



# PREQIN SPECIAL REPORT: SECONDARY FUND MANAGER OUTLOOK

H1 2017



alternative assets. intelligent data.

# FOREWORD

In January 2017, Preqin surveyed 40 secondary fund managers in order to assess their activity in 2016 and their outlook for 2017. The results show that 2016 was an active year for these managers: 55% invested more capital in secondary market opportunities in 2016 than the previous calendar year. It also revealed the continued importance of the intermediary universe to secondary activity as 52% of respondents indicated that they sourced a significant amount of their completed deal value (more than half of their total spend) from an intermediary firm.

The secondary market continues to be driven by an investor universe increasingly comfortable in utilizing it as a means of attaining portfolio management needs. A variety of investor types used the secondary market for this reason, with family offices in particular being an important supplier of deal flow to secondary buyers in 2016.

Unrealized assets in maturing funds also remain an important driver of deal flow, with investors seeking out the secondary market to obtain liquidity from these funds. Fund managers are also increasingly using the secondary market, with the amount of non-traditional secondary transactions – such as direct secondaries, tender offers and fund restructurings – being completed by secondary buyers growing in recent years.

These trends are expected to continue into 2017; the majority of respondents expect to increase their spend in 2017, but cite increasing competition, more aggressive buyers and the increased use of leverage, which might price them out of deals, as a caveat.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit [www.preqin.com](http://www.preqin.com) or contact [info@preqin.com](mailto: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.

Preqin's team of dedicated analysts is constantly contacting institutional investors and fund managers from around the world in order to ensure that the data we hold is up to date, reliable and complete.

Secondary Market Monitor gives you the vital intelligence and tools you need to decide and execute your strategy successfully in a rapidly evolving, non-transparent market.

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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# ACTIVITY IN 2016

Although most estimates of secondary market activity suggest a slight decline in overall transaction value in 2016 compared to 2015, over half (55%) of respondents to our survey indicated that the total value of secondaries transactions completed by their firm increased in 2016, while only 18% reported a decrease (Fig. 1).

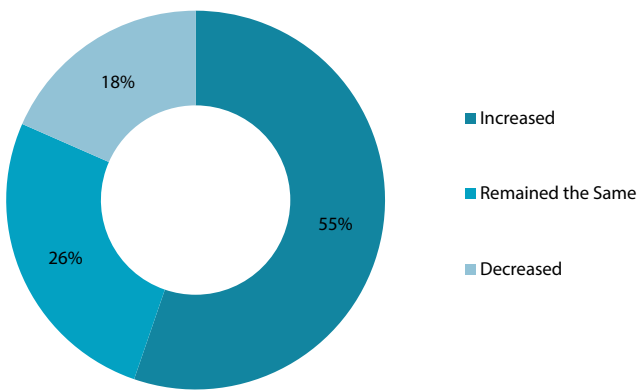
Fig. 2 illustrates that over three-quarters (76%) of respondents purchased mid-market buyout funds on the secondary

market in 2016. Natural resources funds were purchased by a greater proportion (24%) of respondents than real estate (19%), private debt (16%) and infrastructure (11%) funds.

Funds purchased on the secondary market in 2016 were typically focused on opportunities in the developed markets of Europe and North America (Fig. 3). Just under a third (30%) of respondents purchased Asia-focused funds on the secondary market in 2016.

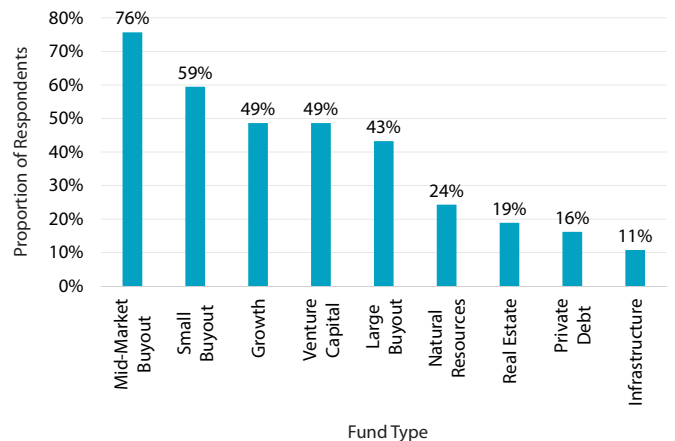
The most common vintage years purchased in 2016 were 2007 vintage funds, bought by 63% of respondents, while 2008 vintage funds were purchased by 54% of respondents (Fig. 4). Mature funds of a 2004 vintage or earlier were purchased by 40% of respondents, highlighting the importance of these 'tail-end funds' to deal flow, as fund managers continue to manage unrealized assets in these funds.

