The Q1 2015 Preqin Quarterly Update

Private Equity

Insight on the quarter from the leading provider of alternative assets data

Content includes...

Fundraising
Number of funds closed drops, but capital secured remains high.

Investors in Private Equity
A look at investor appetite for emerging markets.

Deals
More capital invested in PE-backed buyout deals than in any quarter since Q3 2007.

Fund Performance and Dry Powder
Dry powder figures continue on an upward trend.

Secondaries
A look at recent activity on the secondary market.

Plus, Special Guest Contributor:
Asante Capital Group

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Foreword - Christopher Elvin, Preqin

The private equity industry continues its stabilization since the financial crashes of years past, reflected in the figures for fundraising, deal activity and investor appetite. From the highs of 2014, the latest data for 2015 as we move into Q2 reveals that, while some numbers have dipped, the industry remains robust.

A relatively small number of funds, 166, reached a final close in Q1 2015, but the aggregate $104bn that was secured by these vehicles is high and indicates the average final size of private equity funds is on an upward trend. The 20 private equity funds closed in Q1 2015 that are $1bn or more in size have raised an aggregate $67bn and account for 64% of all capital raised by funds in the quarter.

As fund managers continue to achieve successful fundraises, the amount of private equity dry powder globally continues to climb to new heights, standing at a record $1.24tn at the end of March 2015. LPs have largely maintained a positive outlook on private equity, with 92% of investors surveyed by Preqin in December 2014 stating that their private equity fund investments have met or exceeded expectations. LPs continue to allocate significant amounts of capital to the asset class; page 9 of this report specifically explores LP appetite for different geographies, with a focus on investor attitudes towards emerging markets. More results from Preqin's biannual investor survey can be found in Preqin Investor Outlook: Private Equity, H1 2015.

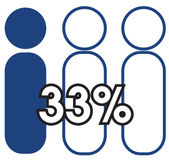
The most recent performance data for Q3 2014 has seen the PrEQIn Private Equity Quarterly Index for various fund types level off after a number of years of steadily increasing. Most significantly, the All Private Equity Index still consistently surpasses that of the S&P 500, with distressed debt and buyout funds displaying the greatest level of outperformance.

The deals landscape has remained fervent in Q1 2015, with both buyout and venture capital deals seeing the highest quarterly total deal values since 2007. The standout transaction of the quarter was the merger of H. J. Heinz Company and Kraft Foods Group, which, at a value of $40bn, ranks as the second largest private equity-backed buyout deal in history.

Q1 2015 has displayed a number of encouraging signs indicating we are set for another successful year ahead for the private equity industry. Though some numbers have shown decreases from Q1 2014, the flow of capital through the industry shows fair momentum and Preqin's direct conversations with LPs confirm the positive sentiment investors have towards the opportunities to be found in the private equity asset class.

Key Facts

Number of private equity funds on the road at the end of Q1 2015.



A third of LPs surveyed (33%) are looking to increase their allocations to private equity in 2015.

Private equity dry powder is at a record $1.24tn.

166 private equity funds reached a final close in Q1 2015, securing an aggregate $104bn.

The largest private equity-backed buyout deal of the quarter, the $40bn Kraft Heinz Company merger, is also the second largest deal of all time.

Only one secondaries fund reached a final close in Q1 2015: Euro Choice Secondary (€224mn).

Contents

Market Timing

- Warren Hibbert, Managing Partner, Asante Capital Group

Warren Buffett has been quoted as saying “my favourite time frame is forever”. In the private equity market, however, the relatively standardized duration of funds dictates that there is a limited timeframe within which to invest and to exit all fund investments, and in most cases, the investment and hold periods are aligned more towards short- to medium-term investing than long-term investing. Moreover, many astute investors over time have made reference to the fact that you can’t time the market and shouldn’t try to – which leaves the private equity industry with an interesting challenge of having to invest and exit consistently within defined time periods, through increasingly volatile swings in global markets.

This dilemma is further exacerbated as the global capital markets appear to be racing towards 2007 levels and beyond, and as the market starts to reach boiling point (yet again), the various private equity constituents start peddling faster and faster. Add to that the fact that fund investors (LPs) review between approximately 400 to 600 funds per annum and it becomes clear that LPs have less and less time to fully diligence each opportunity deemed potentially appealing, while still having to carefully balance the portfolio to take advantage of swings in market cycles.

As the market continues to rise with prices, leverage multiples and generally frenetic levels of activity, the fundraising environment follows suit, albeit with a marginal lag, and as the fundraising environment improves, thanks to a strong exit environment, another wall of capital is built just as it becomes increasingly expensive for fund managers (GPs) to buy into the market.

In a perfect world, the market and fundraising cycles would operate inversely so that as the market peaks, less and less capital is allocated to invest, and as the market dips, a new wall of investable capital is built up. In most instances, this strong correlation between the broader market and private equity fundraising cycle will result in poorer performance through the dip, as GPs raise and invest significant sums at the top of the market and battle to generate returns where they hold typically over-leveraged assets that struggle to deliver on their growth expectations, and end up being sold into a lower priced environment in years to come. Of course that is a generalization and there will be a number of strategies that will fare better than most through a down cycle, assuming they are not forced to put money to work ahead of market swings – such as special situation and turnaround managers, that should be well placed to pounce should the market correct at some point in the future and assuming they’ve remained disciplined through the headier times where they would have seen fewer attractive opportunities. There are also a number of other strategies that should be well positioned to generate strong returns; for example, energy funds that find themselves in an attractive pricing environment today, yet with a strong long-term demand cycle; and financial services funds that can take advantage of global banks being forced to jettison non-core, yet fundamentally attractive operations across various markets (primarily in Europe).

One of the questions this poses is whether there is merit in recalibrating (to some extent) private equity fund portfolios between cycles to ensure that those managers best positioned to take advantage of the next cycle are those that are most recently funded. Given where the market is today, what should LPs be looking for? Relevant strategies as we approach the top of a market cycle may include: select managers investing in emerging markets that have yet to shine and yet have continued to perform despite their peer group generally underperforming (such as India for example); special situations/opportunistic managers that are able to access relatively unique opportunities/assets given their deep and sophisticated skill set (shipping for example) or special situation credit investors that are able to take advantage of pricing arbitrage due to information mismatch and translate the initial credit risk into an equity return over time (‘loan-to-own’ strategies, for example) – again having a very specific skill set within the team to execute consistently on strategy.

Another sector that is experiencing a significant downturn and hence exhibiting special situation opportunities, a pricing mismatch and a long-term positive demand trend, is energy, and to an extent, the broader real assets category that has typically provided an inflation hedge. It has been evident from a number of the recently announced, successful energy fundraisings (both credit and equity funds) that the opportunity is clear, and according to some, the pricing arbitrage in the underlying commodity is a potential ‘50-year storm event’.

