



# **PREQIN**

## **SECONDARY MARKET UPDATE**

**Q1 2018**

# FOREWORD

In Q1 2018, five secondaries vehicles have successfully raised more capital than the 10 funds closed in Q4 2017 (\$4.7bn vs. \$3.7bn respectively). This was bolstered by the closures of Portfolio Advisors Secondary Fund III and Newbury Equity Partners IV on over \$1bn each.

At the start of Q2 2018, secondaries funds in market are seeking an aggregate \$30bn. Although there are 34 secondaries funds in market, the majority (80%) of the amount sought is concentrated among seven funds (and six managers). These include Lexington Capital Partners IX, which is seeking \$12bn to make it the largest secondaries fund ever closed. Investors are showing a strong appetite for secondaries, and fund managers are successfully attracting capital: 83% of funds closed in 2017 exceeded their target, and all of the funds closed in Q1 2018 exceeded their target.

The continued strong performance of secondaries vehicles relative to other strategies continues to underpin positive investor sentiment with respect to the asset class. Less than 2% of secondaries funds are currently delivering negative net IRRs, and the average median net IRR for secondaries funds across all vintages is 15.8% – this is higher than the average for all private capital funds (+13.0%).

The results of our secondary fund manager survey in January 2018 show that the secondary market is in good health: the desire for liquidity, the various portfolio management needs and a strong pricing environment drove activity in 2017, and this is expected to continue in 2018. This activity is supplemented by increasing opportunities from GP-led deals, with Q1 2018 seeing the first of this kind of transaction completed in Latin America. The majority (61%) of respondents expect to invest more capital in 2018 than they did in 2017, suggesting another active year for the secondary market.

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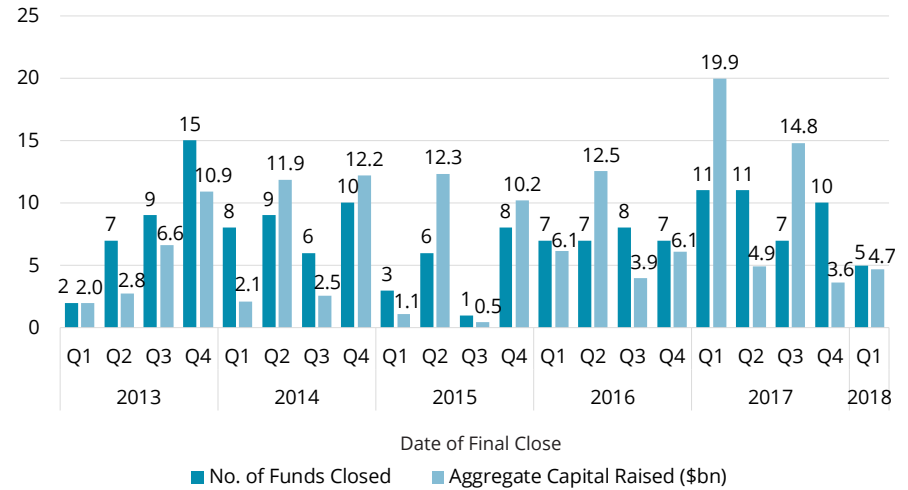
# FUNDRAISING

In Q1 2018, five secondaries funds held a final close, raising \$4.7bn collectively, a considerably smaller amount than the record \$20bn raised by 11 funds in Q1 2017 (Fig. 1). Despite the Q4 2017 slump (when only \$3.6bn was raised), 2017 was a record-setting year for the industry and, driven by the flurry of activity in both Q1 and Q3, \$43bn was secured overall.

The largest secondaries fund closed in Q1 2018 was Portfolio Advisors' Portfolio Advisors Secondary Fund III, which raised \$1.5bn – exceeding its original target of \$1.0bn (Fig. 4). Newbury Partners closed the second largest fund of Q1 2018, raising \$1.4bn for Newbury Equity Partners IV.

All funds closed in Q1 2018 managed to exceed their original target (Fig. 2). This is a trend continued from 2017, where 83% of all funds closed above their targets, including 43% that raised 125% or more of their target. This emphasises the strong investor appetite for secondaries funds

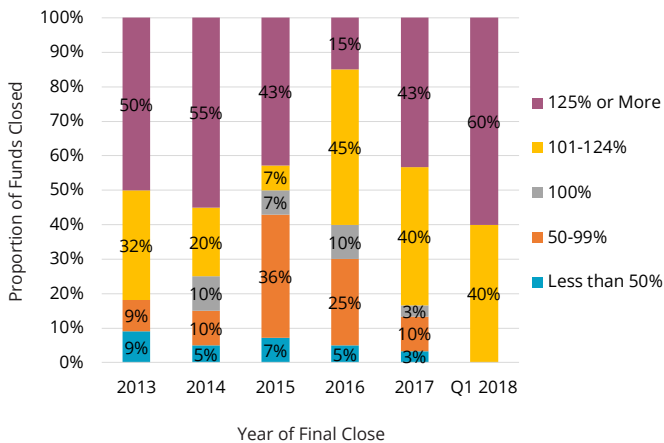
Fig. 1: Global Quarterly Secondaries Fundraising, Q1 2013 - Q1 2018



Source: Preqin

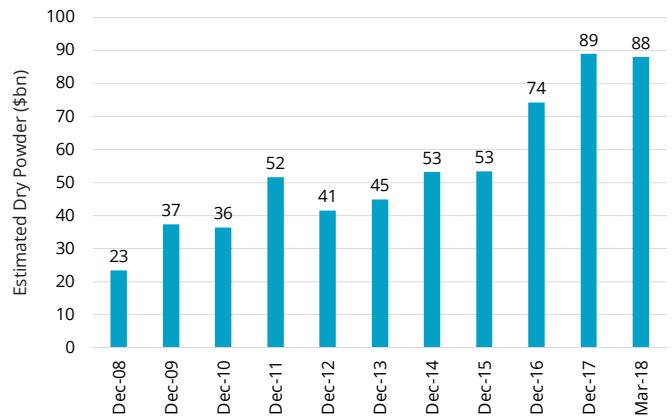
currently, perhaps driven by the large amounts of dry powder in the industry: dry powder stands at \$88bn, just below the record amount of \$89bn seen in December 2017 (Fig. 3).

