



PREQIN SECONDARY MARKET UPDATE

Q3 2017

FOREWORD

Aggregate fundraising for secondaries funds in Q3 2017 totalled \$5.4bn, bringing total fundraising for the year to date to \$29bn, the same amount as the record for the whole of 2014. The quarter included a \$2.7bn final close for Lexington Partners with Lexington Middle Market Investors IV.

The secondaries fundraising market remains competitive: there are 44 funds in market seeking \$31bn. Secondary fund managers seeking capital will be buoyed by the fact that 88% of secondaries funds closed in 2017 so far have reached or exceeded their target. The strong performance of secondaries vehicles relative to other strategies continues to underpin positive investor sentiment towards the strategy. Less than 2% of secondaries funds are currently delivering negative net IRRs, and the median net multiple for secondaries funds across all vintages is 1.47X, higher than the 1.37X average for all private capital funds.

This secondaries quarterly update also showcases the results of Preqin's survey of secondary buyers in July 2017. Combined, the 32 survey respondents completed \$7.0bn worth of transactions in H1 2017; their activity sheds light on the wider trends in the secondary market for the first half of the year and buyers' expectations for the second half.

The survey results show that the secondary market is in good health: the desire for liquidity and portfolio management, coupled with a strong pricing environment, drove activity in H1 2017. This activity is being supplemented by increasing opportunities from GP-led deals. Sixty-four percent of respondents expect to spend more in the second half of the year than the first, and a third of respondents anticipate aggregate secondaries transactions will value at \$40bn or more for full-year 2017.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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SECONDARY MARKET MONITOR

Preqin's Secondary Market Monitor is the industry's leading source of intelligence on the private equity, private real estate, infrastructure and private debt secondary fund markets. Get online access to information on potential buyers, sellers and intermediaries, secondaries fundraising, secondary transactions and pricing.

Get in touch today to arrange a demo of Secondary Market Monitor: [✉: info@preqin.com](mailto:info@preqin.com) | [🌐: www.preqin.com/smm](http://www.preqin.com/smm)

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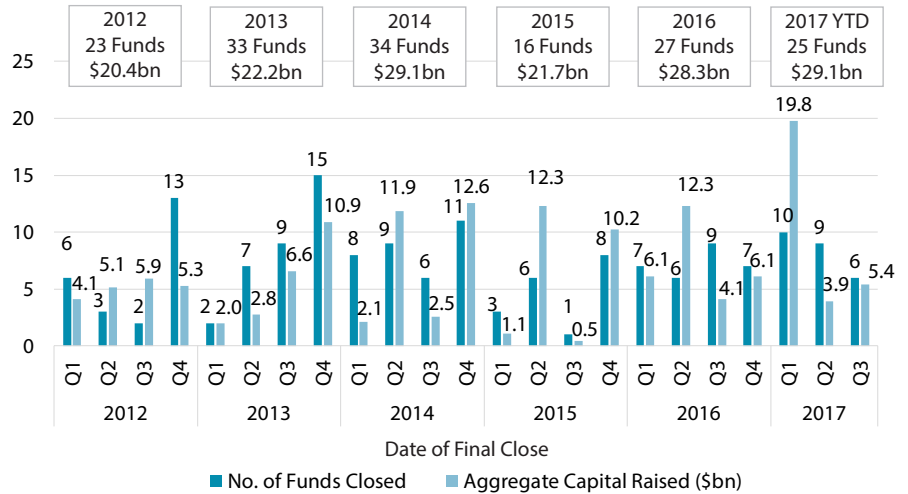


FUNDRAISING

In Q3 2017, six secondaries funds held a final close, fewer than in Q2 2017, when nine vehicles held a final close (Fig. 1). More capital was raised in Q3 2017 compared to Q2 2017, however, with \$5.4bn raised in total (compared to \$3.9bn). This brings the total amount raised for 2017 YTD to \$29bn, the same amount as the record in 2014, with Q4 still to come.

Q3 2017 saw three vehicles close on more than \$1bn. The largest secondaries fund to close in the quarter was Lexington Partner's Lexington Middle Market Investors IV, which raised a total of \$2.7bn. The vehicle purchases secondary stakes in growth capital and small and mid-market buyout funds globally, targeting younger vehicles with a higher level of undrawn capital. The quarter also saw a \$1.1bn close for Intermediate Capital Group's Strategic Secondaries II Fund, a vehicle solely focused on restructuring opportunities, re-affirming the viability of

Fig. 1: Global Quarterly Secondaries Fundraising, Q1 2012 - Q3 2017



Source: Preqin Secondary Market Monitor

this particular strategy in the secondaries market.

The vast majority (88%) of secondaries funds closed in 2017 YTD managed to raise at least their target size, with 82% exceeding their target size on final closing

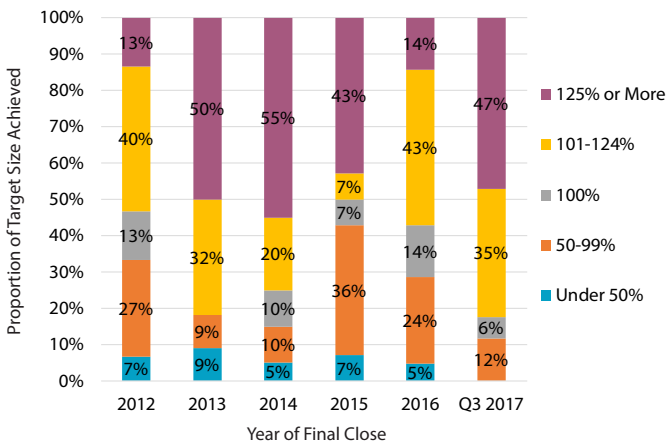
(Fig. 3). With the amount raised so far in 2017, secondaries dry powder has grown to \$94bn in September 2017, higher than the previous peak of \$77bn in December 2016 (Fig. 4).