Secondary investors should also fare well in the event of a market correction. Pricing on secondary fund interests is close to par, if not above, in many instances and the quantum of attractively priced opportunities should increase significantly through a dip in the market where increasing levels of uncertainty abound.

A number of more generalist strategies in the private equity industry have done well to adapt to more of a buy-and-build approach in cases where they had previously executed a more standardized buyout strategy. This has generally allowed them to find smaller assets at more attractive prices, albeit typically with more operational risk too. One of the concerns, however, given where the market is today, is that even the smaller assets are still trading at relatively expensive levels.

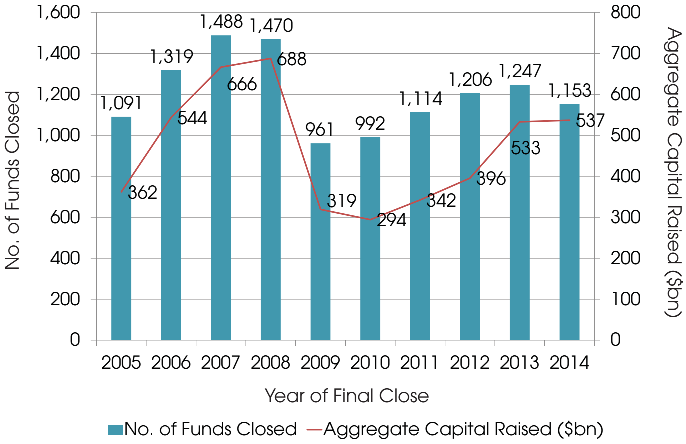
A number of LPs (endowments in particular) continue to recalibrate their portfolios fairly aggressively to focus on a smaller number of managers pursuing ‘high alpha’ strategies with the potential to deliver strong returns consistently. What does not seem to be evident, however, is whether LPs are recalibrating their portfolios for market cycles. We know of a number of LPs that do calibrate their portfolios relative to where they want to be liquid depending on where in the market cycle they are and they do so by balancing their public equity exposure with that of their private equity positions on a sector-by-sector basis. However, they remain the exception to the rule, and as long as portfolios are not continually calibrated towards future market movements, we will continue to observe an unhealthy number of non-differentiated managers being funded where they've been able to evidence strong exits primarily due to a strong market cycle leading to marked swings in performance across vintages and market cycles further down the line, leading to the situation today where there are ultimately too many managers in the market.

Another big question is whether this conundrum might not exist at all if LPs had more discretion over when a GP put money to work and where they invested. Of course the overriding issue here goes to the fundamental principal behind a blind-pool of capital – that being that the specialist fund managers are best placed, with the strongest teams, to execute their strategy, and by removing their ability to invest in businesses and time the market, the concept behind a blind-pool starts to become redundant. While there are a very small number of highly sophisticated LPs with very large pools of capital (typically sovereign wealth funds or large pensions) that are able to take controlling interests in businesses around the world, this sub-set of LPs is very small and most still rely on the expertise of the GPs they back to provide them with a premium to the public markets and co-investment opportunities that, for the most part, work to reduce the overall cost of the investment to the LPs.

As markets continue to climb ever higher, it will be interesting to watch how the LP community adjust and augment their portfolios and which of the GPs in the market today continue to get funded. There are many GPs that have been very successful, in large part because they are able to generate strong returns on a very consistent basis regardless of market cycle, and they will continue to stand out. With them, there will be a number of new innovative strategies that will emerge as the private equity market continues to evolve, and both should provide the LP community with a strong balanced portfolio of consistent performers able to take advantage of specific points in each market cycle. However, what is clear is that we will continue to see further bifurcation of the market as there remain too many funds unable to successfully deliver performance across cycles via differentiated strategies, and so it becomes increasingly difficult for LPs to gain sufficient allocation to the best managers.

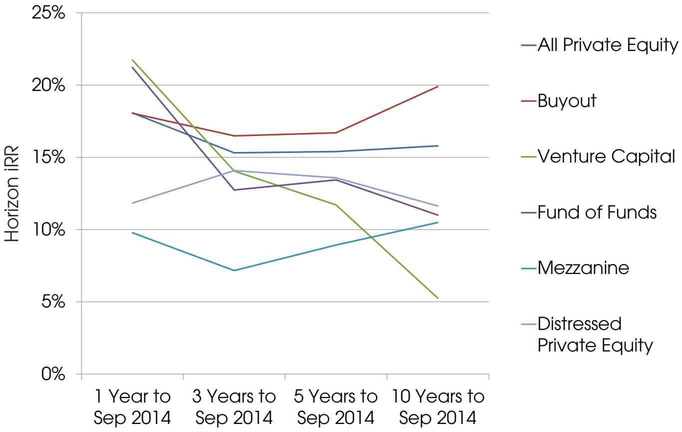
It is clear that trying to time the market is futile, but developing a select portfolio of private equity managers that can take advantage of different points in each market cycle, and that are optimally funded as and when the opportunities are most evident, is the holy grail for any LP in the market today, but it is also clear that the search for this holy grail will continue to ensure that there is funding for a far broader set of managers to come.

Fig. 1: Global Annual Private Equity Fundraising, 2005 - 2014



Source: Preqin Funds in Market

Fig. 2: Private Equity Horizon IRRs as of 30 September 2014



Source: Preqin Performance Analyst

Asante Capital Group

Asante is a leading independent Private Equity placement and advisory group, focused on partnering with best-of-breed fund managers in both developed and emerging markets. The group has a single-minded approach to fundraising having collectively worked on over 40 successful fundraisings across the globe, including Africa, Asia, Australia, Western & Eastern Europe, North America and Russia. The team of highly focused and aligned individuals strives to deliver a superior quality of information, interaction and results.

