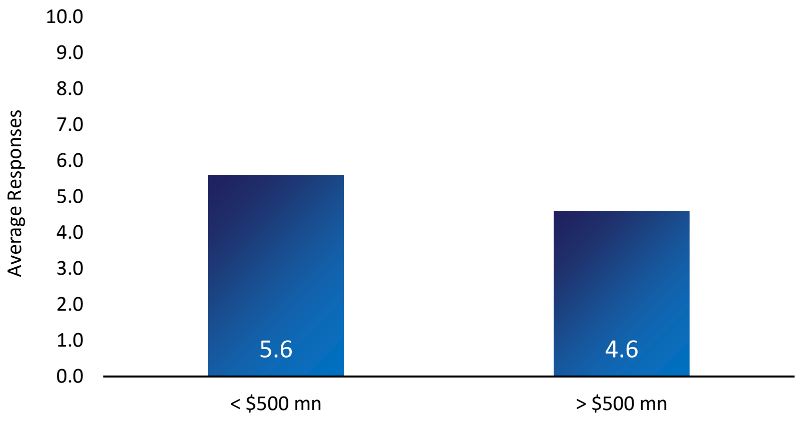
ACCESS TO CAPITAL & FINANCING

CONVERSATION WITH LENDERS ON AVAILABILITY OF FINANCING FOR THE EXISTING PORTFOLIO

AVERAGE RESPONSE SCORE



FIRMS WITH FUND SIZE LESS THAN $500 MN HAD RELATIVELY MORE FREQUENT CONVERSATIONS WITH LENDERS

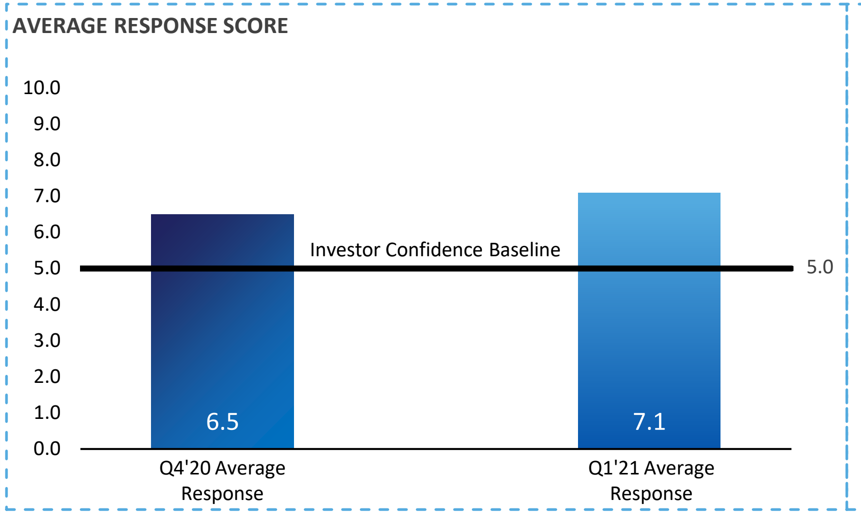


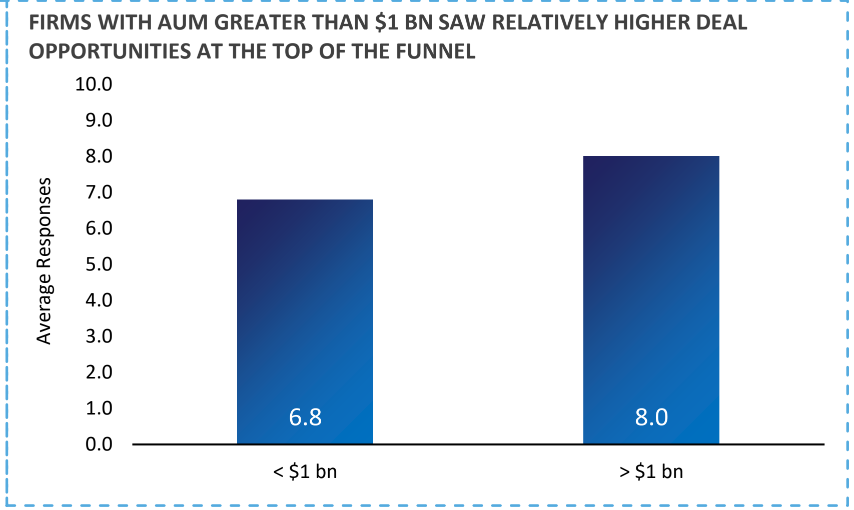
We asked our participants whether the conversation with lenders on the availability of financing for the existing portfolio in Q1 2021 was less or more frequent than in Q4 2020. The average response of 5.2 in Q1 is meaningfully less than the increase in Q4, indicating relatively fewer conversations on the availability of financing. With many businesses ramping back up post vaccine development, and benefitting from government funding along the way, respondents expect this trend to keep improving.