Fig. 2: Secondaries Funds Closed by Proportion of Target Size Achieved, 2013 - Q1 2018



Source: Preqin

Fig. 3: Estimated Private Equity Secondaries Dry Powder, 2008 - 2018



Source: Preqin

Fig. 4: Secondaries Funds Closed in Q1 2018

Fund	Firm	Fund Size (mn)	Type	Geographic Focus
Portfolio Advisors Secondary Fund III	Portfolio Advisors	1,500 USD	Private Equity Secondaries	US
Newbury Equity Partners IV	Newbury Partners	1,447 USD	Private Equity Secondaries	US
GCM Grosvenor Secondary Opportunities Fund II	GCM Grosvenor Private Markets	700 USD	Private Equity Secondaries	Europe
Altamar Global Secondaries IX	Altamar Private Equity	541 EUR	Private Equity Secondaries	US
Euro Choice Secondary II	Akina	300 EUR	Private Equity Secondaries	Europe

Source: Preqin

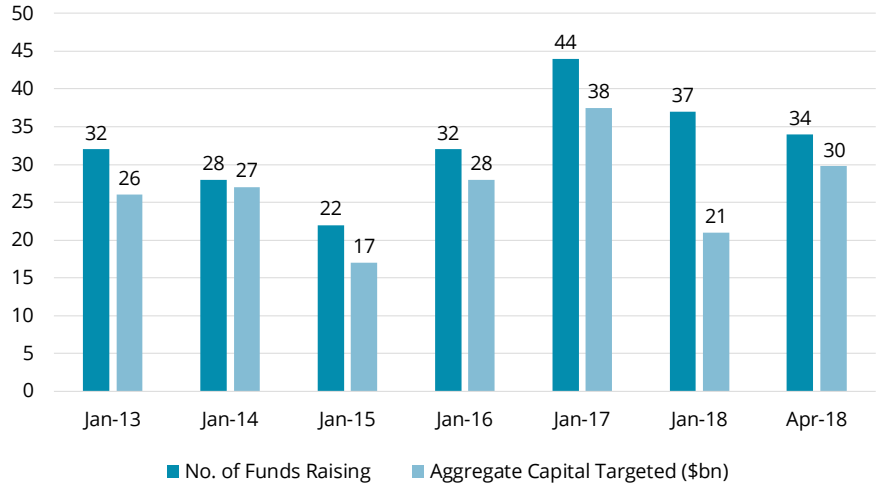
# FUNDS IN MARKET

At the start of Q2 2018, there are 34 secondaries vehicles in market seeking an aggregate \$30bn (Fig. 5). Although there are three fewer funds in market than at the start of the year, these fund are seeking more capital than in January 2018 (\$21bn). Of the secondaries funds currently raising capital, 47% have held an interim close on \$3.9bn collectively.

As shown in Fig. 6, the largest proportion (71%) of secondaries funds in market are primarily targeting North America, and the clear majority (86%) of capital is sought by North America-focused vehicles. There are three Asia-focused secondaries vehicles, seeking just \$300mn in capital collectively.

Of the secondaries funds seeking capital, there are four dedicated real estate vehicles, targeting an aggregate \$5.6bn. There is also one infrastructure secondaries vehicle in market: Stafford Capital Partner's Stafford Infrastructure

Fig. 5: Secondaries Funds in Market over Time, 2013 - 2018 (As at April 2018)



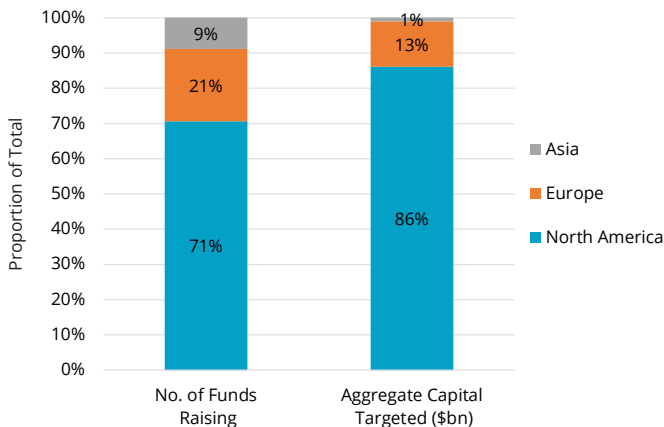
Source: Preqin

Secondaries Fund II is seeking \$276mn for investment.

