The Q3 2014
Preqin Quarterly Update
Private Equity

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

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Q3 2014 sees a significant drop in fundraising.

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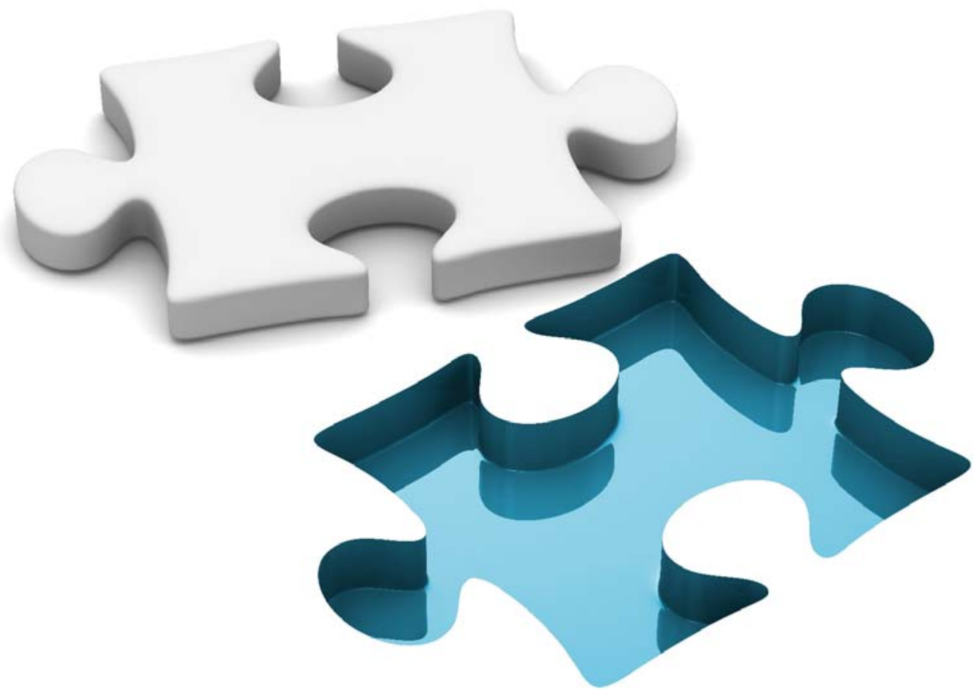

Plus, Special Guest Contributors:
Alter Domus & Capstone Partners

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Foreword

The third quarter of 2014 saw 199 private equity funds reach a final close, raising $80bn in aggregate capital, representing 21% fewer vehicles and a significant 44% decrease in capital commitments compared to the previous quarter. However, the relatively low number of funds means that the average fund size of $402mn is particularly high. Investors seem to be more inclined to commit capital to the larger, more established private equity fund managers, and these statistics serve as evidence of continuation of the trend seen in the fundraising market last year.

Despite the fact that the aggregate capital raised by private equity fund managers this quarter has fallen, Preqin's latest figures show that the amount of dry powder in the industry continues to increase. As of the end of September 2014, a record high of $1.19tn was available to private equity fund managers for investments globally, an 11% increase on levels seen in December 2013. Preqin's latest performance figures show that over the short term, venture capital funds are outperforming all other private equity funds, generating returns of 27.0% over a one-year period. However, over longer time horizons (5-10 years), returns for other fund types surpass venture capital returns, particularly buyout, distressed private equity and mezzanine funds.

Q3 2014 saw 803 private equity-backed buyout deals, with an aggregate value of $84bn. There was a significant decline witnessed in Europe, with the aggregate value of deals a third lower compared to Q2 2014. In contrast, aggregate deal value in both North America and Asia rose this quarter. In terms of venture capital financings, Q3 2014 was the least successful quarter for the number of venture capital deals since Q4 2011, though Preqin's data shows that the aggregate deal value was the second highest quarterly figure to date.

The private equity secondary market continues to see a flurry of activity, including the final close of Lexington Middle Market Investors III at over $1bn and a number of notable secondary transactions in Q3 2014. Preqin's data continues to show healthy investor appetite for the secondary market as we move into Q4 2014, with over 300 LPs tracked by our Secondary Market Monitor product actively looking to purchase fund interests on the secondary market.

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.

2,208 private equity funds are on the road at the start of Q4 2014.

39% of investors plan to increase the number of GP relationships in their portfolio in the next two years.

Private equity dry powder is currently at a record $1.19tn.

199 private equity funds reached a final close in Q3 2014.

The largest private equity-backed buyout deal in Q3 2014 was the $11.5bn add-on of Tim Hortons Inc.

1,706 venture capital financings were announced in Q3 2014, down from 1,834 in Q2 2014.

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Q&A with Laurent Vanderweyen, Chief Executive Officer - Alter Domus

What role does Alter Domus play in the private equity industry and how has your role grown in importance over time?

Alter Domus was created 11 years ago as a spin-out from one of the big four accounting companies, and provides accounting and administrative services to Luxembourg-based companies in the private equity industry. At the time of the spin-out, 65 people were working for that department and we have now grown to be a service provider in multiple jurisdictions accounting for more than 750 people across 16 countries. Very early on we decided we would need to accommodate the specific needs of private equity players across many countries because by nature, the private equity industry is international. That is why we have decided to expand internationally. I think we are one of the very few international players able to accommodate the needs of the private equity industry, both where the fund is located, and also the specific local requirements and structures that are used in the regions where the fund invests. We feel passionate about being there for our clients and setting up relationships for the long run. As you know, the investment horizon for private equity funds is five to seven years, and we are very fortunate that our clients have trusted us for the last 10 years.

What impact do you think the increase in regulation of alternative investment funds has had on the private equity industry?

The impact depends on whether you look at regulation from the perspective of a manager or a service provider. Many managers will say that regulation only adds cost and complexity to their business model. Whereas if you look at it from a service provider's point of view, I think it is a great opportunity to deepen relationships with clients by offering more services so that they can comply with these additional regulatory requirements across different regions.

When you look at the industry as a whole, in the longer term, some of the new regulations, the AIFMD in particular, will help to create a better framework to operate in, and create a level playing field so that everyone can benefit from a very stable environment. I think it will make investors more confident to invest in the asset class. I remember when the UCITS structure was introduced many did not think it was a good idea, but now you can see that it has actually created a very strong brand and everyone can benefit from that brand to continue to sell their products and to grow their business model.

What changes have you seen in the industry as a result of the new regulations?