**Fig. 1: Change in the Total Value of Transactions Completed by Secondary Fund Managers in 2016 Compared to 2015**



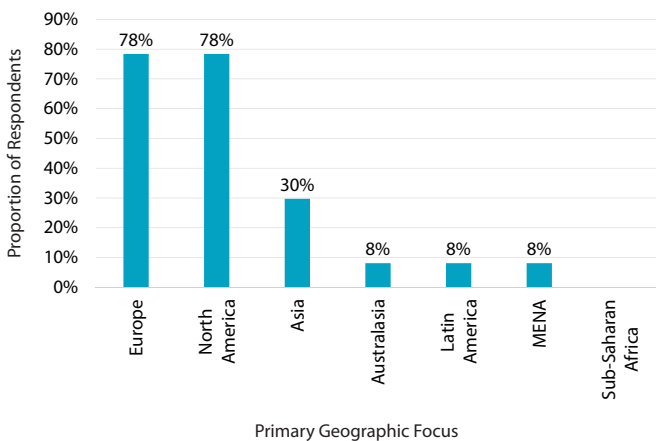
Source: Secondary Fund Manager Survey, January 2017

**Fig. 2: Funds Purchased on the Secondary Market in 2016 by Type**



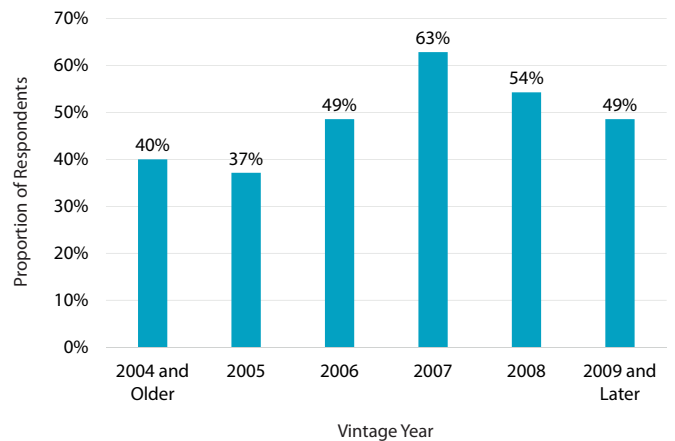
Source: Secondary Fund Manager Survey, January 2017

**Fig. 3: Funds Purchased on the Secondary Market in 2016 by Primary Geographic Focus**



Source: Secondary Fund Manager Survey, January 2017

**Fig. 4: Funds Purchased on the Secondary Market in 2016 by Vintage Year**



Source: Secondary Fund Manager Survey, January 2017

# DEAL SOURCING

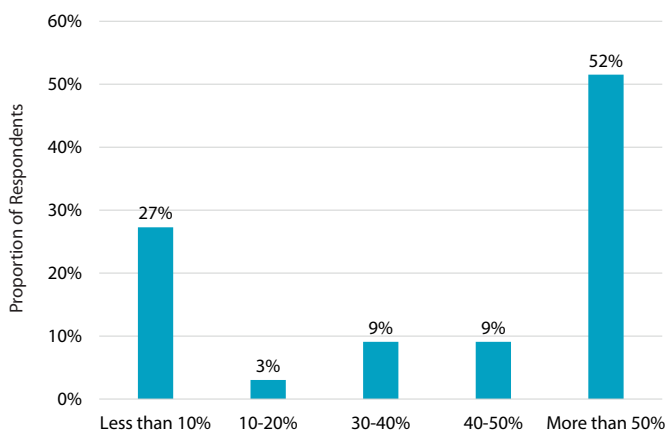
Fifty-two percent of respondents sourced more than half of the value of their completed deals in 2016 from intermediaries, highlighting the continued importance of intermediary relationships to deal flow (Fig. 5). Respondents were also asked to specify which intermediaries contributed to their completed deals in 2016; almost two-thirds of firms cited Setter Capital as having contributed to their deal flow in 2016. Forty-seven percent of respondents sourced deals from Evercore, while 41% sourced deals from Greenhill Cogent and Park Hill Group.