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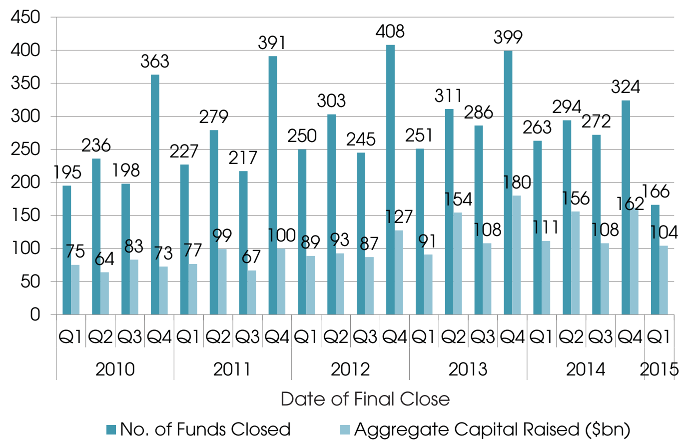
Fundraising in Q1 2015

Q1 2015 has seen a marked drop in the number of private equity funds closed, down from 324 in Q4 2014 to just 166 in the first quarter of the new year (Fig. 1). When compared with Q1 2014, the same downward trend is apparent, with 263 vehicles closed in the first quarter of 2014. However, despite a decline in number of funds, the level of aggregate capital raised has not fallen proportionally. Private equity vehicles closed in the first quarter of the year collected $104bn, just $7bn less than the first quarter of 2014, indicating an increase in the average final size. A notable 50% of vehicles closed in Q1 2015 exceeded their targets, with a further 24% meeting their targets.

Real estate funds collected the highest amount of capital of all fund types in Q1 2015, at an aggregate $29.7bn (Fig. 2). Two of the five largest vehicles closed in the first quarter were real estate funds, Blackstone Real Estate Partners VIII ($14.5bn) and Starwood Global Opportunity Fund X ($5.6bn), both of which surpassed their original target sizes by over $1bn (Fig. 4).

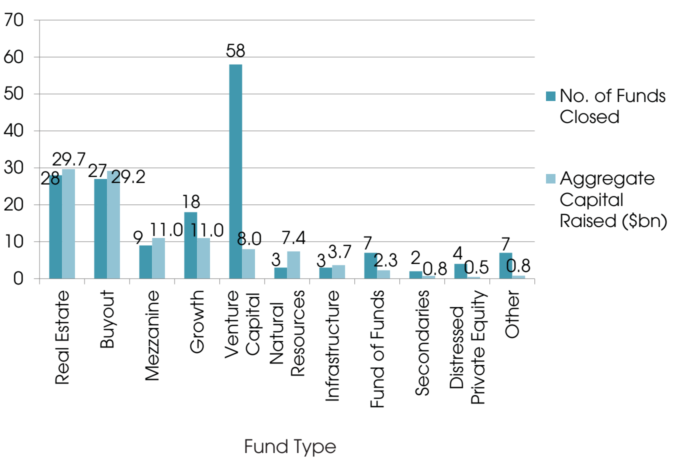
Fig. 3 shows that as in every year, the majority of capital raised in Q1 2015 was by vehicles that are primarily focused on North America (68%). Private equity funds with a predominant focus on Europe accounted for 14% of capital raised and Asia-focused funds represent 10%.

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2010 - Q1 2015



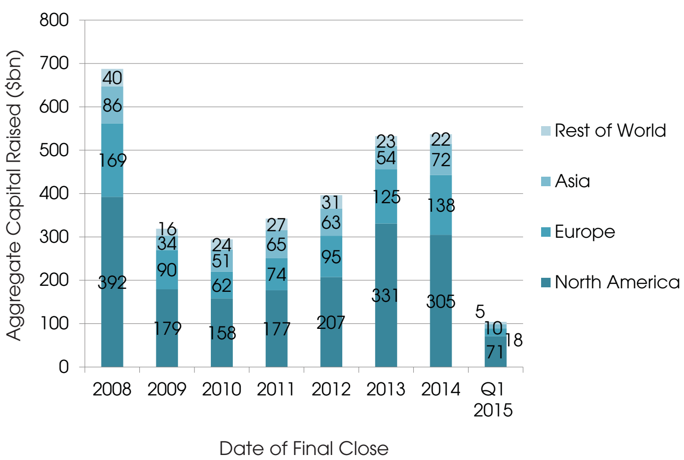
Source: Preqin Funds in Market

Fig. 2: Private Equity Funds Closed in Q1 2015 by Fund Type



Source: Preqin Funds in Market

Fig. 3: Annual Private Equity Fundraising by Geographic Focus, 2008 - Q1 2015



Source: Preqin Funds in Market

Fig. 4: Five Largest Private Equity Funds Closed in Q1 2015

Fund	Firm	Type	Fund Size (bn)	Firm Headquarters	Location Focus
Blackstone Real Estate Partners VIII	Blackstone Group	Real Estate	14.5 USD	US	Global
GS Mezzanine Partners VI	Goldman Sachs Merchant Banking Division	Mezzanine	8.0 USD	US	Europe, North America
Starwood Global Opportunity Fund X	Starwood Capital Group	Real Estate	5.6 USD	US	Europe, North America
American Securities Partners VII	American Securities	Buyout	5.0 USD	US	North America
Blackstone Energy Partners II	Blackstone Group	Natural Resources	4.5 USD	US	Global

Source: Preqin Funds in Market

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Largest Funds Closed in Q1 2015 by Region

Fig. 1: Globally-Focused: Five Largest Private Equity Funds Closed in Q1 2015

Fund	Firm	Type	Fund Size (mn)
Blackstone Real Estate Partners VIII	Blackstone Group	Real Estate	14,500 USD
Blackstone Energy Partners II	Blackstone Group	Natural Resources	4,500 USD
Bessemer Venture Partners IX	Bessemer Venture Partners	Venture Capital	1,600 USD
OrbiMed Royalty Opportunities Fund II	OrbiMed Advisors	Mezzanine	924 USD
Climate Solutions Fund II	Generation Investment Management	Growth	520 USD

Source: Preqin Funds in Market

Fig. 2: North America-Focused: Five Largest Private Equity Funds Closed in Q1 2015

Fund	Firm	Type	Fund Size (mn)
GS Mezzanine Partners VI	Goldman Sachs Merchant Banking Division	Mezzanine	8,000 USD
Starwood Global Opportunity Fund X	Starwood Capital Group	Real Estate	5,600 USD
American Securities Partners VII	American Securities	Buyout	5,000 USD
Crestview Partners III	Crestview Partners	Buyout	3,250 USD
Francisco Partners IV	Francisco Partners	Buyout	2,875 USD

Source: Preqin Funds in Market

Fig. 3: Europe-Focused: Five Largest Private Equity Funds Closed in Q1 2015

Fund	Firm	Type	Fund Size (mn)
Bridgepoint Europe V	Bridgepoint	Buyout	4,000 EUR
PAI Europe VI	PAI Partners	Buyout	3,300 EUR
Carlyle International Energy Partners I	Carlyle Group	Natural Resources	2,500 USD
First State European Diversified Infrastructure Fund	Colonial First State Global Asset Management/ First State Investments	Infrastructure	2,000 EUR
German Senior Debt Fund	Deutsche Asset & Wealth Management	Real Estate	500 EUR

