

Content Includes:

Preqin Secondary Market Update

Fundraising

Largest ever secondaries fund closed in Q2, securing over \$10bn.

Q2 2016

Funds in Market

More secondaries funds are currently in market than at any other time in the past five years.

Transactions

Several large secondaries transactions took place during the quarter.

Performance

Performance of secondaries funds compares favourably to other private equity strategies.





Foreword

In the second quarter of 2016, Ardian Secondary Fund VII broke the existing secondaries fund size record by closing on \$10.8bn, surpassing the \$10.1bn raised by Lexington Capital Partners VIII in April 2015. The trend towards the most established players raising ever larger vehicles – Ardian Secondary Fund VII's predecessor closed on \$9bn in 2014 – is maintained, and signals continued confidence among the limited partner universe in secondaries. This bodes well for the 41 secondaries funds currently seeking capital, which is the highest number of funds in market in recent years and partly a result of new managers coming to market pursuing niche strategies – a sign of a maturing market.

The amount of capital raised by Ardian has added to the amount of uncalled capital held by fund managers. Using uncalled capital as a proxy, the 10 largest managers have a combined \$54bn available for investment. Supply will come from a variety of sources: Preqin currently tracks 610 firms that have indicated an interest in selling fund interests of various types over the next two years, including real estate funds. Q2 2016 saw New Zealand Superannuation Fund sell a large real estate portfolio, with that segment of the market set to grow further. Supply will also continue to be driven by limited partner portfolio management and the size of assets remaining in mature funds.

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.

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Key Facts



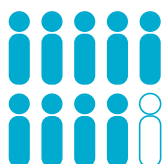
\$10.8bn

Ardian Secondary Fund VII, which closed in April 2016, is the largest secondaries fund ever raised.



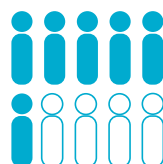
\$2.8bn

Average size of secondaries funds closed so far in 2016, compared with \$1.5bn for funds closed in 2015.



890

Number of potential secondary market buyers.



610

Number of potential secondary market sellers.



41

Number of secondaries funds currently on the road, seeking \$22bn in capital commitments.



26%

Median net IRR of 2013 vintage secondaries funds.

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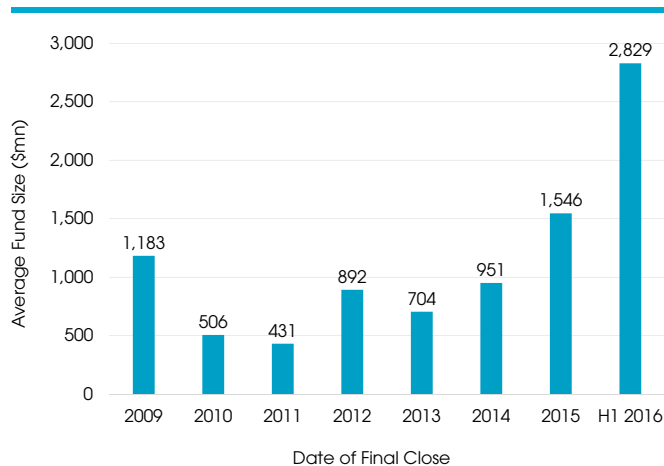
Fundraising

In Q2 2016, two secondaries funds held a final close raising a combined \$11.0bn, which represents the fourth largest aggregate amount raised in a quarter by secondaries funds in the period since 2011 (Fig. 1). The vast majority of this capital was raised by Ardian Secondary Fund VII, which closed on \$10.8bn having initially sought \$9bn from investors. Greenspring Secondaries Fund II was the other fund to close in the quarter, securing \$200mn from investors.

There was a drop in the number of funds closed in 2015, and it appears that trend might be set to continue, with just five vehicles holding a final close in the first six months of 2016, compared with 17 in H1 2014. Despite fewer funds closing, significant amounts of capital are still being raised, with select managers raising ever larger funds. As a result, there has been a marked increase in the average size of a secondaries fund: \$2.8bn for funds closed in H1 2016 versus \$1.5bn in 2015 (Fig. 2).

The amount of capital raised by Ardian is the largest amount of capital ever raised by a secondaries vehicle to date, and is \$700mn larger than the previous record set by Lexington Capital Partners VIII in 2015 (Fig. 4).