Over two-thirds (69%) of respondents bought interests from family offices in 2017 (Fig. 6). Banks and public pension funds were also important suppliers of fund interests in 2016, with 40% and 37% of respondents purchasing from these firm types respectively.

The majority of respondents purchased interests from North America- and Europe-based investors (80% and 74% respectively, Fig. 7). Interests were also bought from investors in Asia (29%) MENA (14%) Australasia (11%) and Latin America (11%).

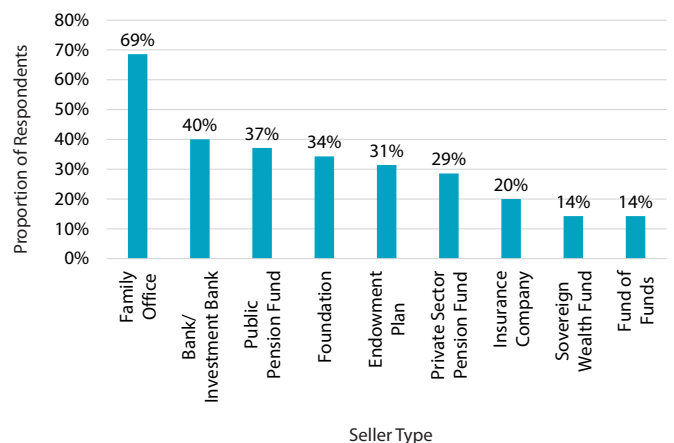
Almost three-quarters (74%) of respondents indicated that portfolio management was a motivation for the firm from which they purchased interests (Fig. 8). Sixty-nine percent also cited liquidity – the desire to close out positions in mature funds – as a motivator. Only 29% noted sellers selling due to poor performing funds.

**Fig. 5: Proportion of Total Value of Secondaries Transactions in 2016 that Involved an Intermediary**



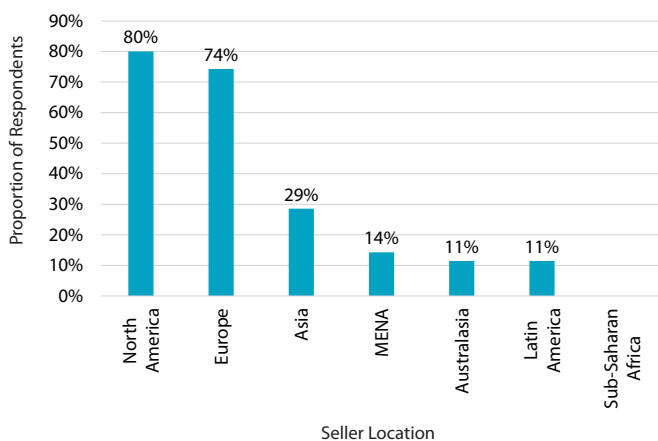
Source: Secondary Fund Manager Survey, January 2017

**Fig. 6: Secondary Market Sellers in 2016 by Type**



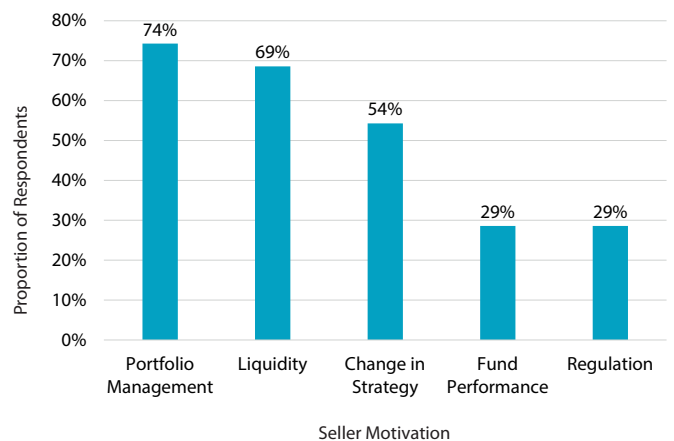
Source: Secondary Fund Manager Survey, January 2017