Fig. 2: Five Largest Secondaries Funds Closed in Q3 2017

Fund	Firm	Final Size (mn)	Type	Geographic Focus
Lexington Middle Market Investors IV	Lexington Partners	2,700 USD	Private Equity Secondaries	US
NB Credit Opportunities Fund	Neuberger Berman	1,100 USD	Private Equity Secondaries	Europe
Strategic Secondaries II Fund	Intermediate Capital Group	1,100 USD	Private Equity Secondaries	US
Vintage Investment Partners X	Vintage Investment Partners	215 USD	Private Equity Secondaries	US
Alpha CEE Opportunity IV	Alpha Associates	150 EUR	Private Equity Secondaries	Europe

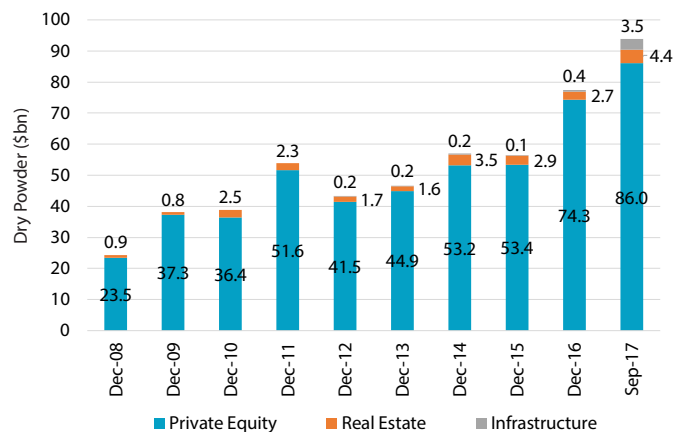
Source: Preqin Secondary Market Monitor

Fig. 3: Secondaries Funds Closed by Proportion of Target Size Achieved, 2012 - Q3 2017



Source: Preqin Secondary Market Monitor

Fig. 4: Secondaries Dry Powder by Fund Type, 2008 - 2017



Source: Preqin Secondary Market Monitor

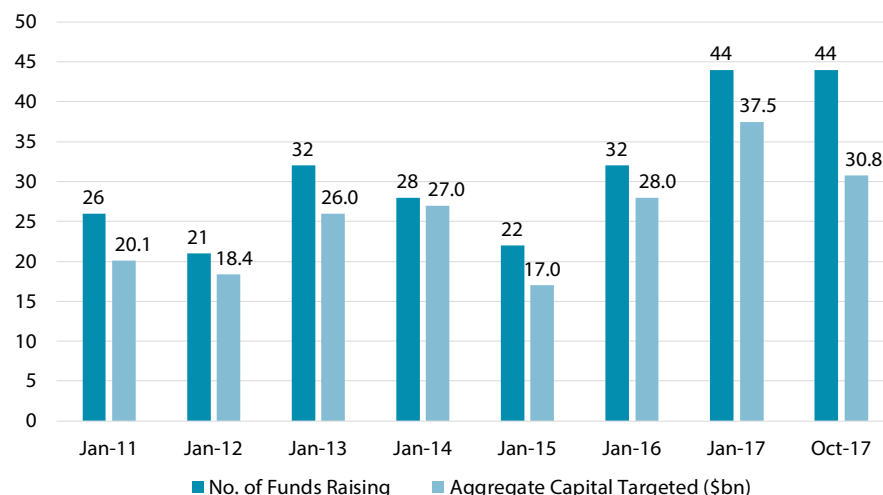
FUNDS IN MARKET

As of the start of Q4 2017, there are 44 secondaries vehicles in market seeking aggregate capital of \$31bn (Fig. 5). Although this is the same number of funds as was in the market at the start of the year, less is being sought in aggregate following the closing of some larger vehicles during the course of the year. Of the secondaries funds currently raising capital, 61% have held an interim close, with \$13bn already secured by these vehicles.

As shown in Fig. 6, 29 vehicles (66% of the secondaries funds seeking capital) have a primary focus on North America. The vast majority of capital being sought (73%) is also targeted by North America-focused vehicles. There are three Asia-focused secondaries vehicles in market, seeking just half a billion dollars in capital in total.

Of the secondaries funds currently seeking capital, there are five dedicated real estate secondaries which are targeting

Fig. 5: Secondaries Funds in Market over Time, 2011 - 2017

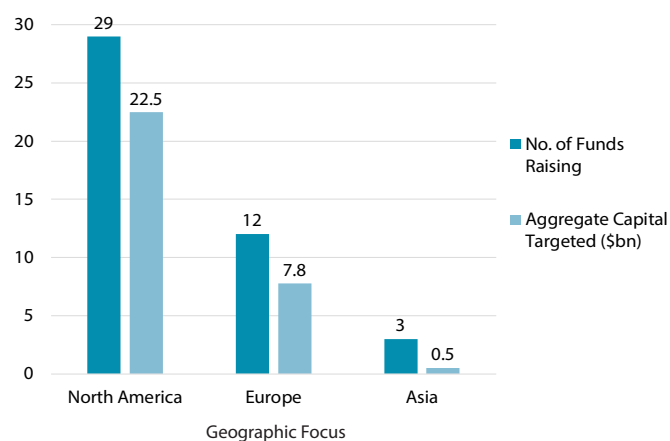


Source: Preqin Secondary Market Monitor

\$5.6bn in aggregate (Fig. 7). There are also two infrastructure vehicles on the road: Ardian’s ASF VII Infrastructure, which is seeking \$1.5bn, and Stafford Capital Partner’s Stafford Infrastructure Secondaries Fund II, which aims to raise \$276mn.