The largest secondaries vehicle currently in market is Lexington Capital Partners IX which is seeking \$12bn (Fig. 8); if this target

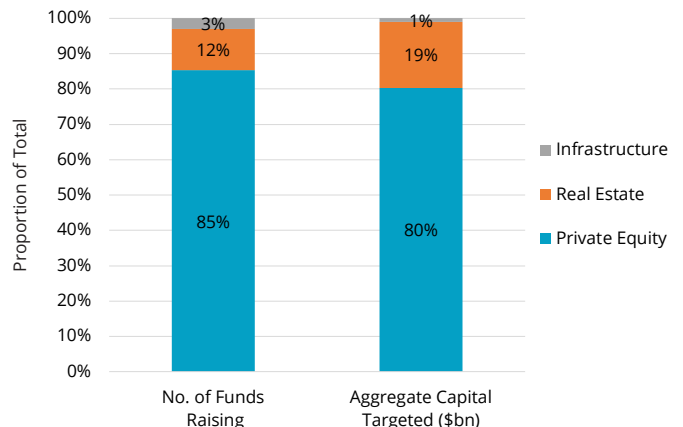
is successfully met, the amount will surpass the previous record held by a secondaries vehicle.

Fig. 6: Secondaries Funds in Market by Primary Geographic Focus



Source: Preqin

Fig. 7: Secondaries Funds in Market by Fund Type



Source: Preqin

Fig. 8: Largest Secondaries Funds in Market (As at April 2018)

Fund	Firm	Firm Location	Target Size (mn)	Fund Type	Fund Status
Lexington Capital Partners IX	Lexington Partners	US	12,000 USD	Private Equity Secondaries	Raising
Landmark Equity Partners XVI	Landmark Partners	US	4,000 USD	Private Equity Secondaries	First Close
Landmark Real Estate Fund VIII	Landmark Partners	US	2,000 USD	Real Estate Secondaries	Raising
Partners Group Real Estate Secondary 2017	Partners Group	Switzerland	2,000 USD	Real Estate Secondaries	First Close
Pomona Capital IX	Pomona Capital	US	1,750 USD	Private Equity Secondaries	Raising

Source: Preqin



# SELLERS

Preqin's survey of secondary market buyers asked respondents to identify the perceived motivations for investors selling vehicles on the secondary market in 2017. As shown in Fig. 9, portfolio management (cited by 82% of respondents) and liquidity (the desire to realize capital from mature funds – cited by 71%) remain the main factors for investors in the decision to utilize the secondary market to sell, as they were in the 2017 survey.

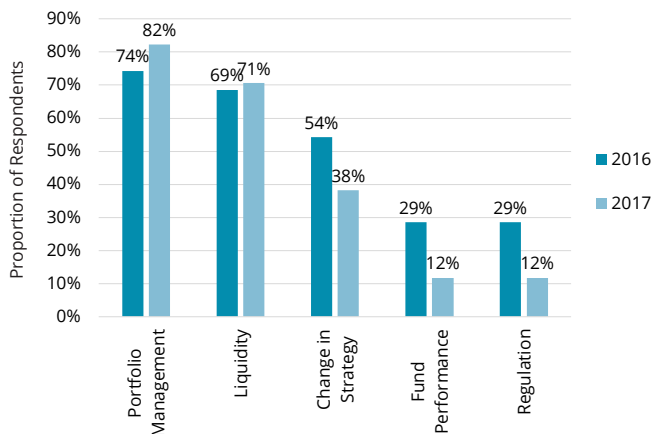
Respondents were also asked to indicate which firm types they bought interests from on the secondary market in 2017. As was the case in 2017's survey, family offices

were the main supplier of deal flow, with 69% of respondents indicating they had bought from this investor type in 2017 (Fig. 10).

North America continues to dominate secondary market activity, with 82% of respondents indicating they had bought interests from investors based there in 2017 (Fig. 11). The proportion of respondents that bought interests from Europe-based investors rose from 70% in 2016 to 79% in 2017, but the proportion of respondents buying from MENA- and Latin America-based investors fell from the previous year.

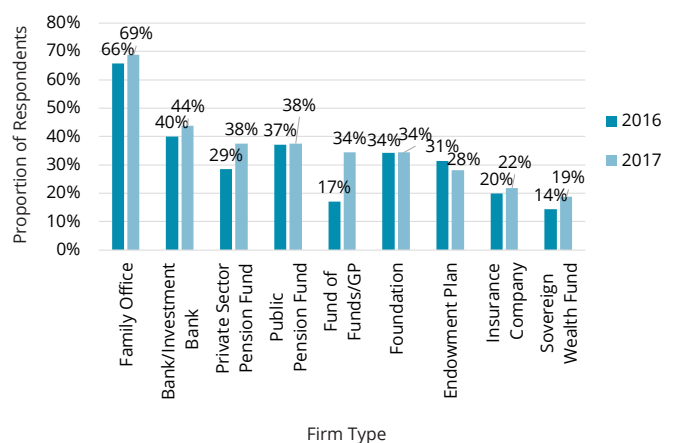
Over half of respondents bought interests in small and mid-market buyout funds on the secondary market in 2017 (Fig. 12); however, the proportion buying mid-market buyout funds has declined from 76% in 2016 to 59% in 2017. As the market continues to cater for the needs of investors diversifying their portfolio outside of private equity funds, the proportion of respondents buying interests in infrastructure funds has increased from 11% in 2016 to 14% in 2017, and for private debt funds the proportion has risen from 16% to 19% over the same period.