**Fig. 7: Secondary Market Sellers in 2016 by Location**



Source: Secondary Fund Manager Survey, January 2017

**Fig. 8: Secondary Market Sellers in 2016 by Primary Motivations**



Source: Secondary Fund Manager Survey, January 2017

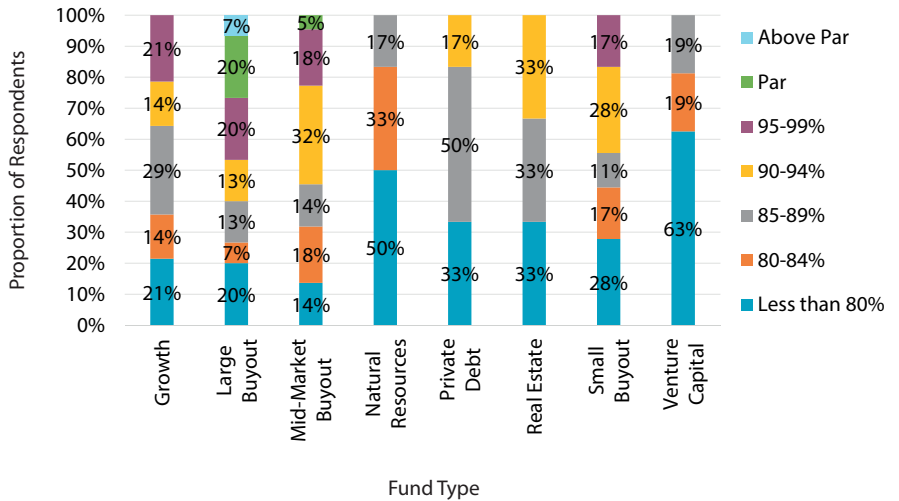


# COMPETITION

## PRICING

Respondents to Preqin's survey were asked to indicate the average price paid in 2016 (with price measured as a % of NAV) for the various fund types they purchased. As seen in Fig. 9, mid-market buyout funds were priced expensively, with 55% of respondents paying an average of at least 90% of NAV for these funds. Venture capital funds were relatively cheaper, with 63% of respondents indicating that, on average, they paid less than 80% of NAV for interests in these funds on the secondary market. Natural resources funds have been priced relatively inexpensively: half of respondents paid less than 80% of NAV on average. Twenty percent of respondents paid par for large buyout funds and 7% paid above par.

Fig. 9: Average Price Paid (As a % of NAV) for Funds Purchased in 2016 by Type



Source: Secondary Fund Manager Survey, January 2017

Fig. 10 shows that 46% of respondents indicated that pricing for mid-market buyout funds had increased in 2016 compared to 2015, while 38% of respondents saw an increase in pricing for large buyout funds. Forty-five percent of respondents stated that pricing for natural resources funds had decreased in 2016 compared to 2015, while 35% of respondents noted that venture capital fund pricing had dropped.

in 2016: 43% expect a multiple of 1.3-1.5x, while 34% are looking for a multiple of 1.6-1.8x. The vast majority (88%) of respondents anticipate similar multiples for the deals completed in 2015 and 2016.

## COMPETITION

Forty-three percent of respondents felt that the level of competition for deals had increased over the past year, with the remaining 57% stating that competition remained the same. 2016 did see some new entrants to the secondary market; for instance, some primary fund of funds managers, such as Siguler Guff and Abbot Capital, held interim closes for maiden secondary vehicles.