Deal Pipeline & Origination

DEAL PIPELINE & ORIGINATION

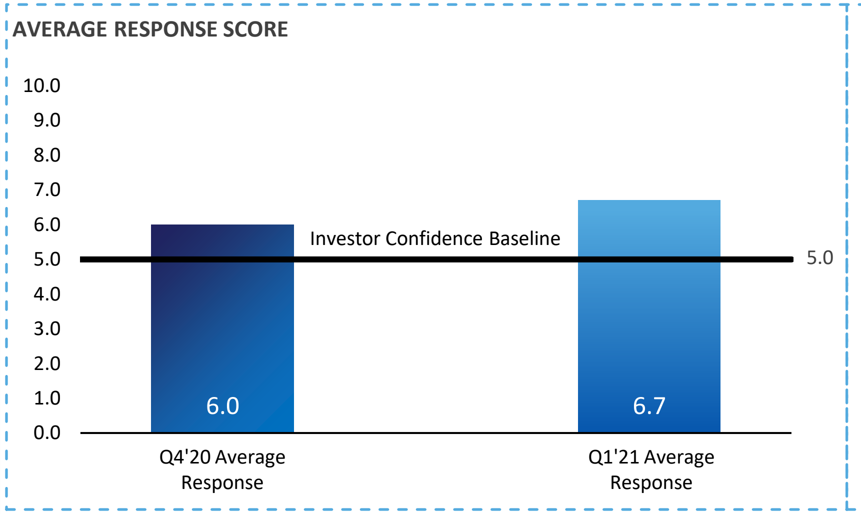
DEAL VOLUME OPPORTUNITIES SEEN AT THE TOP OF THE FUNNEL

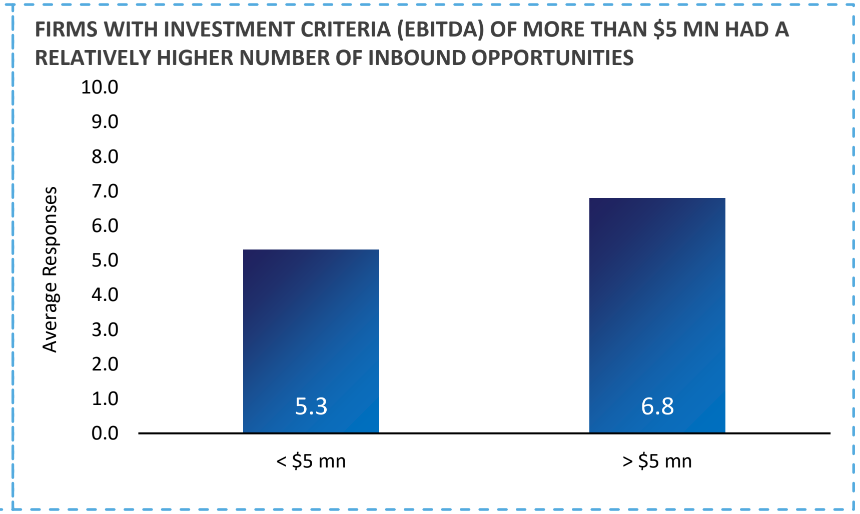




We asked our participants whether the deal opportunities seen at the top of the funnel in Q1 2021 were lower or higher than Q4 2020. The average response of 7.1 in the Q1 survey indicates higher amount of deal opportunities at the top of the funnel over Q4. With M&A levels reverting to pre-pandemic levels and valuations still healthy, respondents expect a healthy pipeline of opportunities going forward.

NUMBER OF INBOUND OPPORTUNITIES



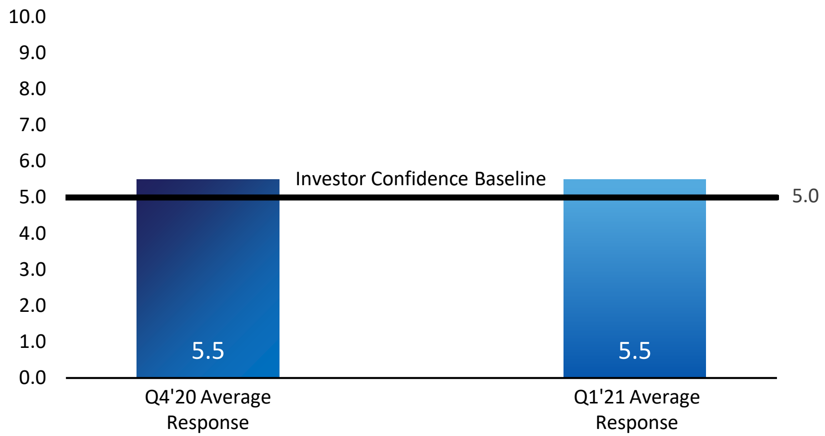


The average response for the number of inbound opportunities showed a score of 6.7 in the Q1 2021 survey as investors look for opportunities to put capital to work. The increase is more prominent than the increase in Q4. With strong economic performance expected in 2021, the value and number of M&A transactions is expected to pick up.

