

Content Includes:

Preqin Secondary Market Update

Q1 2016

Fundraising and Funds in Market

More secondaries funds are in market and more capital is currently being sought than at any other time in the past five years.

Buyers and Sellers

Private equity fund of funds managers form the largest group of potential buyers and sellers on the secondary market.

Performance

Secondaries funds have typically delivered higher median net IRRs compared to other private equity strategies.

Unrealized Capital in Tail-End Funds

More than \$340bn in unrealized capital is currently held in buyout, venture capital and growth funds that are 10 years or older.





Foreword

The final close of \$2.5bn achieved by Partners Group for Partners Group Secondary 2015 this quarter is the latest multibillion-dollar close achieved by a secondaries fund and signals the continued health of a market dominated by a few established players raising large vehicles. The uptick in funds in market observed – 36 funds are seeking an aggregate \$28.2bn as at April 2016 compared with 22 funds seeking \$17.0bn in January 2015 – is a reflection of these players returning to the market as they have invested through funds successfully closed in 2013 and 2014. There are seven secondaries vehicles in market each seeking \$1bn+ from investors (representing 81% of the aggregate capital targeted), including Ardian Secondary Fund VII which is seeking \$9bn.

The success achieved in the fundraising market by secondaries funds in recent years is underpinned by strong performance. For vintage 2007-2013 funds, secondaries funds have delivered a higher median net IRR compared to buyout, venture capital, real estate and infrastructure vehicles.

Preqin currently tracks 596 potential sellers made up of a variety of firm types, a reflection of the secondary market establishing itself as a portfolio management tool. Further opportunities arise from concerns over the amount of unrealized capital in maturing funds. As of September 2015, unrealized capital in 2006 and older buyout and growth funds stands at \$246.2bn; GPs will face pressure from their LPs to realize these assets. Deals such as the \$1.2bn transaction led by Alpinvest for Lee Equity Partners in Q1, which saw existing investors offered the opportunity to exit the fund or commit to a new vehicle, illustrate the secondary market's role in providing a solution for GPs and LPs to this issue.

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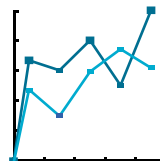
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Key Facts



\$246.2bn

Amount of unrealized capital in buyout and growth funds 10 years or older.



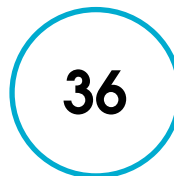
28%

Median net IRR of 2013 vintage secondaries funds.



796

Number of potential buyers of fund interests on the secondary market (as of the end of Q1 2016).



36

Number of secondaries vehicles currently in market (as of the start of Q2 2016).



596

Number of potential sellers of fund interests on the secondary market (as of the end of Q1 2016).



\$28.2bn

Capital being sought by secondaries vehicles currently in market (as of the start of Q2 2016).

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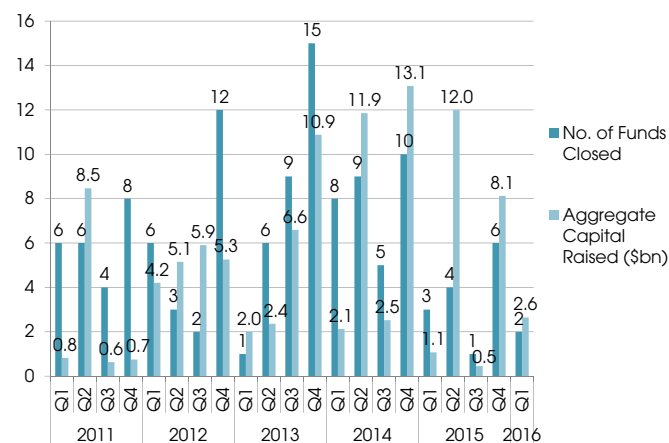


Fundraising and Funds in Market

In Q1 2016, two secondaries funds held a final close securing aggregate capital of \$2.6bn. The majority of capital raised was by Partners Group Secondary 2015, which closed on \$2.5bn in March. Euro Private Equity's Euro PE Select Opportunities fund also closed in March raising \$147mn. The Q1 2016 fundraising total represents the second highest first-quarter aggregate amount raised by secondaries funds in the period 2011-2016 (Fig. 1). However, it represents a drop in capital raised compared to the successful Q4 2015 fundraising, when six funds reached a final close, securing an aggregate \$8.1bn.