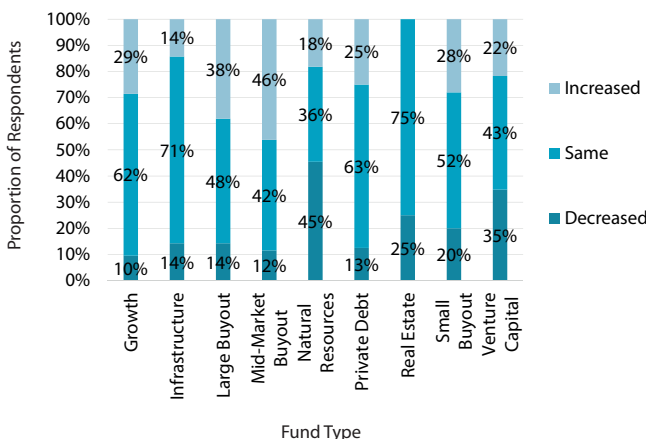
## NON-TRADITIONAL TRANSACTIONS

Outside the traditional purchase of fund interests, more than half (57%) of respondents were involved in a direct secondary transaction, while almost half (49%) were involved in a fund restructuring (Fig. 11). In 2014, 31% and 33% of secondary fund managers surveyed completed direct secondary and fund restructuring transactions that year respectively, highlighting the growing importance of these transactions within the industry.

## RETURNS

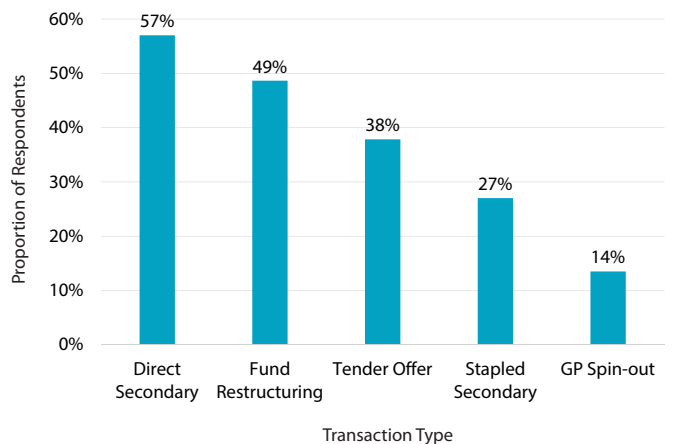
When considering the price paid for fund interests, respondents were asked what multiple they expect for deals completed

Fig. 10: Change in Average Price in 2016 Compared to 2015 by Fund Type



Source: Secondary Fund Manager Survey, January 2017

Fig. 11: Non-Traditional Transaction Types Completed in 2016



Source: Secondary Fund Manager Survey, January 2017

# OUTLOOK FOR 2017

The majority (60%) of respondents expect that the total value of secondary transactions completed by their firm in 2017 will be greater than in 2016 (Fig. 12). Thirty-seven percent anticipate the total value will be the same in 2017 as in 2016 and only 3% expect it to be less.

Despite this, respondents were relatively conservative with their estimations for total secondary market transaction value in 2017. A significant 59% of respondents believe less than \$35bn worth of transactions will take place in 2017 (Fig. 13), less than the \$37bn estimated by Greenhill Cogent for 2016.

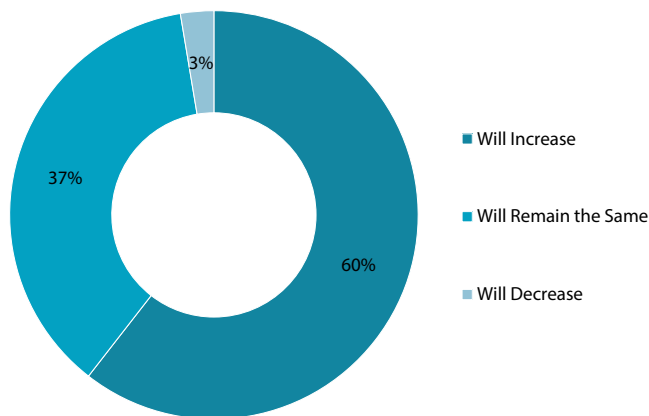
Pricing is an important influence on overall deal flow; respondents were asked to indicate which factors were likely to have the greatest impact on pricing in 2017. As can be seen in Fig. 14, public markets and competition – from incumbent managers with large amounts of dry powder as well as new entrants to the market – are deemed to be the two factors that will have the greatest impact on pricing in 2017, cited by 37% and 33% of respondents respectively.