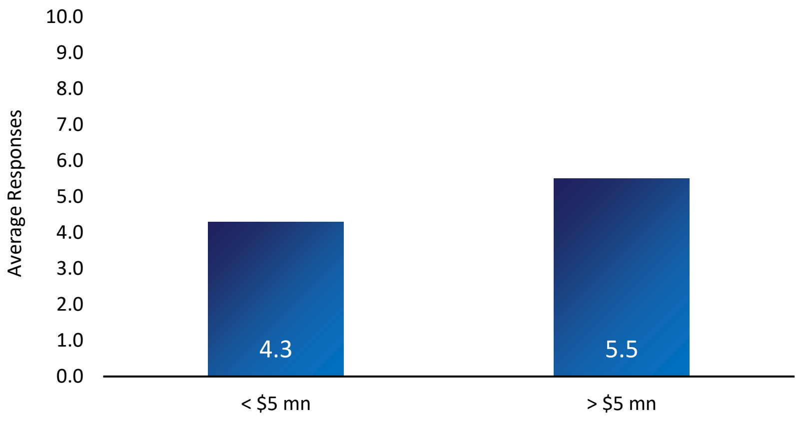
DEAL PIPELINE & ORIGINATION

QUALITY OF INBOUND OPPORTUNITIES

AVERAGE RESPONSE SCORE



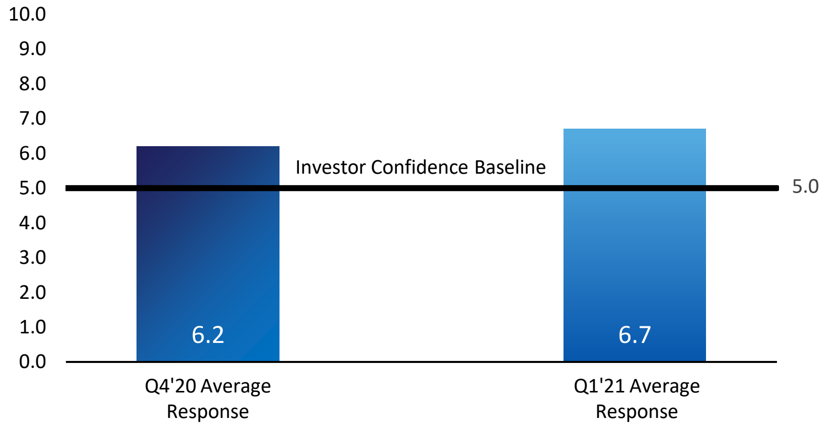
FIRMS WITH INVESTMENT CRITERIA (EBITDA) OF GREATER THAN $5 MN SAW RELATIVELY HIGHER QUALITY OF INBOUND OPPORTUNITIES



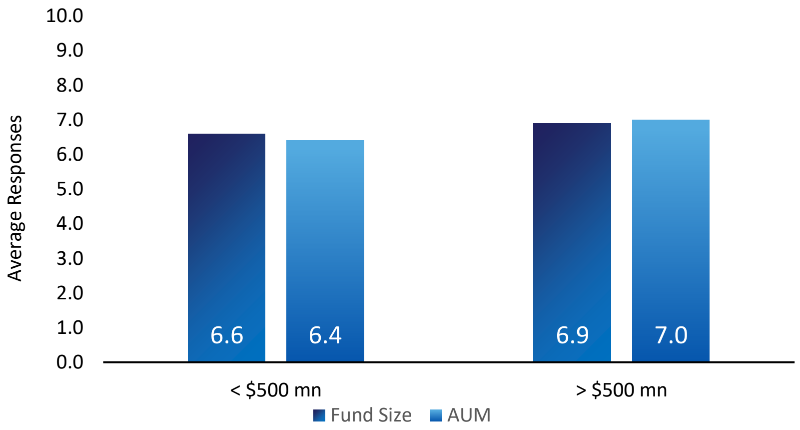
We asked our participants whether the quality of inbound opportunities in Q1 2021 was lower or higher than Q4 2020. The average response of 5.5 in the Q1 survey indicates a modest increase from Q4. The consecutive increase from the last two quarter depicts that more and more businesses are steering their way through the financial and operational challenges induced by COVID-19.

NUMBER OF ACTIVE DEALS IN THE PIPELINE

AVERAGE RESPONSE SCORE



FIRMS WITH FUND SIZE AND AUM GREATER THAN $500 MN HAD A RELATIVELY HIGHER NUMBER OF ACTIVE DEALS IN THE PIPELINE

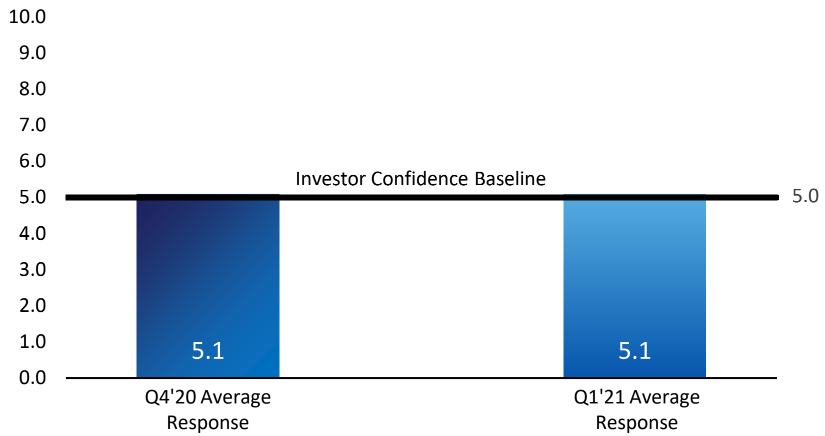


The average response for the number of active deals in the pipeline showed a score of 6.7 in the Q1 2021 survey indicating a higher number of active deals in the pipeline over Q4 2020. The back-to-back increases in the last two quarters shows that investors are spending more time and effort on actively putting capital to work.