Fig. 2: Average Size of Secondaries Funds Closed, 2009 - H1 2016



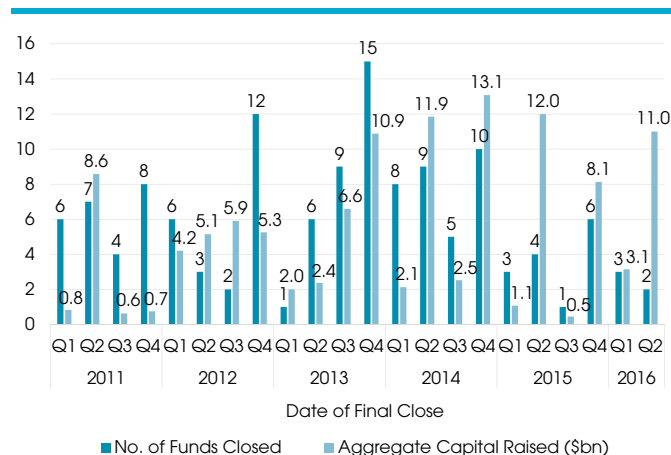
Source: Preqin Secondary Market Monitor

Fig. 4: Five Largest Secondaries Funds Closed, All Time

Fund	Firm	Target Size (\$mn)	Final Close Size (\$mn)	Final Close Date
Ardian Secondary Fund VII	Ardian	9,000	10,800	Apr-16
Lexington Capital Partners VIII	Lexington Partners	8,000	10,100	Apr-15
Ardian Secondary Fund VI	Ardian	7,000	9,000	Apr-14
Coller International Partners VII	Coller Capital	5,500	7,150	Dec-15
Lexington Capital Partners VII	Lexington Partners	6,000	7,000	Jun-11

Source: Preqin Secondary Market Monitor

Fig. 1: Global Quarterly Secondaries Fundraising, Q1 2011 - Q2 2016



Source: Preqin Secondary Market Monitor

Fig. 3: 10 Largest Secondaries Managers by Total Capital Raised in the Last 10 Years

Firm	Firm Location	Total Capital Raised in Last 10 Years (\$mn)
Ardian	France	31,445
Lexington Partners	US	22,744
Coller Capital	UK	17,450
Goldman Sachs AIMS Private Equity	US	14,403
Strategic Partners Fund Solutions	US	10,800
Partners Group	Switzerland	10,552
Landmark Partners	US	8,777
HarbourVest Partners	US	7,021
Pantheon	UK	5,891
AlpInvest Partners	Netherlands	5,502

Source: Preqin Secondary Market Monitor



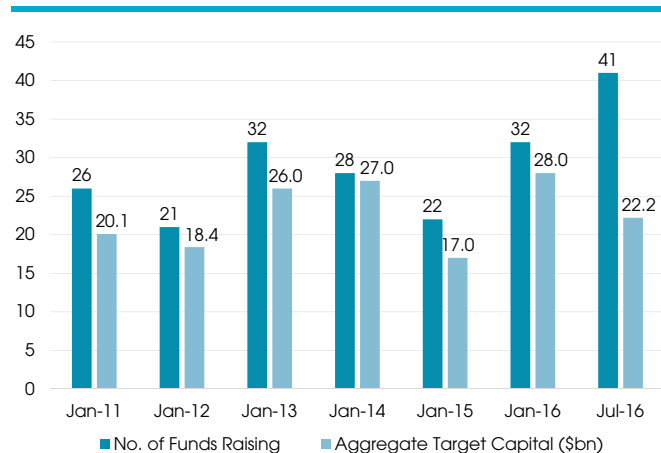
Funds in Market

There are currently 41 secondaries vehicles seeking capital as of the start of Q3 2016, which is more than at any point in the last five years; these funds are seeking \$22.2bn in aggregate capital (Fig. 5).

The relatively high number of funds seeking capital is a combination of managers returning to the market following fundraises in 2014, as well as new managers entering the market. This includes Kline Hill Partners and Whitehorse Liquidity Partners, both of which are seeking capital for funds pursuing niche secondaries strategies.

