

## Private Capital Secondary Market Set for Growth

### Fund managers expect to see fundraising and transaction activity surpass 2017 levels

Private capital secondary fund managers expect the total size of the sector to grow in 2018. Following a record year for private capital secondary transaction and fundraising activity in 2017, it is unsurprising that the majority of fund managers are optimistic for the year ahead. Q1 2018 lags behind Q1 2017's fundraising levels, with five funds securing \$4.7bn compared to 11 funds that secured \$20bn, but the largest proportion of fund managers surveyed\* (41%) expect the total value of deals in the secondary market to reach \$45bn or more in 2018. This could make the year the most active ever for secondary transactions. Additionally, the majority (60%) of fund managers expect to invest more in 2018 than they did in 2017. Secondary fund managers' positive outlook for the year comes as median performance for secondary funds exceeds that of all other private capital sectors among vintage years 2009-2015.

**For more information and analysis, see the full [Q1 2018 Secondary Market Update](http://docs.preqin.com/reports/Preqin-Special-Report-Secondary-Market-Update-Q1-2018.pdf) here:**

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#### Key Private Capital Secondary Market Facts:

- **The private capital secondary market marked a landmark year in 2017.** Thirty-nine funds raised a combined \$43bn, and Greenhill Cogent estimates that transaction activity reached \$58bn – both records for the industry.
- **Q1 2018 saw five funds secure \$4.7bn**, a decrease from Q1 2017 when 11 funds raised \$20bn.
- However, the largest proportion (41%) of **fund managers expect total secondary transaction value to reach \$45bn** or more in 2018, and a further 32% expect it to reach at least \$40bn.
- Additionally, the majority (60%) of **fund managers plan to invest more in 2018 than they did in 2017**, while just 8% plan to invest less.
- This positive outlook follows strong performance: **median net IRRs for private capital secondaries exceed all private capital funds** for every vintage year from 2009 to 2015.
- Additionally, **all funds closed in Q1 2018 exceeded their target size**, including 60% which achieved 125% or more of their initial fundraising target.
- In April 2018 **there are 34 secondaries funds in market targeting a total of \$34bn**. This includes Lexington Capital Partners IX, which with a target of \$12bn is seeking to become the largest secondaries fund ever.

#### Christopher Elvin, Head of Private Equity Products:

“2017 was a record year for the private capital secondary market, as it saw both fundraising and transaction values reach record highs. As the industry continues to gain prominence and break records, perception around the secondary market has improved vastly and fund managers are feeling especially optimistic about 2018. Despite Q1 seeing less fundraising activity than the year before, all the vehicles that did close managed to exceed their target size. This speaks to the strong appetite investors have for the market, and will give confidence to those fund managers currently seeking capital – including those seeking to raise the largest secondaries fund ever.

In part, increased investor appetite may be due to the changing perception surrounding the private capital secondary market. Once a tool used primarily by investors in challenging circumstances, secondary transactions are becoming a core component of active portfolio management for many investors, and fund managers are engaging in larger and more complicated transaction structures to meet that need. At the same time, the returns offered by secondaries vehicles stand out even among other high-performing private capital strategies, and it may be this as much as anything that gives fund managers confidence that the industry is set to grow further over the coming year.”

**\*Results based on a survey of 40 private capital secondary fund managers conducted in January 2018.**

*Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.*

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