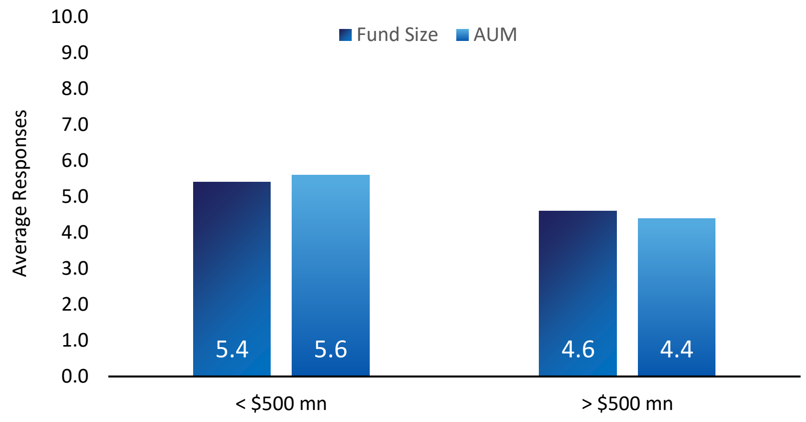
DEAL PIPELINE & ORIGINATION

NUMBER OF DEALS PUT ON THE BACKBURNER

AVERAGE RESPONSE SCORE



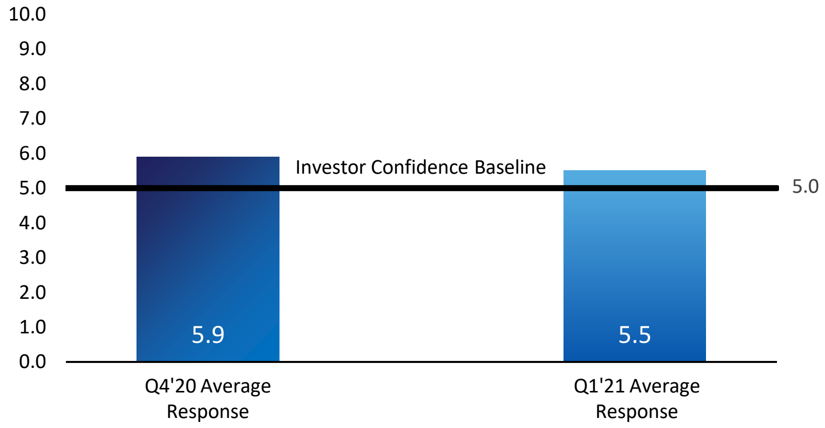
FIRMS WITH FUND SIZE AND AUM GREATER THAN $500 MN SAW A RELATIVELY LOWER NUMBER OF ACTIVE DEALS PUT ON THE BACKBURNER



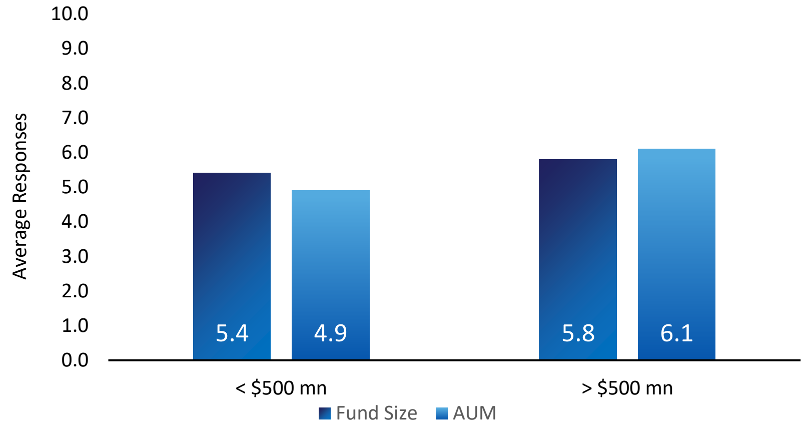
We asked our participants whether the number of deals on the backburner in Q1 2021 was lower or higher than Q4 2020. The average response of 5.1 in the Q1 survey indicates that there was no prominent change in deals put in the backburner compared to Q4. Although investors are actively looking for opportunities, closing deals is still challenging with a higher number of investors competing for quality deal flow.