Source: Preqin Funds in Market

Fig. 4: Asia-Focused: Five Largest Private Equity Funds Closed in Q1 2015

Fund	Firm	Type	Fund Size (mn)
Baring Asia Private Equity Fund VI	Baring Private Equity Asia	Growth	3,988 USD
Hillhouse Private Equity Fund	Hillhouse Capital Management	Growth	2,000 USD
Equis Asia Fund II	Equis Funds Group	Infrastructure	1,000 USD
Mapletree Japan Office Fund	Mapletree Investments	Real Estate	65,000 JPY
Baring Private Equity Asia Real Estate Fund	Baring Private Equity Asia	Real Estate	365 USD

Source: Preqin Funds in Market

Fig. 5: Rest of World-Focused: Five Largest Private Equity Funds Closed in Q1 2015

Fund	Firm	Type	Fund Size (mn)
Helios Investors III	Helios Investment Partners	Growth	1,100 USD
Abraaj Africa III	The Abraaj Group	Buyout	990 USD
African Development Partners II	Development Partners International	Growth	725 USD
Duet-CIC Egypt Opportunities Fund	Duet Private Equity	Buyout	300 USD
Greylock Israel III	83 North	Venture Capital	200 USD

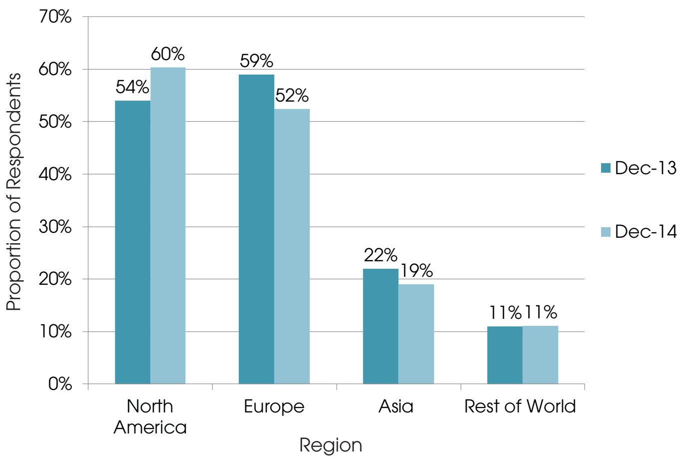
Source: Preqin Funds in Market

Institutional Investors in Private Equity

The majority (60%) of investors interviewed for **Preqin Investor Outlook: Private Equity, H1 2015**, stated that North America is currently presenting the best opportunities for private equity, up from 54% the previous year. This improvement contrasts with a decline in appetite for Europe and Asia, as confidence in the traditional US market strengthens and emerging economies show a slowdown in growth. However, Asia remains one of the most attractive emerging markets for private equity investors, as shown in Fig. 2. China has also kept its status as an attractive country for investment, with 28% of respondents believing it to have the best investment opportunities within emerging markets at present. Preqin's study also observes an increase in the proportion of LPs that have identified South America (19%), Brazil (17%) and Africa (14%) to be presenting the best private equity investment opportunities compared to the previous year.

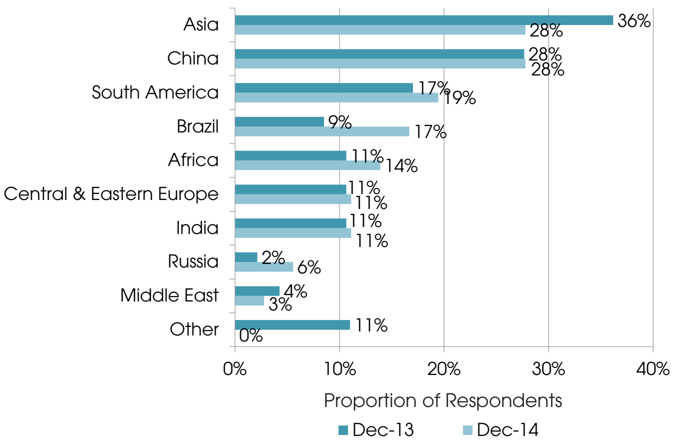
While over half (57%) of investors surveyed expect their allocation to emerging markets to remain the same over the next 12 months, a quarter intend to increase their allocation (Fig. 3). Details of five notable investors we spoke to in Q1 2015 that are looking to add emerging markets-focused funds to their portfolios over the next 12 months can be seen in Fig. 4.

Fig. 1: Regions Investors View as Currently Presenting the Best Investment Opportunities



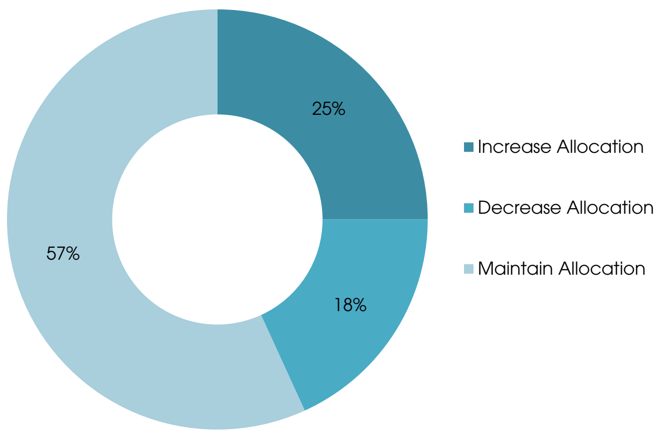
Source: Preqin Investor Interviews, December 2013 - December 2014

Fig. 2: Countries and Regions within Emerging Markets that Investors View as Currently Presenting the Best Investment Opportunities



Source: Preqin Investor Interviews, December 2013 - December 2014

Fig. 3: Investors' Intentions for Their Allocations to Emerging Markets over the Next 12 Months



Source: Preqin Investor Interviews, December 2014

Fig. 4: Sample of Investors Targeting Emerging Markets-Focused Private Equity Funds in the Next 12 Months

Investor	Type	Location	Amount Planning to Commit to Private Equity Funds in the Next 12 Months (mn)
Los Angeles County Employees' Retirement Association	Public Pension Fund	US	2,000 USD
European Bank for Reconstruction and Development	Bank	UK	200 EUR
Württembergische Insurance	Insurance Company	Germany	100-200 EUR
Realdania	Foundation	Denmark	100 EUR
Industrial Bank of Kuwait	Bank	Kuwait	40-50 USD