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



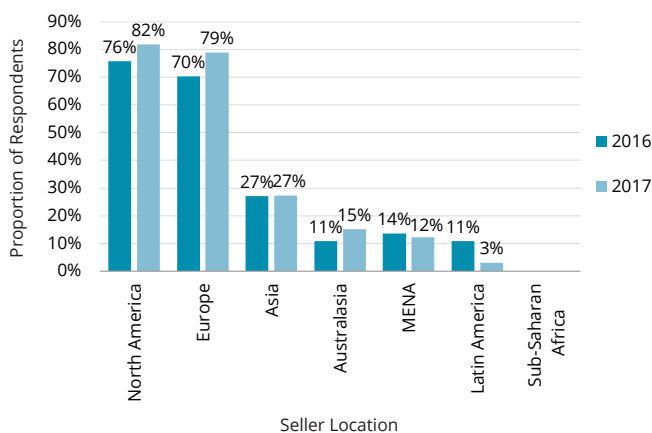
Source: Preqin Secondary Fund Manager Survey, January 2017 - 2018

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



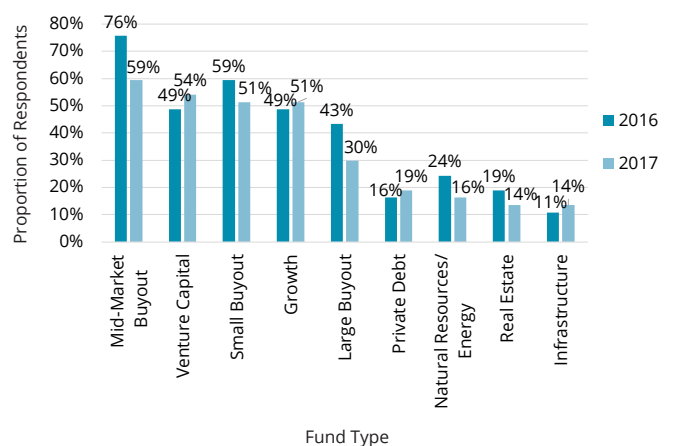
Source: Preqin Secondary Fund Manager Survey, January 2017 - 2018

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



Source: Preqin Secondary Fund Manager Survey, January 2017 - 2018

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



Source: Preqin Secondary Fund Manager Survey, January 2017 - 2018

The majority (85%) of secondary buyers indicated they had been sold funds of vintage 2009 or later (Fig. 13), perhaps illustrating the attractiveness of these funds due to the potential upside of having more time to mature. Mature funds of eight years or older, however, are still being purchased; half of respondents bought 2007/2008 vintage funds in 2017.

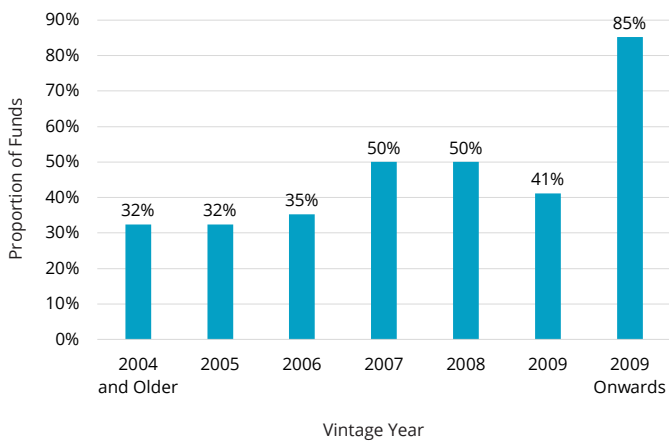
Preqin’s researchers maintain regular contact with investors to find out their plans for the secondary market. As at

the end of Q1 2018, Preqin has identified 851 firms that are open to selling fund interests on the secondary market in the next 12-24 months. This figure has increased from 731 investors at the end of Q1 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. The expected sellers are concentrated in North America (41%) and Europe (39%), with expected sellers also identified in Asia (10%) and Rest

of World (9%) – including investors based in Australia, Brazil and the United Arab Emirates (Fig. 15).

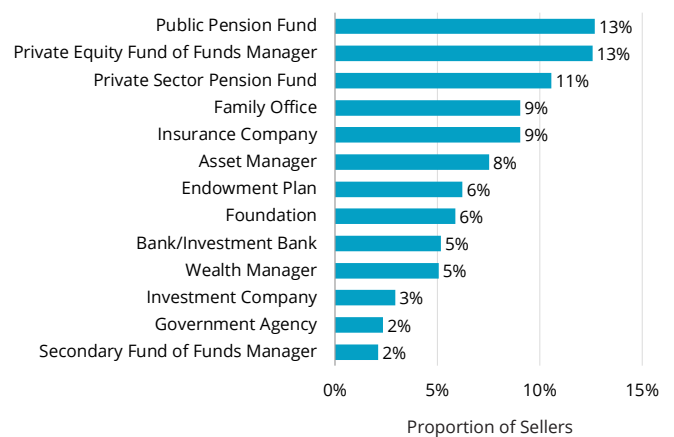
The majority (60%) expect to sell buyout funds, and 40% intend to sell venture capital funds, as shown in Fig. 16. However, such a diverse pool of firms will potentially bring a variety of funds to market.

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



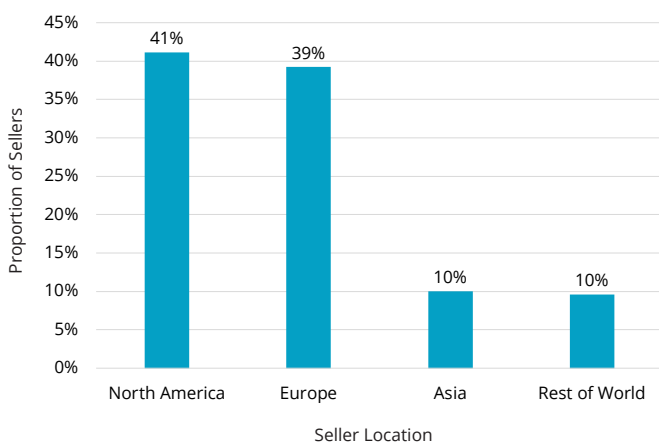
Source: Preqin Secondary Fund Manager Survey, January 2018