I think that investors are concerned that the people they trust might face major difficulties adhering to the correct regulatory obligations. I think what then emerges is the need for managers to have access to an integrated service that can accommodate compliance, reporting, disclosure and transparency requirements on their behalf. I also think we will increasingly see the need for global answers to global needs. In the past, many people were concerned about not understanding the local implications when they do business in multiple jurisdictions. We add one layer for those managers who are seeking access to providers that can understand the local implications of the new regulatory regimes.

Do you think that fund managers have a good understanding of the new regulations and are adapting to meet these regulations?

I think it very much depends on the level of maturity of those managers. Some, of course, do spend a lot of time and energy developing strong governance and compliance structures so they can understand and adapt their own operating model to cope with the new requirements. Others do not have sufficient skills or resources to invest in compliance and reporting expertise, and so they significantly rely on external parties to provide that for them and to deliver a service aligned to those requirements.

What effect do you think these new regulations will have on the industry in the longer term?

If policy makers find the right balance between the need to offer better protection to the investor community and provide a framework to allow additional investors to have access to the asset class, I am optimistic the alternative assets industry will continue to grow and offer tremendous opportunity for the market participants, including service providers.

Laurent Vanderweyen is Chief Executive Officer of the Alter Domus Group.

Before joining Alter Domus in January 2012, Laurent was Managing Director and Country Executive at JP Morgan Bank, Luxembourg. He also served as Managing Director of RBC Dexia Investor Services Luxembourg and was a member of the Group Executive Committee from 2006 until 2009. Laurent also held senior executive roles for Dexia Fund Services and Dexia Bil from 1993 until 2006.

About Alter Domus

Alter Domus is a leading European provider of fund and corporate services, dedicated to international private equity & infrastructure houses, real estate firms, multinationals, private clients and private debt managers. Our vertically integrated approach offers tailor-made administration solutions across the entire value chain of investment structures, from fund level down to local special purpose vehicles.

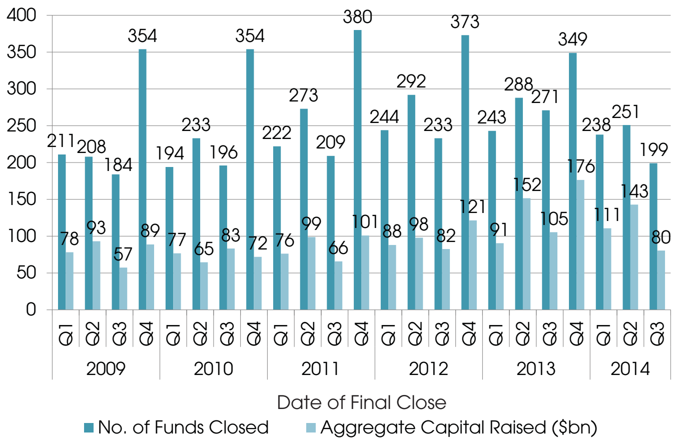
www.alterdomus.com

Fundraising in Q3 2014

Q3 2014 saw 199 private equity funds reach a final close, securing an aggregate $80bn. This is the lowest amount of capital raised in a quarter since Q3 2011, when $66bn was accumulated by 209 funds (Fig 1). The lack of mega buyout funds closed is a significant factor in the low fundraising figure seen in Q3 this year, as illustrated in Fig. 2. However, the low number of funds means that the average fund size of $402mn is particularly high, which is an indication that investors are more inclined to commit capital to the larger, more established private equity fund managers.

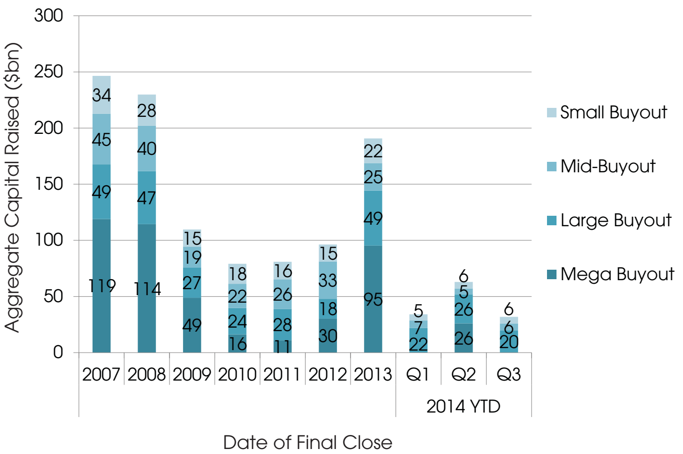
There were 101 North America-focused funds that reached a final close in Q3, securing an aggregate $38bn. This is the lowest quarter in terms of capital raised for North America-focused funds since Q3 2011 when 85 vehicles raised $33bn. Fifty-one Europe-focused funds closed, raising $28bn, while 29 Asia-focused funds collected $11bn in total. Half of all private equity funds to close in Q3 2014 exceeded their target, 19% met their objective, and the remaining 31% fell short. The average time on the road for private equity funds in Q3 2014 was 16.8 months, longer than in both Q1 and Q2.

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2009 - Q3 2014



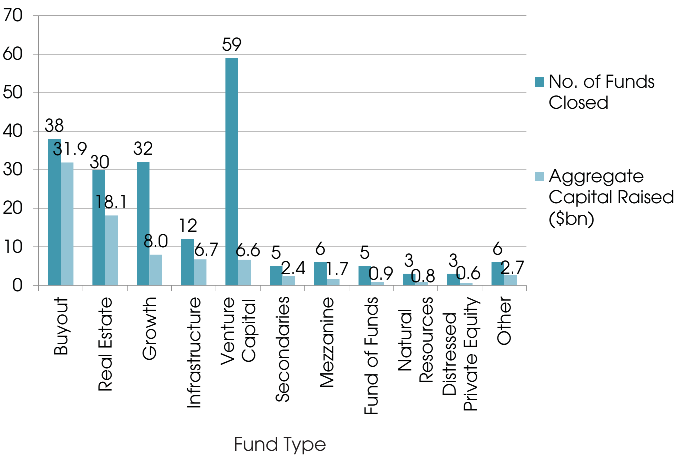
Source: Preqin Funds in Market

Fig. 2: Annual Private Equity Buyout Fundraising, 2007 - Q3 2014



Source: Preqin Funds in Market

Fig. 3: Private Equity Fundraising in Q3 2014 by Fund Type



Source: Preqin Funds in Market

Fig. 4: Five Largest Private Equity Funds Closed in Q3 2014

Fund	Firm	Type	Final Size (bn)	GP Location	Fund Focus
Lone Star Fund IX	Lone Star Funds	Real Estate	7.2 USD	US	Europe, Asia, US
Carlyle Asia Partners IV	Carlyle Group	Buyout	3.9 USD	US	Asia
CCMP Capital Investors III	CCMP Capital Advisors	Buyout	3.6 USD	US	Global
Macquarie Infrastructure Partners III	Macquarie Infrastructure and Real Assets (MIRA)	Infrastructure	3.0 USD	UK	North America, Mexico
Altor Fund IV	Altor	Buyout	2.0 EUR	Sweden	Nordic

Source: Preqin Funds in Market

Preqin's **Funds in Market** contains detailed information for all 2,208 private equity funds currently in market, including target size, interim closes, geographic focus and more.