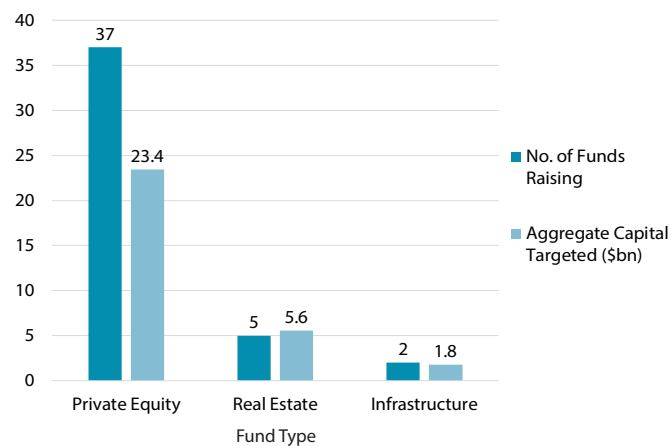
The largest secondaries vehicle currently in market is Goldman Sachs AIMS Private Equity’s Vintage Fund VIII, which is seeking \$5bn (Fig. 8). This vehicle has already held several interim closes and has secured \$4.5bn towards its target.

Fig. 6: Secondaries Funds in Market by Geographic Focus



Source: Preqin Secondary Market Monitor

Fig. 7: Secondaries Funds in Market by Fund Type



Source: Preqin Secondary Market Monitor

Fig. 8: Five Largest Secondaries Funds in Market (As at October 2017)

Fund	Firm	Firm Location	Target Size (\$mn)	Fund Type
Vintage Fund VII	Goldman Sachs AIMS Private Equity	US	5,000	Private Equity Secondaries
Landmark Equity Partners XVI	Landmark Partners	US	4,000	Private Equity Secondaries
Crown Global Secondaries IV	LGT Capital Partners	Switzerland	2,500	Private Equity Secondaries
Landmark Real Estate Fund VIII	Landmark Partners	US	2,000	Real Estate Secondaries
Partners Group Real Estate Secondary 2017	Partners Group	Switzerland	2,000	Real Estate Secondaries

Source: Preqin Secondary Market Monitor



SELLERS

Preqin's survey of secondary market buyers asked respondents what they believed to be the main motivations of investors that sold to them on the secondary market in H1 2017. As shown in Fig. 9, liquidity (the desire to realize capital from mature funds) and portfolio management continue to be the main factors that drive investors to utilize the secondary market to sell, as they were when we surveyed buyers in January 2017 on their activity in H2 2016.

Respondents were also asked to indicate which firm types they bought interests from on the secondary market in H1 2017.

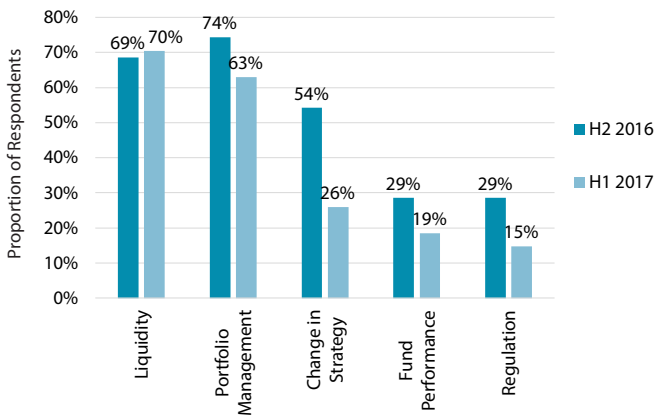
As was the case in January 2017, family offices were the main supplier of deal flow, with 64% of respondents indicating they had bought from this group of investors in H1 2017 (Fig. 10).

Activity in the secondary market remains predominantly in North America, with 81% of respondents indicating they had bought interests from investors based there in H1 2017 (Fig. 11). There was a drop in deal flow emanating from Europe, with 59% of respondents indicating they had bought from a seller based there in H1 2017, compared to 74% in H2 2016.

Private equity secondaries remain the most liquid, with over half of respondents completing deals involving small and mid-market buyout funds, as well as venture capital funds, in H1 2017. The market continues to cater to the needs of investors in other private capital funds, with respondents also having purchased natural resources, private debt, real estate and infrastructure fund interests in H1 2017.

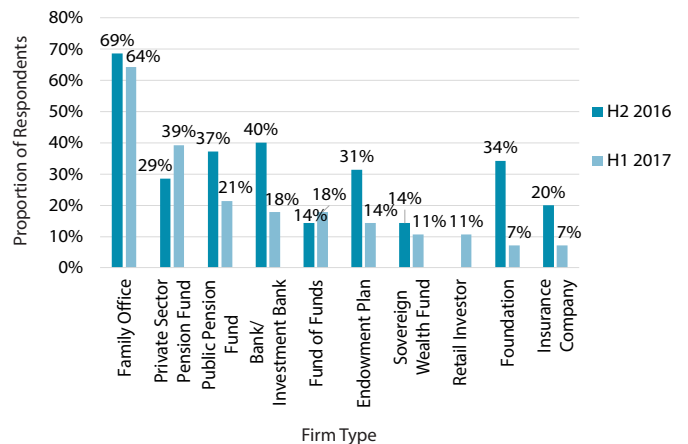
Looking at the vintages of funds being sold on the secondary market, based on our survey of secondary buyers, a substantial proportion (70%) indicated they had been sold funds of vintages 2010 or later, i.e.

Fig. 9: Sellers' Main Motivations for Selling Fund Interests on the Secondary Market According to Buyers, H2 2016 vs. H1 2017



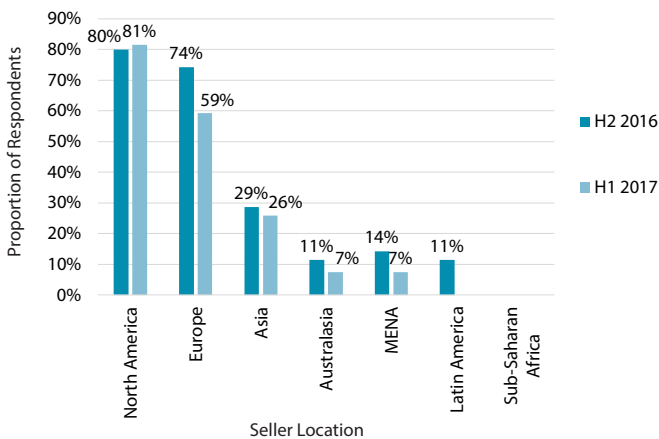
Source: Preqin Secondary Fund Manager Survey, January - July 2017