Source: Preqin Investor Intelligence

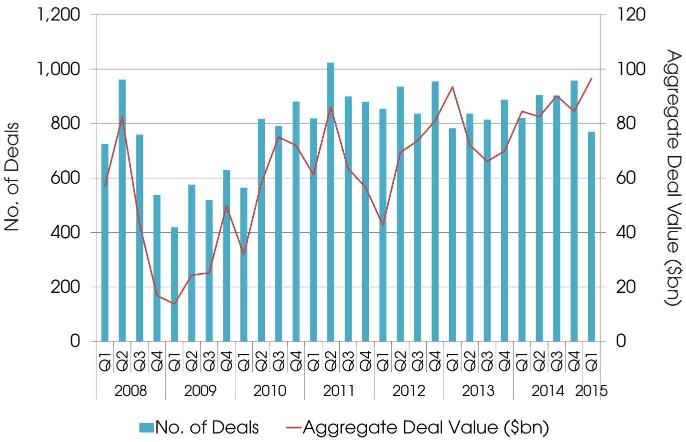
Buyout Deals

The number of private equity-backed buyout deals recorded globally in Q1 2015 fell by 20% from 958 in Q4 2014 to 770 in the first quarter of 2015, consistent with a trend that has seen a dip in the number of deals in the first quarter in every year since 2008 (Fig. 1). However, the aggregate value rose by 14% from $85bn in Q4 2014 to $97bn in Q1 2015, the highest quarterly total deal value since the pre-crisis third quarter of 2007 ($125bn).

The rise in the global aggregate value of deals in Q1 2015 was driven by an 86% increase in total value for North American deals, which was largely a result of the private equity-backed merger between H. J. Heinz Company and Kraft Foods Group (Fig. 4). At $69bn, aggregate deal value in the region fell just short of the $73bn peak seen in Q1 2013. The aggregate value of deals in Europe fell by 43% to $17bn in Q1 compared to the previous quarter, while Asia witnessed a 70% fall to $3.5bn and recorded its lowest quarterly total deal value since Q1 2009 (Fig. 2).

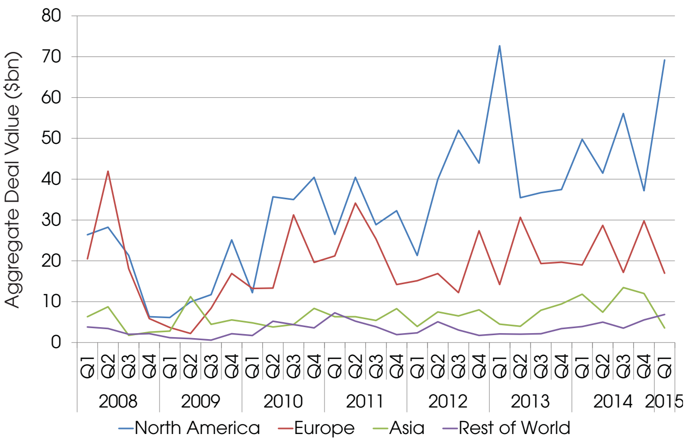
Although the number of IPOs and follow-on offerings held steady at 68 in the first quarter, declines in sale-to-GP and trade sale activity resulted in an 18% drop in the total number of exits to 353 compared to Q4 2014 (Fig. 3). Despite this decrease in number, the aggregate value of exits globally rose 10% from $91bn in Q4 2014 to $100bn in Q1 2015.

Fig. 1: Quarterly Number and Aggregate Value of Private Equity-Backed Buyout Deals Globally, Q1 2008 - Q1 2015



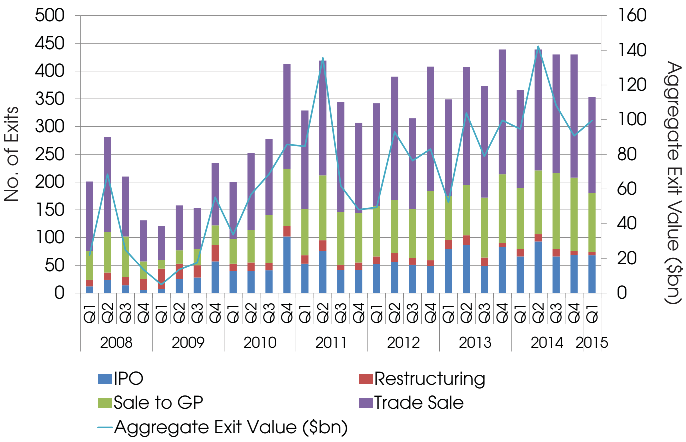
Source: Preqin Buyout Deals Analyst

Fig. 2: Quarterly Aggregate Value of Private Equity-Backed Buyout Deals by Region, Q1 2008 - Q1 2015



Source: Preqin Buyout Deals Analyst

Fig. 3: Global Number of Private Equity-Backed Exits by Type and Aggregate Exit Value, Q1 2008 - Q1 2015



Source: Preqin Buyout Deals Analyst

Fig. 4: Five Largest Private Equity-Backed Buyout Deals Announced in Q1 2015

Firm	Investment Type	Deal Date	Deal Size (mn)	Investors	Bought From/ Exiting Company	Location	Primary Industry
The Kraft Heinz Company	Merger	Mar-15	40,000 USD	3G Capital, Berkshire Hathaway, H.J. Heinz Company, Kraft Foods Group	-	US	Food
GE Capital's Australia and New Zealand Consumer Lending Business	Buyout	Mar-15	8,200 AUD	Deutsche Bank, KKR, Värde Partners	GE Capital	Australia	Financial Services
OneMain Financial	Add-on	Mar-15	4,250 USD	Fortress Investment Group, Springleaf Financial Services	Citigroup	US	Financial Services
Life Time Fitness	Public To Private	Mar-15	4,000 USD	Leonard Green & Partners, LNK Partners, TPG	-	US	Leisure
TE Connectivity's Telecom, Enterprise and Wireless Businesses	Add-on	Jan-15	3,000 USD	Carlyle Group, CommScope Inc.	TE Connectivity Ltd	Switzerland	Telecoms

Source: Preqin Buyout Deals Analyst

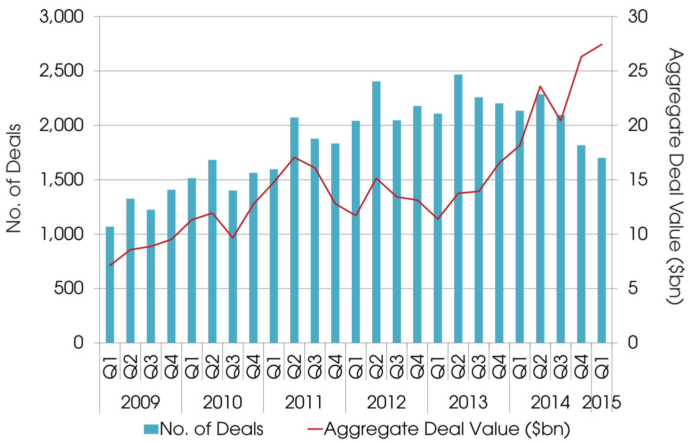
Venture Capital Deals

During the first quarter of 2015, 1,701 venture capital financings were announced globally, the lowest quarterly number since Q1 2011 and 6% less than the 1,817 financings witnessed in Q4 2014 (Fig. 1). However, the aggregate value in Q1 2015, at $27.4bn, was 51% higher than at the same point last year and represents the highest quarterly figure recorded since 2007.