EXPECTATION OF DEAL CLOSURES FOR ACTIVE DEAL DISCUSSIONS

AVERAGE RESPONSE SCORE



FIRMS WITH FUND SIZE AND AUM GREATER THAN $500 MN HAD A RELATIVELY HIGHER LEVEL OF CONFIDENCE IN CLOSING ACTIVE DEALS

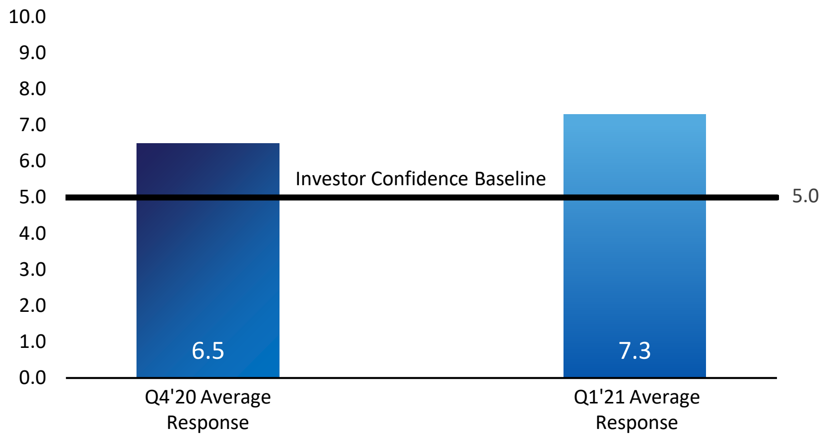


We asked our participants whether the expectation of deal closures for active deal discussions in Q1 2021 was lower or higher than Q4 2020. The average response of 5.5 in the Q1 survey indicates a marginal increase in expectation of closing deals over Q4.

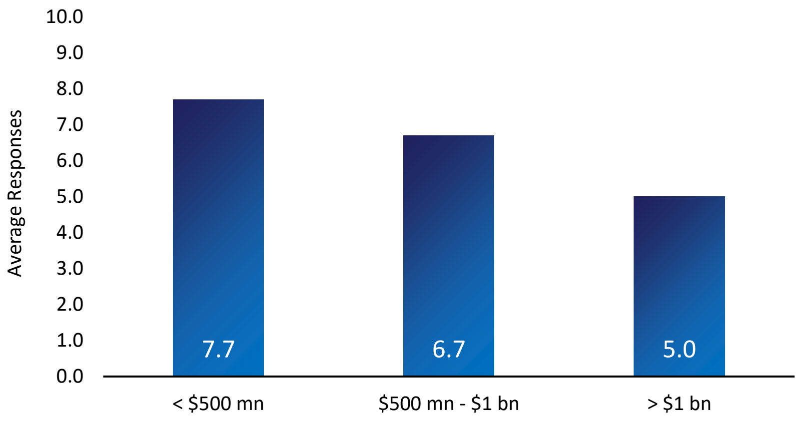
DEAL PIPELINE & ORIGINATION

ANTICIPATED LEVEL OF COMPETITION FOR NEW DEAL OPPORTUNITIES

AVERAGE RESPONSE SCORE



SMALLER FUNDS HAD RELATIVELY HIGHER ANTICIPATION OF COMPETITION FOR NEW DEAL OPPORTUNITIES



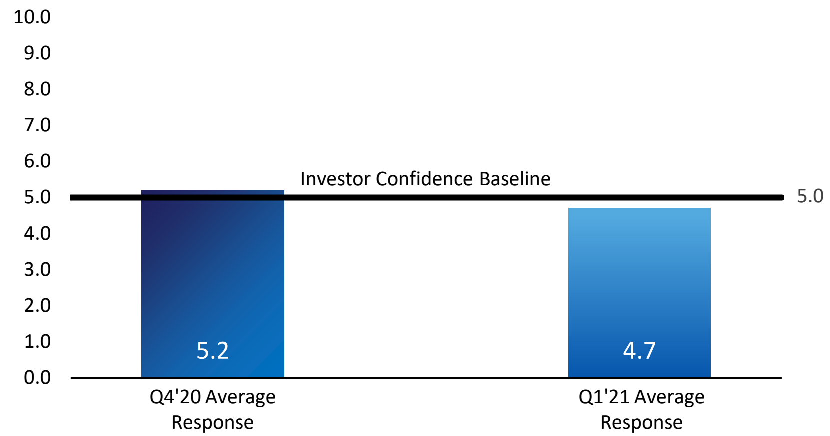
We asked our participants whether the anticipated level of competition for new deal opportunities in Q1 2021 was lower or higher than Q4 2020. The average response of 7.3 in the Q1 survey indicated a higher anticipated level of competition for new deal opportunities as new funds come into the market and the supply of quality deals remain limited.

