

Content Includes:

Preqin Special Report: Private Equity Secondary Market

Challenging the Illiquidity Myth

March 2015

Fund Manager Outlook

Are managers of secondaries funds looking to invest more capital in 2015 than in 2014?

Buyers

Which institutional investors are most likely to purchase fund interests on the secondary market?

Pricing

What is the average price paid for a fund interest on the secondary market?

Funds Traded

Which fund types were most commonly traded on the secondary market in 2014?

Potential Sellers

What are investors' motivations for selling fund interests on the secondary market?





Foreword

The secondary market for fund interests has grown tremendously since the launch of Preqin's **Secondary Market Monitor** online data and intelligence platform in 2009. That year, total secondaries volume was estimated at \$12bn. In 2014, Cogent Partners estimated that secondaries volume for the year reached \$42bn, representing more than three-fold growth over the five-year period.

Implicit in a bigger market is the increased participation of the limited partner universe. No longer a last resort for distressed investors seeking liquidity, the secondary market now serves as a viable tool for the active management of alternative asset portfolios. The nature of transactions being completed is becoming more sophisticated and innovative to fit the needs of sellers; a key theme that has emerged more recently is the market's viability as a solution for GPs and LPs seeking end of life solutions for funds, be that in the sale of interests in tail-end funds or more complex GP restructurings. As the markets mature, real estate, infrastructure and private debt secondaries transactions are steadily increasing their contribution to overall market volume.

Preqin's **Secondary Market Monitor** online service has been upgraded to allow market participants – buyers, sellers, and intermediaries and service providers alike – to better navigate and capitalize on opportunities in this continually developing market. Search for buyers by fund type and transaction preferences, view detailed information on sellers' motivations, customize transaction data. Plus, for the first time, the product's offering now includes infrastructure and private debt alongside private equity and real estate.

Secondary Market Monitor continues to be underpinned by a sustained and frequent research effort to unveil buyers and sellers in the institutional investor universe and to keep up to date on their plans for the secondary market. Drawing on data from Preqin's **Secondary Market Monitor**, as well as a survey of over 50 fund managers of dedicated secondaries assets, this special report looks at recent trends in the secondary market as well as the outlook for 2015.

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Secondary Market Monitor: In-Depth Data and Intelligence on All Aspects of the Private Equity Secondary Market

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.

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

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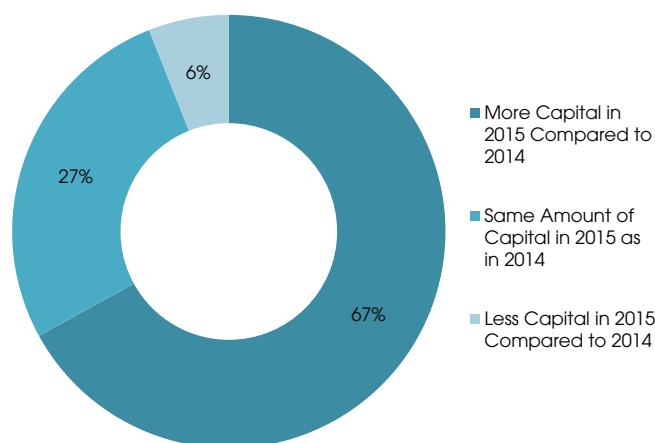


Secondaries Funds

Preqin recently surveyed over 50 managers of dedicated secondaries assets to find out about their activity in 2014 and to assess their outlook on the market for 2015.

2014 was not only a record year for secondaries transaction volume, but has also been recognized as a record year for secondaries fundraising; an aggregate \$29bn was secured by the 27 secondaries funds that reached a final close during the year, the highest ever annual amount of capital secured. As a result, two-thirds of secondaries fund managers surveyed expect to deploy more capital in the asset class in 2015 compared to the previous year (Fig. 1). A further 27% indicated that they expected to maintain their level of spend in 2015.

Fig. 1: Expectations for the Amount of Capital to Be Deployed in the Secondary Market in 2015 Compared to 2014



Source: Preqin Secondary Fund Manager Survey, February 2015

Following a successful year for fundraising, managers of secondaries vehicles have large amounts of dry powder at their disposal which they will be looking to put to work in the year ahead; Fig. 2 shows the 10 largest secondaries buyers by estimated dry powder. Buyer profiles on Preqin's Secondary Market Monitor also contain detailed information on the expected level of spending in the coming year; for example, RCP Advisors is looking to deploy \$75mn in the secondary market in 2015.