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



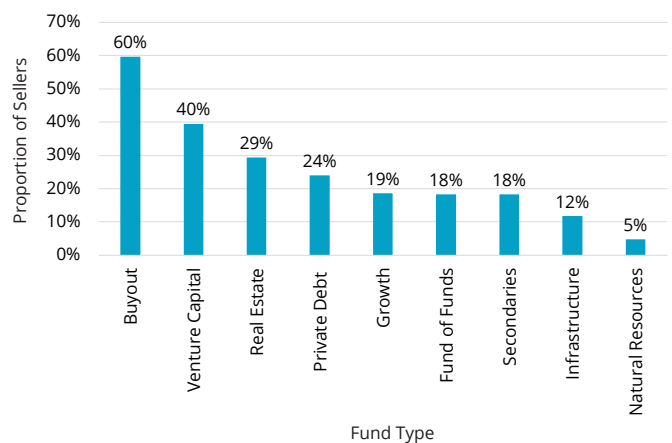
Source: Preqin

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



Source: Preqin

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



Source: Preqin

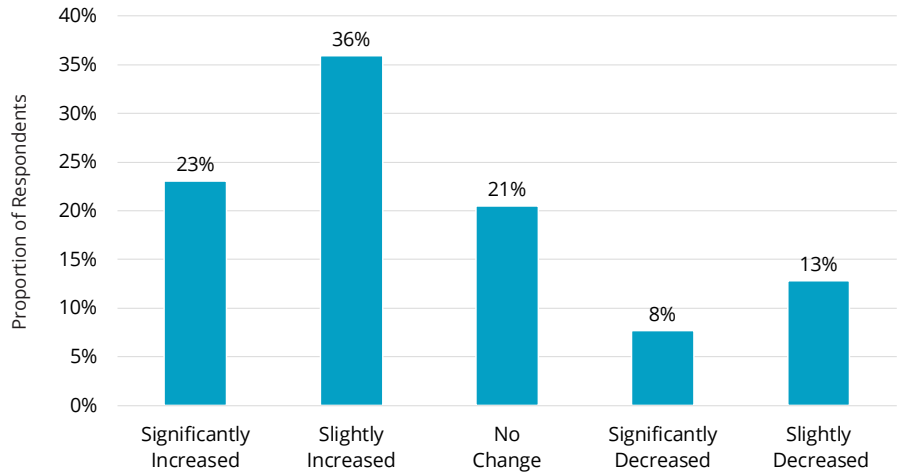


# TRANSACTIONS

**B**y all accounts, 2017 was a record year for the secondary market. When asked about their overall transaction activity, 59% of respondents indicated they had spent more on secondary transactions in 2017 compared to 2016 (Fig. 17).

A sample of secondary transactions completed in Q1 2018 are shown in Fig. 18. The quarter saw the completion of a transaction that restructured three vehicles managed by Peru-based fund manager Enfoca inversiones. The transaction, which had Goldman Sachs AIMS Private Equity as a buyer, is the first of its kind in Latin America, a region where GP-led secondary transactions are on the rise. Survey respondents were asked about their involvement in such deals in 2017 and, as can be seen in Fig. 19, 79% of buyers indicated they had completed a fund restructuring transaction in 2017, up from 62% in 2016.

**Fig. 17: Change in Total Value of Secondary Transactions Completed by Buyers from 2016 to 2017**



Source: Preqin Secondary Fund Manager Survey, January 2018

Sixty-one percent of respondents indicated they had relied on secondary intermediaries for at least part of their completed deal flow in 2017, showing that

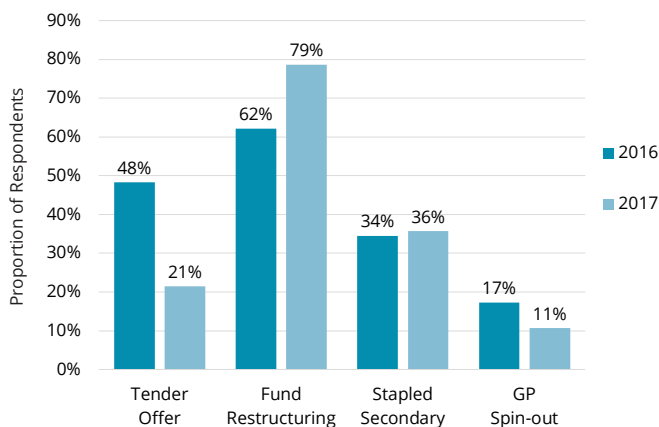
intermediaries remain an important aspect of the market (Fig. 20).

**Fig. 18: Sample Secondary Transactions Completed in Q1 2018**

Seller	Buyer(s)	Fund(s) Sold	Transaction Type
Undisclosed	AFP Integra, AFP Prima, AFP ProFuturo, CPP Investment Board, Goldman Sachs AIMS Private Equity	Enfoca Descubridor 1, Enfoca Descubridor 2, Enfoca Discovery 1	Fund Restructuring
Horsley Bridge Partners	Strategic Partners Fund Solutions	Apax Europe VI, Apax Europe VII, Litorina Kapital Fund IV, Segulah III, Segulah IV, Terra Firma Capital Partners II	Fund Portfolio Sale
BlackRock Private Equity Partners	HarbourVest Partners	Macquarie European Infrastructure Fund II	Partial Sale
Pictet Alternative Advisors	Undisclosed	European Secondary Opportunities II	Sole Fund Interest
Kaiser Permanente Pension Plan	Laborers Pension Trust Fund for Northern California	Infracapital Partners II, Pacific Road Resources Fund II	Fund Portfolio Sale

