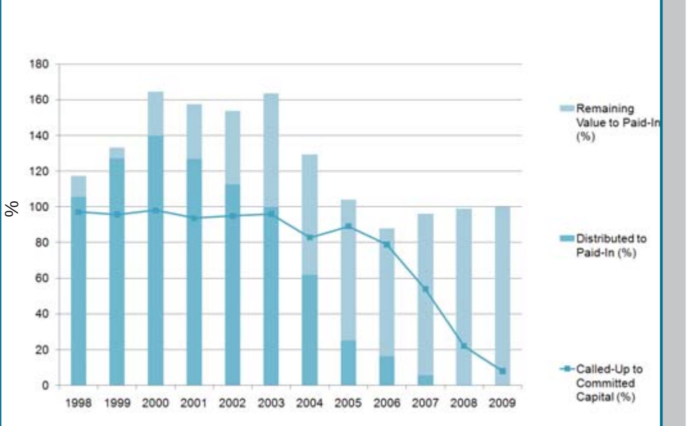
Preqin Research Report
Secondaries Funds

Preqin has recently introduced a new performance benchmark for secondaries funds, aiming to bring increased transparency to the private equity market. With about 200 funds raised historically, secondaries is a relatively small but growing sector within the private equity industry. Holding performance data for 120 secondaries funds, accounting for 79% of the aggregate capital raised by such funds, we have been able to calculate comprehensive benchmarks for the sector.

As shown in Fig. 1, secondaries funds of vintages 2000-2003 have produced the highest returns with multiples in excess of 1.50X. Funds of vintage 2006 and 2007 have fared the worst showing negative median returns at this point. Such funds will have completed secondaries transactions at the height of the market, when stakes in private equity funds were exchanged at a premium to net asset value but these funds are still relatively recent so have plenty of time to push back into positive territory. Funds of the most recent 2008 and 2009 vintages have only called 22% and 8% respectively, reflecting the relatively modest levels of transactions that have taken place over the last couple of years.

Fig. 1: Median Called Up, Distributed and Remaining Value Ratios of Secodaries Funds



Source: *Preqin*

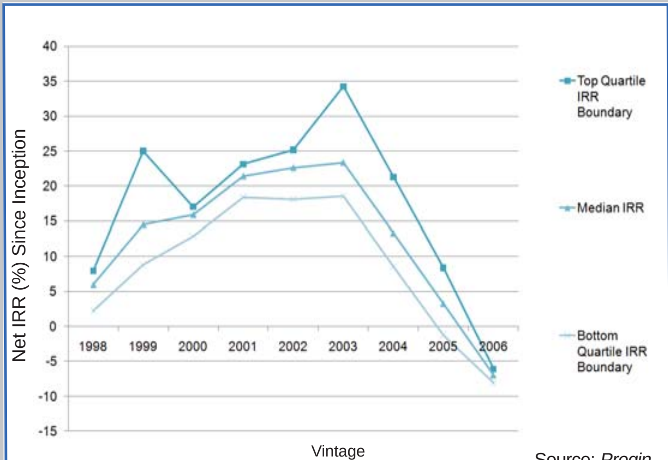
Preqin's Performance Benchmark module is available free to industry professionals and now includes benchmarks for secondaries funds. To find out more about this service, or to sign up, please visit:

www.preqin.com/benchmarks

Fig. 2 shows the median IRRs and the top and bottom quartile IRR boundaries for secondaries funds of vintages 1998-2006. IRRs have generally increased for each vintage year from 1998 to 2003, with vintage 2003 secondaries funds requiring an IRR of at least 34% to be ranked top quartile. The median IRR for each vintage year since has decreased. For the vintages shown, the bottom quartile IRR boundary only falls into negative territory for funds of vintage 2005 and 2006. Funds of vintage 2006 have both their bottom and top quartile boundaries in the red. These funds are still relatively early in their life cycle and are therefore unable to produce fully meaningful IRRs.

As the financial markets recover, and secondary market pricing improves, there should be a notable increase in activity across the secondary market. Many secondaries funds are currently sitting on a large amount of dry powder and will be looking to deploy such capital when the right opportunities arise.

Fig. 2: Median Net IRRs and Quartile Boudaries of Secondaries Funds By Vintage Year



Source: *Preqin*