Furthermore, 23 secondaries funds (including four dedicated real estate vehicles) are currently seeking aggregate capital commitments of \$20bn, the five largest of which are shown in Fig. 3. Fourteen of these funds have already held an interim close and secured \$6bn towards the aggregate capital they are seeking.

Fig. 2: Top 10 Secondaries Fund Managers by Estimated Dry Powder

| Firm | Headquarters | Dry Powder (\$mn) |
|-----------------------------------|--------------|-------------------|
| Ardian | France | 11,148 |
| Lexington Partners | US | 7,465 |
| Goldman Sachs AIMS Private Equity | US | 4,568 |
| Strategic Partners Fund Solutions | US | 4,292 |
| Coller Capital | UK | 3,657 |
| Landmark Partners | US | 3,414 |
| HarbourVest Partners | US | 2,095 |
| DB Private Equity | UK | 1,940 |
| Pantheon | UK | 1,840 |
| LGT Capital Partners | Switzerland | 1,521 |

Source: Preqin Secondary Market Monitor

Fig 3: Five Largest Secondaries Funds Currently in Market (As at 5 March 2015)

| Fund | Firm | Type | Fund Status | Target Size (\$mn) |
|--|--------------------|----------------------------|--------------|--------------------|
| Lexington Capital Partners VIII | Lexington Partners | Private Equity Secondaries | First Close | 8,000 |
| Coller International Partners VII | Coller Capital | Private Equity Secondaries | Raising | 5,000 |
| Pantheon Global Secondary Fund V | Pantheon | Private Equity Secondaries | Second Close | 2,500 |
| Landmark Real Estate Fund VII | Landmark Partners | Real Estate Secondaries | Second Close | 1,000 |
| Capital Dynamics Global Secondaries IV | Capital Dynamics | Secondaries | Raising | 500 |

Source: Preqin Secondary Market Monitor

Data Source:

Preqin's **Secondary Market Monitor** contains detailed information on all 350 secondaries funds in market and closed historically, including interim and final closes, geographic preferences, sample investors, and more.

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



Buyers, Pricing and Leverage

Secondary Market Buyers

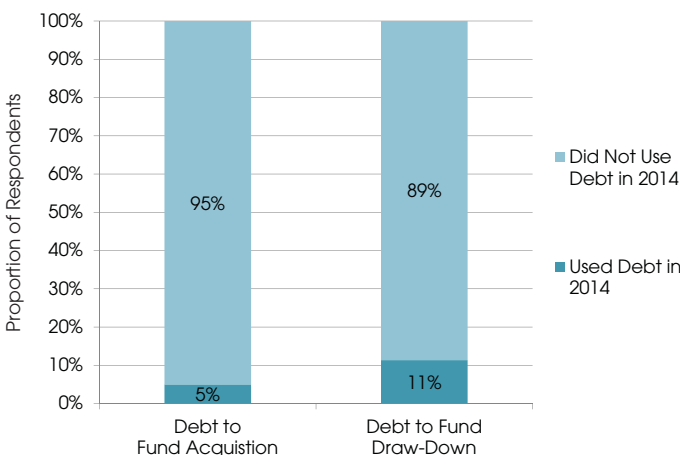
In addition to managers of dedicated secondaries funds, there is a significant and growing number of institutional investors that seek to acquire fund stakes on the secondary market. As shown in Fig. 4, over a third of investors that are interested in purchasing fund stakes on the secondary market are either public or private sector pension funds. Insurance companies, asset managers and endowment plans are the next most prominent investor types that are interested in purchasing fund interests, representing 11%, 10% and 10% of opportunistic buyers respectively. Institutional investors consider utilizing the secondary market to increase their exposure to alternatives for various reasons, including the mitigation of the J-curve effect, gaining access to funds over-subscribed during the initial fundraising process and consolidating relationships with existing GPs by increasing exposure to their fund(s) instead of committing capital to other fund managers. Secondary Market Monitor regularly identifies potential new investors in the secondary market and is a useful tool to identify new buyers, for sellers seeking a counter-party on a potential transaction, or an intermediary seeking to add a competitive dynamic to an auction process.

