Preqin Special Report: Private Equity Secondary Market

June 2014

Content Includes:

Current Secondary Market Landscape

We evaluate the private equity secondary market in 2013 and the outlook for the future, including a detailed look at the diversity within the secondaries market, such as direct secondaries and bank spin-outs.

The Zombie Fund Opportunity

We take a look at secondary buyers involved in GP-led transactions or fund restructurings, and activity in this area in the past year.

Investor Appetite

We explore investor appetite for the private equity secondary market - which LPs plan to buy and sell fund interests in 2014? What are their motivations?

Secondaries Fundraising

We examine historical secondaries fundraising and the outlook for the year ahead, including new funds on the horizon.

Plus Special Guest Contributor:
Robert McGrath, Setter Capital

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CEO's Foreword

Private equity is not only some of the most important capital fuelling the world's economy, but it is also inherently illiquid and long-term in nature – be that for venture capital funding new start-up businesses; LBOs financing mature businesses that need to restructure with the benefit of 'patient' capital; or infrastructure investments funding long-term development of pipelines, roads etc. These investments are generally made with a view to the investor being committed for the medium to long-term.

The success of private equity in all its guises in delivering superior long-term returns for its investors is well-documented, and has resulted in greater participation by investors in the asset class, and in higher percentage allocations – a trend that thankfully seems set to continue for the foreseeable future.

However, the very success of the private equity model, and the increased commitments made by LPs, leads to a quandary: the original commitment will almost certainly have been made with a long-term investment horizon in mind, but the combination of three factors – a) the higher percentage commitments themselves; b) the volatile investment environment; and c) the impact of regulatory change – means that routes to liquidity are more important for LPs today than ever before.

The secondary market, therefore, has a vital role to play across the entire private equity ecosystem: by providing LPs with routes to liquidity, it supports and de-risks the original investment decision. 2013 saw the continuation of several established trends, all leading to an increasingly mature and important secondary market. More LPs than ever before engaged in, or professed themselves interested in engaging in, both sales and purchases of secondary interests – in some cases the same LPs being involved in both. The positive NAV and distribution performance of private equity funds has led to improved pricing, most notable for well-known funds that are on the 'buy lists' of many LPs. The motivations of buyers have changed, with the opportunity to pick up a bargain at a low price relative to NAV receding, to be replaced by an interest in getting access to popular funds and in portfolio management – surely a sign of the positive times in the market. The analysis of Preqin data presented in this report, together with the insights and analysis from our fellow contributors at Setter Capital, highlight these developments.

Most important of all, however, is the simple fact that secondaries have established a viable, growing and permanent role in the industry, delivering good risk-adjusted returns for their investors and helping the entire industry through the provision of greater liquidity in what is otherwise an illiquid asset class.

We hope that you enjoy this report, and all of us at Preqin will continue to work hard to develop our Secondary Market Monitor online service that so many of you find useful, and to provide reliable data to assist you in your tasks. As always, we appreciate your support and will welcome any and all feedback on the report.

Thank you,

Mark O'Hare

Current Market Landscape

2013 saw a secondary market that, by all estimates of the level of activity, remained vibrant. The year marked a change in the landscape of the industry, with less of the headline-grabbing mega fund portfolio sales observed than in previous years.

The shortfall was made up by increased participation by various investors involved in smaller transactions, including single interest sales. Fig. 1 shows the breakdown of firm types selling fund interests as observed by Preqin's researchers over the course of 2013. It shows that private equity funds of funds represent 21% of investors selling fund interests, as well as public and private sector pension funds (18% and 11% respectively), were particularly active, while insurance companies (7%) and banks and investment banks (5%) were to a lesser degree. Furthermore, 2013 witnessed increased levels of secondary buyer participation in GP-led restructurings of funds, GP spin-off deals and secondary directs as the vast amounts of available dry powder sought avenues for expenditure.

Return of Mega Deals?

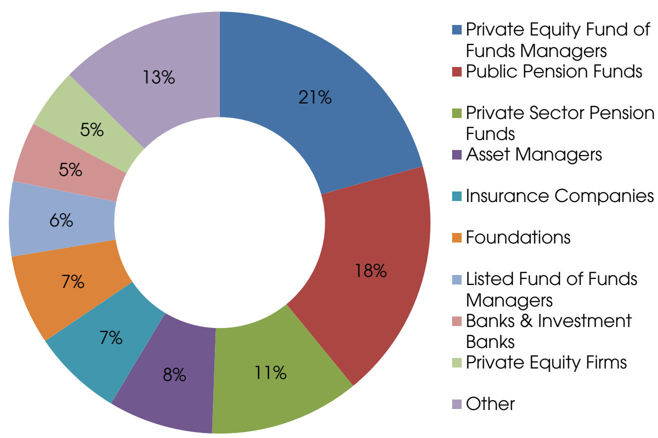
One of the reasons for the slowdown in large portfolio sales could be the high level of distributions received by fund investors in 2013, possibly deterring sellers from bringing their portfolios to market. The year 2014 to date, however, has seen indications of a return of the mega-portfolio sales observed in previous years. Indeed, one of the largest ever secondaries deals has already been completed this year, with Ardian purchasing a portfolio of private equity funds from GE Capital, Equity in a deal valued at $1.3bn. The portfolio mainly consisted of US-focused buyout funds that were passively held by the private equity arm of General Electric. The firm sold the portfolio as it was seeking to reduce the number of its non-core assets.