Portfolio Management

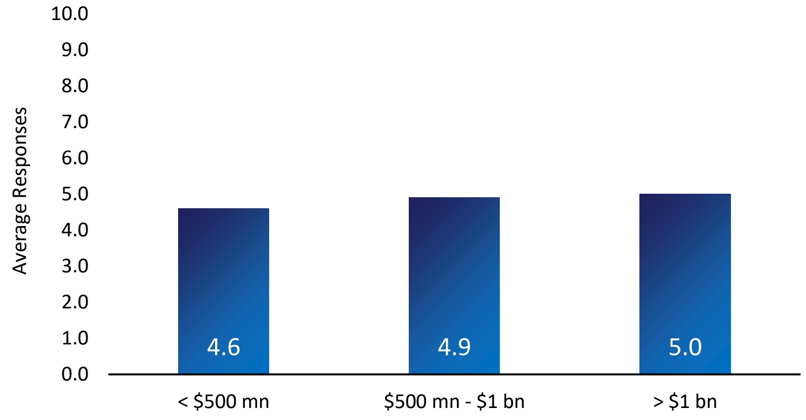
PORTFOLIO MANAGEMENT

EXPECTATIONS AROUND LIFECYCLE OF PORTFOLIO INVESTMENTS

AVERAGE RESPONSE SCORE



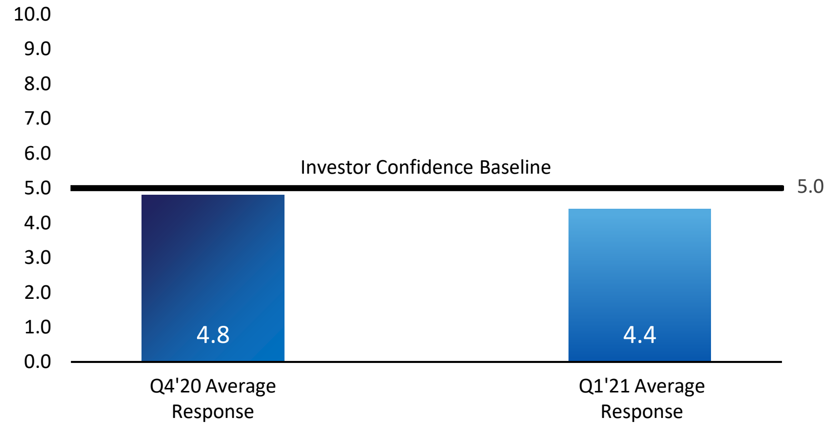
SMALLER FUNDS EXPECT THE LIFECYCLE OF PORTFOLIO INVESTMENTS TO BE RELATIVELY SHORTER



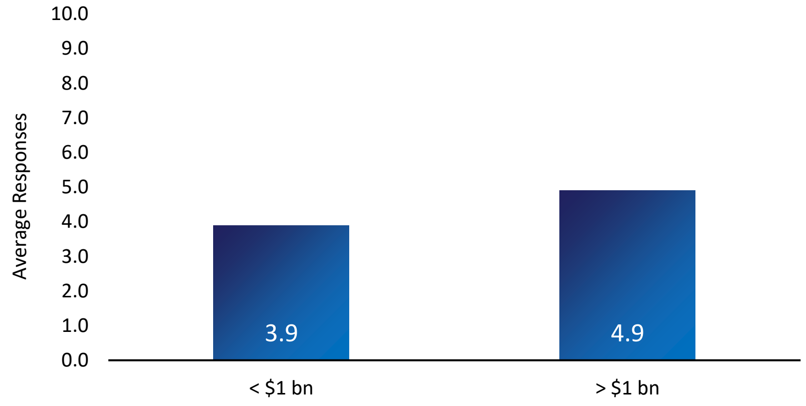
We asked our participants whether the expectations around the lifecycle of portfolio investments in Q1 2021 were shorter or longer than Q4 2020. The average response of 4.7 in the Q1 survey indicated a marginally shorter lifecycle of portfolio investments which contrasts from the increase seen in Q4. A shorter lifecycle can be attributed to investors having a relatively clearer outlook of the market and the need to generate strong returns for yield seeking investors.

EXPECTATION FOR DISTRESSED ASSETS IN THE PORTFOLIO

AVERAGE RESPONSE SCORE



FIRMS WITH AN AUM GREATER THAN $1 BN HAD A RELATIVELY HIGHER EXPECTATION FOR ASSETS TURNING DISTRESSED

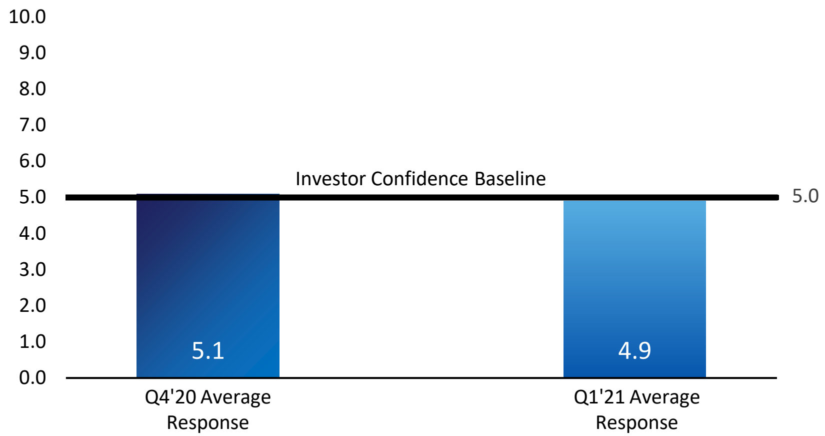


The average response for the expectation for distressed assets in the portfolio was lower at 4.4 in the Q1 2021 survey, giving a positive indication of investors having lower expectations of distressed assets in their portfolio. The federal stimulus played an important role in bridging the capital needs for many businesses, while lenders are now able to underwrite to stronger portfolio fundamentals.