Pricing

It is clear that the secondary market is awash with capital, from the managers of secondaries funds, fund of funds vehicles with allocations to the secondary market and institutional investors that are intent on gaining exposure to it. Inevitably, pricing is impacted by this strong demand for funds on the secondary market. Survey respondents indicated that the average price paid for buyout funds purchased on the secondary market was 90% of NAV, although this can be as low as 70% of NAV for mature assets.

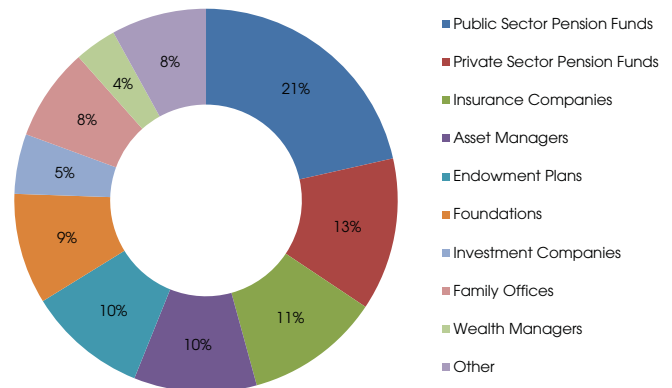
In 2015, 45% of respondents indicated that they expect the price paid for buyout funds on the secondary market to increase (discount to narrow), while 48% expect it to remain the same. Given the expected increase in spend from the majority of respondents, strong pricing does not appear to be deterring buyers. Not only is there capital available to pay more (on a dollar basis, as well as on

Fig. 5: Breakdown of Debt Usage by Managers of Secondaries Funds in the Secondary Market in 2014



Source: Preqin Secondary Fund Manager Survey, February 2015

Fig. 4: Breakdown of Opportunistic Secondary Market Buyers by Type



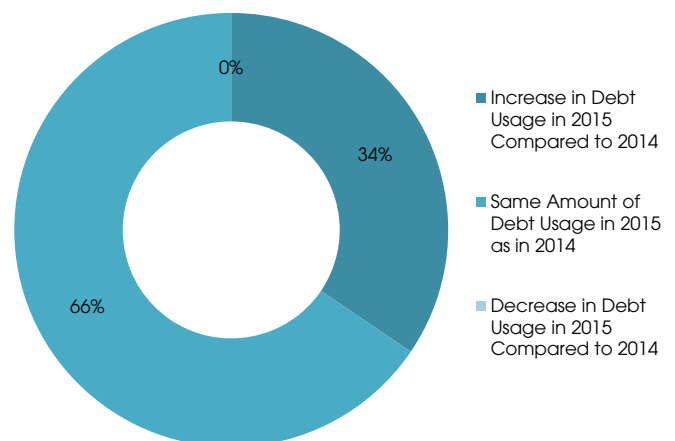
Source: Preqin Secondary Market Monitor

a percentage to NAV basis given that NAVs are also rising), there is also the willingness to do so, as the sentiment towards private equity and particularly buyout funds is positive given the strong environment for exits and distributions.

Leverage

One concern regarding the higher prices being paid for assets is the impact this may have on returns and that returns for assets bought on the secondary market in this current climate are likely to be lower than previous years. Anecdotally, it appears that secondary market buyers have turned increasingly to leverage to improve returns. While the majority of fund managers that we spoke to did not use debt for acquiring funds (81%) or in funding a drawdown (89%) in 2014 (Fig. 5), debt is likely to play a bigger part in the secondary market in 2015. Thirty-four percent of respondents expect debt usage to increase in 2015, while the remaining 66% predict it to remain the same, as shown in Fig. 6. No respondents expect the level of debt usage to decrease in the coming year.

Fig. 6: Managers of Secondaries Funds' Expectations for the Amount of Debt Usage in the Secondary Market in 2015



Source: Preqin Secondary Fund Manager Survey, February 2015



Secondary Market Sellers

Managers of secondaries funds were asked to indicate which groups of investors would be selling funds in 2015, with pension funds cited by 42% of respondents, as shown in Fig. 7. Pension funds have become increasingly comfortable using the secondary market in recent years in order to achieve their desired portfolios. Banks and insurance companies (cited by 36% and 29% of respondents respectively) are also expected to be prominent sellers in the year ahead, both for regulatory reasons.