Respondents were asked to state what general trends they expected to see in the secondary market in 2017; those most

commonly stated were an increase in GP-led deals, increased competition, high pricing and increased use of leverage (Fig. 15).

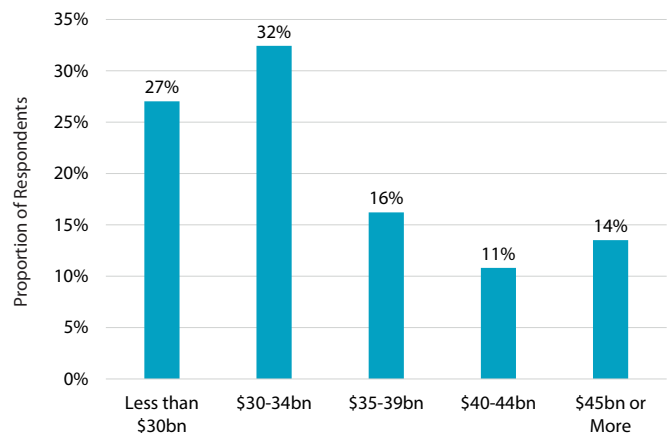
One respondent expects buyers to be more cautious in 2017 due to macroeconomic uncertainty, whereas another anticipates an increase in activity for fund types other than buyout funds.

**Fig. 12: Expected Change in the Total Value of Transactions Completed by Secondary Fund Managers in 2017 Compared to 2016**



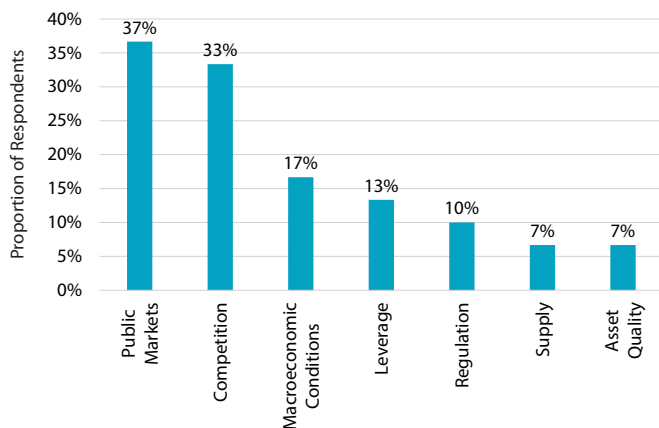
Source: Secondary Fund Manager Survey, January 2017

**Fig. 13: Estimated Total Secondary Market Transaction Value in 2017**



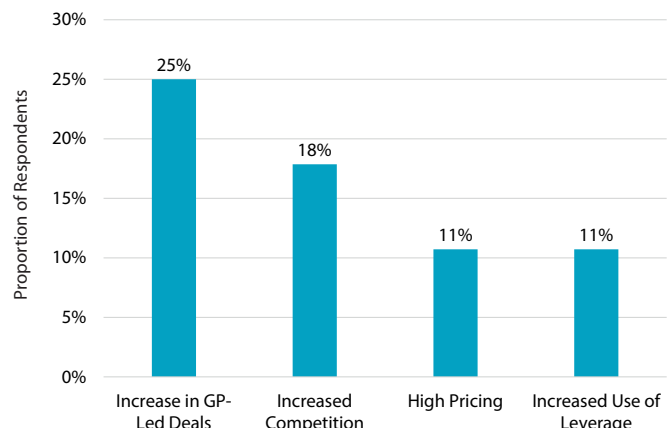
Source: Secondary Fund Manager Survey, January 2017