Further examples of firms that have brought large portfolios of funds to market include Australia-based asset manager QIC, which is believed to have hired Cogent Partners to market a portfolio valued at $1bn, and the Wellcome Trust, which has hired Cogent Partners to market a portfolio of venture capital funds worth $750mn. It appears that the high prices being observed at present – driven by the amount of capital chasing deals and strong public market performance – might be superseding the distributions effect. Fig. 2 illustrates the strength of pricing at present, particularly for buyout funds where discounts are at their narrowest since 2008.

Volcker Rule Clarity

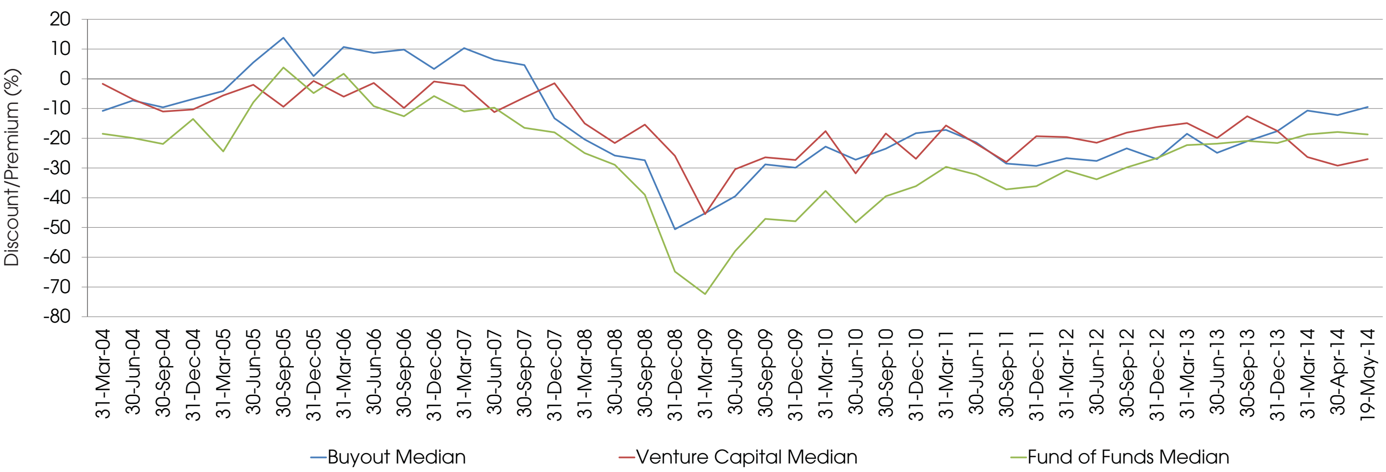
A key event for the secondary market occurred at the close of 2013 with the finalization of guidelines to implement the Volcker Rule, and a deadline for conforming set for July 2015. Some of the banks that had held off selling in 2013 in anticipation of this are likely to come to market in 2014. Banks have been a major source of the large portfolio deals in the past, and their expected return to market is likely to lead to more of such deals being observed in 2014.

Fig. 1: Breakdown of Secondary Market Sellers in 2013 By Firm Type



Source: Preqin Secondary Market Monitor

Fig. 2: Listed Private Equity Discount/Premium to NAV by Fund Type, 2004 - 2014 YTD (As at 19 May 2014)



Source: Preqin Secondary Market Monitor

Private Equity Secondary Market Pricing H1 2014

- Robert McGrath, Managing Director, Setter Capital

Most commentators contend generally that secondary pricing across all private equity strategies has risen in the last several years, but the important question is what exactly does one mean by 'pricing'? To get a more nuanced understanding of the changes in the secondary market over a period of time, one must consider not just the discount or premium to NAV as of the most recent reference date, but also the changes in NAV over time, capital calls, along with interim and prior period distributions. Further considerations include the evolution in buyers' return requirements, pricing dispersion and the variability between different categories of funds since broad statements of overall market pricing may mask interesting market sub-trends.

As seen in Fig. 3, pricing and price dispersion of the "Most Sought After Funds" (as ranked and published separately by Setter Capital and referred herein as 'Top Funds') relative to all funds differs materially across the board with the widest differences in the VC and the mature fund spaces. These Top Funds tend to be the brand name, larger funds, with larger LP bases which attract more buyers and ultimately command stronger pricing. For example, select buyers are willing to aggressively price a mature, pre-2007 Apollo or Blackstone fund that has a great deal of public exposure, whereas, they would be unwilling to offer a full price for a non-brand name fund with a similar portfolio profile. In addition, many buyers would aggressively price premier VC funds but have little to no interest in most other VC funds. For those funds not high on buyers' shortlists, an attractive price is the only way to motivate them.

Pricing and Supply of Less Drawn Funds

In contrast to the crisis period, sellers today are not selling their recent vintage funds as these are seen to have the most upside potential and liquidity is rarely an issue. For similar reasons, many buyers in this environment are interested to buy younger funds at full or even premium prices, particularly as these transactions significantly mitigate the J-curve effect. In addition, this pricing trend may also reflect the continuing emergence of non-traditional secondary buyers which may be willing to pay a high price for certain managers irrespective of a fund's funded level.