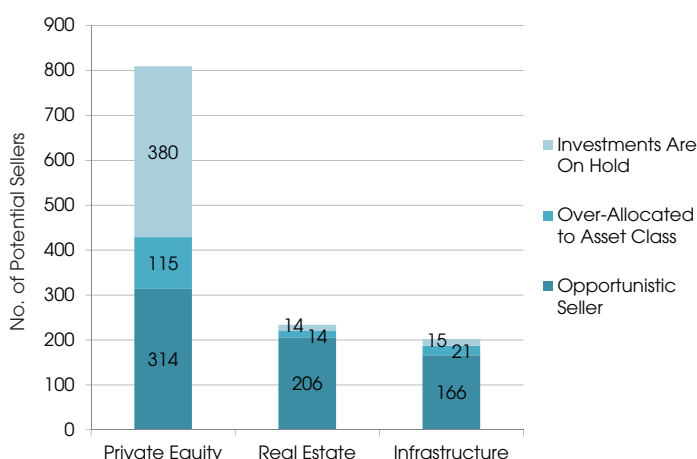
Preqin's research team is in daily contact with institutional investors in order to identify new sellers and update the investment plans of existing investors. Sellers are classified into two groups:

- **Likely and opportunistic sellers** that have pro-actively begun a process to sell funds or are generally open to approaches from buyers (and frequently have sold stakes before) and;
- **Possible sellers**, which are investors that are either over-allocated to a particular asset class and could consider the secondary market to rectify this, or investors that have put new investments on hold and therefore may be reviewing one or more of their manager relationships.

Investigating this universe of sellers shows that, at present, pension funds are the most likely sellers, representing 30% of opportunistic and potential sellers identified by Preqin's Secondary Market Monitor online platform, which is in line with buyer expectations. Pension funds have taken the lead in the use of the secondary market as a portfolio management tool; motivations often cited include redirecting capital to new strategies, reducing the number of manager relationships, and also relieving the administrative burden of monitoring a vast number of funds. The current strong pricing conditions are conducive to these aims.

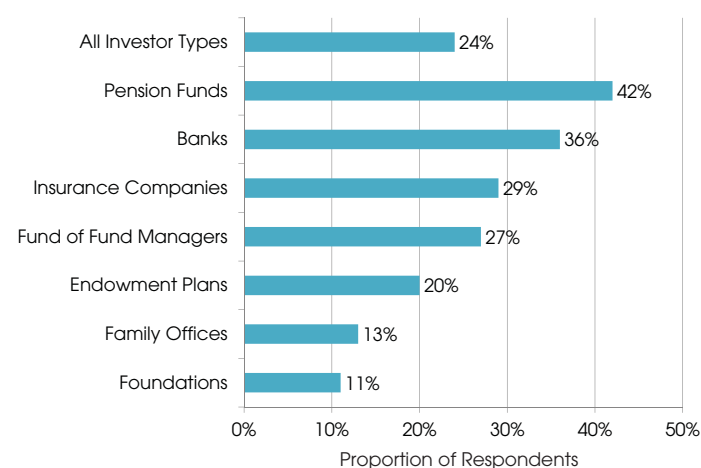
A variety of other seller types have also been identified by Preqin, including foundations, endowment plans and family offices. These sellers are predominantly exposed to private equity strategies, but there are also a growing number of real estate and infrastructure investors that could sell. Fig. 8 illustrates the number of potential sellers by seller classification and asset class; the sellers profiled

Fig. 8: Number of Potential Secondary Market Sellers by Asset Class



Source: Preqin Secondary Market Monitor

Fig. 7: Breakdown of Investor Types Managers of Secondaries Funds Expect to Be Active in Selling Fund Interests in 2015

