

Mega Fund Drives Record Private Capital Secondaries Fundraising in H1 2016

\$10.8bn Ardian Secondary Fund VII accounts for majority of \$14bn in investor commitments seen in H1 2016, an all-time high

Preqin's update on the private capital secondaries market in Q2 finds that the quarter saw the largest ever secondaries fund close, driving the aggregate capital raised in the first half of 2016 to an H1 fundraising record. Q2 saw two secondaries funds raise a combined \$11bn, with Ardian Secondary Fund VII becoming the largest ever fund having secured \$10.8bn in investor commitments; the vehicle is \$700mn larger than the previous record, set by Lexington Capital Partners VIII in April 2015. The \$14bn raised by funds closed in H1 2016 is up on the same period last year, when secondaries funds raised a combined \$13bn. However, the five funds closed so far in 2016 represents a five-year low, well down on the record 17 vehicles that closed in H1 2014.

Perhaps buoyed by the success of these firms in attracting ever-larger levels of investor commitment, the number of secondaries funds being marketed to investors has risen to a new high at the start of Q3 2016. There are currently 41 secondaries funds in market globally, seeking a total of \$22bn. Although the number of funds is a record high, the capital targeted is lower than the level that secondaries funds were seeking at the start of 2013, 2014 and 2016. The vast majority of these funds are seeking \$1bn or less (84%), but 7 funds are seeking more than \$1bn, as a small group of experienced managers seek to raise larger and larger funds.

Other Key Secondaries Facts:

- **Average Fund Size:** Secondaries vehicles closed in recent years have continued to grow in size, with the **average size of funds closed in H1 2016 reaching a record \$2.8bn**. This marks the third annual increase in average fund sizes, up from \$704mn for funds closed in 2013.
- **Largest Funds:** **Three of the five largest secondaries funds ever raised have closed in 2015 or 2016.** Two each of the top five largest funds are managed by Ardian and Lexington Partners, with Coller Capital managing the other.
- **Fund Performance:** Secondaries funds compare favourably with other strategies in terms of median net IRR; since 2008, **secondaries funds have outperformed buyout, venture capital, real estate and infrastructure funds** in every vintage year apart from 2009.
- **Secondaries Buyers:** Preqin tracks 890 potential buyers in the secondary market as of Q2 2016; **44% of these buyers are located in North America, while 40% are based in Europe.** Private equity fund of funds managers form the largest group of potential buyers, representing over a fifth (21%) of the total.
- **Secondaries Sellers:** Of the 610 potential sellers tracked by Preqin, **private equity fund of funds managers and public pension funds make up the largest group of sellers**, accounting for 13% and 12% of the total respectively. Europe is home to 44% of sellers, while 40% are headquartered in North America.

To access further information and analysis, please see the report below:

<https://www.preqin.com/docs/reports/Preqin-Secondary-Market-Update-Q2-2016.pdf>

Comment:

"The first half of 2016 has seen record levels of fundraising in the secondaries market, reflecting the increased attractiveness of the secondaries market as investors become more familiar with the industry. The record number of funds in market shows that fund managers are also increasingly viewing the secondary market as an attractive industry. However, while there are a growing number of new managers launching funds, the most established players are raising ever larger vehicles, which might attract the majority of investor commitments."

Although fund of fund managers remain the largest proportion of both secondary stake buyers and sellers, it is notable that nearly all investor types are represented on both sides of the market. As the secondary market becomes an increasingly common tool for active portfolio management, and with a large amount of capital remaining in funds that are approaching the end of the lifespan, we may see even more buyers and sellers become active market participants."

Patrick Adefuye – Head of Secondaries Products, Preqin

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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