Changes in Pricing and Supply of Mature Funds - 2011 to Today

As for changes in pricing, market clearing bids for individual LBO funds and portfolios of mature LBO/VC funds have increased considerably in absolute terms over the last few years, even though the discount to NAV has only narrowed slightly. The main difference is observable not so much in the price paid, but rather in the compression of buyers' return requirements in the present market relative to earlier in the cycle. For instance, a basket of highly sought after 2006 vintage LBO funds (Apollo VI, Bain IX, Madison Dearborn V, KKR 2006 and TPG V) currently prices in the higher 90s relative to Dec-31-2013 NAV – which is only a few percent higher than it would have achieved in 2011. However, today the package of funds is marked at a ~1.5X multiple (December 2013 valuations), whereas the same basket was held at only a ~1X multiple in 2011 (December 2010 valuations) with presumably much more perceived upside potential.

While the exact way to objectively measure changes in pricing in the secondary market is still up for debate, it does seem hard to deny that the liquidity of the private equity asset class has improved measurably in recent years. This is largely due to the continued proliferation of buyers of all stripes in the market. Improving liquidity leads naturally to better pricing for sellers, and a more efficient and accessible market for buyers. While we expect this trend to continue in the coming quarters and years, investors should take note that liquidity appears to have improved most amongst the most highly sought after funds and therefore there may be more liquidity and secondary pricing risk associated with investing in lesser known managers.

Setter Capital is a leading secondary market advisor to institutional investors and fund managers. Established in 2006, Setter has a marquee client base that includes premier endowments and foundations, pensions and investment managers that invest across private equity, infrastructure, hedge fund, real estate and other alternative asset classes.

www.settercapital.com/about

Fig. 3: 2014 Average Pricing and Price Dispersion For Different Vintages*

	2002-2005 Vintages		2006-2009 Vintages		2010-2013 Vintages	
	Dispersion	Average	Dispersion	Average	Dispersion	Average
Most Sought After Funds						
Top 25 VC Funds	75-100	85	85-110	93	85-120	97
Top 50 US LBO Funds	80-110	92	87-113	98	95-115	107
Top 40 Euro LBO	85-100	90	90-110	100	90-115	105
All Funds						
All VC Funds	50-100	77	55-110	81	40-120	72
All US LBO Funds	65-110	86	70-113	92	70-115	93
All Euro LBO Funds	70-100	85	77-110	91	65-115	95

** Average Pricing is the average top bid offered for the funds of the specific type/vintage based off of Dec-31-2013 NAV. Pricing Dispersion is the range of top bids for each fund within the specific type/vintage, taking out the bottom 10% and top 5% of prices. Top bids are those received by Setter Capital and estimates where data is sparse (e.g. there are very few bids for less drawn VC funds in today's environment given the lack of supply).*

Diversity in a Maturing Market

The reduction in mega portfolio sales in 2013 brought into focus the alternative routes being taken by secondary buyers to use the ample capital available to them. The main transaction types being completed by secondary buyers, outside of purchases of large portfolios of private equity fund interests, are direct secondaries, GP spin-outs and fund restructurings.

Fund restructurings are typically led by GPs seeking an end-of-life solution for their vehicles. An alternative for GPs with funds that have exceeded, or are close to exceeding, their lifetime is through direct sales of interests in the fund's remaining portfolio companies.

Direct Secondaries

Such investments are the specialty of dedicated direct secondaries players, such as Cipio Partners, W Capital Partners and Vision Capital, but secondaries funds have also been looking at these opportunities. One avenue to such deals is in the partnership with direct secondaries firms, as was the case in Sobera Capital's purchase of a portfolio of direct investments from BayTech Venture Capital Fund I. In March 2014, Lexington Partners partnered with Rosetta Capital on the purchase of a pharmaceutical portfolio. Lexington Partners also has a longstanding partnership with UK-based direct secondaries player Azini Capital, having anchored its first two funds. It committed an additional $90mn to the firm, representing 90% of the final close amount attained by Azini 3 in March 2014.

Bank Spin-outs

Spin-out opportunities stem from the need for banks to conform to the Volcker Rule. Secondaries firms are stepping in to facilitate the carve-out of the captive private equity investment arms of banks. These firms, historically supported in their investments by the bank's balance sheet, are being assisted in attaining spin-outs through capital provided by secondary players. The parent bank gets the chance to reduce its exposure to private equity by selling its existing interests, while the fund managers are simultaneously backed with capital for new investments. A recent example of this is in a transaction led by HarbourVest Partners in a consortium that also included Coller Capital, funding the independence of Absa Capital Private Equity (the former captive investment arm of Barclays Africa Group). The investors purchased Barclays' entire 73.7% interest in 2006-vintage Absa Capital Private Equity Fund I. The newco was named Rockwood Private Equity. Potential targets for secondary buyers include NBGI Private Equity, the London-based private arm of National Bank of Greece, which is working with Cogent Partners to seek buyers for the firm. HSBC also has hired Campbell Lutyens to advise on the potential sale of its direct principal investments arm. The anticipated spin-out of One Equity Partners from J.P. Morgan Chase & Co. will be one of the largest to date, with the firm's portfolio valued at around $5bn. A number of secondary players have shown interest. Recent examples of these "non-traditional" secondaries transactions are listed in Fig. 4.