**Fig. 14: Factors that Will Have the Biggest Impact on Secondary Market Pricing in 2017**



Source: Secondary Fund Manager Survey, January 2017

**Fig. 15: Expected Secondary Market Trends in 2017**



Source: Secondary Fund Manager Survey, January 2017

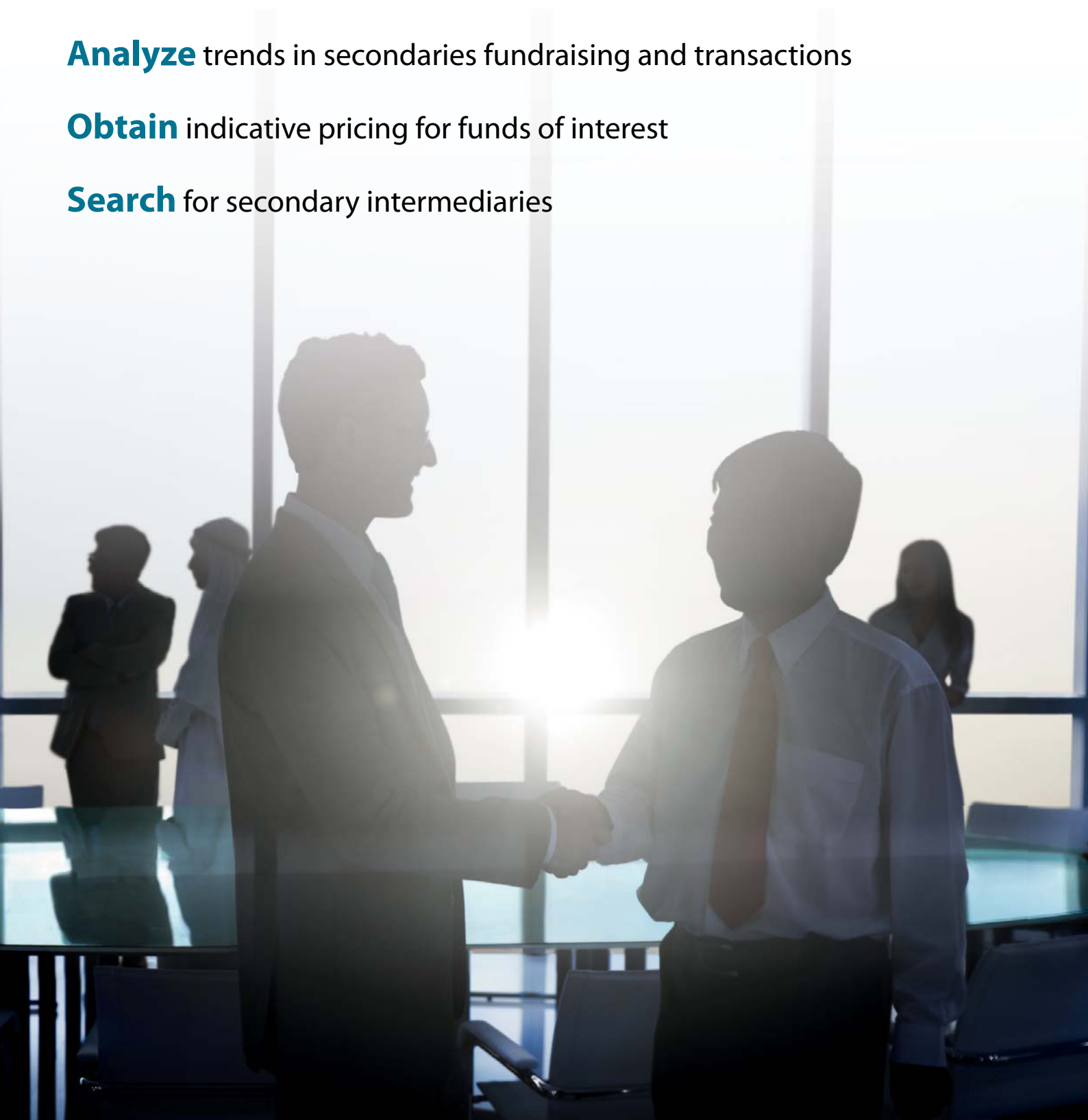
**Identify** potential buyers and sellers of fund interests

**Benchmark** performance of secondaries funds

**Analyze** trends in secondaries fundraising and transactions

**Obtain** indicative pricing for funds of interest

**Search** for secondary intermediaries



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