

Preqin Research Report

Investor Attitudes Towards the Private Equity Secondaries Market (1)

For the 2010 Preqin Private Equity Secondaries Review, Preqin surveyed 56 institutional investors to determine their current attitudes towards the secondary market and to gain an indication of the future growth potential of the market. Over the past year, Preqin has also been in continuous contact with institutional investors in private equity and private equity real estate across the globe in order to establish their appetite for secondary market transactions over the next 12-24 months.

As shown in Fig. 1, Preqin's survey found that 7% of investors feel the secondary market forms a core part of their overall private equity investment strategies, and a considerable 48% feel that the secondary market is becoming an increasingly important component of their strategies. This demonstrates that a notable proportion of investors are likely to include some form of secondary market activity within their investment strategies going forward. The survey also found that 52% of respondents are considering activity on the secondary market, either as a buyer or seller of fund interests, over the next 24 months, and 45% are considering gaining exposure to the secondary market through secondaries funds or primary funds of funds with an allocation to secondary investments.

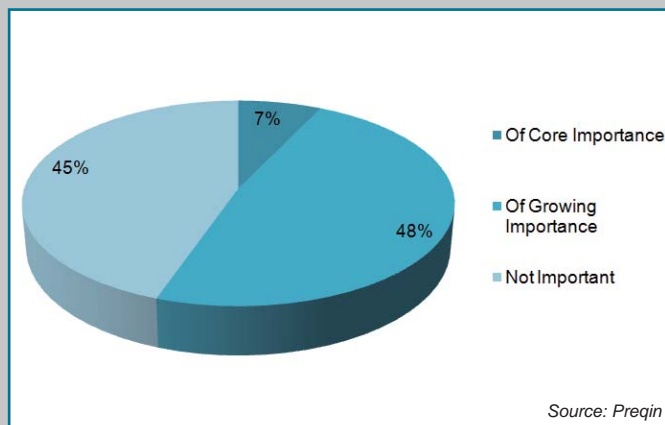
Institutional Investors' Appetite for Secondary Market Purchases

The past few years have seen the secondary market attract an increasing amount of attention from institutional investors. Fig. 2 shows that 6% of the LPs we surveyed over the past year are highly likely to buy fund interests on the secondary market during the next 24 months, and a further 24% felt such investments were a possibility. Of those investors that maintain an interest in secondary market purchases, 8% are either highly likely or possibly going to purchase fund interests on the secondary market immediately, and 64% will look at buying within the next 12 months.

Motivations of LPs Looking to Buy on the Secondary Market

As there is considerable interest in the secondary market among LPs, it is interesting to consider the factors that are motivating institutional investors to make secondary market purchases. Preqin's survey asked participants what they thought were the main benefits of purchasing fund interests on the secondary market. As illustrated by Fig. 3, there are

Fig. 1: Importance of the Secondary Market within Investors' Private Equity Investment Strategy



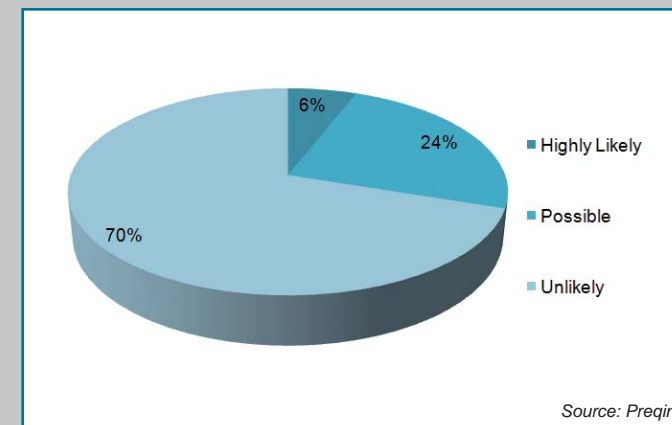
several key factors that are influencing LPs to buy fund interests on the secondary market.

The most common motivation for LPs to purchase fund stakes on the secondary market is mitigation of the J-curve effect, as 53% of respondents cited this as a benefit. Buying a stake in a fairly mature fund enables investors to avoid the negative returns in the early years of investment and take advantage of the gains in the later stages as the underlying portfolios of companies mature.

Another significant advantage of buying fund interests on the secondary market, as indicated by 38% of respondents, is the potential for purchasing funds at a significant discount to net asset value (NAV). As a result of the financial downturn, a number of investors were looking to offload some fund stakes quickly in order to free up capital and were consequently willing to consider selling these stakes at considerable discounts to their current value. As drawdowns pick up in the coming months, further LPs with liquidity issues may find themselves in the position of needing to offload stakes in funds, presenting LP buyers with the opportunity of purchasing such interests at attractive discounts. One investor that said it would be looking to take advantage of fund interests being sold at discount to NAV over 2010 is Rallye, a French investment company.