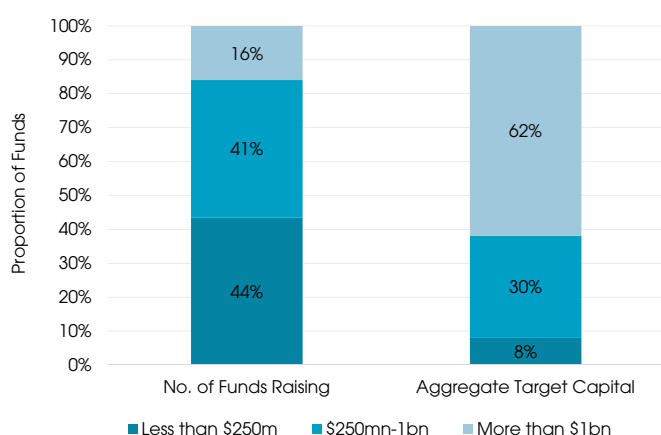
As shown in Fig. 6, the vast majority (84%) of funds are seeking \$1bn or less. However, funds seeking more than \$1bn represent almost two-thirds of the aggregate capital being sought. The largest secondaries vehicle currently in market is Strategic Partners Fund VII, which is seeking \$5.5bn (Fig. 8).

Fig. 5: Secondaries Funds in Market over Time, January 2011 - July 2016



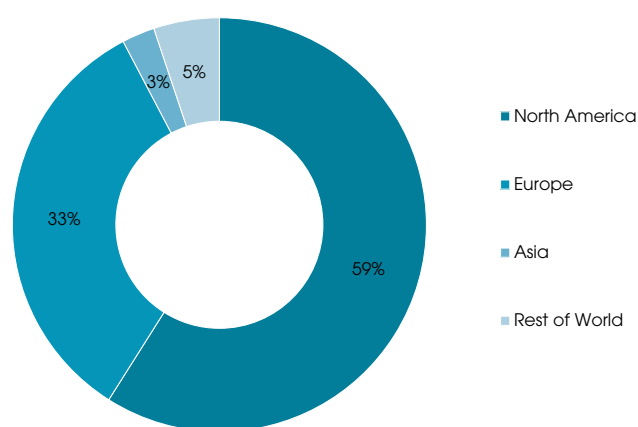
Source: Preqin Secondary Market Monitor

Fig. 6: Secondaries Funds Currently in Market by Target Size



Source: Preqin Secondary Market Monitor

Fig. 7: Secondaries Funds Currently in Market by Manager Location



Source: Preqin Secondary Market Monitor

Fig. 8: 10 Largest Secondaries Funds Currently in Market (As at 1 July 2016)

Fund	Firm	Target Size (\$mn)	Fund Status
Strategic Partners Fund VII	Strategic Partners Fund Solutions	5,500	Raising
Crown Global Secondaries IV	LGT Capital Partners	2,500	Raising
Pantheon Global Secondary Fund V	Pantheon	2,500	Third Close
AlpInvest Secondaries Fund VI	AlpInvest Partners	2,000	Raising
Hamilton Lane Secondary Fund IV	Hamilton Lane	1,250	Raising
ICG Strategic Secondaries Fund II	ICG Strategic Secondaries	1,000	Raising
Portfolio Advisors Secondary Fund III	Portfolio Advisors	1,000	First Close
Montauk TriGuard VII	Montauk TriGuard	700	Raising
Morgan Stanley Global Secondary Opportunities Fund III	Morgan Stanley Alternative Investment Partners	600	Raising
Capital Dynamics Global Secondaries IV	Capital Dynamics	500	Raising

Source: Preqin Secondary Market Monitor



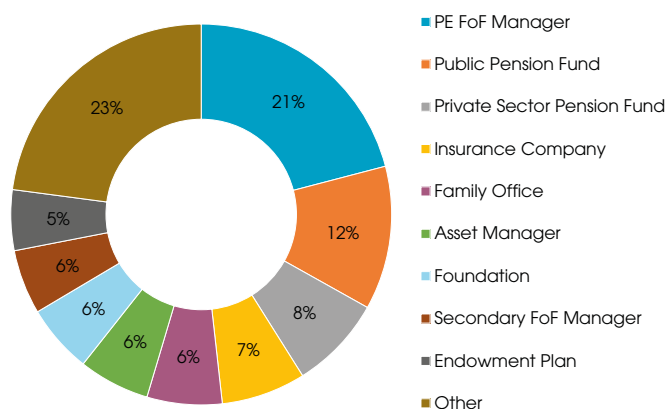
Buyers, Sellers and Transactions

As of the end of Q2 2016, Preqin tracks 890 potential buyers and 610 potential sellers of fund interests on the secondary market. Private equity fund of funds managers form the largest group of potential buyers, representing 21% of the total (Fig. 9). Forty-four percent of buyers are located in North America, with 40% based in Europe (Fig. 11).

Private equity fund of funds managers along with public pension funds make up the largest groups of sellers, accounting for 13% and 12% of the total respectively (Fig. 10). Europe is home to 44% of sellers, while 40% are based in North America.