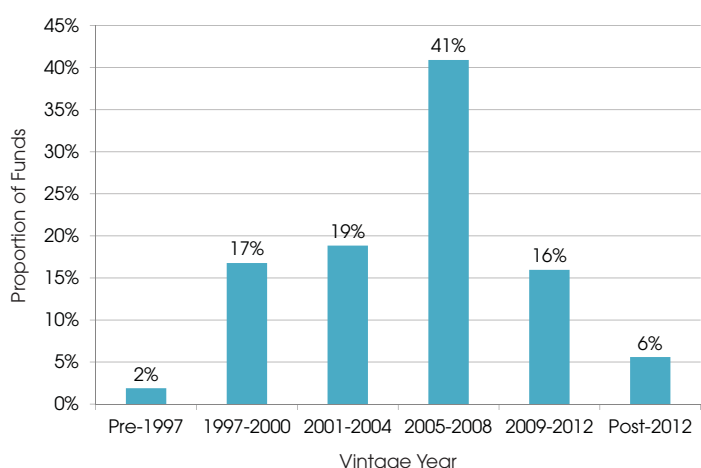


Source: Preqin Secondary Fund Manager Survey, February 2015

collectively have over 13,000 fund interests (in un-liquidated funds) and on average have a portfolio of 19 funds.

Analysis of the portfolios (specifically private equity) of likely and opportunistic sellers show interesting results that further illustrate their motivations for considering the secondary market. Fig. 9 shows the vintage year spread of the portfolios of likely and opportunistic sellers profiled on Secondary Market Monitor and shows that these investors are most exposed to funds that are 7-10 years old, accounting for 41% of all funds held by these investors. Funds of vintage years 2005-2008 are considered the sweet spot for most secondary buyers, as funds of this age are typically at their realization phase returning capital to investors. Interestingly, likely and opportunistic sellers have significant exposure to funds that are 10 years old or more, representing 38% of funds held by these investors and therefore, in most cases, past their pre-agreed life-time. Collectively, these funds have a total of over \$100bn in remaining, unrealized value.

Fig. 9: Breakdown of Likely and Opportunistic Secondary Market Sellers' Portfolios by Vintage Year



Source: Preqin Secondary Market Monitor

Source potential sellers of fund interests

Access details of secondary transactions

Analyze the latest secondaries fundraising activity

Search for secondary market buyers

Identify key secondary intermediaries



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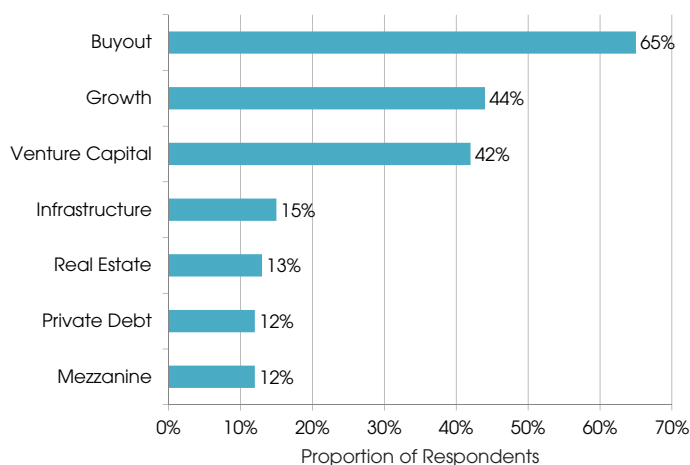
Funds Traded and Transactions

Funds Traded

The majority (65%) of managers of secondaries funds surveyed indicated that they had purchased interests in buyout funds in 2014 as shown in Fig. 10. Incidentally, a third of respondents expect to expend more on purchasing buyout funds in 2015 than 2014. Growth capital funds were purchased by just under half (44%) of respondents, with venture capital funds the next most purchased by respondents (42%). Infrastructure and real estate funds were purchased by a small proportion of respondents (15% and 13% respectively).

In terms of geographic focus, the majority (65%) of respondents indicated that they bought Europe-focused funds, while over half (56%) indicated that they had bought North America-focused funds on the secondary market (Fig. 11). Although activity is centred on these two most developed markets, a third of respondents indicated they bought Asia-focused funds on the secondary market.