For more information, please visit: www.preqin.com/fim

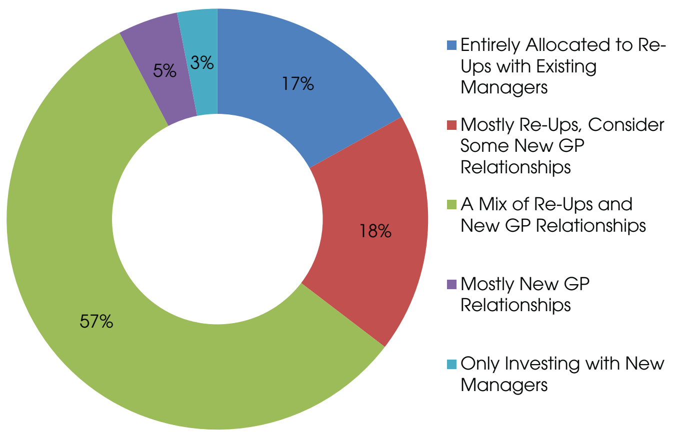
Institutional Investors in Private Equity

Over half of investors (57%) interviewed for **Preqin Investor Outlook: Private Equity, H2 2014** that are looking to invest in the asset class in next 12 months are expecting to commit capital to a mix of both new managers they have not worked with previously and existing managers within their portfolio (Fig. 1). Seventeen percent expect new investments to consist entirely of re-ups with existing managers, whereas just 3% expect to only invest with new GPs they are yet to establish a relationship with.

Investor opinion was varied on the topic of what the most important factor is when considering forming a new GP relationship. Past performance and strategy are valued most highly, each stated by 32% of LPs that were surveyed (Fig. 2). Only 3% of investors cited the size of the fund manager as the most important factor when looking for a new manager. A relatively small proportion (11%) of investors surveyed said that alignment of interests was the most important factor when considering a new manager.

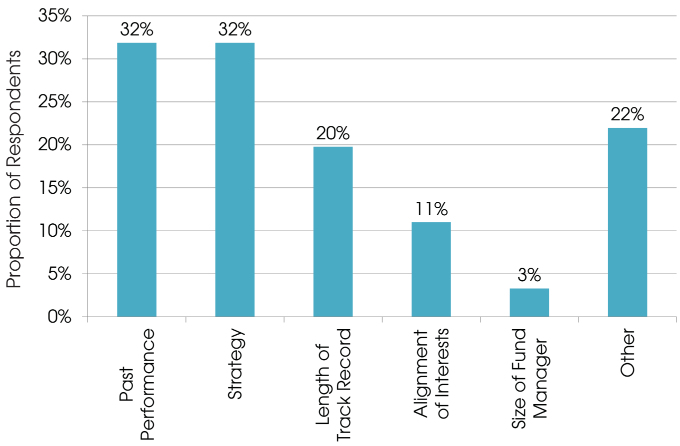
It is reassuring to note that 63% of respondents believe that LP and GP interests are properly aligned. Fig. 4 shows that despite the fact that this is a decline from the previous year's survey, the proportion of those that agree or strongly agree that GP-LP interests are properly aligned continues to remain firmly in the majority.

Fig. 1: Investors' Intentions for Forming New GP Relationships Over the Next 12 Months



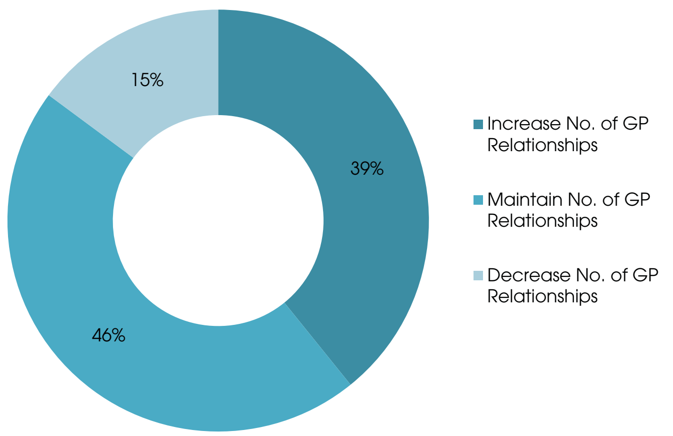
Source: Preqin Investor Interviews, June 2014

Fig. 2: Most Important Factors LPs Consider When Looking For a New Manager



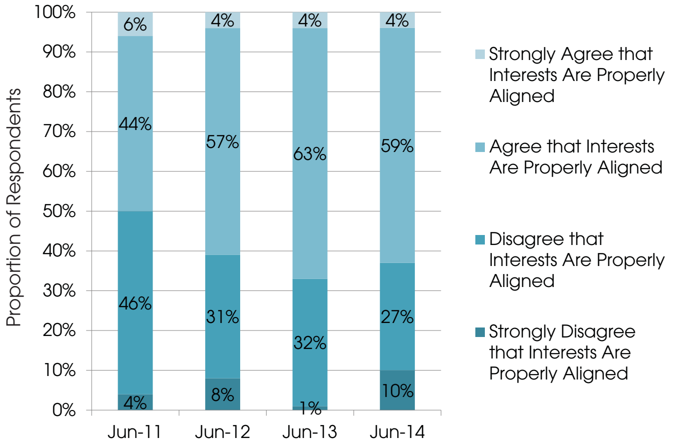
Source: Preqin Investor Interviews, June 2014

Fig. 3: Investors' Intentions for GP Relationships over the Next Two Years



Source: Preqin Investor Interviews, June 2014

Fig. 4: Proportion of Investors that Believe LP and GP Interests Are Properly Aligned



Source: Preqin Investor Interviews, June 2011 - June 2014

Fundraising Interview

- Steve Standbridge, Capstone Partners

It has now been six years since the start of the global financial crisis, and fundraising has picked up significantly in the last two years. How is the environment different today from pre-crisis markets?