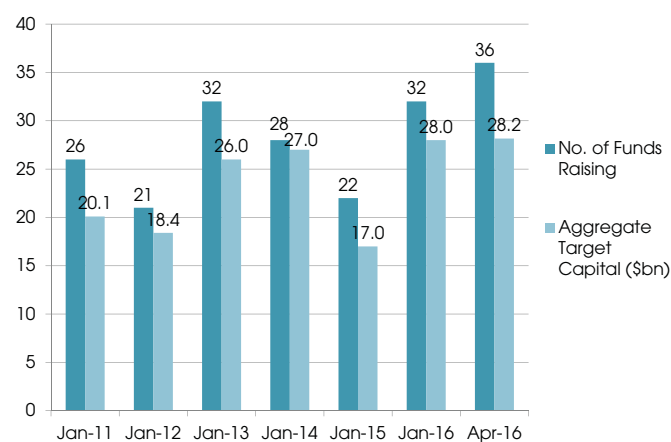
There are 36 secondaries vehicles in market seeking an aggregate \$28.2bn in capital as of the start of Q2 2016. This represents more funds and more capital being sought than at any other time in the past five years (Fig. 2), suggesting a potentially strong year for secondaries fundraising. Overall, 24% of secondaries funds in market are seeking \$1bn or more (Fig. 3). The largest fund in market is Ardian Secondary Fund VII, which is seeking \$9bn (Fig. 4).

Fig. 1: Global Quarterly Secondaries Fundraising, Q1 2011 - Q1 2016



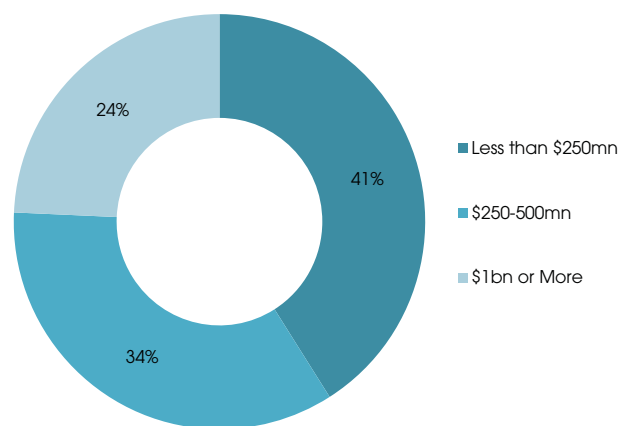
Source: Preqin Secondary Market Monitor

Fig. 2: Secondaries Funds in Market over Time, January 2011 - April 2016



Source: Preqin Secondary Market Monitor

Fig. 3: Target Sizes of Secondaries Funds in Market



Source: Preqin Secondary Market Monitor

Fig. 4: 10 Largest Secondaries Funds in Market (As at 15 April 2016)

Fund	Firm	Target Size (\$mn)	Fund Status	Headquarters
Ardian Secondary Fund VII	Ardian	9,000	Raising	France
Strategic Partners Fund VII	Strategic Partners Fund Solutions	5,500	Raising	US
Pantheon Global Secondary Fund V	Pantheon	2,500	Third Close	UK
Crown Global Secondaries IV	LGT Capital Partners	2,500	Raising	Switzerland
Hamilton Lane Secondary Fund IV	Hamilton Lane	1,250	Raising	US
Portfolio Advisors Secondary Fund III	Portfolio Advisors	1,000	Raising	US
ICG Strategic Secondaries Fund II	ICG Strategic Secondaries	1,000	Raising	UK
Capital Dynamics Global Secondaries IV	Capital Dynamics	500	Raising	Switzerland
Permal Private Equity Opportunities V	Permal Capital Management	500	First Close	US
ESD Fund V	ARCIS Group	476	Second Close	UK