Fig. 10: Breakdown of Funds Purchased on the Secondary Market by Managers of Secondaries Funds in 2014 by Fund Type



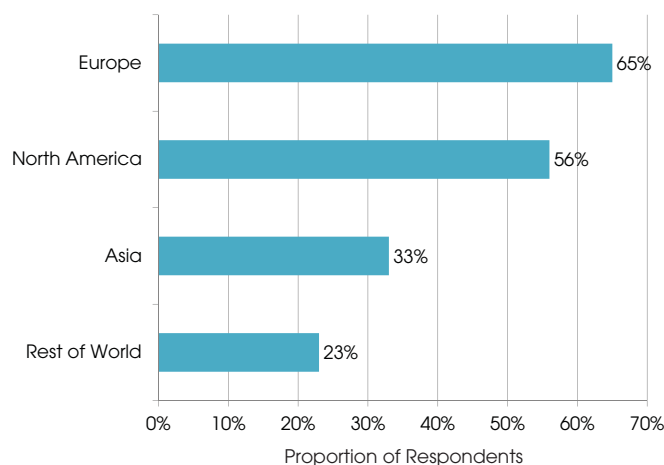
Source: Preqin Secondary Fund Manager Survey, February 2015

Transactions

Preqin's improved Secondary Market Monitor can be used to pinpoint transactions involving specific managers and specific fund types (as an indicator of the level of demand for, and liquidity of, those funds), recent sellers and certain firm types selling funds over different timeframes.

Fig. 12 draws on this transaction data and shows some of the most frequently traded Europe-focused buyout funds in 2014. Funds such as these, that trade fairly frequently, can be sold relatively quickly on the secondary market as buyers require little to no additional information to offer a price indication for them. A selection of secondaries transactions in 2014 involving various fund types that are detailed on Secondary Market Monitor are shown in Fig. 13.

Fig. 11: Breakdown of Funds Purchased on the Secondary Market by Managers of Secondaries Funds in 2014 by Geographic Focus



Source: Preqin Secondary Fund Manager Survey, February 2015

Fig. 12: Sample of Frequently Traded Europe-Focused Buyout Funds in 2014

| Fund | Firm | Vintage | Fund Size (\$bn) | Firm Headquarters |
|----------------------------------|-------------------------------|---------|------------------|-------------------|
| Apax Europe VII | Apax Partners | 2007 | 17.7 | UK |
| BC European Cap VIII | BC Partners | 2005 | 7.7 | UK |
| BlueGem | BlueGem Capital Partners | 2007 | 0.3 | UK |
| Bridgepoint Europe I | Bridgepoint | 1998 | 1.7 | UK |
| Charterhouse Capital Partners IX | Charterhouse Capital Partners | 2009 | 5.2 | UK |
| Cinven IV | Cinven | 2007 | 8.3 | UK |
| Doughty Hanson & Co V | Doughty Hanson Partners | 2007 | 4.0 | UK |
| Electra European Fund II | Motion Equity Partners | 2005 | 1.5 | France |
| EQT V | EQT | 2006 | 5.6 | Sweden |
| IK VII Fund | IK Investment Partners | 2012 | 1.8 | UK |
| PAI Europe V | PAI Partners | 2008 | 4.2 | France |

Source: Preqin Secondary Market Monitor



Fig. 13: Sample Secondaries Transactions Completed in 2014

| Seller | Buyer(s) | Fund(s) |
|---------------------------------------|---|--|
| University of Michigan Endowment | Landmark Partners | LaSalle Asia Opportunity Fund III |
| BMB Investment Bank | Strategic Partners Fund Solutions | Doughty Hanson & Co III, Doughty Hanson & Co IV |
| ESB Pension Fund | Nottinghamshire County Council Pension Plan | Standard Life Investments European Property Growth Fund |
| Wellcome Trust | Lexington Partners | Abingworth Bioventures III |
| Florida State Board of Administration | Partners Group | 3i Europe Partners V, 3i Growth Capital Fund, BC European Cap IX, Carlyle Europe Partners III, Charterhouse Capital Partners IX, KKR European Fund III, PAI Europe V, Riverside Europe Fund IV |
| Undisclosed | Unipension | Macquarie European Infrastructure Fund IV |
| Volksbank AG – Investkredit | Alpha Associates | Accession Mezzanine Capital II, Darby Converging Europe Mezzanine Fund, Nova Polonia Natexis II |
| New Mexico State Investment Council | Pomona Capital | Cinven III, Cinven IV, Clayton Dubilier & Rice VII, Clayton Dubilier & Rice VIII |
| Carleton College Endowment | Undisclosed | Macquarie European Infrastructure Fund III |

Source: Preqin Secondary Market Monitor

Transaction Types

Managers of secondaries funds were asked about the types of transactions they completed in 2014. Transactions were classified into traditional fund transactions (portfolio and single interests), direct secondaries, GP restructurings, tail-end fund purchases and spin-outs. Unsurprisingly, the single fund purchase was the most common transaction type completed, with over three-quarters (77%) of respondents completing a transaction of this sort in 2014, as illustrated in Fig. 14).