Fig. 4: Recent Examples of Non-Traditional Secondary Market Transactions

Buyer	Selling Fund/Firm	Date	Deal Type	Deal Description
Morgan Stanley	FFC Partners III	Sep-13	Fund Restructuring	Morgan Stanley bought into Ferrer, Freeman & Co's FF&C III fund in a deal 100% approved by the fund's existing LPs. An extension to the fund's life was agreed.
HarbourVest Partners	Electra European Fund II	Jan-14	Fund Restructuring	HarbourVest Partners provided liquidity to around 20 investors in Electra European Fund II. The fund's life was extended by four years, with allowance for two or three more deals.
HarbourVest Partners, Coller Capital	Absa Capital Private Equity Fund I	Dec-13	Spin-out	HarbourVest and Coller Capital bought out Barclays Africa Group's interest in Absa Capital Private Equity Fund I to complete the spin out of Absa Private Equity, creating Rockwood Private Equity.
Landmark Partners	HM Capital	Mar-13	Spin-out	The energy team of private equity firm HM Capital spun out to form Tailwater Capital. The spin-out was assisted by secondaries firm Landmark Partners with the purchase of HM Capital's legacy energy portfolio.
Unigestion, Sobera Capital	BayTech Venture Capital Fund I	Nov-13	Direct Secondaries	Sobera Capital, backed by Unigestion, completed the acquisition of a portfolio of companies from BayTech Venture Capital's first fund.

Source: Preqin Secondary Market Monitor

The Zombie Fund Opportunity

A prominent feature of the secondary market in the past year is the involvement of secondary buyers in GP-led transactions or fund restructurings, with a handful of such transactions reaching completion in 2014. Additionally, the industry has seen more general partners mandating secondary market intermediaries to pursue this avenue as a solution for their investors.

Capital Constraint

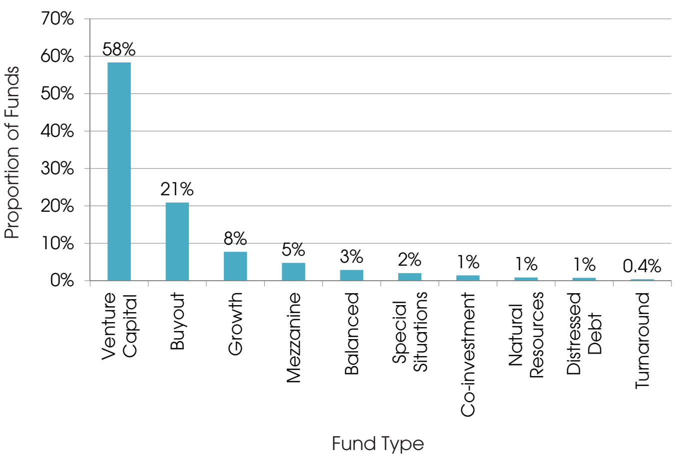
A number of GPs are managing vehicles that are close to or past their pre-agreed life-span with significant unrealized value remaining. The result is a capital constraint that stems from investors unwilling to back new funds by these managers, with the investments in existing funds starved of the capital that may be required for value generation. LPs are increasingly considering investment opportunities on the secondary market in order to provide solutions for investors and GPs, buying out willing sellers and providing an injection of capital to breathe new life to the fund. An example is the restructuring of J.W. Childs Associates' JW Childs Equity Partners III, a $1.75bn 2002-vintage buyout fund. CPP Investment Board (CPPIB) led a restructuring of the fund, investing $477mn into Winter Street Opportunities. Existing LPs in fund III were offered the opportunity to cash out or roll their existing stakes into the newco, with the majority of LPs choosing the former.

Size of the Opportunity

Preqin's data shows that the pool of potential investments of this kind is quite large. Defining these so-called "zombie funds" as those that are seven to 12 years old (vintages of between 2002-2007), managed by firms that have not successfully raised capital since 2007 shows that there are 1,049 such private equity funds. The majority (58%) of these are venture capital funds (Fig. 5), highlighting the difficulties that can exist in fully realizing venture portfolios relative to other investment types. Buyout funds make up 21%, growth 8% and mezzanine 5%. In terms of target geographies, 50% of these funds have a main focus on the US, 28% have a main focus on Europe and 10% on Asia (Fig. 6).

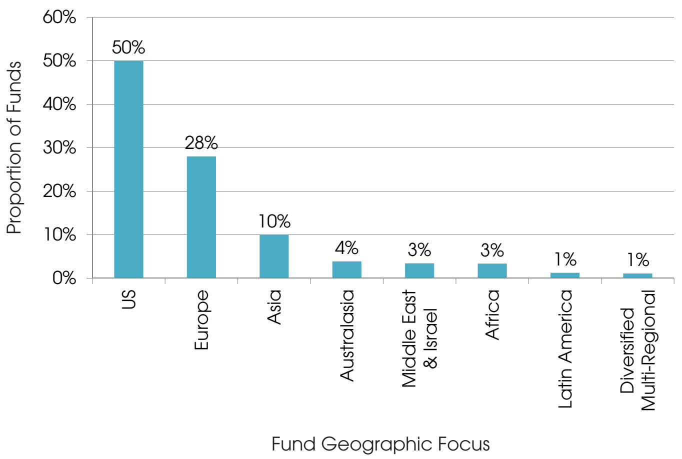
Examples of managers of tail-end funds exploring a restructuring are listed in Fig. 7. This includes US-based private equity firm Perseus, which is making a second attempt at restructuring following the rejection of a deal proposed to its investors in 2013.