Source: Preqin Secondary Market Monitor

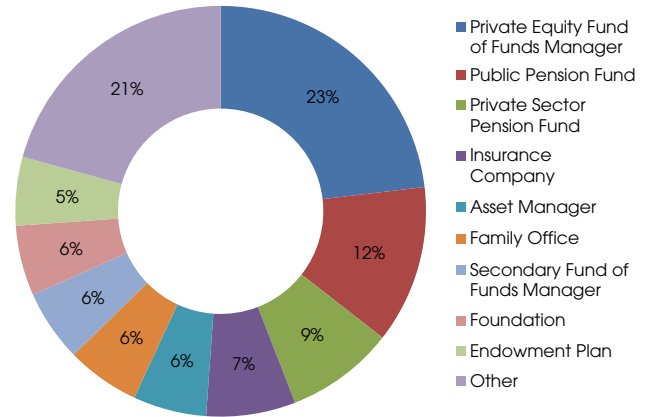


Buyers, Sellers and Transactions

As of the end of Q1 2016, Preqin tracked 796 potential buyers and 596 potential sellers of fund interests on the secondary market. Private equity funds of funds form the largest group of potential buyers tracked and represent 23% of the total (Fig. 5). The largest proportion (44%) of the buyers are based in North America, with 39% based in Europe (Fig. 7).

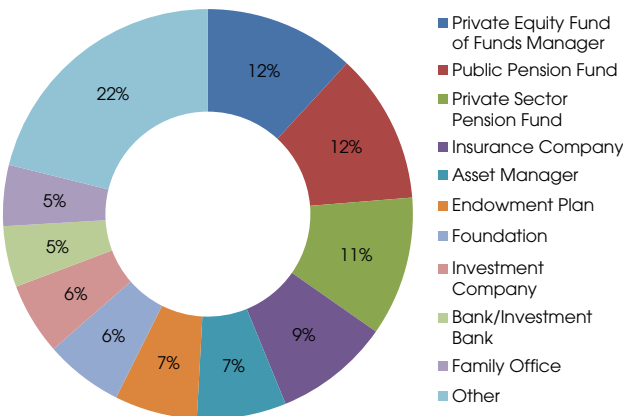
Private equity fund of funds managers and public pension funds are the largest groups of sellers, with each constituting 12% of the overall seller pool (Fig. 6). The largest proportion (44%) of the sellers tracked are based in Europe, with 40% based in North America (Fig. 7). A sample of transactions completed in Q1 2016 tracked by Preqin can be seen in Fig. 8. This includes the AlInvest-led restructuring of Lee Equity Partners, with the fund's investors offered the option to exit the vehicle.