I think we all observe today many of the same general conditions that existed pre-crisis. Leverage is up, markets are up, and LP commitments are flowing. At Capstone, we compare the behaviour of LPs in today's market versus '05, '06, '07 and we see several differences. Our reflection on the market seven years ago was that commitments were biased towards the multi-billion funds. The mega funds had put a string of wins on the board, and LPs fought for allocations in the largest of private equity funds. The raw dollars raised in that time period were dominated by a handful of those largest funds. While LPs continue to pursue large cap managers (and given the raw math, those managers will always have a heavily weighted place in LP portfolios), LPs in today's market are spending a disproportionate amount of time and capital underwriting and backing managers to fill out the periphery of their portfolios.

Today's market is about fine-tuning portfolios as opposed to bulking them up. Great managers in the lower middle market continue to be very hot. Successful energy managers have attracted commitments from LPs not traditionally active in the real assets space. Pure play managers of all sorts (industry sector specific, energy mid-stream focus, etc.) are filling gaps in LP portfolios. Our observation is that while capital continues to flow to existing relationships and traditional strategies, LPs in today's market are more aggressively pursuing asset categories (or subcategories) that in 2006 were seen as niche markets not particularly well suited for the typical LP. All in all, we see this as a natural by-product of LPs' increased sophistication.

How do LPs view the asset class compared to prior years and what factors are currently impacting LPs' allocations to private equity?

In the context of the last downturn, I think the fact that the asset class came through the crisis and performed well on a relative basis has only solidified private equity in institutional portfolios. Clearly, post-downturn, LPs are more cognizant of the issues that come with illiquidity in private equity, and have developed more robust controls around managing unfunded commitments, but a private equity manager's ability to actively manage a portfolio company through a downturn has proven that, for the best private equity sponsors, market cycles do not limit performance within the asset class; in fact, they enhance it on a relative basis.

Regarding impact on allocations, clearly a central driver has been continued success of the public markets. As the marks in public securities drive overall portfolio values higher, the absolute size of the private equity slice of the pie grows as well. This has been a great market for realizations as well, so as capital is returned, it grows the pot available for re-ups and new relationships. It is not rocket science to recognize that the forces that drive markets up, drive private equity allocations up. For the savvy LP, the trick is obviously to pick the proper strategies to back in frothy markets so as to continue to capture the upside, but also be protected should the climate change.

What strategies are attracting the most interest from investors?

Distressed and special situations have always been a staple in LPs' portfolios, but as bull markets run-on, we find LPs start to overweight to managers that can be particularly opportunistic in a slowing economy. Part of any good distressed manager's pitch is that good companies make bad decisions in all markets, so LPs accept that special situations and turnaround sponsors can be successful across the cycle, but particularly so as concerns grow about sustainability of medium-term economic growth. In addition, lower middle market managers in buyout, energy, and international markets continue to attract capital. The best of breed in this small cap market have produced truly eye-popping returns and given their small fund sizes, LPs find themselves competing for limited capacity in the best of these lower middle market raises.

How do you see investors underwriting opportunities in the various global regions? Are LPs today attracted to particular regions?

We continue to see investors betting on their domestic (or regional) economies. Asia-based institutional investors tend to deploy the vast majority of their capital commitments in Asia, and we see a similar, while less exaggerated, dynamic in North America and Europe. Given my personal perspective is weighted by interaction with North American investors I can tell you that LPs in our market continue to find new US/Canadian managers they believe provide a compelling risk/return profile. When an investor in this market elects to chase higher returning strategies, they are more likely to look, for example, at the US lower middle market than they are at international emerging markets or even Europe.

Beyond the extensive macroeconomic analysis we know LPs undertake, investors tend to be most comfortable underwriting the risk they see at home, as opposed to evaluating risk outside their own markets. That said, regional diversity will always be an important driver in asset allocations, and international commitments will fill in around the edges, but we see domestic commitments continuing to dominate asset allocations.

What are the challenges facing placement agents that operate and function across different geographies?

I can easily say that the greatest challenge today for placement agents operating on a global platform comes from regulatory complexity. As application of the AIFMD continues to evolve in Europe, placement agents advising their GP clients must make the case for why it is worthwhile to navigate the complexity, cost, and undefined risk associated with that nascent regulatory scheme.

Clients of ours that are raising smaller funds question whether it is worth the disproportionate cost and effort to venture to all the various markets of Europe, and our larger clients wonder whether it is worth the somewhat undefined risk to enter markets where the ground rules remain unclear and the liability is difficult to ascertain. That said, we continue to preach to clients that a globally diverse LP base is a very important consideration in growing a funds platform. So the challenge is helping clients to find that balance.

Do competitive terms and conditions impact LPs' decision making, or is performance more important?

I would say performance is almost always the most important consideration for LPs. Some LPs have investment mandates that are hard coded for specific terms (a pre-defined terms sheet), but generally they are searching for the managers that will drive the highest performance in the best risk-adjusted strategy. As you would expect, performance certainly impacts terms. Those managers with the best performance tend to have the strongest LP following, which tends to result in scarcity of capacity for new commitments, resulting in those GPs commanding premium terms.

Our experience is that for a proven manager with a compelling strategy and market opportunity, LPs will provide premium incentive terms so long as those terms align interests for outsized performance. That said, there is a huge push to average down fees among the LP community. Whether by pushing for no fee/carry co-investment or lower management fees, there is a greater willingness to rock the boat on terms today. The bottom line is that LPs in today's market approach a fund commitment the same way their private equity managers approach a deal. If there is leverage on the buy-side they will not be shy in exercising it. But like their best managers, LPs will also pay-up for the very best deals in the market at any given time.

Capstone Partners

Founded in 2001, **Capstone Partners** is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms from around the world.

Steve Standbridge is a Managing Partner responsible for North American new client origination and distribution in the Northeast United States.