Fig. 10: Firm Types from Which Buyers Bought Fund Interests on the Secondary Market, H2 2016 vs. H1 2017



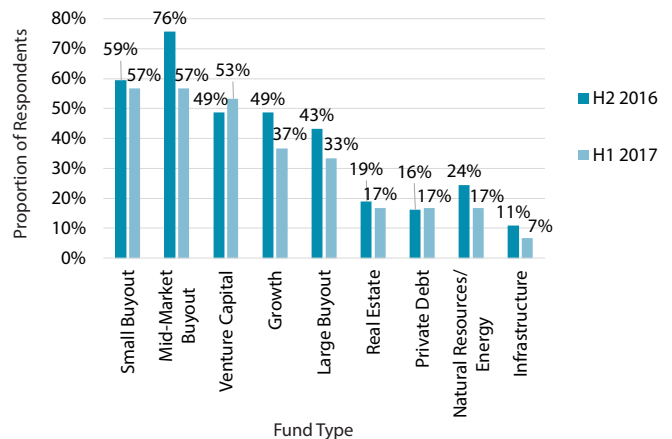
Source: Preqin Secondary Fund Manager Survey, January - July 2017

Fig. 11: Location of Sellers from Which Buyers Bought Fund Interests on the Secondary Market, H2 2016 vs. H1 2017



Source: Preqin Secondary Fund Manager Survey, January - July 2017

Fig. 12: Funds Purchased on the Secondary Market by Type, H2 2016 vs. H1 2017



Source: Preqin Secondary Fund Manager Survey, January - July 2017

funds that are seven years old or younger (Fig. 13). This indicates the availability of quality deal flow to secondary buyers as younger funds have more potential upside relative to more mature ones. Mature funds, however, are still being purchased – over half of respondents bought 2006 and 2007 vintage funds in H1 2017.

MAKE-UP OF FUTURE SELLERS

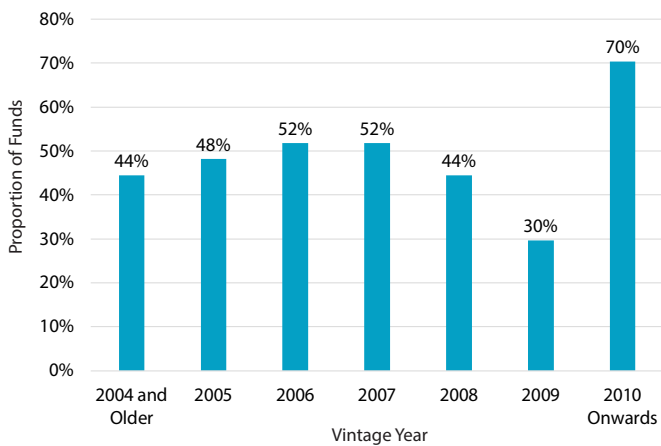
Preqin’s researchers maintain regular contact with investors to find out their plans for the secondary market. As at the end of Q3 2017, Preqin has identified 787

firms that have indicated a willingness to sell fund interests on the secondary market in the next 12-24 months. This is more than the 754 investors that indicated the same at the end of Q2 2017. As can be seen in Fig. 14, these potential sellers represent a diverse group of investors including public and private sector pension funds and private equity fund of funds managers.

These expected sellers are concentrated in Europe and North America (42% and 39% respectively, Fig. 15). There have also been expected sellers identified in Asia (10%)

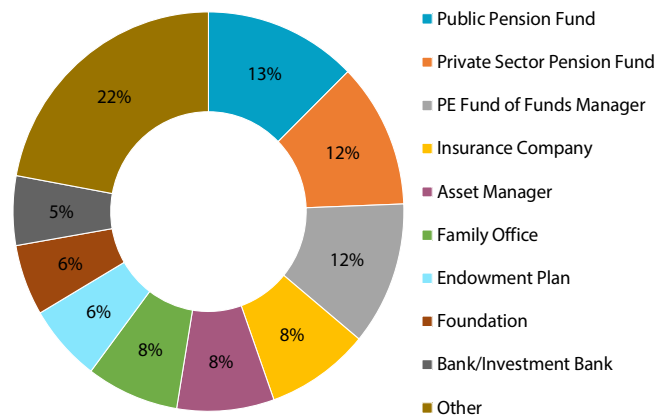
and Rest of World (9%), which includes investors based in Australia, Brazil and the United Arab Emirates. These firms will potentially bring a variety of funds to the market. The majority (60%) will potentially sell buyout funds, and over half (54%) are expected to sell private debt funds (Fig. 16).

Fig. 13: Funds Sold to Buyers on the Secondary Market in H1 2017 by Vintage Year



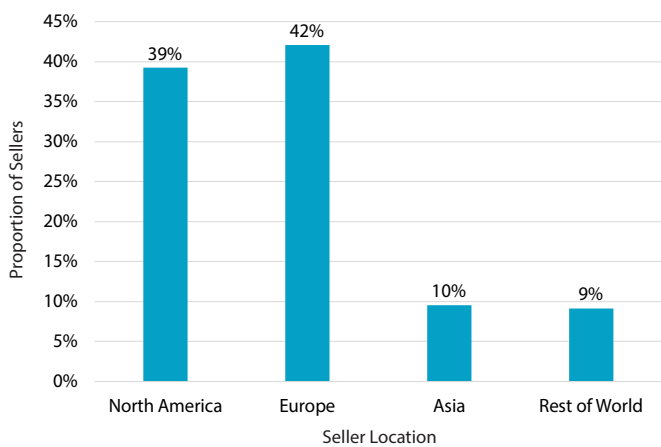
Source: Preqin Secondary Fund Manager Survey, July 2017