Fig. 5: Potential Secondary Market Buyers by Type



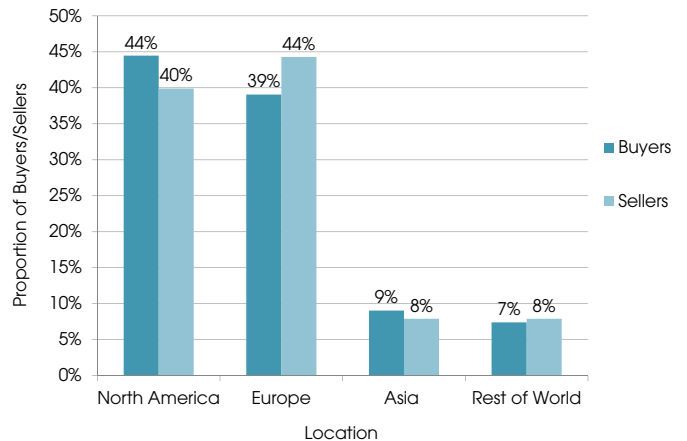
Source: Preqin Secondary Market Monitor

Fig. 6: Potential Secondary Market Sellers by Type



Source: Preqin Secondary Market Monitor

Fig. 7: Potential Secondary Market Buyers and Sellers by Location



Source: Preqin Secondary Market Monitor

Fig. 8: Sample Secondaries Transactions in Q1 2016

Seller	Buyer(s)	Fund(s)	Transaction Date
-	AlInvest Partners, CPP Investment Board, HarbourVest Partners, Pantheon	Lee Equity Partners	Mar-16
Pantheon	Hollyport Capital	Advent Private Equity Fund III	Mar-16
Ardian	Washington State Investment Board	Bridgepoint Europe IV	Mar-16
BAE Systems Pension Funds	British Airways Pension Investment Management, Lincolnshire County Council Pension Fund	Innisfree PFI Continuation Fund, Innisfree PFI Secondary Fund	Mar-16
Pantheon	Hollyport Capital	IK 2004 Fund	Feb-16
Rice University Endowment	Adams Street Partners	Charterhouse Capital Partners IX	Feb-16
Sofina	Access Capital Partners	CBPE Capital Fund VIII	Feb-16
Akina	Adveq	ECI 8, Exponent Private Equity Partners	Feb-16
Akina	Pantheon	Lyceum Capital Fund II	Feb-16
Universities Superannuation Scheme	Ardian	-	Jan-16
Strategic Partners Fund Solutions	Lexington Partners	Amadeus II	Jan-16

Source: Preqin Secondary Market Monitor

Identify potential buyers and sellers of fund interests

Benchmark performance of secondaries funds

Analyze trends in secondaries fundraising and transactions

Obtain indicative pricing for funds of interest

Search for secondary intermediaries



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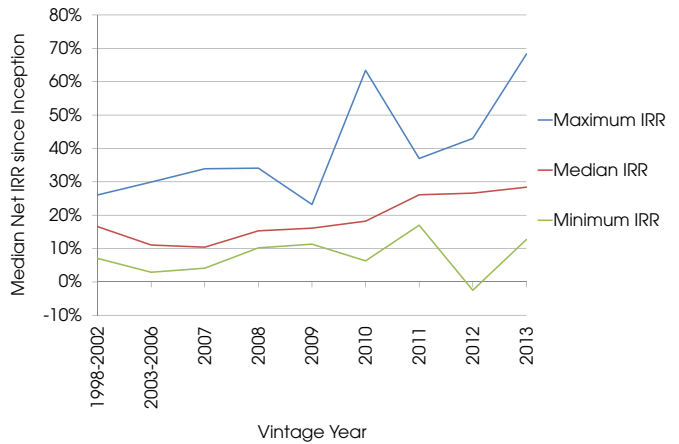
Performance

Secondaries funds typically provide accelerated cash flows, and this is reflected in the IRR measure of performance in absolute and relative terms. Only 2012 vintage funds have returned a negative minimum IRR (Fig. 9). Compared with other strategies, secondaries funds have delivered a higher median IRR for funds of vintages 2008-2013 (Fig. 10).

Net multiples delivered by secondaries funds have noticeably declined in vintages 2012-2015 compared with previous vintages (Fig. 11).

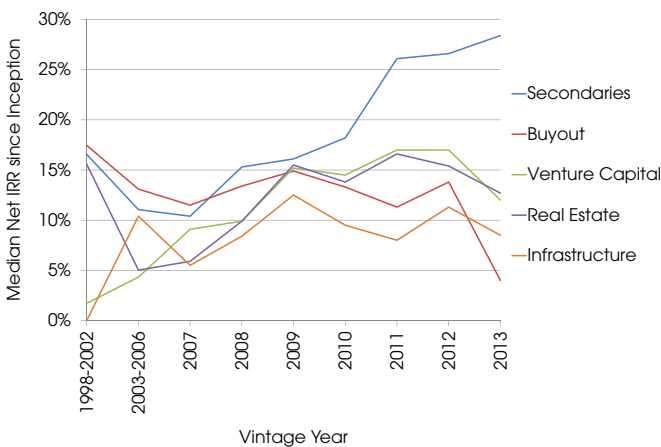
Comparing secondaries strategies using the PERACS benchmarks shows that the maturity of funds purchased is inversely related to returns when funds are purchased at par, as shown in Fig. 12. This analysis suggests that discounts to NAV are justified for more mature funds.