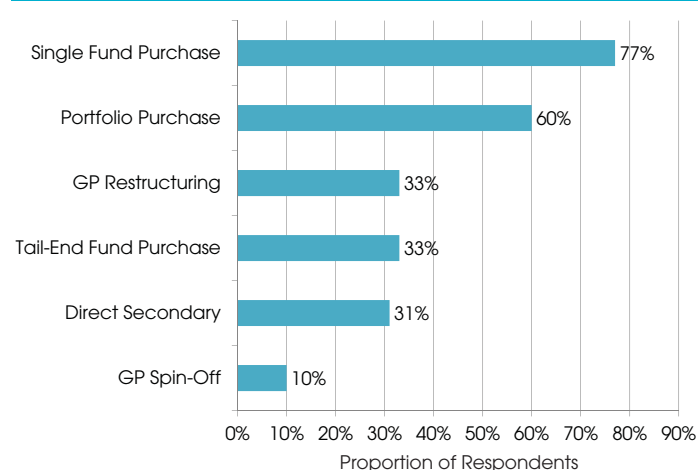
Sixty percent of respondents completed a purchase of a portfolio of funds, while a notable proportion (33%) completed purchases of tail-end funds and GP restructurings. A number of mature funds have significant unrealized value; it appears buyers see value in these funds given the proportion of managers that completed transactions of this type in 2014. Furthermore, 25% of survey respondents anticipate increasing their activity relating to tail-end funds in 2015 compared to 2014 (Fig. 15).

GP restructurings are noted to have increased in prominence in recent years as a solution for LPs and GPs for funds close to, or past, their agreed term. Secondary buyers provide new capital to the GP while simultaneously buying out existing LPs; the complexity of these transactions has not been a deterrent to some buyers. Indeed, as shown in Fig. 15, 19% of survey respondents anticipate completing more of these transactions in 2015.

Thirty-one percent of respondents completed direct secondaries transactions in 2014; these transactions again reflect the amount of capital locked in mature funds, with a secondary sale offering GPs the opportunity to return capital to investors. Direct secondaries will continue to feature in 2015, with 21% of respondents anticipating increasing their activity in direct secondaries transactions in 2015 compared to 2014.

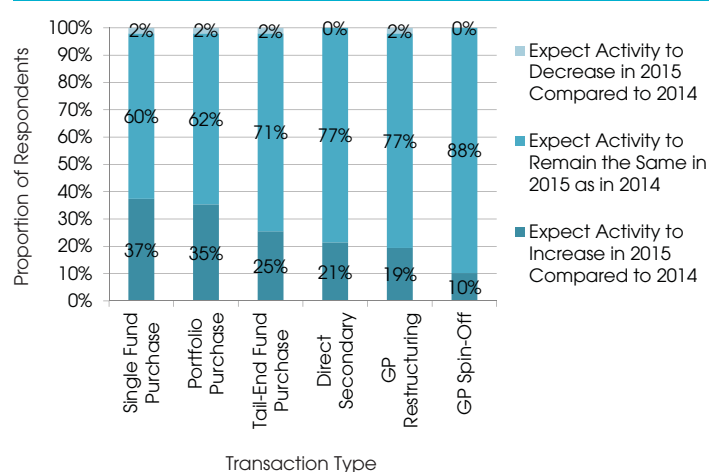
Preqin tracks which types of transaction different buyers are open to; for a GP or an intermediary managing a restructuring process, it is vital to be able to identify buyers with the willingness and experience to complete such transactions. In addition, Secondary Market Monitor shows which investors are open to stapled secondaries transactions. For holders of tail-end funds, Preqin is keeping tabs on the small but growing number of secondary buyers that see value in such transactions.