Fig. 5: Breakdown of Tail-End Funds by Fund Type



Source: Preqin Funds in Market

Fig. 6: Breakdown of Tail-End Funds by Fund Geographic Focus



Source: Preqin Funds in Market

Fig. 7: Examples of Fund Managers Exploring Fund Restructuring

Firm	Fund(s)	Intermediary	Description
Corporate Partners	Corporate Partners II	Lazard Private Fund Advisory Group	The manager is said to be looking to restructure its sophomore fund and gather additional capital for fresh investments. The fund is understood to have a remaining NAV of $500mn.
Fenway Partners	Fenway Partners Capital Fund II; Fenway Partners Capital Fund III	Moelis & Co	The aggregate remaining NAV of the two buyout funds is believed to be about $300mn. The New-York based firm's investments have a particular focus on the consumer and transportation sectors.
Diamond Castle Holdings	Diamond Castle Partners IV	Park Hill Group	The firm is believed to be seeking to offer its existing investors the opportunity to exit the 2005-vintage fund, while also potentially raising a follow-on fund. The fund's remaining investments are said to have aggregate NAV of $700mn.
Perseus		Cogent Partners	The US-based firm has initiated a second attempt to restructure its aging funds, the last of which is Perseus Partners VII which raised $602mn in 2006, by commissioning Cogent Partners to explore a restructuring. A previous attempt to restructure in 2013 failed due to investors rejecting the proposed deal.

Source: Preqin Fund Manager Profiles

Sellers

Motivations for Selling

The institutional investors that Preqin surveyed gave a number of reasons for why they turn to the secondary market to off-load private equity fund commitments. According to Preqin's latest survey in 2014, 39% of these LPs indicated that they use the market in order to meet liquidity requirements, a notable increase from the 23% who gave the same reasoning last year. As demonstrated in Fig. 8, selling fund interests as a means of rebalancing portfolios was also a common motivation for these investors, although the proportion citing this reason dropped from 42% to 27% of surveyed LPs over the last year. Other reasons given as motivations for selling on the secondary market include exiting the poorer performing funds in their portfolio; conforming to regulatory changes; and, as one Swiss bank told us, taking advantage of the "high prices currently available". The proportion of investors that stated they used the secondary market in order to exit non-core assets as a reason for selling on the market fell, with the figure dropping from 6% in 2013 to 0% of respondents in 2014.

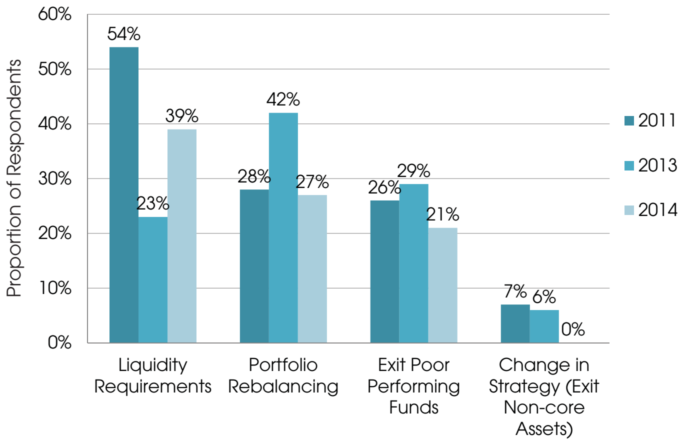
Secondary Market Sellers by Type

Preqin's Secondary Market Monitor online service currently tracks 277 institutional investors that would consider selling private equity assets on the secondary market. As shown in Fig. 9, the largest proportion of LPs, excluding public pension funds, is made up of public pension funds, which represent 18%, with private sector pension funds making up an additional 11%. Banks and investment banks and asset managers each represent 11% of the 277 investors, and other investor types include foundations, insurance companies and endowment plans.

Fund Types to Be Sold

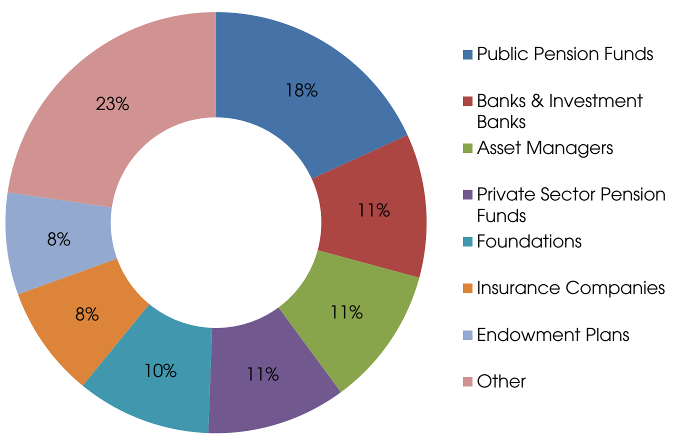
Preqin regularly speaks with secondary market sellers in order to gauge their selling preferences and strategies. Of the investors that have provided us with this information, the majority (80%) have a particular interest in selling their stakes in buyout vehicles. (Fig. 10). This is a huge proportion in comparison to other fund types: 34% of investors have told us that they would exit their venture capital fund commitments on the secondary market, and 22% would sell growth fund interests. While this chart demonstrates the range of fund types that are being made available on the secondary market by sellers, creating more opportunities for a wider range of buyers, it is also worth considering the effect the great demand for buyout funds will have on pricing.

Fig. 8: Investors' Motivations for Selling Fund Interests on the Secondary Market



Source: Preqin Investor Survey, May 2014

Fig. 9: Breakdown of Potential Secondary Market Sellers by Type



Source: Preqin Secondary Market Monitor

Identify Potential Buyers and Sellers

Use Preqin's **Secondary Market Monitor** to identify over 700 potential buyers of fund interests and over 2,000 potential sellers. Search for LPs based on specific preferences, such as fund type, vintage year, geography, and more.