Fig. 14: Expected Secondary Market Sellers in the Next 12-24 Months by Firm Type



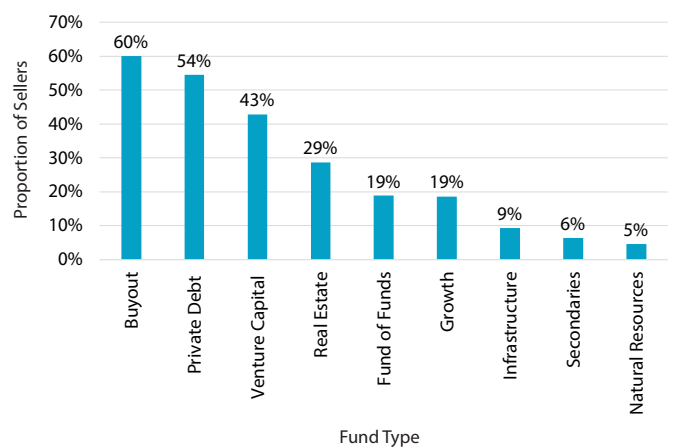
Source: Preqin Secondary Market Monitor

Fig. 15: Expected Secondary Market Sellers in the Next 12-24 Months by Location



Source: Preqin Secondary Market Monitor

Fig. 16: Fund Types to Be Sold by Expected Secondary Market Sellers in the Next 12-24 Months



Source: Preqin Secondary Market Monitor

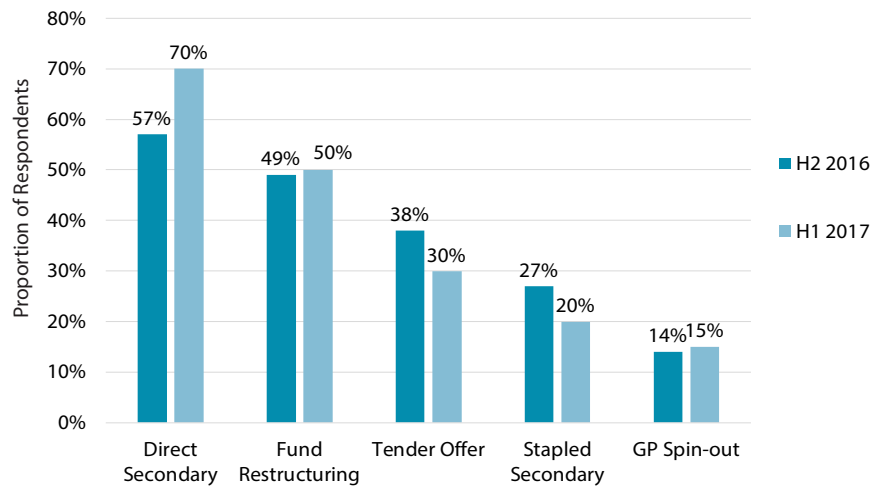


TRANSACTIONS

As well as the sample of secondaries transactions completed that are shown in Fig. 18, Q3 2017 also saw the completion of a GP-led secondary transaction in the infrastructure space: the Netherlands-based asset manager APG - All Pensions Group purchased the interests in the 2008 vintage vehicle DIF Infrastructure II, providing an exit for the vehicle's investors. Such deals are increasingly being completed in the secondary market. Respondents to Preqin's secondary fund manager survey in July 2017 were asked about their involvement in such deals in H1 2017. As can be seen in Fig. 17, 70% of buyers indicated they had completed a direct secondary transaction broadly, up from 57% in H2 2016. Half of respondents had specifically completed the subset of a direct secondary that is a fund restructuring.

When asked about their overall spending in H1 2017 compared to H2 2016, 74% of respondents indicated they had spent the

Fig. 17: Buyers Completing Non-Traditional Secondary Transactions, H2 2016 vs. H1 2017



Source: Preqin Secondary Fund Manager Survey, January - July 2017

same amount or more (Fig. 19). The second half of the year is historically more active than the first, so this suggests a particularly active H1 2017, and bodes well for the rest of the year.

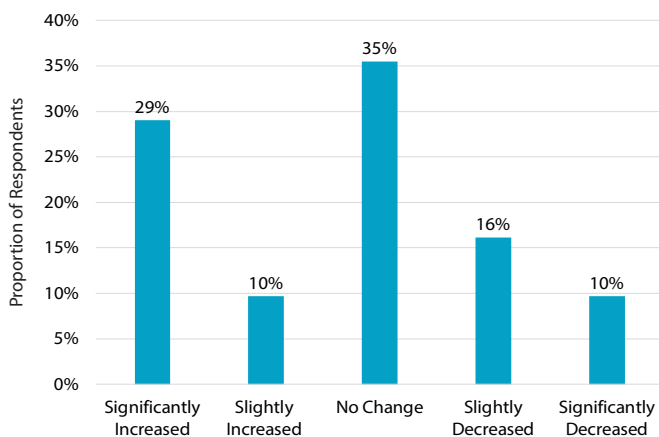
Fifty-six percent of respondents indicated that they relied on secondary intermediaries for at least some part of their completed deal flow (Fig. 20), highlighting their continued importance in the market.

Fig. 18: Sample Secondary Transactions Completed in Q3 2017

Seller	Type	Location	Buyer	Fund Sold
Hana Asset Management	Asset Manager	Asia	NongHyup Bank	Equitix Fund IV
Massachusetts Mutual Life Insurance Company	Insurance Company	North America	Committed Advisors	EQT V
Strenta Investment Management Inc.	Family Office	North America	Lexington Partners	BC European Cap IX
Norinchukin Bank	Bank	Asia	Strategic Partners Fund Solutions	Charterhouse Capital Partners VII
Kresge Foundation	Foundation	North America	Adams Street Partners	Phoenix Equity Partners 2010 Fund