Fig. 9: Secondaries Funds: Minimum, Median and Maximum Net IRR by Vintage Year



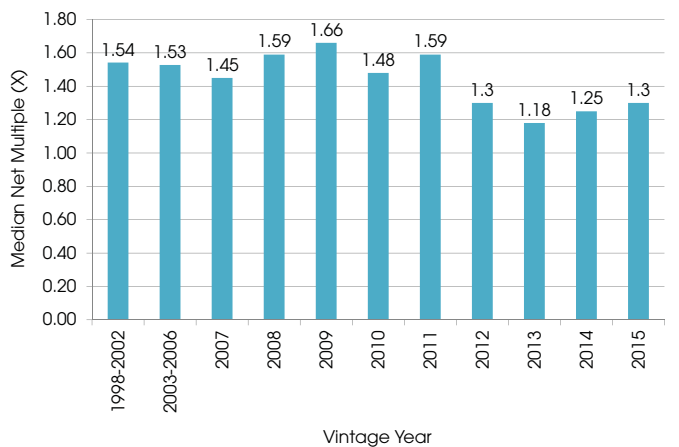
Source: Preqin Secondary Market Monitor

Fig. 10: Median Net IRR by Vintage Year: Secondaries vs. Other Private Equity Strategies



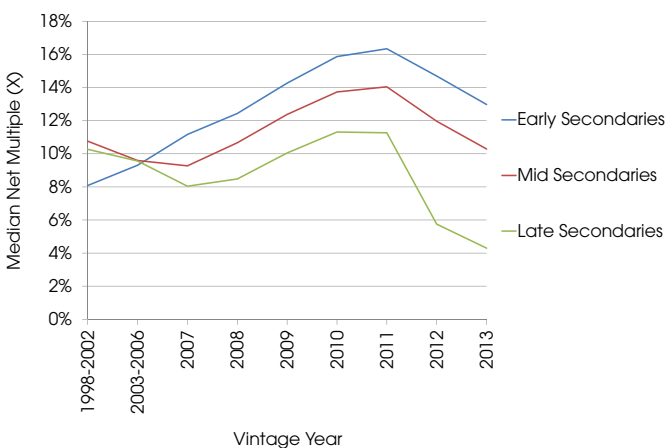
Source: Preqin Secondary Market Monitor

Fig. 11: Secondaries Funds: Median Net Multiples by Vintage Year



Source: Preqin Secondary Market Monitor

Fig. 12: PERACS ROR* for Early, Mid and Late Secondaries Funds (Par Pricing, All Fund Types and All Quartiles)



Source: Preqin Secondary Market Monitor

*PERACS ROR = (TVPI^(1/Duration in years))-1

Preqin's **Secondary Market Monitor** online service provides vital intelligence on all areas of the secondary market and is constantly updated by Preqin's team of dedicated analysts through direct contact with institutional investors and fund managers from around the world.

Use **Secondary Market Monitor** to:

- Identify all the key players in the secondary market
- Find firms seeking to buy fund interests
- Find potential sellers of fund interests
- Access details of secondary transactions and all the latest secondaries news

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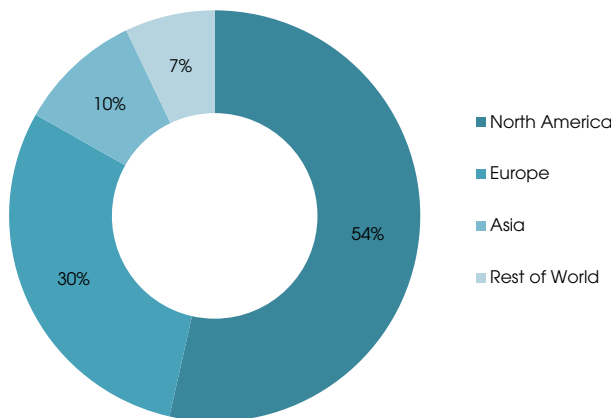


Unrealized Capital in Tail-End Funds

The size of unrealized assets in maturing funds is of relevance to the secondary market as they represent an opportunity for secondaries buyers. As fund managers face pressure to realize investments and return capital to their investors from ageing funds, the secondary market represents a potential exit option for these assets. Unrealized assets in funds managed by fund managers with no recent fundraising success represent a segment of this opportunity.

Over half (54%) of managers that have not raised new capital from investors within the last seven years, but are still managing vehicles with unrealized capital, are based in North America, as seen in Fig. 13. Almost a third (30%) are based in Europe.