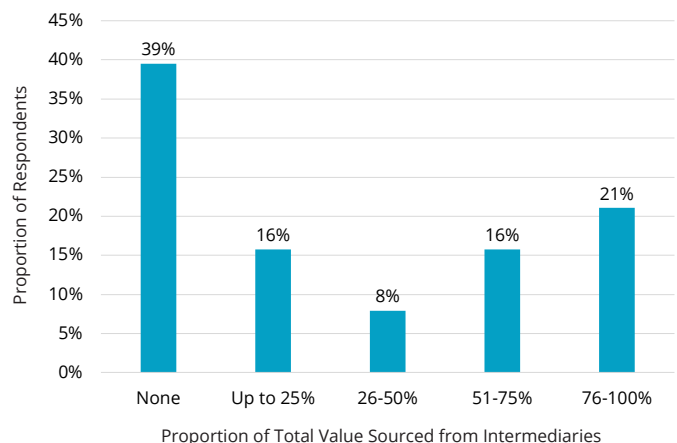
Source: Preqin

**Fig. 19: Buyers Completing Non-Traditional Secondary Transactions, 2016 vs. 2017**



Source: Preqin Secondary Fund Manager Survey, January 2017 - 2018

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



Source: Preqin Secondary Fund Manager Survey, January 2018

# PRICING

Recent strong fundraising and record dry powder levels have created a very competitive deal environment. Respondents to Preqin’s secondary fund manager survey were asked for their observations on the level of competition for deals in 2017 compared to 2016: the majority (61%) indicated they had observed more competition (Fig. 21).

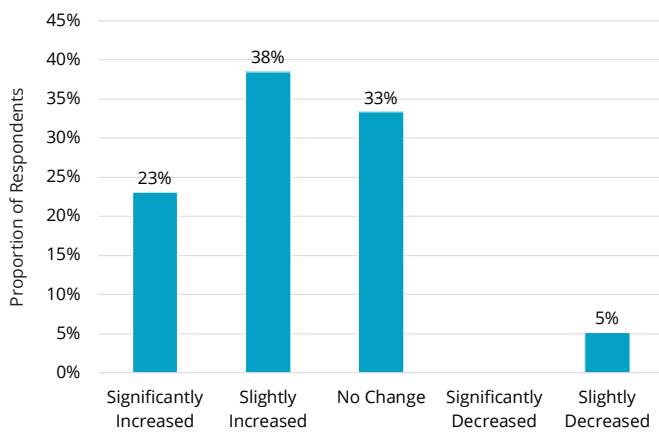
The perceived increase in competition is a sentiment reflected in pricing: at least half

of respondents observed higher pricing for small, mid-market and large buyout funds in 2017 compared to 2016 (Fig. 22). The majority of respondents also observed higher prices for growth and infrastructure funds on the secondary market.

Respondents were also asked to indicate the average price paid in 2017 for various fund types. As shown in Fig. 23, the highest average price tags are attached to large buyout vehicles, at 94% of NAV. Mid-market

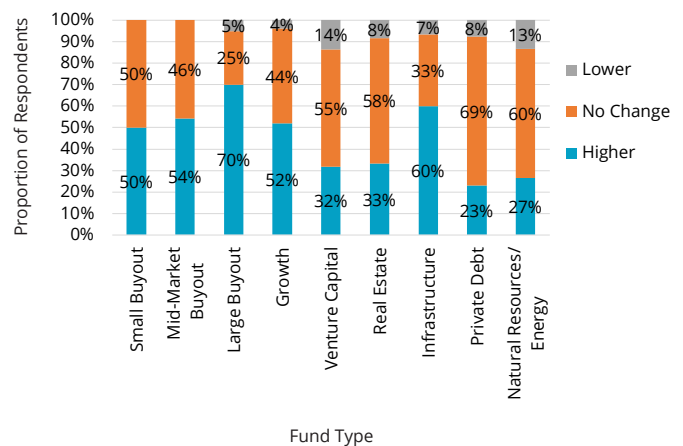
buyout funds were bought, on average, at 92% of NAV, and venture capital funds at 80% of NAV. Despite the higher prices observed in 2017, returns expectations for deals completed that year remain broadly similar to that for deals completed in 2016: the majority of respondents (72%) anticipate multiples of 1.3-1.8x, a similar proportion for 2016 (77%, Fig. 24).

Fig. 21: Change in Level of Competition for Deals from 2017 to 2018 According to Secondary Fund Managers



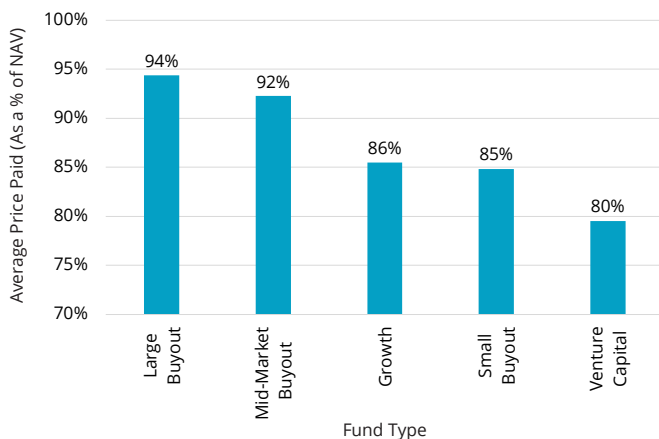
Source: Preqin Secondary Fund Manager Survey, January 2018