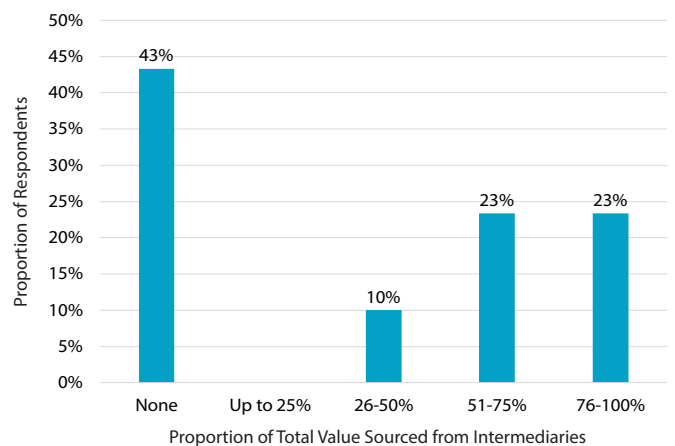
Source: Preqin Secondary Market Monitor

Fig. 19: Change in Total Value of Secondary Transactions Completed by Buyers from H2 2016 to H1 2017



Source: Preqin Secondary Fund Manager Survey, July 2017

Fig. 20: Proportion of Total Value of Secondary Transactions Completed in H1 2017 Sourced from Intermediaries



Source: Preqin Secondary Fund Manager Survey, July 2017

PRICING

The continued strong fundraising (and the subsequent growth in dry powder) observed in 2016, which has continued through to 2017, has created a very competitive environment for deals. When asked about the change in competition between H2 2016 and H1 2017, 60% of managers surveyed in July 2017 observed similar levels of competition for deals, while 40% observed more, including 17% that experienced significantly more (Fig. 21).

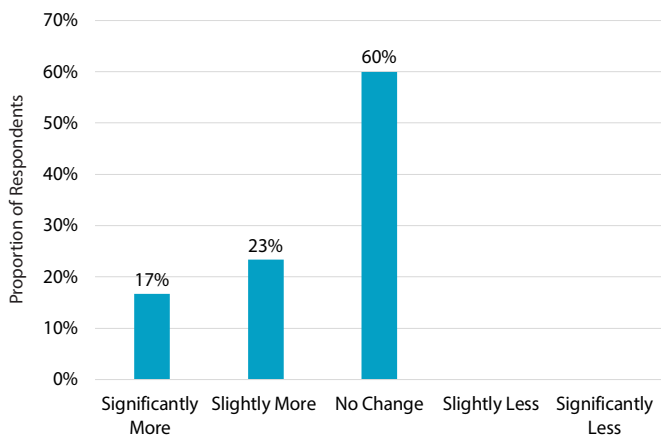
This sentiment is reflected in managers' views on pricing in H1 2017 compared to H2 2016. Respondents largely did not observe any softening in pricing between the periods across fund types (Fig. 22). The

exception to this is venture capital funds, for which just 6% of respondents indicated a significant decrease in pricing. Indeed, particularly with buyout fund types, a significant proportion of respondents observed increased pricing, including 57% of respondents that believe pricing is higher for large buyout funds.

Respondents also indicated which range of pricing they paid, on average, for the various fund types (Fig. 23). Pricing is highest for buyout funds: 43% of respondents paid 95-99% of NAV on average for large buyout funds purchased in H1 2017, while a quarter paid within that range on average for mid-market buyout funds.

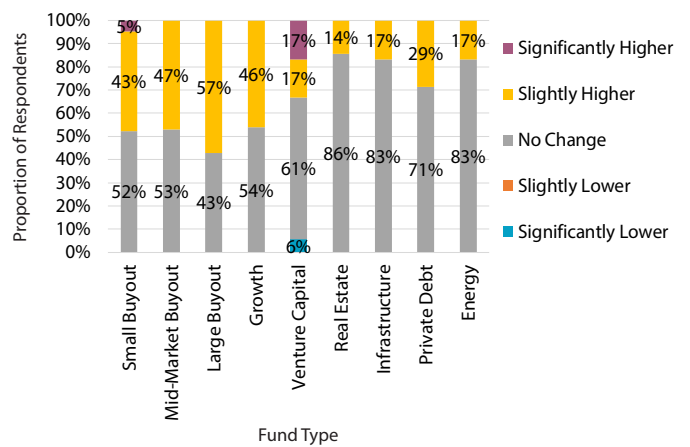
The use of debt, particularly in large portfolio acquisitions, is felt to have had an impact on pricing. We sought to investigate how widespread the use of debt is by secondaries managers in our survey. As shown in Fig. 24, the majority (73%) of respondents indicated they were not using debt at all. This is perhaps a surprising result as anecdotally the use of financing facilities, especially by secondaries funds, is believed to be prevalent, and may reflect a reticence to disclose this. A few (20%) did indicate they had a fund finance facility in place, while 7% have such a facility in place in addition to using debt in portfolio acquisitions.

Fig. 21: Change in Level of Competition for Deals from H2 2016 to H1 2017 According to Secondary Fund Managers



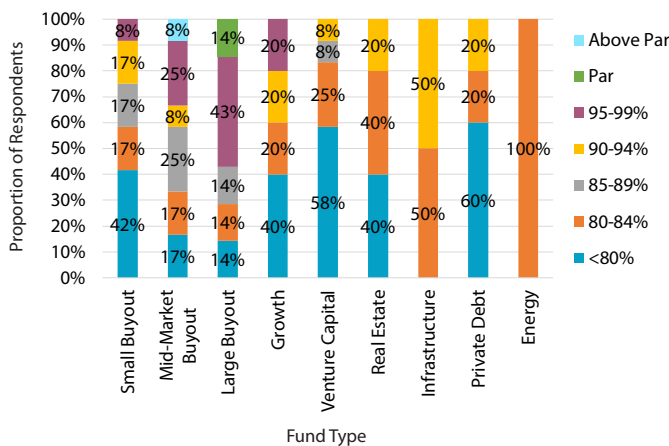
Source: Preqin Secondary Fund Manager Survey, July 2017

Fig. 22: Change in Secondary Market Pricing from H2 2016 to H1 2017 According to Fund Managers by Fund Type