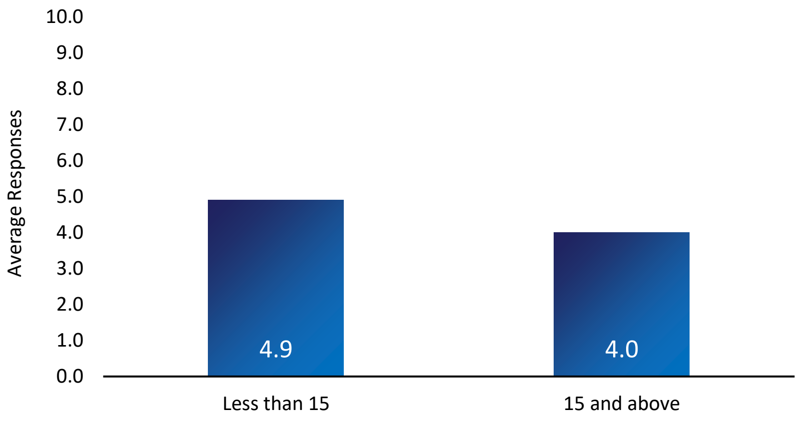
PORTFOLIO MANAGEMENT

ANTICIPATION OF FURTHER FUNDING NEEDS FOR THE EXISTING PORTFOLIO

AVERAGE RESPONSE SCORE



FIRMS WITH GREATER THAN 15 PORTFOLIO ASSETS HAD RELATIVELY LOWER ANTICIPATION OF FURTHER FUNDING NEEDS FOR THE EXISTING PORTFOLIO



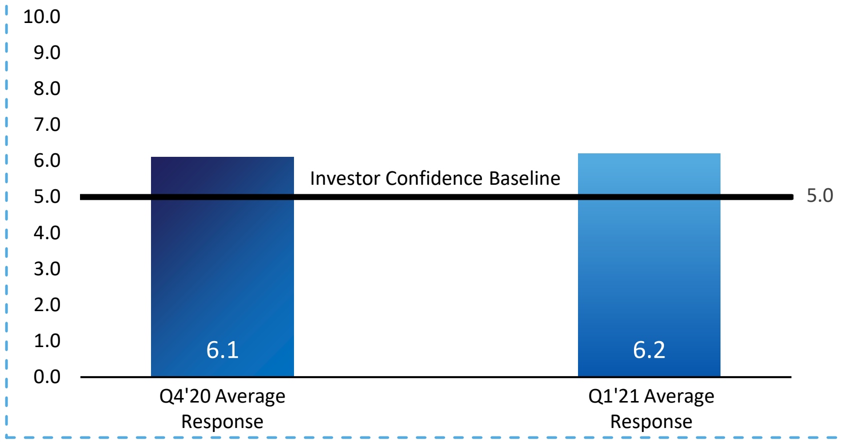
We asked our participants whether the anticipation of further funding needs for the existing portfolio in Q1 2021 was lower or higher than Q4 2020. The average response of 4.9 in the Q1 survey infers that funding needs for the existing portfolio are largely being met, though needs are likely to be more nuanced going forward and will likely be more industry dependent.

Valuation & Exit Opportunities

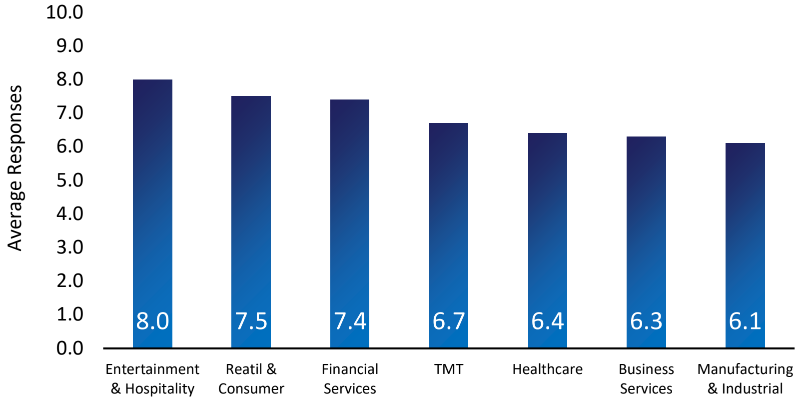
VALUATION & EXIT OPPORTUNITIES

EXPECTATION AROUND VALUATION MULTIPLES FOR EXITS

AVERAGE RESPONSE SCORE



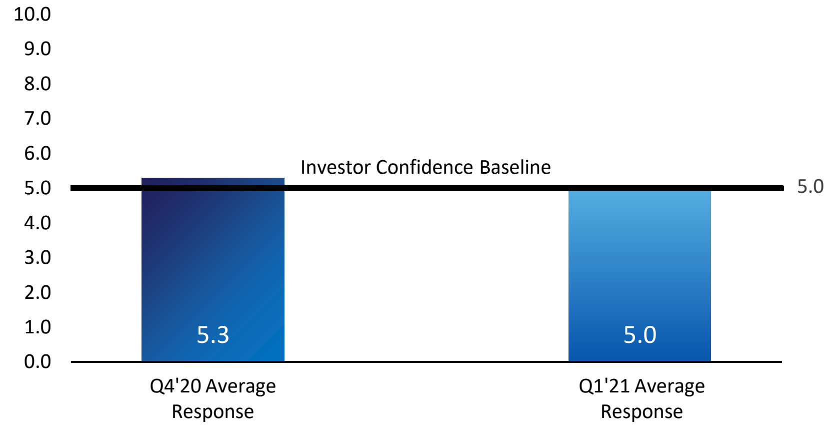
FIRMS INVESTING IN COMPANIES IN THE ENTERTAINMENT & HOSPITALITY SECTOR HAD RELATIVELY HIGHER EXPECTATIONS AROUND VALUATION MULTIPLES FOR EXITS