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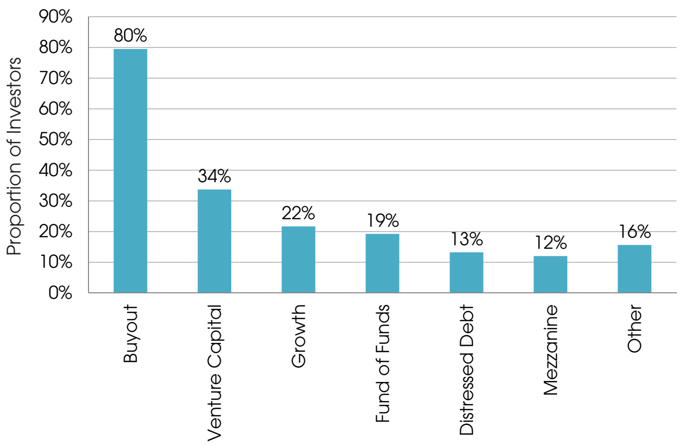
Fig. 10: Investors' Selling Preferences by Fund Type



Source: Preqin Secondary Market Monitor

Buyers

Importance of the Secondary Market in LPs' Portfolios

Of the LPs interviewed by Preqin, 15% consider secondary market investments of core importance in their private equity portfolios (Fig. 11). Thirty-three percent of these respondents stated that the secondary market is of growing importance in their portfolios, indicating that these opportunities are a part of many LPs' longer term private equity investment strategies.

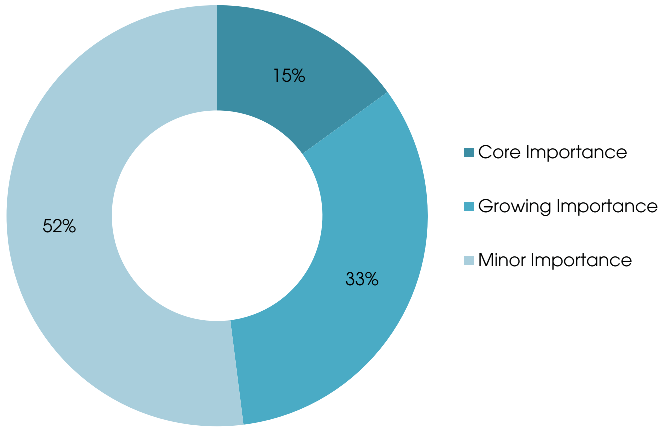
Buyers on the Secondary Market

In order to assess investor appetite for acquiring investments on the secondary market, Preqin regularly speaks with LPs with an interest in these opportunities. The highest proportion of these institutional investors consists of public pension funds (21%) and private sector pension funds (13%), as shown in Fig. 12. Insurance companies and asset managers each make up 11% of this group, with other investor types including endowment plans, family offices, foundations and investment companies. This indicates a wide spread in the variety of LPs that contribute to activity in the secondary market.

Motivations for Buying

Fig. 13 demonstrates that in 2014, over a third (36%) of the LPs surveyed cited the mitigation of the J-curve effect on their portfolio as a motivation behind investing on the secondary market, allowing them to avoid the negative returns often experienced in the earlier stages of investments. This is a substantial increase from 2013, when only 17% of investors cited the same reason for purchasing fund interests and portfolios. An uptick was also seen in the proportion of respondents that seek secondary investments as a means to access to top performing managers (31% compared to 17% last year), while there was a reduction in the proportion interested in the market for good value (67% compared to 33% last year) as would be expected given the current high prices. A number of respondents indicated that they recognize the benefit of utilizing the secondary market to diversify their private equity portfolios by vintage year; overall, these results are reflective of a more active and increasingly sophisticated investor universe considering secondaries investments, more than just for the prospect of a good bargain, but for portfolio modification and improvement.

Fig. 11: Importance of the Secondary Market within LPs' Private Equity Portfolios



Source: Preqin Investor Survey, May 2014

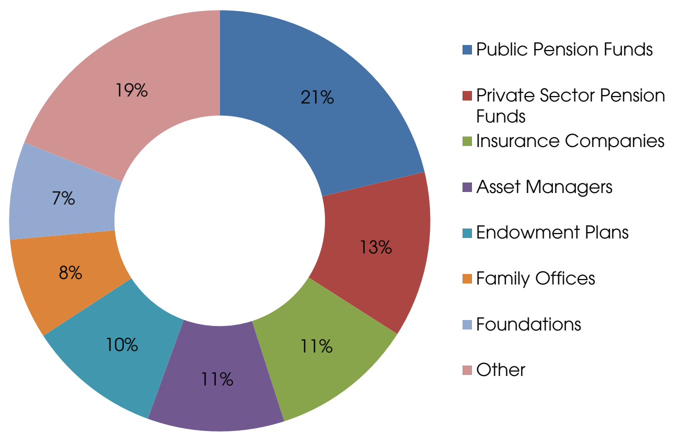
Data Source:

Preqin's **Secondary Market Monitor** tracks detailed information on all aspects of the secondary market, including institutional investors looking to purchase fund interests on the secondary market. Search for LPs based on specific preferences such as fund type, vintage year, geography and more.