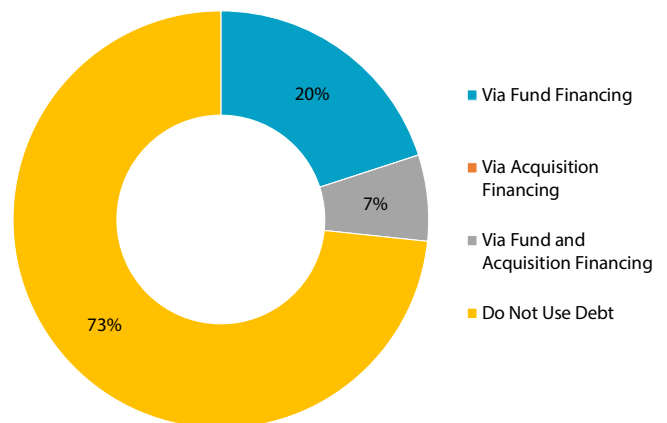
Source: Preqin Secondary Fund Manager Survey, July 2017

Fig. 23: Average Price Paid (As a % of NAV) for Secondaries Funds Purchased in H1 2017 by Fund Type



Source: Preqin Secondary Fund Manager Survey, July 2017

Fig. 24: Use of Debt by Secondary Fund Managers



Source: Preqin Secondary Fund Manager Survey, July 2017



PERFORMANCE

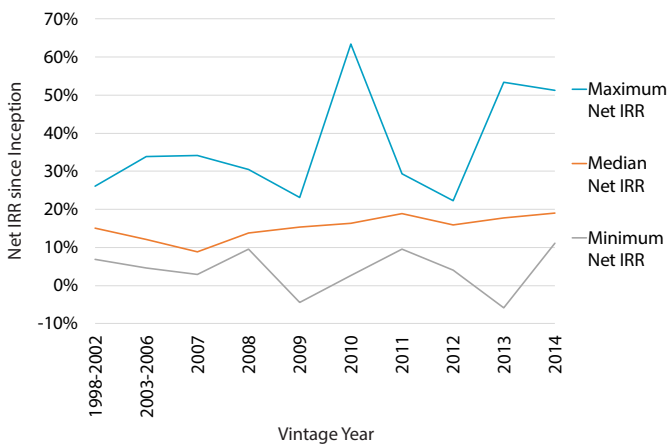
As seen in Fig. 25, only two vintages (2009 and 2013) for secondaries funds in the last 10 years currently have negative minimum net IRRs. Overall, only four secondaries vehicles, which make up just 2% of secondaries funds for which Preqin has performance data, currently have a negative net IRR. This is a smaller proportion than for buyout funds, for instance, where 9% of funds have negative net IRRs. This can illustrate how secondaries are a relatively safe investment.

Secondaries funds typically have shorter holding periods and, when it comes to funds purchased at discounts, provide attractive IRRs relative to other asset classes. This is illustrated in Fig. 26, which shows that the median IRR across secondaries vehicles exceeds the median IRR for all private capital across all vintages except 2007. Intuitively, as secondaries investments are made in funds at a later stage, when underlying investments have experienced some growth, secondaries funds should deliver lower net multiples

compared to primary investment strategies. Fig. 27, however, shows that in the last 10 years (except vintage 2007), secondaries funds have higher median net multiples than the average for all private capital funds.

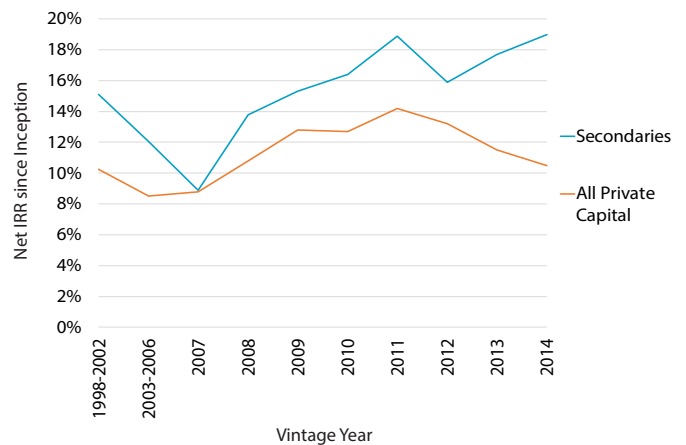
When asked about expected net multiples for deals completed in H1 2017, respondents to our secondary fund manager survey expected a minimum of 1.3-1.5X (Fig. 28). More than a third anticipate net multiples of 1.9X or greater.

Fig. 25: Secondaries Funds - Maximum, Median and Minimum Net IRRs by Vintage Year



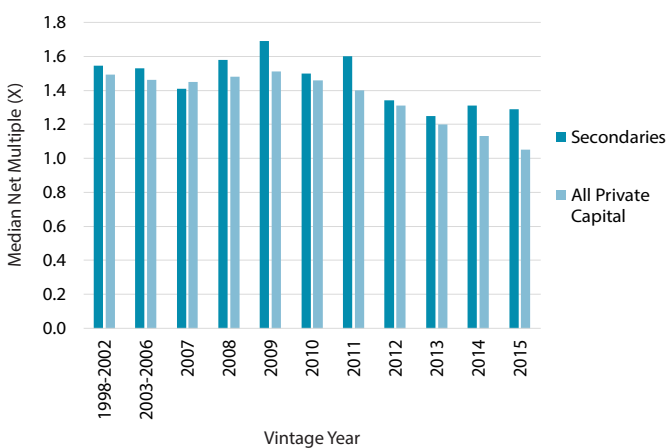
Source: Preqin Secondary Market Monitor

Fig. 26: Median Net IRRs by Vintage Year: Secondaries vs. Private Capital Funds



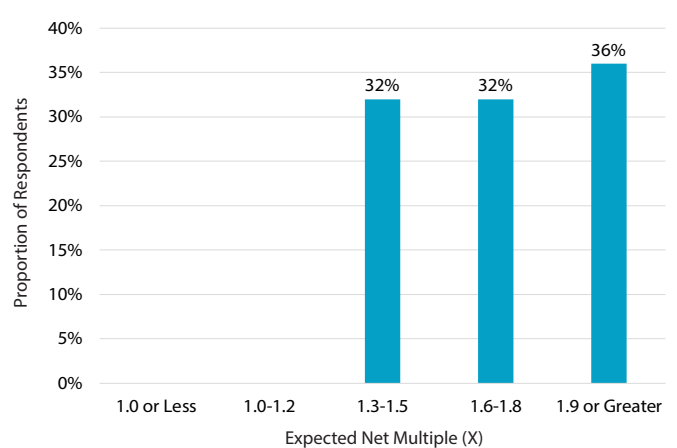
Source: Preqin Secondary Market Monitor

Fig. 27: Secondaries Funds - Median Net Multiples by Vintage Year



Source: Preqin Secondary Market Monitor

Fig. 28: Secondary Fund Managers' Expected Net Multiple from Deals Completed in H1 2017