The past quarter saw 935 venture capital financings take place in North America, making up 55% of global financings (Fig. 2). The aggregate value of such deals reached $16.4bn, accounting for 60% of the global deal value for the quarter. Greater China recorded its highest quarterly aggregate deal value since 2007, at $5.6bn. The aggregate value of European deal flow, at $2.8bn, was 42% higher than in Q4 2014.

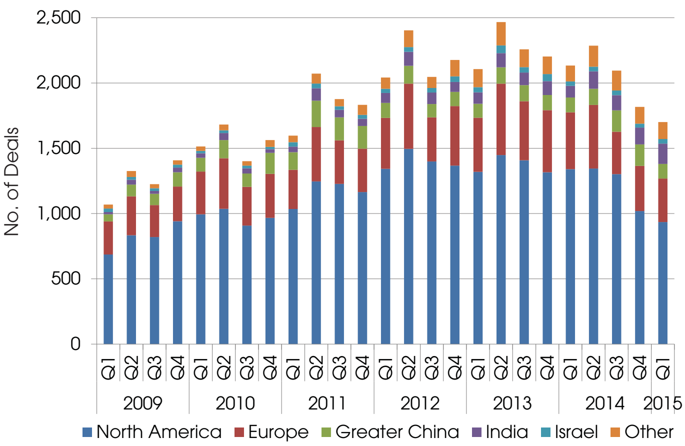
Angel/seed financings remain the most common stage of venture capital deals, representing 22% of the total number (Fig. 3), up from 18% in Q4 2014. Series D stage and later deals showed the largest increase in average deal value, climbing 66% from $60mn in Q1 2014, to $100mn in Q1 2015.

Fig. 1: Number and Aggregate Value of Venture Capital Deals Globally, Q1 2009 - Q1 2015*



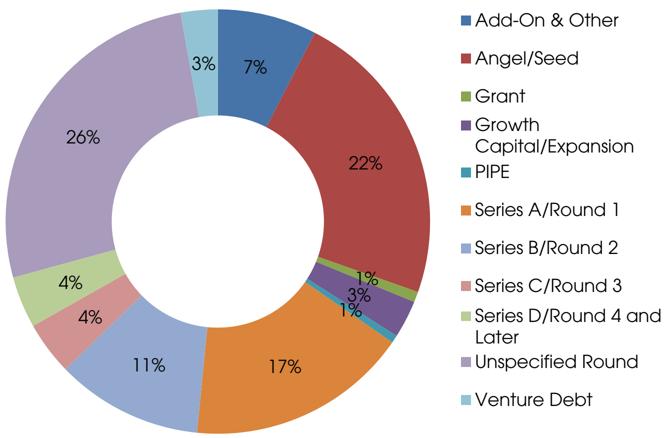
Source: Preqin Venture Deals Analyst

Fig. 2: Number of Venture Capital Deals by Region, Q1 2009 - Q1 2015*



Source: Preqin Venture Deals Analyst

Fig. 3: Proportion of Number of Venture Capital Deals by Stage, Q1 2015



Source: Preqin Venture Deals Analyst

Fig. 4: Five Largest Venture Capital Deals in Q1 2015*

Portfolio Company	Stage	Deal Date	Deal Size (mn)	Investor(s)	Location	Primary Industry
SpaceX	Unspecified Round	Jan-15	1,000 USD	Draper Fisher Jurvetson, Fidelity Equity Partners, Founders Fund, Google, Valor Equity Partners	US	Aerospace
Uber Technologies, Inc.	Series E/ Round 5	Feb-15	1,000 USD		US	Telecoms
Aduro BioTech	Unspecified Round	Mar-15	750 USD	Novartis Venture Funds	US	Pharmaceuticals
Meituan.com	Series D/ Round 4	Jan-15	700 USD		China	Internet
Meizu Telecom Equipment Co., Ltd.	Unspecified Round	Feb-15	650 USD	Alibaba Group, Haitong Kaiyuan Investment	China	Telecoms

Source: Preqin Venture Deals Analyst

* *Figures exclude add-ons, grants, mergers, venture debt and secondary stock purchases*

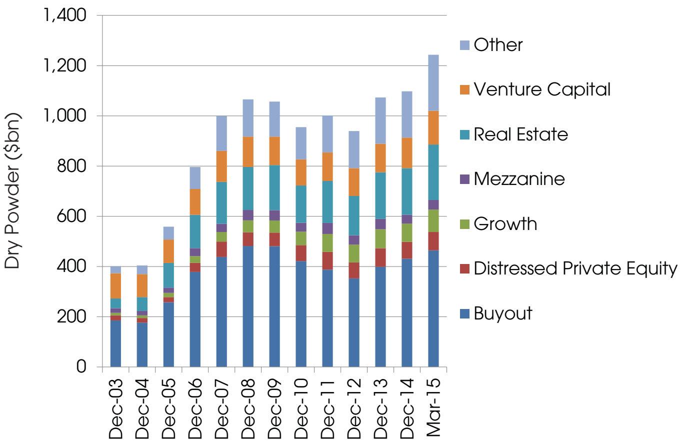
Fund Performance and Dry Powder

Fig. 1 shows the level of dry powder, or uncalled capital commitments, within the private equity industry. The graph reveals that dry powder figures have risen every year since 2012 and currently stand at a peak of $1.24tn. This is a 13% increase on December 2014, just three months earlier. The largest proportion of dry powder (37%) is held in buyout funds, followed by real estate funds (17%) and venture capital funds (11%). Growth and real estate funds have seen the largest percentage increase in dry powder levels between December 2014 and March 2015, growing by 23% and 19% respectively.

The PrEQIn Private Equity Quarterly Index in Fig. 2 shows that venture capital funds are continuing to edge closer towards the base value of 100 following 14 consecutive years of relative underperformance. Distressed private equity and buyout funds have seen upward movement in their indices since 2012 but are now showing signs of levelling off during Q3 2014. The real estate index has fallen slightly behind the industry as a whole for the same quarter.