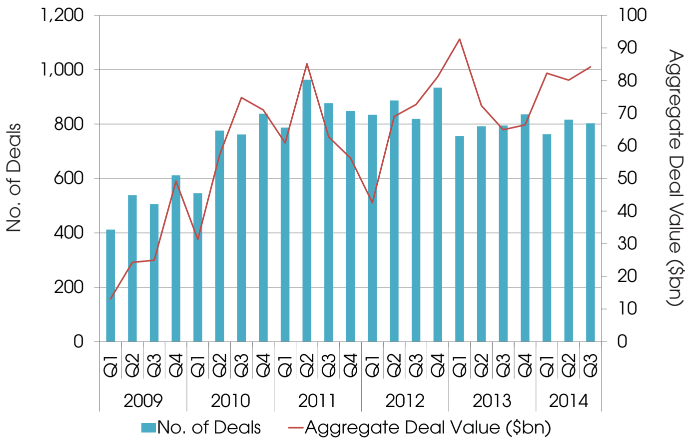
www.csplp.com

Buyout Deals

The third quarter of 2014 saw a slight decline in the number of private equity-backed buyout deals globally, from 816 in Q2 2014 to 803 in Q3 2014 (Fig. 1). On the other hand, the aggregate value of deals was higher at $84bn compared to $80bn in Q2 2014, and was almost a third higher than the same quarter in 2013. The consequent jump in average deal size is partly attributable to the mega $11.5bn add-on transaction involving Tim Hortons Inc. in August. On a regional level, the aggregate value of European deals at $18bn was a third lower compared to Q2 2014 (Fig. 2). In contrast, the aggregate value of deals in Asia was 31% higher, reaching $11.7bn.

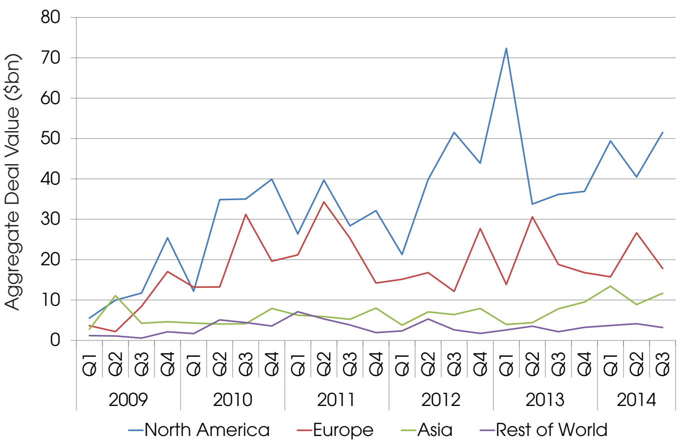
After a large increase from Q1 2014 to Q2 2014, the global number of private equity-backed exits saw a slight decline in the third quarter, with 402 realizations recorded. Similarly, the aggregate value of exits in Q3 saw a decline to $105bn, which was 27% lower than the total in Q2 2014, although it is 37% higher compared to the amount seen in Q3 2013.

Fig. 1: Quarterly Number and Aggregate Value of Private Equity-Backed Buyout Deals Globally, Q1 2009 - Q3 2014



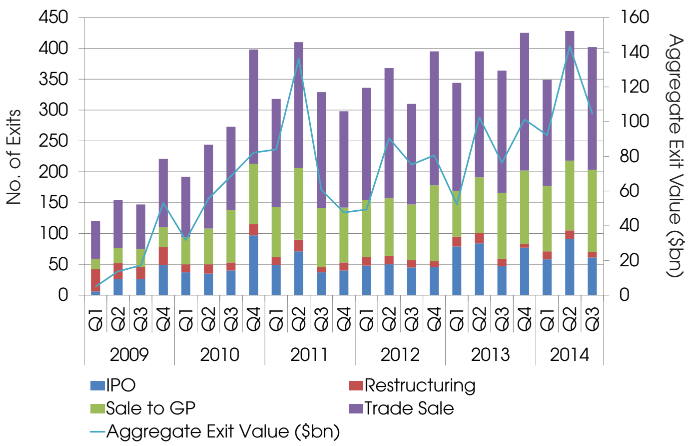
Source: Preqin Buyout Deals Analyst

Fig. 2: Quarterly Aggregate Value of Private Equity-Backed Buyout Deals by Region, Q1 2009 - Q3 2014



Source: Preqin Buyout Deals Analyst

Fig. 3: Global Number of Private Equity-Backed Exits by Type and Aggregate Exit Value, Q1 2009 - Q3 2014



Source: Preqin Buyout Deals Analyst

Fig. 4: Five Largest Private Equity-Backed Buyout Deals Announced in Q3 2014

Firm	Deal Date	Investment Type	Deal Size (mn)	Deal Status	Investor(s)	Bought from/ Exiting Company	Location	Primary Industry
Tim Hortons Inc.	Aug-14	Add-on	11,530 USD	Announced	3G Capital, Burger King	-	Canada	Restaurants
Acosta Sales & Marketing	Jul-14	Buyout	4,750 USD	Announced	Carlyle Group	Thomas H Lee Partners	US	Marketing
TIBCO Software	Sep-14	Public-to-Private	4,300 USD	Announced	Vista Equity Partners	-	US	Software
Sinopec Marketing Co., Ltd.	Sep-14	Buyout	21,920 CNY	Announced	Bohai Industrial Investment Fund Management, China International Capital Corporation Private Equity, Fosun International, Goldstone Investment, Haixia Capital Management, Hopu Investment Management, RRJ Capital	Sinopec Group	China	Oil & Gas
Lindorff Group	Jul-14	Buyout	2,300 EUR	Announced	Nordic Capital	Altor, Investor AB	Norway	Outsourcing

Source: Preqin Buyout Deals Analyst

Preqin's **Buyout Deals Analyst** contains detailed profiles for over 38,000 private equity-backed buyout deals worldwide, including deal size, type, location, industry and much more.

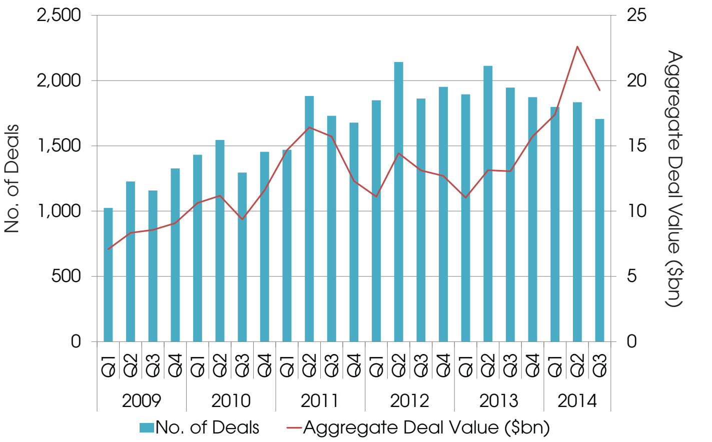
For more information, please visit: www.preqin.com/buyoutdeals

Venture Capital Deals

During the third quarter of 2014, 1,706 venture capital financings were announced globally, the lowest quarterly number since Q4 2011 and far less than the 1,834 financings witnessed in Q2 2014 (Fig.1). Similarly, the aggregate value in Q3 2014 at $19bn was 15% lower compared to Q2 2014, but does represent the second highest quarterly figure recorded in the period since 2007.