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



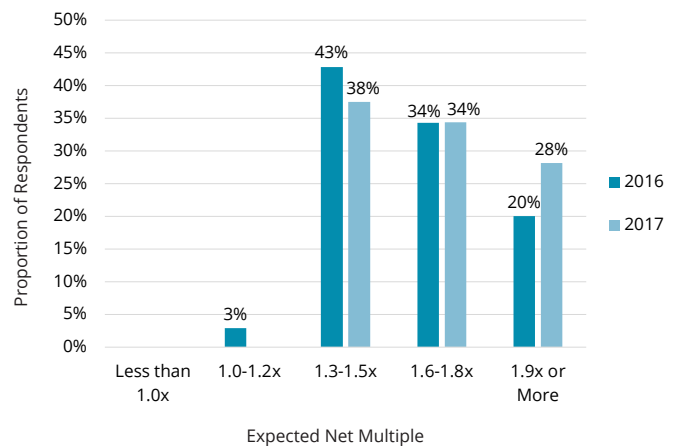
Source: Preqin Secondary Fund Manager Survey, January 2018

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



Source: Preqin Secondary Fund Manager Survey, January 2018

Fig. 24: Net Multiples Expected from Deals Completed, 2016 vs. 2017



Source: Preqin Secondary Fund Manager Survey, January 2018



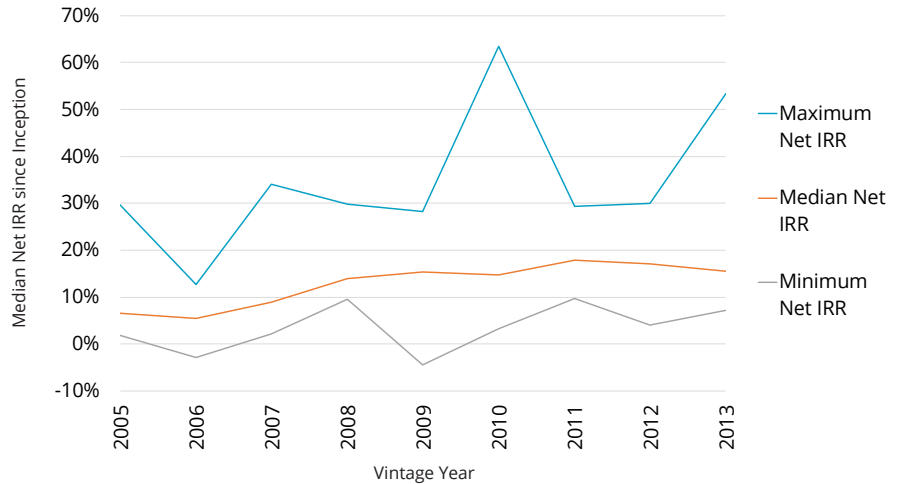


# PERFORMANCE

As seen in Fig. 25, secondaries funds continue to be seen as a safe investment: only two vintages (2006 and 2009) in the 11 vintage years shown have a negative minimum IRR, and, of all secondaries vehicles, just three currently have a negative minimum IRR.

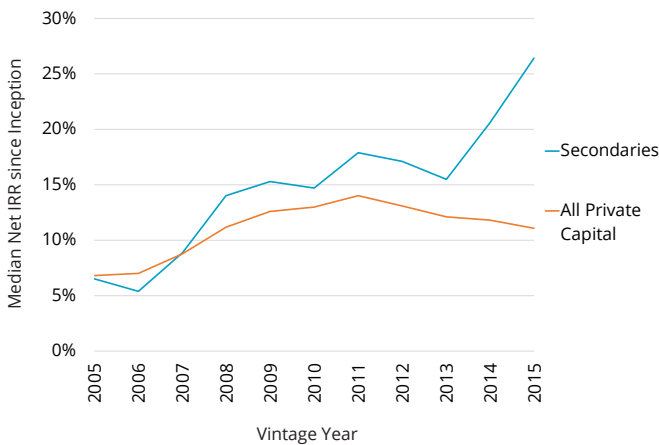
Secondaries funds typically have shorter holding periods, and, with funds purchased at discounts, provide attractive IRRs relative to other asset classes. This is illustrated in Fig. 26, which shows that median net IRRs for secondaries vehicles exceed the average private capital median net IRR for 2007 vintages onwards. Furthermore, Fig. 2 shows that secondaries funds have higher median net multiples than the average for all private capital funds for vintages 2008 and onwards.

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



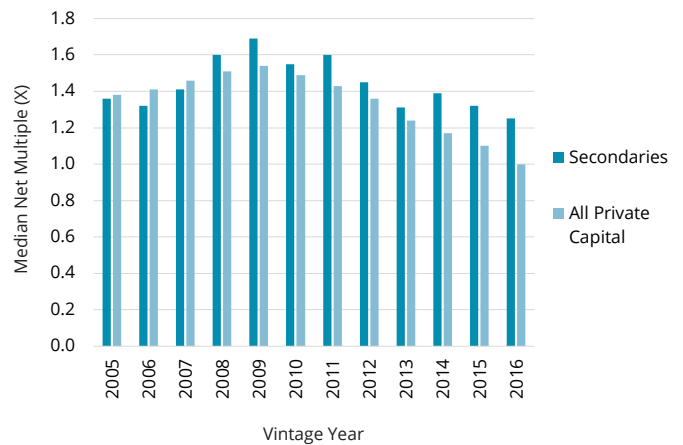
Source: Preqin Secondary Fund Manager Survey, January 2018