15% of survey respondents stated that buying fund interests on the secondary market allows them to further diversify their investment portfolios, particularly by fund vintage. The

Fig. 2: Breakdown of Likelihood of Institutional Investors Buying Fund Interests on the Secondary Market over Next 24 Months



Private Equity • Real Estate • Hedge Funds • Infrastructure

Preqin provides information, products and services to private equity firms, fund of funds, investors, placement agents, law firms, advisors and other professionals across the following main areas:

- > Fund Performance
- > Fundraising
- > Fund Manager Profiles
- > Investor Profiles
- > Fund Terms
- > Compensation and Employment
- > Buyout Deals

Available as:

- > Hard Copy Publications
- > Online Database Services
- > Consultancy and Research Support
- > Tailored Data Downloads

For more information and to register for a demo, please visit:

www.preqin.com/privateequity

Preqin Research Report

Investor Attitudes Towards the Private Equity Secondaries Market (2)

secondary market also enables investors to gain further exposure to funds and managers they have already invested with. In addition, purchasing fund interests on the secondary market can provide investors' portfolios with exposure to top performing managers and give them the chance to establish relationships with them.

What Are Institutional Investors Looking to Sell on the Secondary Market?

While it is clear there is significant appetite amongst the investor community for buying fund stakes on the secondary market, it is interesting to consider what fund types are likely to be available for them to purchase on the secondary market. Throughout the past year, when speaking with investors, Preqin asked whether there are any specific fund types or fund vintages investors are looking to exit.

A considerable 46% of potential secondary market sellers stated particular fund types which they are considering selling on the secondary market. As illustrated by Fig. 4, private equity real estate funds are the most common fund type that investors are looking to sell, with 57% of investors that stated selling preferences naming this fund type. Venture and buyout funds are also common fund types investors are considering

Fig. 3: Institutional Investors' Views on the Most Important Benefits of Buying Fund Interests on the Secondary Market

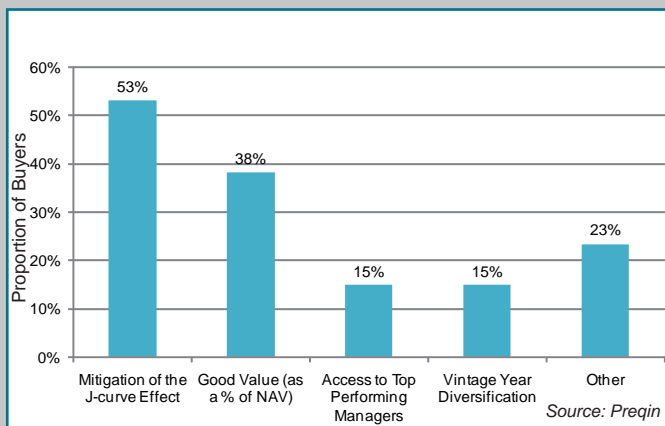
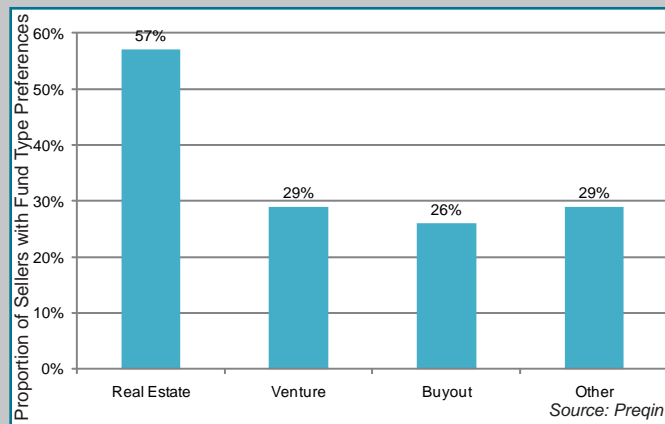


Fig. 4: Investor Selling Preferences by Fund Type



selling; 29% stated a desire to sell interests in venture funds and 26% are interested in selling stakes in buyout funds.

The secondary market can be used to sell off not only poor performing fund types but also funds of poor performing vintage years. While only 9% of possible secondary market sellers stated a particular vintage of fund they are looking to exit via a secondary market sale, 77% of them said they would like to sell their interests in funds with a 2006 vintage. Furthermore, 62% of possible sellers are looking to sell 2005 vintage funds, and 46% are looking to reduce their exposure to funds with a 2007 vintage.

Summary

Preqin's research into investors' current attitudes towards the secondary market demonstrates that, due to several motivational factors, investors remain interested in buying private equity fund interests on the secondary market and consider it as an area of growing importance within their overall investment strategies. As a considerable portion of investors are also considering placing portfolios of fund interests for sale on the secondary market, the market has the potential for significant growth over the next 12-24 months. Despite the relatively small number of deals taking place in 2009, investors have remained positive about the secondary market and expect an increase in activity over the next 12-24 months.

Like this report?

You can sign up to receive Private Equity Spotlight, Preqin's monthly newsletter containing the latest research on private equity investors, performance and fund managers.

Visit: www.preqin.com/spotlight

Email: info@peqin.com

London: +44 (0)20 7065 5100

New York: +1 212 808 3008

Join our group on



search for Preqin

Follow us on:



www.twitter.com/peqin



Private Equity • Real Estate • Hedge Funds • Infrastructure

Preqin provides information, products and services to private equity firms, fund of funds, investors, placement agents, law firms, advisors and other professionals across the following main areas:

- > Fund Performance
- > Fundraising
- > Fund Manager Profiles
- > Investor Profiles
- > Fund Terms
- > Compensation and Employment
- > Buyout Deals

Available as:

- > Hard Copy Publications
- > Online Database Services
- > Consultancy and Research Support
- > Tailored Data Downloads

For more information and to register for a demo, please visit:

www.preqin.com/privateequity