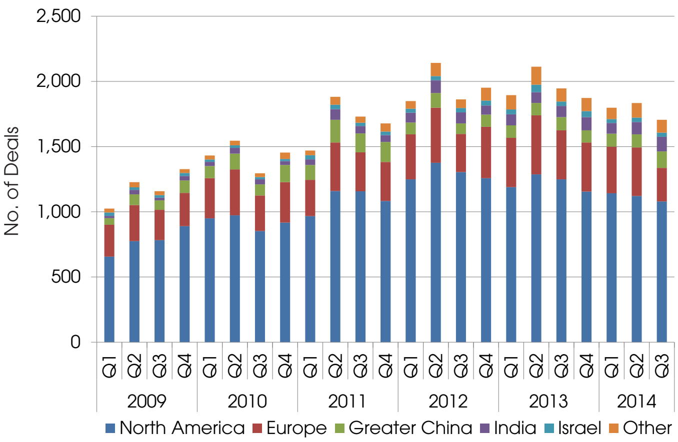
The past quarter saw 1,080 venture capital deals take place in North America, making up 63% of global financings (Fig. 2). The value of such deals reached an aggregate $11bn, accounting for 57% of the global value for this quarter. With several large financings in Greater China in Q3 2014, the region recorded its second highest quarterly aggregate value for the period since 2007 at $3.1bn. European deal flow, at $2.2bn, was 20% lower compared to Q2 2014. Angel/Seed financings remain the most common stage of financing at 22% of the total number of deals (Fig. 3), up from 18% in Q2, but four percentage points below the market share from Q3 2013.

Fig. 1: Quarterly Number and Aggregate Value of Venture Capital Deals*, Q1 2009 - Q3 2014



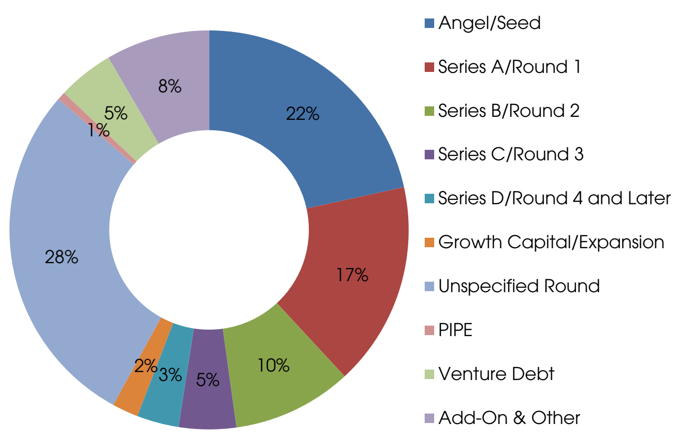
Source: Preqin Venture Deals Analyst

Fig. 2: Quarterly Number of Venture Capital Deals* by Region, Q1 2009 - Q3 2014



Source: Preqin Venture Deals Analyst

Fig. 3: Proportion of Number of Venture Capital Deals by Stage, Q3 2014



Source: Preqin Venture Deals Analyst

Fig. 4: Five Largest Venture Capital Deals in Q3 2014

Portfolio Company Name	Deal Date	Stage	Deal Size (mn)	Investor(s)	Location	Primary Industry
Flipkart	Jul-14	Unspecified Round	1,000 USD	Accel Partners, DST Global, GIC Private Limited, Iconiq Capital, Morgan Stanley Alternative Investment Partners, Naspers, Sofina, Tiger Global Management	India	Internet
Beingmate Group Co., Ltd	Aug-14	PIPE	615 NZD	Fonterra Ltd.	China	Consumer Products
Airbnb	Aug-14	Unspecified Round	475 USD	Andreessen Horowitz, Dragoneer Investment Group, Sequoia Capital, T Rowe Price	US	Internet
Delivery Hero	Sep-14	Unspecified Round	350 USD	Insight Venture Partners, Kite Ventures, Vostok Nafta Investment	Germany	Internet
Youxinpai.com	Sep-14	Unspecified Round	260 USD	Tiger Global Management, Warburg Pincus	China	Internet

Source: Preqin Venture Deals Analyst

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

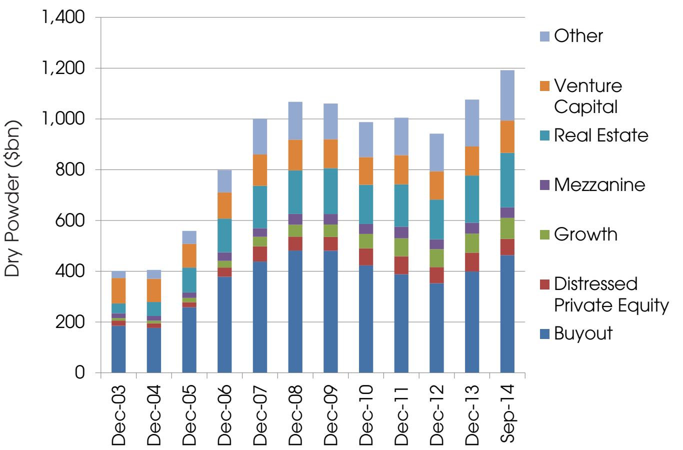
Fund Performance and Dry Powder

Fig. 1 shows the capital available to private equity fund managers and demonstrates that dry powder levels are continuing to increase, currently standing at the highest level to date at $1.19tn and representing an 11% increase from December 2013. Buyout and real estate funds have seen the highest percentage increase in dry powder during the first nine months of 2014, rising by 16.1% and 15.4% respectively.

Private equity horizon returns over the one-, three-, five- and 10-year periods to March 2014 are shown in Fig. 2. Over the short-term, one-year period, venture capital funds have significantly outperformed the other private equity fund types, generating an average return of 27.0% over this time period.