Fig. 13: Managers of Buyout, Growth and Venture Capital Funds that Have Not Closed a Fund since 2009 by Location

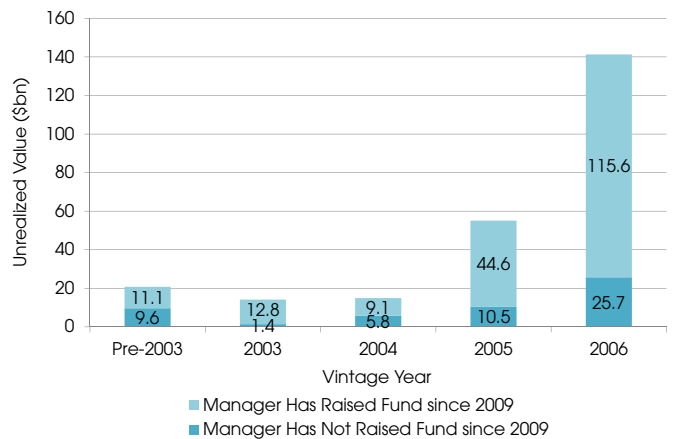


Source: Preqin Secondary Market Monitor

In aggregate, as at September 2015 reporting, there was \$246.2bn of unrealized capital in buyout and growth funds of vintage 2006 or older, the majority (57%) of which is in 2006 vintage funds (Fig. 14). Additionally, there is \$95.1bn in unrealized value in venture capital funds that are 10 years or older (Fig. 15).

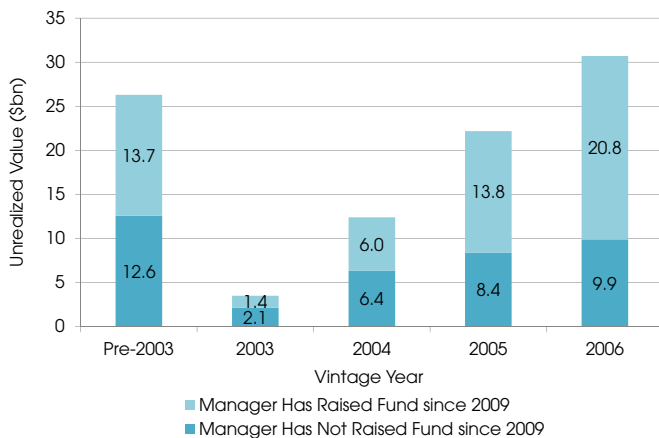
In terms of geographic focus, North America-focused funds constitute almost two-thirds of aggregate unrealized capital in buyout, growth and venture capital funds that are of vintage 2006 or older (Fig. 16).

Fig. 14: Unrealized Value in Buyout and Growth Funds: Vintage 2006 Funds and Older (As at September 2015)



Source: Preqin Secondary Market Monitor

Fig. 15: Unrealized Value in Venture Capital Funds: Vintage 2006 Funds and Older (As at September 2015)



Source: Preqin Secondary Market Monitor

Fig. 16: Unrealized Value in Buyout, Growth and Venture Capital Funds by Manager Location: Vintage 2006 Funds and Older (As at September 2015)



Source: Preqin Secondary Market Monitor

Preqin Secondary Market Update

Q1 2016

Preqin: Global Data and Intelligence

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Source potential sellers of fund interests

Find out which investors are looking to sell fund interests on the secondary market. Search for LPs by type, details of the fund interests they are looking to sell, and more.

Combine with Preqin's Private Equity Online, Real Estate Online, Infrastructure Online and Private Debt Online services to find additional sellers, including LPs no longer investing or that have put their investments on hold, as well as those over-allocated to private equity or real estate.

Find out which LPs are looking to invest in secondaries

Source potential new investors for your latest secondaries vehicle among LPs with an appetite for secondaries funds. Analyze which types of LPs are looking to buy fund interests on the secondary market in the near future. View detailed investment plans for secondary buyers.

Analyze the latest secondaries fundraising activity

See which secondaries funds are in market and which have recently closed. Examine secondaries fundraising over time by target and final close size, strategy and location.

View private equity secondary market transactions and recent news

Explore our archive of previous secondary market transactions to find out which funds have been traded, which LPs have sold fund interests and the buyers of these interests on the secondary market.

Identify key secondary intermediaries

Identify intermediaries involved in the secondary market that match your requirements based on transaction type, intermediary location and client location, as well as size of transactions and types of client represented. View league tables to find out the key players in the market.

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