Fig. 14: Breakdown of Transaction Types Completed by Managers of Secondaries Funds in 2014



Source: Preqin Secondary Fund Manager Survey, February 2015

Fig. 15: Managers of Secondaries Funds' Expectations for the Level of Secondary Market Activity in 2015 Compared to 2014 by Transaction Type



Source: Preqin Secondary Fund Manager Survey, February 2015



The Importance of Intermediaries

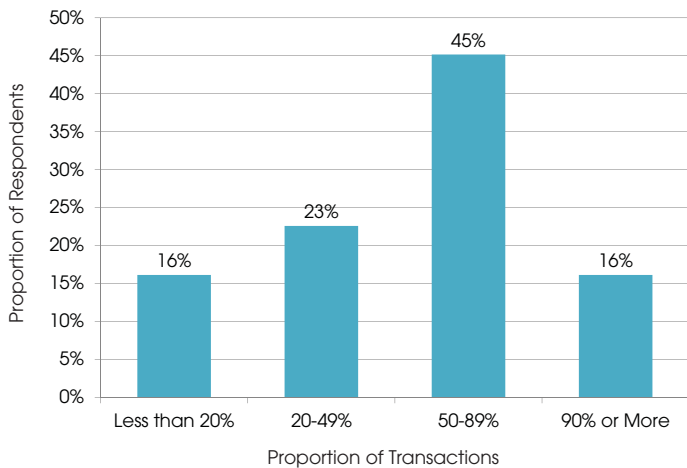
The growing number of buyers and the complexity of transactions are creating opportunities for intermediaries. These firms traditionally represent sellers by approaching the buyer universe to generate competition for the interests in question. Intermediaries also increasingly, act for buyers (both managers of secondaries funds and non-dedicated institutional investors) by searching for sellers willing to sell funds of interest.

Intermediaries also act on behalf of GPs in managing administrative processes involved in restructurings, and acting as the go-between with LPs and prospective buyers. They also assist GPs in the disposal of portfolios of companies via direct secondaries.

Intermediaries represent an important part of the industry; 61% of survey respondents indicated that 50% or more of the transactions they completed involved an intermediary on the buy side, the sell side or both (Fig. 16).

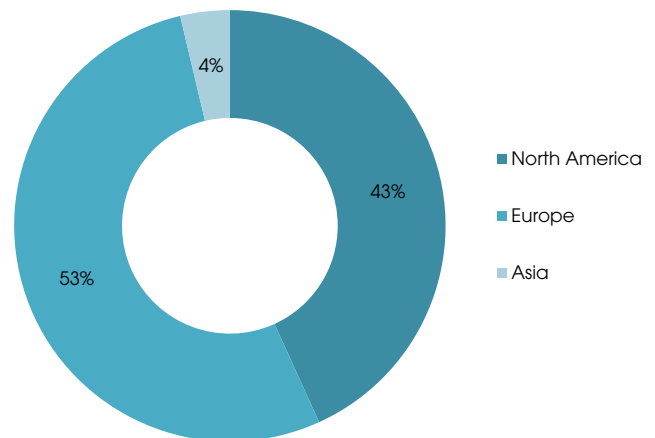
Therefore, as a buyer of fund interests, forming the right relationships with the appropriate intermediaries is important in finding and completing deals. Secondary Market Monitor provides extensive information on intermediaries, including the range of services offered, the aggregate size of deals completed, information on transactions they have been involved in and key contacts at the firm. The majority (53%) of intermediaries profiled are based in Europe, with a further 43% based in North America, as shown in Fig. 17.

Fig. 16: Proportion of Secondary Market Transactions in 2014 that Used an Intermediary



Source: Preqin Secondary Fund Manager Survey, February 2015

Fig. 17: Breakdown of Secondary Intermediaries by Location



Source: Preqin Secondary Market Monitor

Preqin's Secondary Market Monitor: A Vital Tool

Track activity across the secondary market using Preqin's **Secondary Market Monitor** online service, which features detailed information on:

- 576 opportunistic buyers of fund interests
- 388 likely and opportunistic sellers and over 1,500 possible sellers
- More than 7,000 secondary transactions that have taken place globally
- 350 secondaries funds in market or closed historically
- 77 secondary intermediaries

For more information, or to arrange a demonstration, please visit:

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Preqin Special Report: Private Equity Secondary Market March 2015

Preqin: Global Data and Intelligence

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 Investor Intelligence, 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 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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