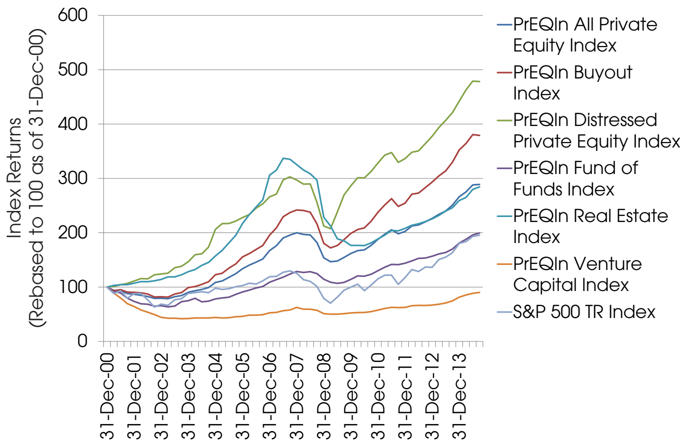
Fig. 3 shows the risk-return profile of different private equity strategies. Mezzanine funds have the lowest level of risk, with a standard deviation of 5.4% and a median net IRR of 8.6%. Secondaries funds are shown to have the highest median net IRR at 15.0%, with a standard deviation of 12.8%.

Fig. 1: Private Equity Dry Powder by Fund Type, December 2003 - March 2015



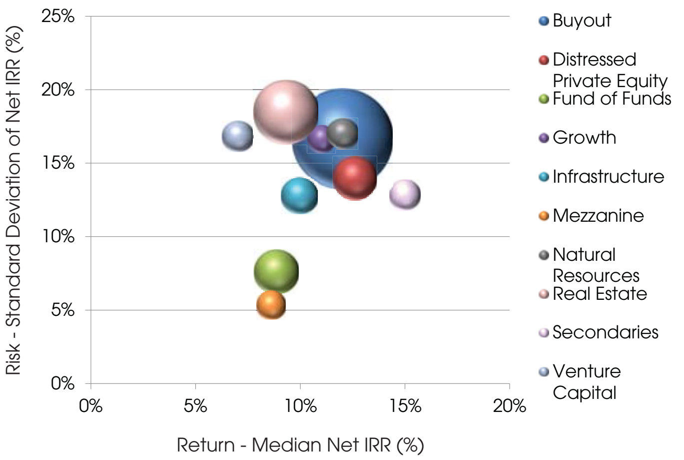
Source: Preqin Performance Analyst

Fig. 2: PrEQIn Private Equity Quarterly Index by Fund Type



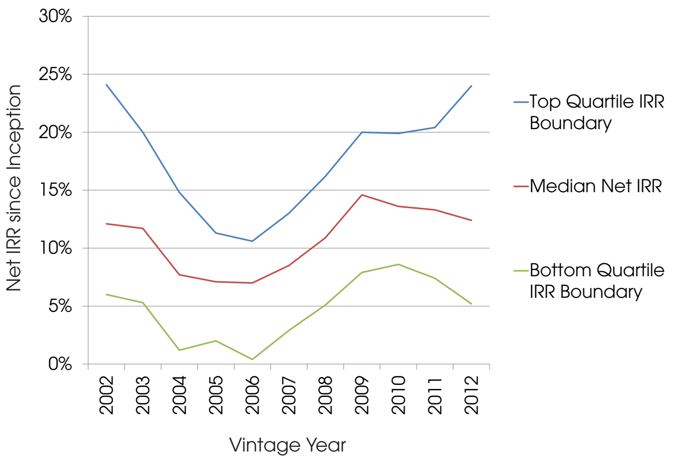
Source: Preqin Performance Analyst

Fig. 3: Risk and Return by Strategy (Vintage 2002-2012 Funds)



Source: Preqin

Fig. 4: All Private Equity: Median Net IRRs and Quartile Boundaries by Vintage Year



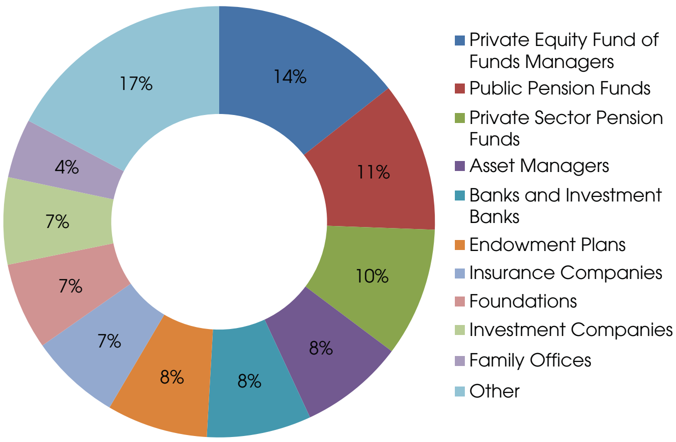
Source: Preqin Performance Analyst

Private Equity Secondaries

Preqin has identified 388 institutional investors that have demonstrated an interest in selling private equity fund interests on the secondary market. Private equity fund of funds managers make up the largest proportion of potential sellers (14%), often going to market with tail-end fund interests in order to return capital to their LPs. Fig. 1 demonstrates the wide range of institutional investors that are seeking to utilize the secondary market, with pension funds and banks clearly continuing to play a prominent role in the market. Twenty-seven secondary transactions in Q1 2015 have been tracked by Preqin, and over 30 fund commitments have been transferred between investors in this quarter. There was a mix of portfolio sales, individual fund stake sales and partial sales, a sample of which can be seen in Fig. 2.

Euro Choice Secondary was the only private equity secondaries fund to hold a final close in Q1 2015. The vehicle secured €224mn in investor capital, exceeding its €200mn target, and specifically looks to acquire stakes in Europe-focused buyout funds. As of the end of March 2015, there were 21 private equity secondaries funds in market seeking an aggregate $21.7bn, the five largest of which can be seen in Fig. 3.