For more information, please visit:

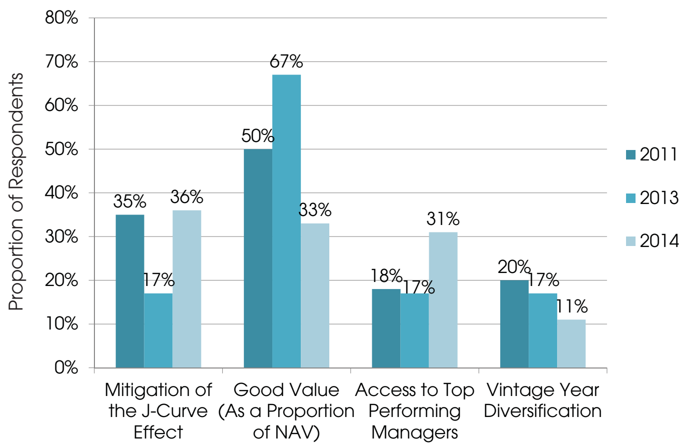
www.preqin.com/smm

Fig. 12: Breakdown of Secondary Market Buyers by Firm Type



Source: Preqin Secondary Market Monitor

Fig. 13: Buyers' Motivations for Buying Fund Interests on the Secondary Market



Source: Preqin Investor Survey, May 2014

Fundraising

An aggregate $15bn was raised by the 21 secondaries vehicles that held a final close in 2013 (Fig. 14). This is a significant decrease from the $21bn raised the previous year by 17 vehicles, which was largely attributable to the sizeable funds that held a final close in 2012, such as the $7.1bn close held by AXA Secondary Fund V in the year. Although less capital was secured, a greater number of funds closed in 2013 compared to 2012, indicating that more fund managers are entering and successfully completing fundraising in the secondaries space.

As a result of more secondaries vehicles securing less investor capital, the average size of funds closed dropped from $1.5bn in 2012 to $729mn in 2013. In 2014 YTD (as of 3 June), this figure has risen again to $1.6bn, with the eight funds that have closed so far having raised $13bn in capital commitments.

The Performance of Secondaries Funds

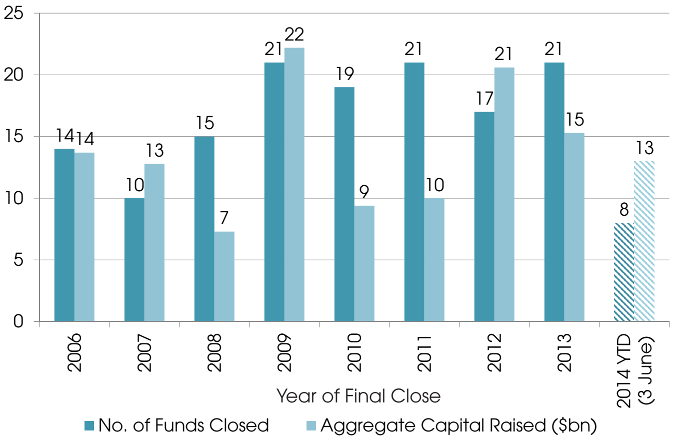
The arguments for investments into secondaries funds are longstanding including visibility of underlying investments and quicker cash flow. Fig. 15 shows that secondaries funds have outperformed other fund types generating a higher net IRR over a 10-year period. This most recent success in fundraising is a function of the opportunities to obtain attractive assets from financial institutions under pressure to conform to regulation and pension funds paring down managers, with the best managers backed with more capital.

New Funds on the Horizon

2014 has already had a very successful start, with the largest secondaries fund ever to be raised reaching final close in April 2014. Ardian Secondary Fund VI secured $9bn in investor commitments, exceeding its initial target by $2bn.

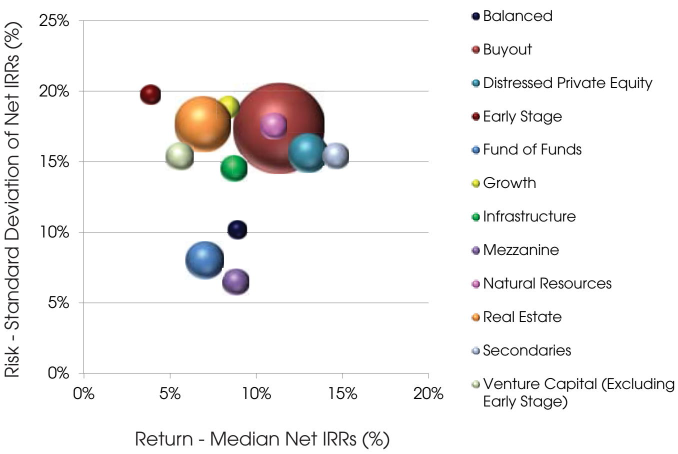
There are currently 27 secondaries vehicles in market seeking investor capital. Fig. 16 indicates that of these, the five biggest funds in terms of target size are looking to raise an aggregate $18bn. The largest is Lexington Capital Partners VIII, which has a target of $8bn and a hard cap of $10bn.