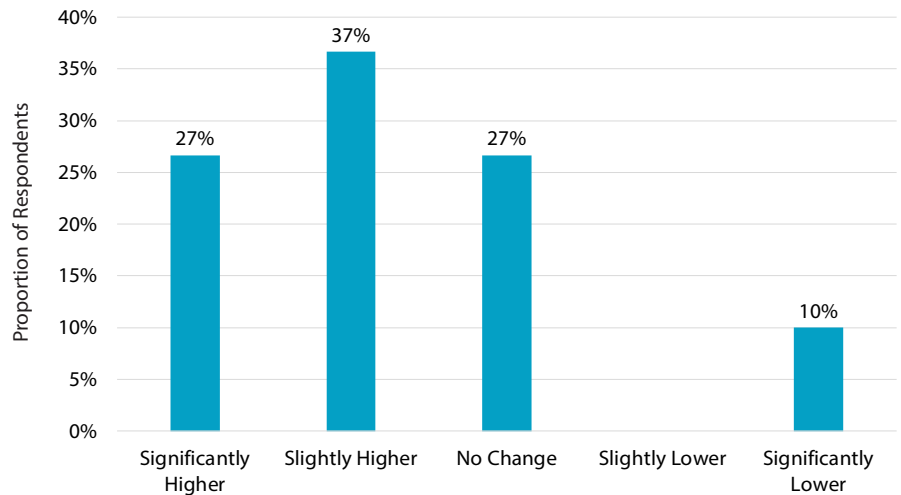
Source: Preqin Secondary Fund Manager Survey, July 2017

OUTLOOK

The majority (64%) of respondents to Preqin’s July survey of fund managers anticipate they will expend more in secondaries transactions in the second half of the year than they did in the first half (Fig. 29). Given that H1 2017 was widely observed to be relatively active, this bodes well for overall secondary transaction activity for the year. Estimates for the total value of secondary transactions have adjusted to this new reality: in January 2017, 41% of respondents anticipated a minimum of \$35bn worth of secondary deals for full-year 2017 (Fig. 30). As at July 2017, this has grown to 76% of respondents. Thirty-three percent expect that aggregate transaction value will be \$40bn or higher, which would be a record.

Respondents were asked to qualify these estimates by indicating which factors might influence secondary activity in H2 2017. The most commonly cited factor (by 39% of respondents)

Fig. 29: Fund Managers’ Expected Total Value of Secondary Transactions Completed in H2 2017 Compared to H1 2017

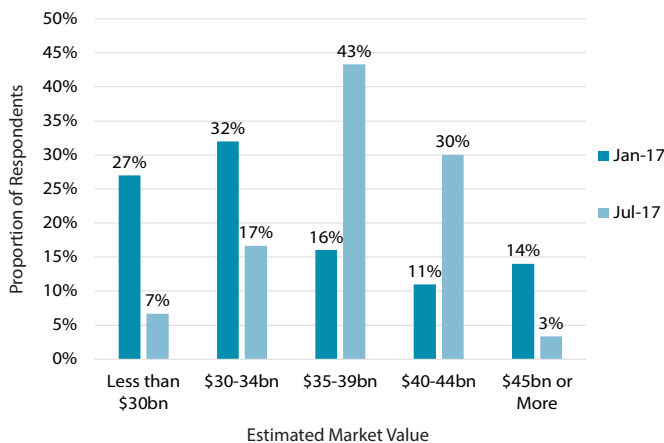


Source: Preqin Secondary Fund Manager Survey, July 2017

was the expected activity levels which hinge on public market performance (Fig. 31). Continued positive public market performance translates to better valuations for privately held assets and

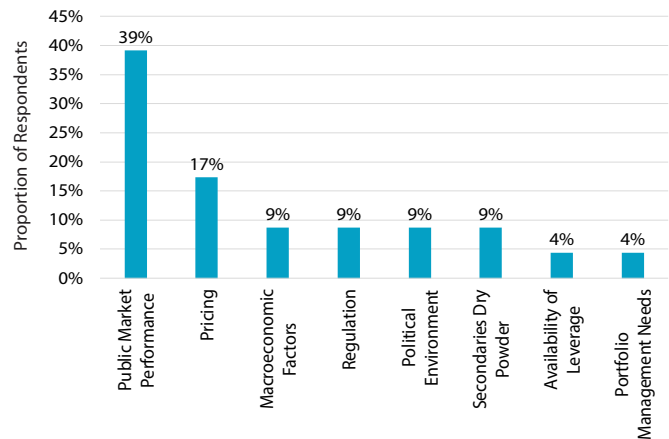
thus improved performance, making them more attractive. Other factors cited were continued strong pricing, which attracts potential sellers, as well as macroeconomic and political stability.

Fig. 30: Fund Managers’ Estimated Total Secondary Market Value for Full-Year 2017



Source: Preqin Secondary Fund Manager Survey, January - July 2017

Fig. 31: Fund Manager Views on Which Factors Will Influence Secondary Transaction Volume in H2 2017



Source: Preqin Secondary Fund Manager Survey, July 2017

Identify potential buyers and sellers of fund interests

Benchmark performance of secondaries funds

Analyze trends in secondaries fundraising and transactions

Obtain indicative pricing for funds of interest

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PREQIN SECONDARY MARKET UPDATE

Q3 2017

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