Fig. 1: Breakdown of Potential Sellers of Private Equity Interests on the Secondary Market by Type



Source: Preqin Secondary Market Monitor

Fig. 2: Sample Secondary Transactions Involving Private Equity Funds in Q1 2015

Seller	Buyer(s)	Fund(s)	Transaction Date
Suomi Mutual Life Assurance Company	Mandatum Life Insurance Company	Candover 2005, ECI 8, European Property Investors, Frogmore Real Estate Partners, IK 2004 Fund, Nordic Mezzanine Fund III	Jan-15
Charles Stewart Mott Foundation	CPP Investment Board	Apax Europe VII	Jan-15
BNY Mellon Wealth Management	Willowridge Partners	Cinven III	Feb-15
Capital Dynamics	Montauk TriGuard	Apax Europe V, IK 2000 Fund	Mar-15
shaPE Capital	Adveq	Exponent Private Equity Partners	Mar-15

Source: Preqin Secondary Market Monitor

Fig. 3: Five Largest Secondaries Funds Currently in Market

Fund	Firm	Target Size (mn)	Latest Interim Close Size (mn)	Fund Status
Lexington Capital Partners VIII	Lexington Partners	8,000 USD	5,500 USD	First Close
Coller International Partners VII	Coller Capital	5,000 USD	-	Raising
Pantheon Global Secondary Fund V	Pantheon	2,500 USD	1,119 USD	Second Close
Partners Group Secondary 2015	Partners Group	2,500 USD	-	Raising
Capital Dynamics Global Secondaries IV	Capital Dynamics	500 USD	-	Raising

Source: Preqin Secondary Market Monitor

Separate Accounts

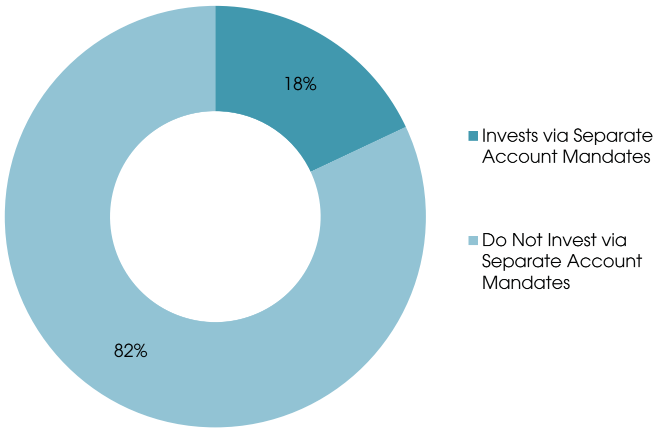
Preqin's latest investor survey revealed that 18% of respondents actively invest via separate account mandates (Fig. 1), with 63% of these LPs stating that separate accounts are a permanent part of their investment portfolio. Of the 82% that stated they do not invest via any separate accounts, 25% would consider doing so in the future.

Separate accounts provide LPs with the opportunity to significantly increase their exposure to the asset class while adding value and diversification to their portfolios. In addition, the establishment of separate accounts provides a platform to forge fruitful LP-GP relationships, with lower fees payable for the investor.

The private equity industry has seen the use of separately managed accounts grow in recent years. Fig. 2 shows separate account establishment gained considerable momentum during a time of challenging fundraising conditions; in 2013, there were 118 separate accounts established, accounting for $34bn. In Q1 2015, 17 separate accounts have been granted worth $3bn.

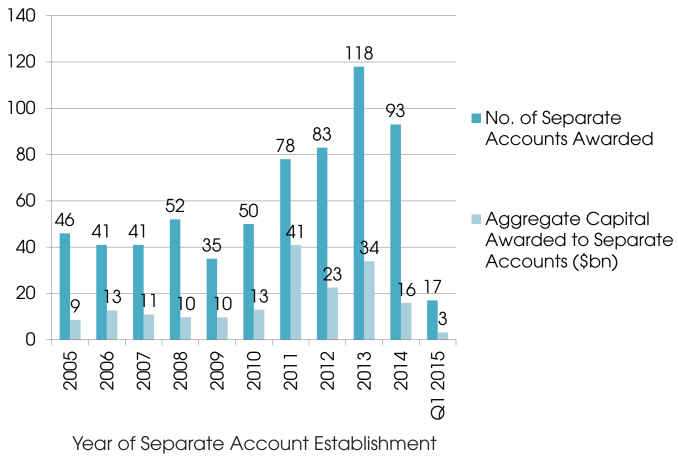
Of the mandates awarded since 2014, real estate funds dominate the market, accounting for the largest proportion (41%) of the vehicles established, as shown in Fig. 3. A range of other investment strategies make up the remaining market share. It has been observed that more separate accounts are focused on direct investments in recent years, as LPs are increasingly attracted to the greater transparency and liquidity offered by these solutions.

Fig. 1: LP Separate Account Activity



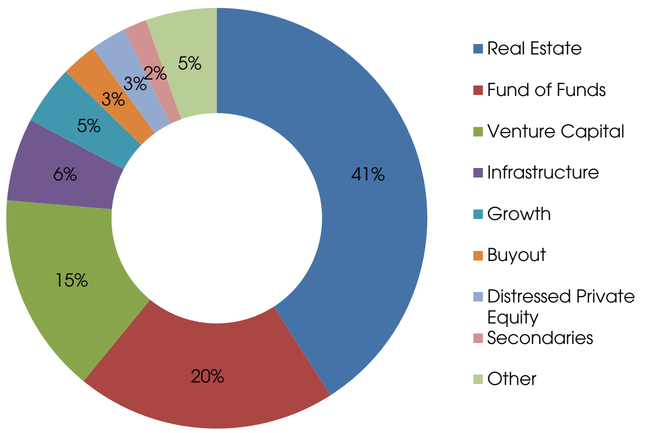
Source: Preqin Investor Interviews, December 2014

Fig. 2: Separate Accounts Awarded, 2005 - Q1 2015



Source: Preqin Funds in Market

Fig. 3: Breakdown of Separate Accounts Awarded in 2014 and Q1 2015 by Type



Source: Preqin Funds in Market

Fig. 4: Sample of Separate Account Mandates Awarded in Q1 2015

Separate Account	Account Manager	Account Size (mn)	GP Location
Northleaf Capital/CPP Investment Board	Northleaf Capital Partners	330 USD	Canada
NJ/HitecVision Co-Investment Fund (New Jersey Division of Investment)	HitecVision	150 USD	Europe
Wheelhouse Capital Partners Fund I (Global Endowment Management)	Wheelhouse Capital Partners	23 USD	US
Innovation, Entrepreneurship and Agro-Industry Start-Ups Fund (Micro, Small and Medium Enterprises)	SIDBI Venture Capital	60 INR	India

Source: Preqin Funds in Market

The Q1 2015 Preqin Quarterly Update: Private Equity

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New York:

One Grand Central Place
60 E 42nd Street
Suite 630, New York
NY 10165

Tel: +1 212 350 0100
Fax: +1 440 445 9595

London:

3rd Floor
Vintners' Place
68 Upper Thames Street
London,
EC4V 3BJ

Tel: +44 (0)20 3207 0200
Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green, #11-02
Singapore 049246

Tel: +65 6305 2200
Fax: +65 6491 5365

San Francisco:

1700 Montgomery Street
Suite 134, San Francisco
CA 94111

Tel: +1 415 835 9455
Fax: +1 440 445 9595

Email: info@preqin.com
Web: www.preqin.com