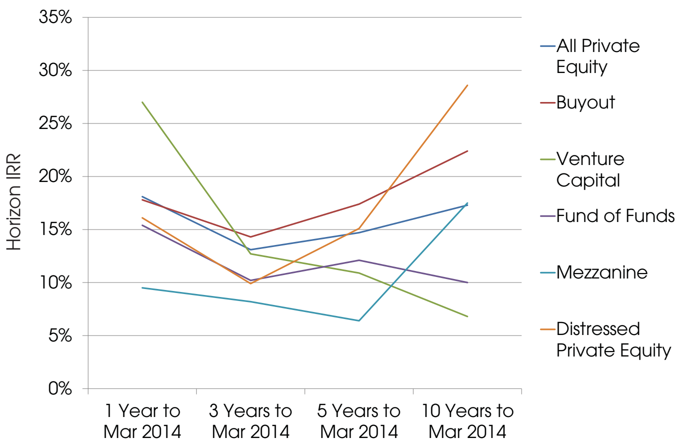
The longer time horizons of five and 10 years are more typical of a private equity fund's life cycle and are perhaps more relevant when considering returns generated throughout a fund's life given the long-term nature of the private equity industry. The private equity industry as a whole is currently generating an average return of 17.3% over 10 years, but horizon IRRs of distressed private equity, buyout and mezzanine funds all surpass this, generating 28.6%, 22.4% and 17.5% respectively.

Fig. 1: Private Equity Dry Powder by Fund Type, December 2003 - September 2014



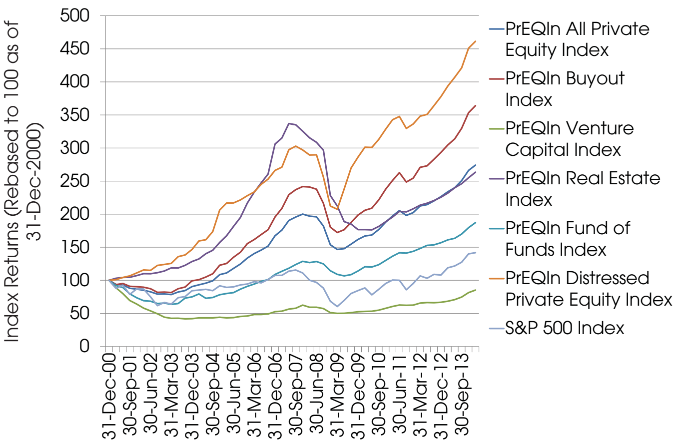
Source: Preqin Fund Manager Profiles

Fig. 2: Private Equity Horizon IRRs by Fund Type



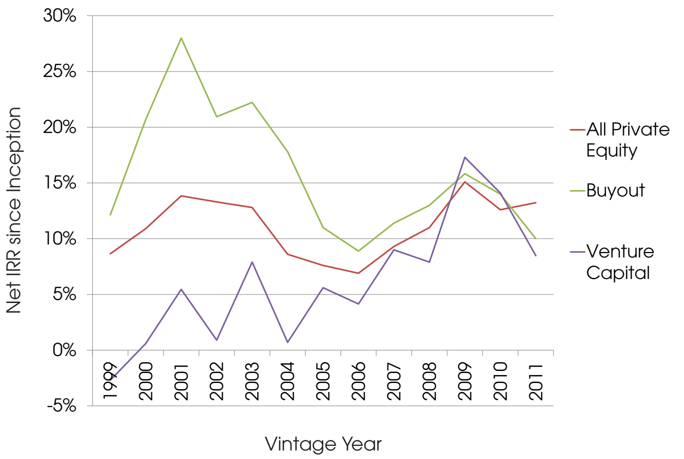
Source: Preqin Performance Analyst

Fig. 3: PrEQIn Index by Fund Type



Source: Preqin Performance Analyst

Fig. 4: All Private Equity, Buyout and Venture Capital: Median Net IRRs by Vintage Year



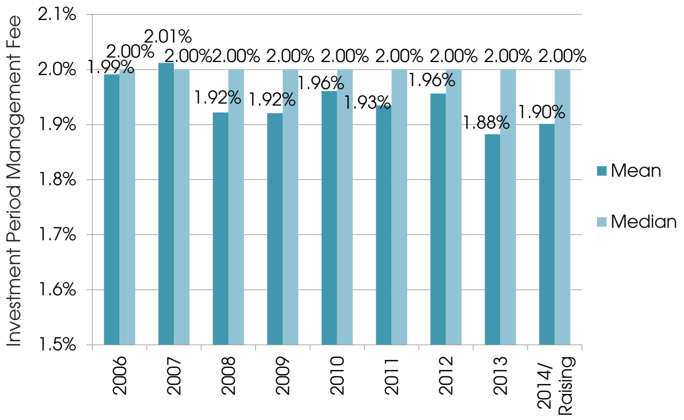
Source: Preqin Performance Analyst

Fund Terms and Conditions

Management fees typically range between the one or two percent mark during the investment period and are reduced in the latter stages of the fund's life. Variation in average management fees over a longer period gives an interesting insight into GPs' responsiveness to LP demand and competition in the marketplace. Analysis from Preqin's premium publication, the **2014 Private Equity Fund Terms Advisor**, shows that the overarching trend has remained, with the median management fee consistently staying at the 2.00% mark for buyout funds.

Fig. 1 shows how average buyout fund management fees have changed for different vintage years since 2006. Average fees peaked in 2007 with a mean value of 2.01%, but this has since declined, with 2014 vintage funds or those that are yet to start investing as of July 2014 having a mean management fee of 1.90%. The largest fall was seen between 2007 and 2008, when the mean dropped off by nine basis points, which is unsurprising given the challenging economic conditions faced following the global financial crisis.