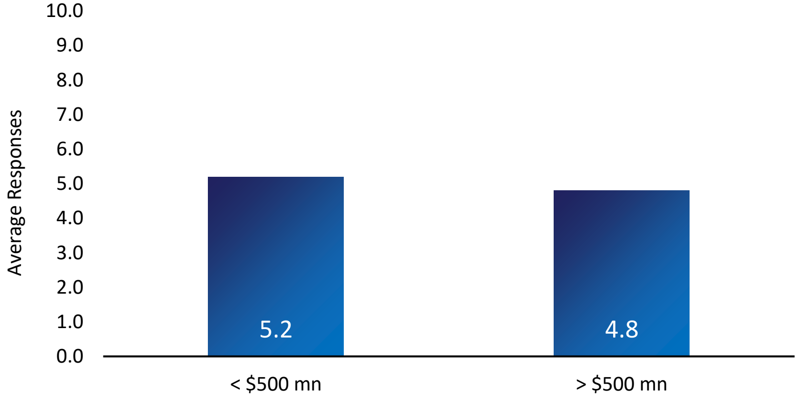
We asked our participants whether the expectation around valuation multiples for exits in Q1 2021 was lower or higher than Q4 2020. The average response of 6.2 in the Q1 survey indicated an expectation for valuation multiples moving higher, following a similar increase in Q4. This results echoes trends mentioned throughout this report where a larger number of investors with higher amounts of dry powder are chasing a limited amount of highly coveted assets, leading to multiple inflation.

EXPECTATION OF SELLING TO STRATEGIC BUYERS VS. FINANCIAL SPONSORS

AVERAGE RESPONSE SCORE



FIRMS WITH AUM LESS THAN $500 MN HAD RELATIVELY HIGHER EXPECTATIONS OF SELLING TO STRATEGIC BUYERS VS. FINANCIAL SPONSORS

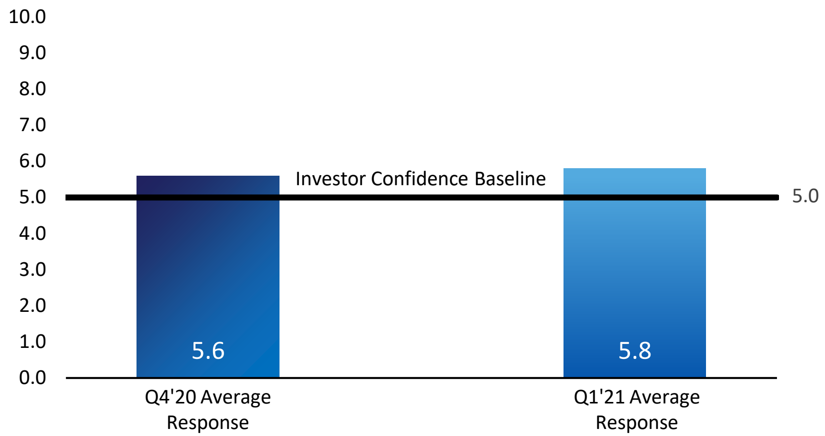


The average response for the expectation of selling to strategic buyers vs. financial sponsors showed a score of 5.0 in the Q1 survey indicating no change in expectation over Q4.

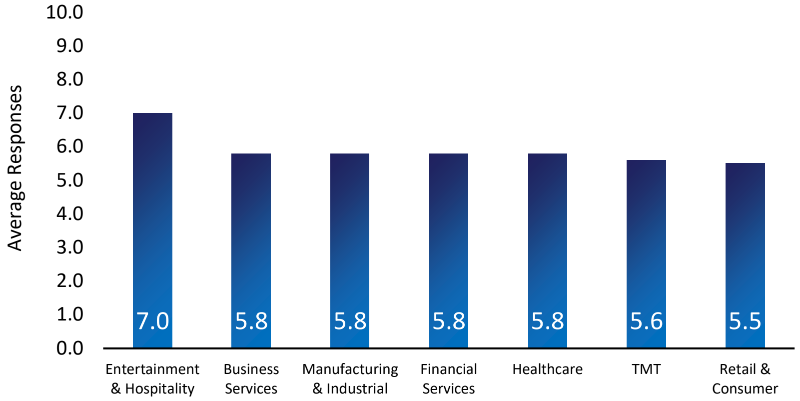
VALUATION & EXIT OPPORTUNITIES

VALUE MISMATCH BETWEEN SELLER AND BUYER VALUATION OUTLOOK

AVERAGE RESPONSE SCORE



FIRMS INVESTING IN COMPANIES IN THE ENTERTAINMENT & HOSPITALITY SECTOR SAW A RELATIVELY HIGHER MISMATCH BETWEEN SELLER AND BUYER VALUATION OUTLOOK



We asked our participants whether the mismatch between seller and buyer valuation outlook in Q1 2021 was lower or higher than Q4 2020. As investors see benchmark valuations moving higher, we expect there will be less discrepancy for quality assets given the competition and dry powder available in the market.

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