Fig. 14: Annual Secondaries Fundraising, 2006 - 2014 YTD (As at 3 June 2014)



Source: Preqin Secondary Market Monitor

Fig. 15: Risk and Return by Fund Strategy (Vintage 2001 - 2011)



Source: Preqin Performance Analyst

Fig. 16: Top Five Secondaries Fund in Market by Target Size (As at 3 June 2014)

Fund	Firm	Target Size (bn)
Lexington Capital Partners VIII	Lexington Partners	USD 8.0
Strategic Partners Fund VI	Strategic Partners Fund Solutions	USD 3.5
Vintage Fund VI	Goldman Sachs AIMS Private Equity	USD 3.0
Landmark Equity Partners XV	Landmark Partners	USD 2.5
DB Secondary Opportunities Fund III	DB Private Equity	USD 1.0

Source: Preqin Secondary Market Monitor

Outlook

Institutional Investor Appetite

Institutional investors surveyed by Preqin were asked if they had any experience using the secondary market. Fig. 17 shows the results; it is interesting to note that 43% indicated that they had bought a fund interest on the secondary market in the past, whereas only 16% had sold a fund interest on the secondary market. This result is additional evidence for the observation that more institutional investors are playing a part on the buy side, thus adding to increasing levels of competitive pressure and contributing to the relatively high level of pricing being observed in the market currently.

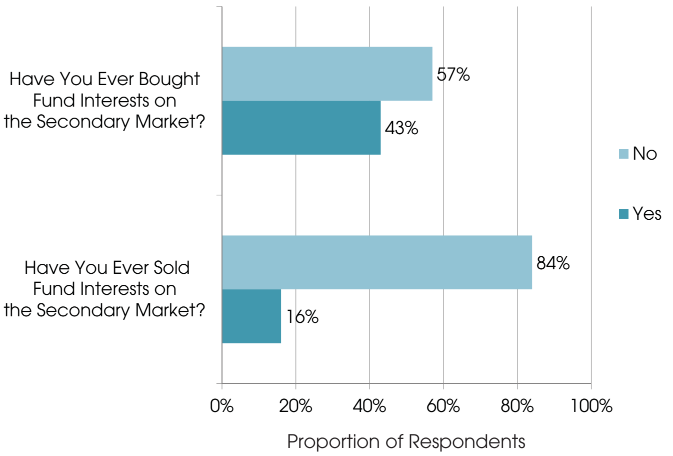
Significant Capital to Spend

Of course, the majority of capital available for investment in the secondary market comes from primary and secondary fund managers that have raised ample funds in recent years. As shown in Fig. 19, the largest 10 managers by uncalled capital for their secondaries vehicles have in excess of $38bn in total. Part of that will be available for new secondary market investments – be that in acquisitions of fund portfolios, direct secondaries, fund restructurings or GP spin-offs. This buy-side pressure continues to be the main driver of secondary market activity. When asked their view on the prospect for the secondary market in the coming 12 months, all of the investors surveyed indicated that they expect the current high level of secondary market activity to either be maintained (78%) or to increase (22%).

Supply of Deals

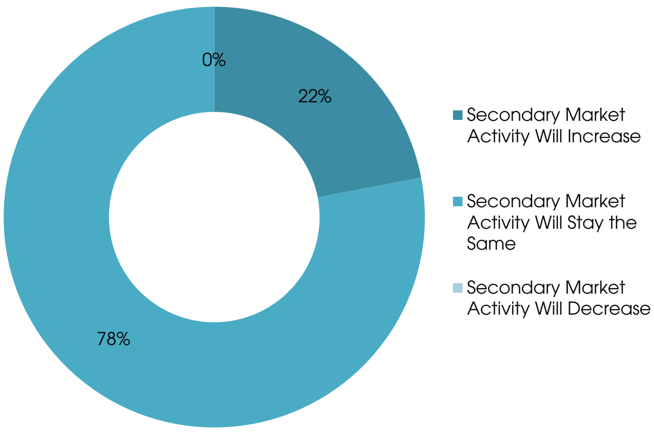
With new clarity on the deadline for compliance for the Volcker Rule, banks are likely to be a key supplier of deals for secondary players through divestments of direct investment arms and fund exposures. General partners seeking to restructure their funds as an end-of-life solution are also likely to be important contributors to deal flow to secondary intermediaries and secondary buyers. Pension funds such as California Public Employees' Retirement System and the New York City Retirement Systems continue to seek to rationalize their portfolio, and the current level of pricing is the ideal environment for opportunistic sellers to come to market with their funds, with the most desirable fund interests selling at premiums to NAV.

Fig. 17: Investors' Historical Secondary Market Activity



Source: Preqin Investor Survey, May 2014

Fig. 18: Investor Expectation for Secondary Market Activity over the Next 12 Months



Source: Preqin Investor Survey, May 2014

Fig. 19: 10 Largest Secondary Fund Managers by Uncalled Capital*

Firm	Firm Location	Uncalled Capital* ($mn)
Ardian	France	11,874
Lexington Partners	US	6,829
Coller Capital	UK	4,015
Goldman Sachs AIMS Private Equity	US	3,906
HarbourVest Partners	US	2,880
Partners Group	Switzerland	2,108
Strategic Partners Fund Solutions	US	2,057
LGT Capital Partners	Switzerland	1,787
Neuberger Berman	US	1,651
Pomona Capital	US	1,557

Source: Preqin Secondary Market Monitor

**Note that uncalled capital includes capital for new investment as well as funding capital calls from existing investments.*

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Source potential sellers of fund interests

Find out which investors are looking to sell fund interests on the private equity 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 and Real Estate 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.

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 both which LPs have sold fund interests on the secondary market and the buyers of these interests.

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.

Obtain a Preqin Price Indication

Gain a confidential Preqin Price Indication for your fund or portfolio whenever you need it.

Arrange a demonstration today and find out how Preqin's Secondary Market Monitor can help you:

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