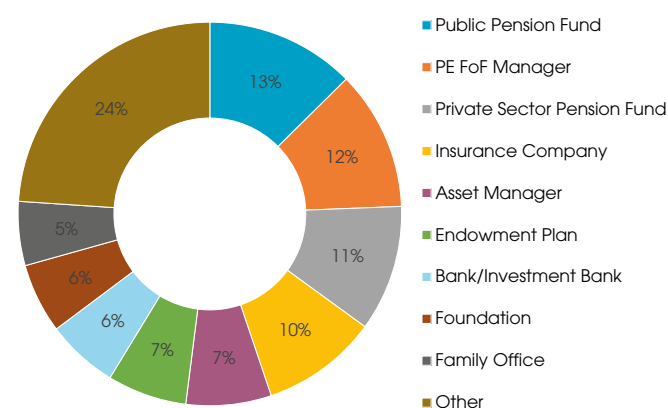
A selection of secondaries transactions that took place in Q2 2016 are shown in Fig. 12. A large real estate portfolio was sold by New Zealand Superannuation Fund in Q2 2016, a sign that the real estate secondaries market continues to mature following CalPERS' large portfolio sale last November.

Fig. 9: Potential Secondary Market Buyers by Type



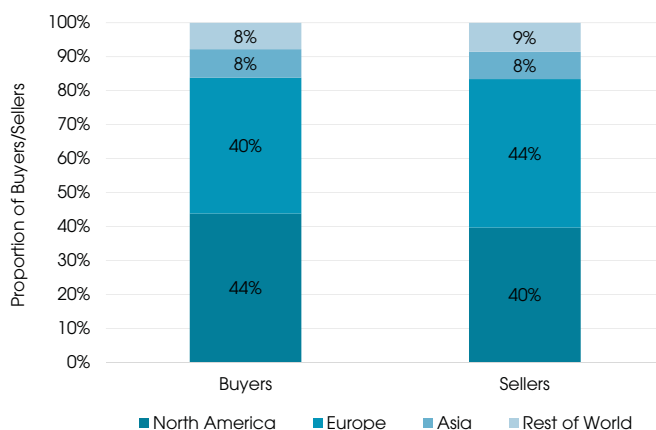
Source: Preqin Secondary Market Monitor

Fig. 10: Potential Secondary Market Sellers by Type



Source: Preqin Secondary Market Monitor

Fig. 11: Potential Secondary Market Buyers and Sellers by Location



Source: Preqin Secondary Market Monitor

Fig. 12: Sample Secondaries Transactions in Q2 2016

Seller	Buyer	Fund(s)
Metal and Engineering Pension Fund	Coller Capital	Bridgepoint Europe II
Howard Hughes Medical Institute	ACG Capital	Apax Europe VII
Employees' Retirement System of Texas	Lexington Partners	Charterhouse Capital Partners IX
Wyoming Retirement System	Lothian Pension Fund	Macquarie European Infrastructure Fund III
Diageo UK Pension Plan	LGT Capital Partners	Graphite Capital Partners VI
Pantheon	LGT Capital Partners	Graphite Capital Partners VI
Ontario Teachers' Pension Plan	Ardian	BC European Cap IX, BC European Cap VIII, EQT V , EQT VI, Phoenix Equity Partners 2006 Fund, Phoenix Equity Partners 2010 Fund
GIC	DB Private Equity	Bridgepoint Europe III, Charterhouse Capital Partners VII, European Strategic Partners 2006
Santander Private Equity	Partners Group	August Equity Partners II, EQT V , PAI Europe V
Royal London Group	Lexington Partners	SEP IV
New Zealand Superannuation Fund	Partners Group	Gateway Capital Real Estate Fund III, Mountgrange Real Estate Opportunity Fund, Orion European Real Estate Fund III, Red Fort India Real Estate Fund II