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



Source: Preqin

**Fig. 27: Median Net Multiples by Vintage Year: Secondaries Funds vs. Private Capital Funds**



Source: Preqin

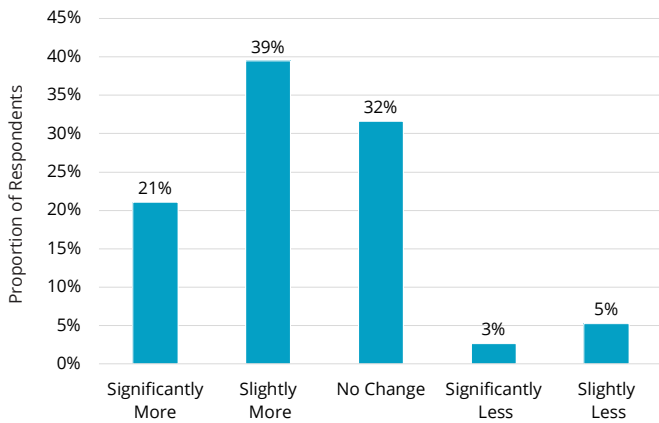
# OUTLOOK FOR 2018

The majority (60%) of respondents expect to be involved in more secondary transactions in 2018 than in 2017 (Fig. 28) which, given that 2017 was a record year, bodes well for secondary transaction activity in the year ahead. Estimates for the total value of secondary transactions are shown in Fig. 29, which reveals that 41% of respondents are anticipating aggregate transaction activity of \$45bn or more in 2018.

Respondents were asked to qualify these estimates by indicating which factors might stimulate secondary activity in 2018, with 26% citing pricing and 19% citing strong public market performance, which translates to better valuations for privately held assets (Fig. 30). Other factors cited included investors' portfolio management needs as well as the desire to obtain liquidity from mature vehicles.

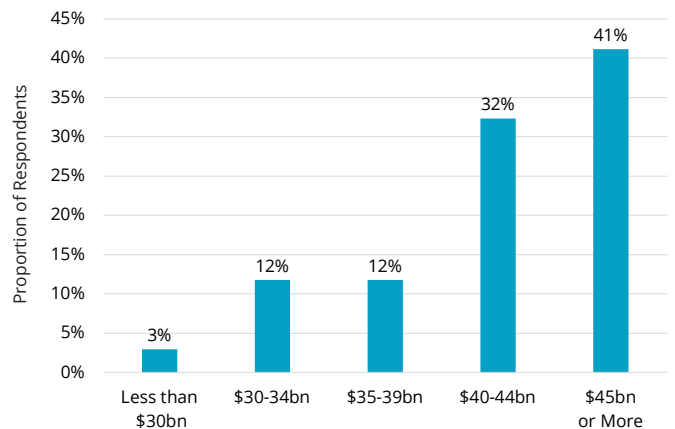
Respondents were also asked to indicate what trends they expected to see in 2018, and a noteworthy 42% expect to see more fund restructurings occurring (Fig. 31).

**Fig. 28: Fund Managers' Expected Total Value of Secondary Transactions Completed in 2018 Compared to 2017**



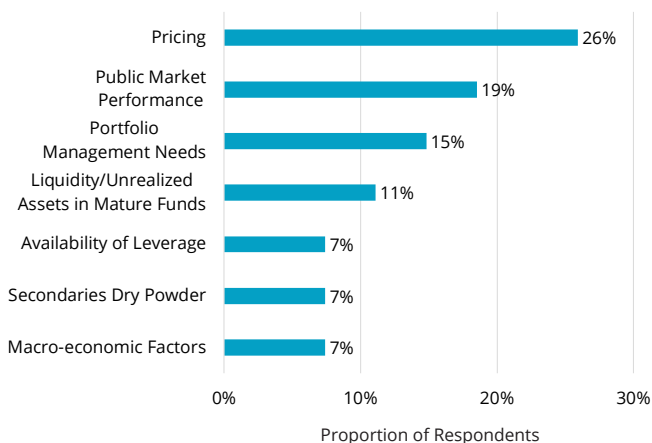
Source: Preqin Secondary Fund Manager Survey, January 2018

**Fig. 29: Fund Managers' Estimated Total Secondary Market Value for Full-Year 2018**



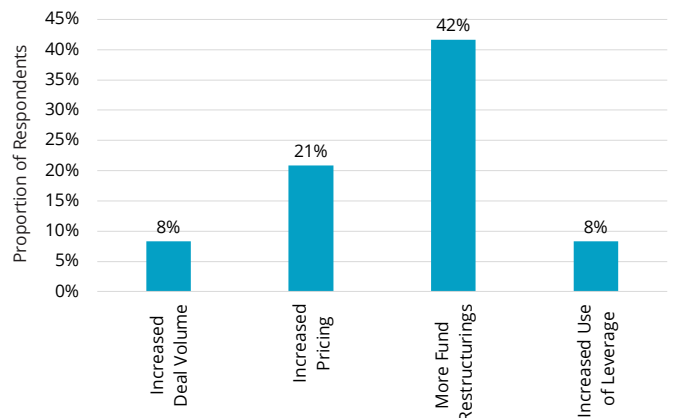
Source: Preqin Secondary Fund Manager Survey, January 2018

**Fig. 30: Fund Manager Views on Which Factors Will Influence Secondary Transaction Volume in 2018**



Source: Preqin Secondary Fund Manager Survey, January 2018

**Fig. 31: Fund Managers' Expected Trends in the Secondary Market in 2018**



Source: Preqin Secondary Fund Manager Survey, January 2018

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# PREQIN

## SECONDARY MARKET UPDATE

Q1 2018

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