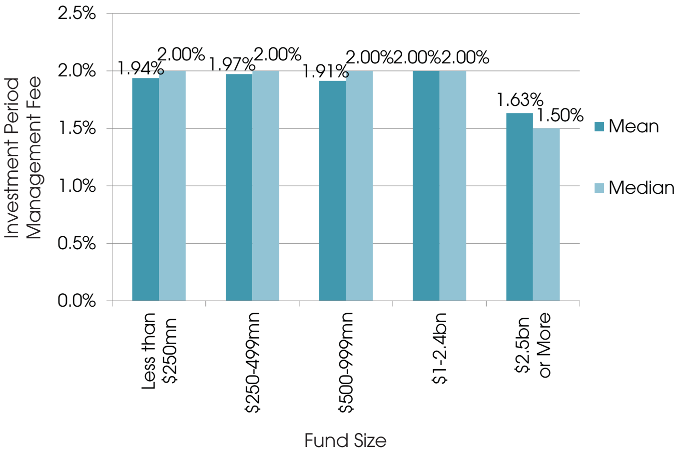
Fig. 1: Buyout Funds: Average Management Fee by Vintage Year



Source: 2014 Preqin Private Equity Fund Terms Advisor

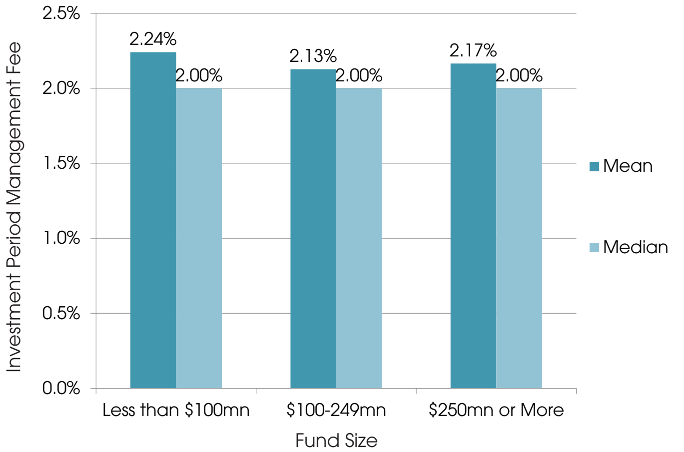
Preqin's most recent fund terms data confirms another pattern that has stayed prominent in the private equity industry; the greater the size of the fund (final size of closed funds, or target size of those still raising), the lower the average management fee charged. This is true for buyout (Fig. 2), distressed private equity, growth, infrastructure, mezzanine and real estate funds of vintage years 2013/2014 or those that have not started investing as of July 2014. The only fund type within this vintage year criteria that has not followed the trend is venture capital, as shown in Fig. 3.

Fig. 2: Buyout Funds: Average Management Fee by Fund Size (Funds Raising & Vintage 2013/2014 Funds Closed)



Source: 2014 Preqin Private Equity Fund Terms Advisor

Fig. 3: Venture Capital Funds: Average Management Fee by Fund Size (Funds Raising & Vintage 2013/2014 Funds Closed)



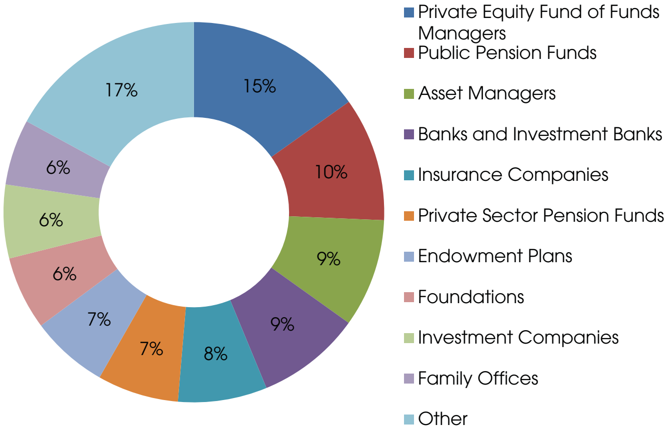
Source: 2014 Preqin Private Equity Fund Terms Advisor

Secondaries

Preqin has identified 305 institutional investors that are currently considering selling private equity fund interests on the secondary market. As Fig. 1 shows, private equity fund of funds managers and public pension funds make up the largest proportions of these investors, representing 15% and 10% respectively. Thirty-six secondary transactions in Q3 2014 have been tracked by Preqin, a sample of which is listed in Fig. 2. Department for Business Innovation & Skills sold a portfolio of mixed private equity fund interests on the secondary market to British Business Bank in August 2014, including stakes in Amadeus and Angels Seed Fund, Beechbrook Mezzanine II and Green Growth Fund 2.

Four secondaries vehicles held a final close during Q3 2014, as shown in Fig. 3. The largest of these vehicles was Lexington Middle Market Investors III, which secured just over $1bn in investor commitments, exceeding its initial target of $750mn. As of the end of September 2014, there were 24 private equity secondaries funds in market, looking to raise an aggregate $18.9bn.

Fig. 1: Breakdown of Potential Secondary Market Sellers by Type



Source: Preqin Secondary Market Monitor

Fig. 2: Sample of Secondary Transactions Completed in Q3 2014

Seller	Buyer(s)	Fund(s)	Transaction Date
Veritas Pension Insurance Company	Argentum Fund Investments	Sovereign Capital III	Sep-14
Eastman Kodak Company Pension Fund (US)	BlackRock Private Equity Partners, Lincoln National Life Insurance Company	PAI Europe IV, PAI Europe V	Sep-14
Department for Business Innovation & Skills	British Business Bank	Amadeus and Angels Seed Fund, Amadeus IV Early Stage Fund, Beechbrook Mezzanine II, Bridges Community Development Venture Fund I, Dawn Capital I, Dawn Capital II, Episode 1 Enterprise Capital Fund, Foresight Nottingham Fund, Green Growth Fund 2, Notion Capital 2	Aug-14

Source: Preqin Secondary Market Monitor

Fig. 3: Private Equity Secondaries Funds Closed in Q3 2014

Fund	Firm	Final Close Size ($mn)	Date Closed
Lexington Middle Market Investors III	Lexington Partners	1,070	Jul-14
Committed Advisors Secondary Fund II	Committed Advisors	635	Jul-14
Fort Washington Private Equity Opportunities Fund III	Fort Washington Capital Partners	150	Jul-14
Greenspring Secondaries Fund I	Greenspring Associates	84	Aug-14

Source: Preqin Secondary Market Monitor

Fig. 4: 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	5,500	First Close
Strategic Partners Fund VI	Strategic Partners Fund Solutions	3,500	1,251	First Close
Landmark Equity Partners XV	Landmark Partners	2,500	-	First Close
DB Secondary Opportunities Fund III	DB Private Equity	1,000	-	Raising
PineBridge Secondary Partners III	PineBridge Investments	500	188	Second Close

Source: Preqin Secondary Market Monitor

The Q3 2014 Preqin Quarterly Update: Private Equity

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