Source: Preqin Secondary Market Monitor

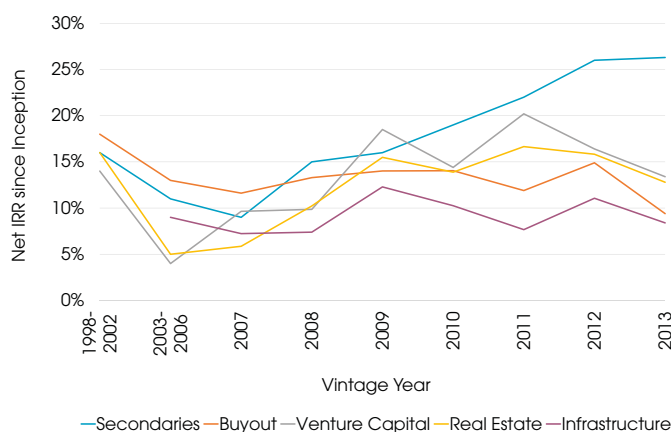


Performance

Secondaries funds typically provide accelerated cash flows, which can be seen when using the IRR as a measure of performance; it is only in 2012 vintage funds that there were any funds at all to record a negative IRR – in no other years have any funds been loss-making (Fig. 13). Secondaries funds compare favourably with other strategies in IRR terms, even though later vintages benefit from the effect of immediate write-ups of funds typically bought at a discount (Fig. 14). Net multiples delivered by secondaries funds have noticeably declined for vintages 2012-2015 compared with previous vintages (Fig. 15). Secondaries funds with a 2009 vintage have a net multiple of 1.66, compared with 1.20 for vintage 2013 secondaries funds.

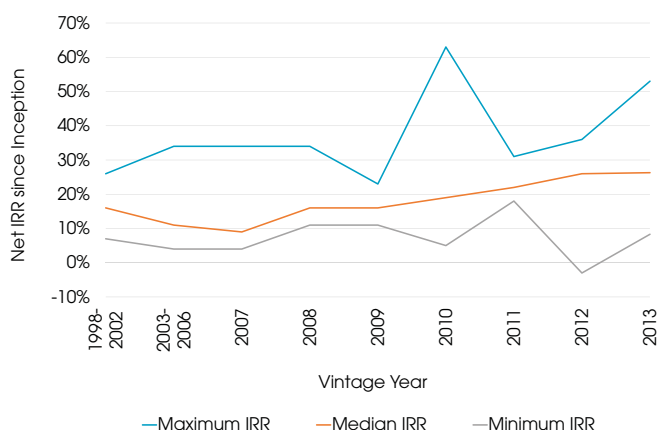
Combined, the 10 largest secondaries managers by uncalled capital have \$54bn. The list is led by Ardian, following the \$10.8bn secured by Ardian Secondary Fund VII. Unlike direct funds, uncalled capital cannot be used as a direct proxy for dry powder to commit to new vehicles, as a varying degree of the uncalled capital is already earmarked for future call-ups from funds in the portfolio. As a result, secondaries funds can come back to market with a much higher proportion of uncalled capital than other fund types in the asset class.

Fig. 14: Median Net IRR by Vintage Year: Secondaries vs. Other Private Equity Strategies



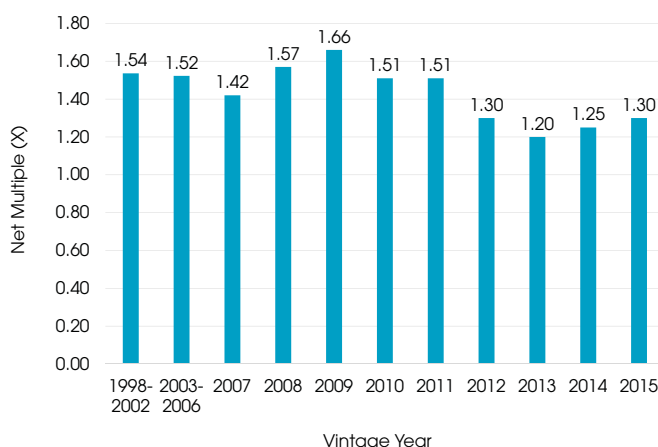
Source: Preqin Secondary Market Monitor

Fig. 13: Secondaries Funds: Minimum, Median and Maximum Net IRR by Vintage Year



Source: Preqin Secondary Market Monitor

Fig. 15: Secondaries Funds: Median Net Multiples by Vintage Year



Source: Preqin Secondary Market Monitor

Fig. 16: 10 Largest Secondaries Fund Managers by Uncalled Capital

Firm	Location	Uncalled Capital (\$mn)
Ardian	France	17,026
Lexington Partners	US	10,121
Coller Capital	UK	9,410
Partners Group	Switzerland	3,818
Strategic Partners Fund Solutions	US	2,936
Landmark Partners	US	2,871
Goldman Sachs AIMS Private Equity	US	2,619
Pantheon	UK	2,022
DB Private Equity	UK	1,557
Partners Group	Switzerland	1,324

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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Preqin Secondary Market Update

Q2 2016

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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, Private Debt Online and Natural Resources 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.

Find out how Preqin's secondary market products and services can help you:

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