



# PREQIN SECONDARY MARKET UPDATE

Q1 2017

# FOREWORD

Six secondaries funds held a final close in the first quarter of 2017; although this is the same number of fund closures as in Q4 2016, the \$13.6bn raised is the highest amount of any quarter. Four of the six vehicles closed raised \$1bn or more; the most established managers continue to be backed with more capital by investors.

The secondaries fundraising market is increasingly competitive with 48 funds seeking capital from investors, more funds than at any other time. Experienced managers are being joined by new managers to the space – with some pursuing niche strategies – as they seek to take advantage of perceived opportunities and positive investor sentiment towards secondaries as seen by recent fundraising successes.

Secondaries indeed continue to represent a safe bet for investors, with only one vehicle returning a negative IRR in the past 10 years.

With almost two-thirds of secondary fund managers recently surveyed indicating their intent to increase their spend in the secondary market over the course of 2017 compared to 2016, competition for deals will remain high. Managers may invest more in funds other than buyout funds and non-traditional deal types such as fund restructurings and direct secondaries.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit [www.preqin.com](http://www.preqin.com) or contact [info@preqin.com](mailto:info@preqin.com).

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## SECONDARY MARKET MONITOR

Preqin's Secondary Market Monitor is the industry's leading source of intelligence on the private equity, private real estate, infrastructure and private debt secondary fund markets. Get online access to information on potential buyers, sellers and intermediaries, secondaries fundraising, secondary transactions, and pricing.

Preqin's team of dedicated analysts is constantly contacting institutional investors and fund managers from around the world in order to ensure that the data we hold is up to date, reliable and complete.

Secondary Market Monitor gives you the vital intelligence and tools you need to decide and execute your strategy successfully in a rapidly evolving, non-transparent market.

Get in touch today to arrange a demo of Secondary Market Monitor: ✉: [info@preqin.com](mailto:info@preqin.com) | 🌐: [www.preqin.com/smm](http://www.preqin.com/smm)

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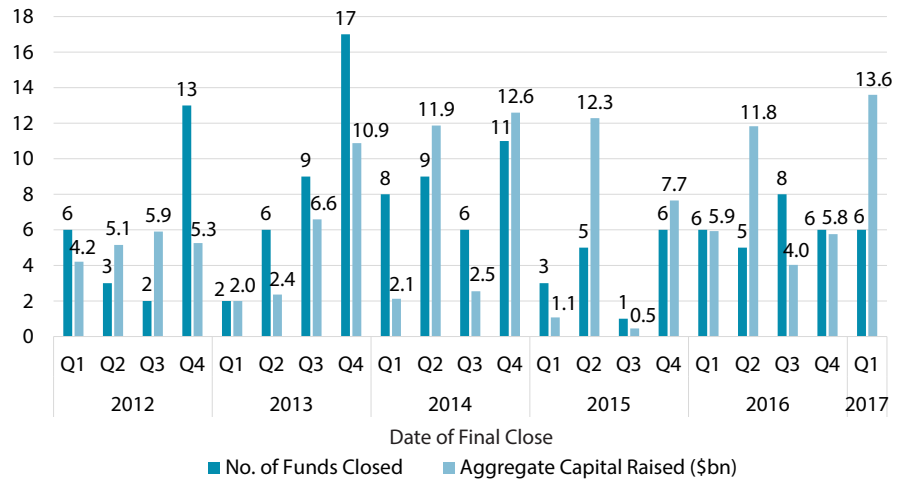


# FUNDRAISING

In Q1 2017, six secondaries funds raised a total of \$13.6bn – this is more than double the amount raised in the previous quarter, and a record amount for secondaries funds in any quarter (Fig. 1). The previous highest aggregate quarterly fundraise by secondaries vehicles was in Q4 2014, when \$12.6bn was raised.

The average size of funds closed in the quarter was \$2.3bn (Fig. 2), with three vehicles closing above \$1.5bn. The largest fund closed in Q1 2017 was Strategic Partners Fund Solutions’ Strategic Partners Fund VII, which raised a total of \$7.5bn, exceeding its target of \$5.5bn (Fig. 4). The vehicle’s predecessor raised \$4.4bn in 2014. It will target mature private equity funds, with around 75% allocated to buyout funds. Investors in the fund include Minnesota State Board of Investment, which has committed \$150mn, as well as Pennsylvania Public School Employees’ Retirement System,

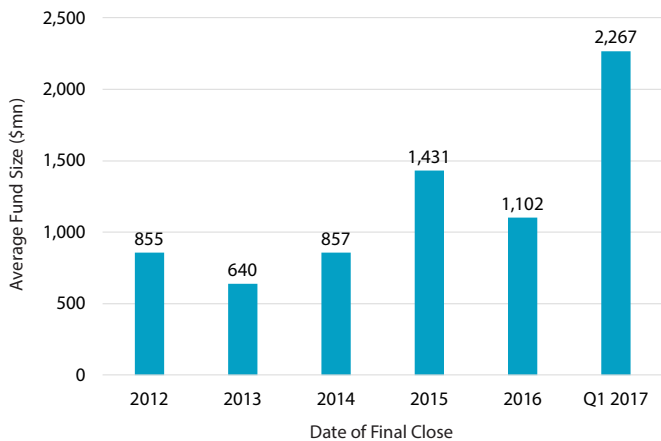
Fig. 1: Global Quarterly Secondaries Fundraising, Q1 2012 - Q1 2017



Source: Preqin Secondary Market Monitor

with a commitment of \$250mn. Strategic Partners Fund Solutions also recently – in Q3 2016 – held a close for a dedicated real estate secondaries vehicle (Strategic Partners VI RE) which raised \$1.3bn.

Fig. 2: Average Size of Secondaries Funds Closed, 2012 - Q1 2017



Source: Preqin Secondary Market Monitor

Fig. 3: 10 Largest Secondaries Managers by Total Capital Raised in the Last 10 Years

Firm	Location	Total Capital Raised in Last 10 Years (\$mn)
Ardian	France	31,445
Strategic Partners Fund Solutions	US	19,600
Lexington Partners	US	18,970
Goldman Sachs AIMS Private Equity	US	18,903
Coller Capital	UK	17,450
HarbourVest Partners	US	11,250
Partners Group	Switzerland	9,396
Landmark Partners	US	7,577
Neuberger Berman	US	6,167
LGT Capital Partners	Switzerland	5,700

Source: Preqin Secondary Market Monitor

Fig. 4: Secondaries Funds Closed in Q1 2017

Fund	Firm	Type	Fund Size (\$mn)	Final Close Date
Strategic Partners Fund VII	Strategic Partners Fund Solutions	Secondaries	7,500	Jan-17
NB Secondary Opportunities Fund IV	Neuberger Berman	Secondaries	2,500	Jan-17
Hamilton Lane Secondary Fund IV	Hamilton Lane	Secondaries	1,700	Feb-17
Committed Advisors Secondary Fund III	Committed Advisors	Secondaries	1,058	Feb-17
Cubera VIII	Cubera Private Equity	Secondaries	431	Feb-17
HarbourVest Real Assets Fund III	HarbourVest Partners	Infrastructure Secondaries	366	Feb-17

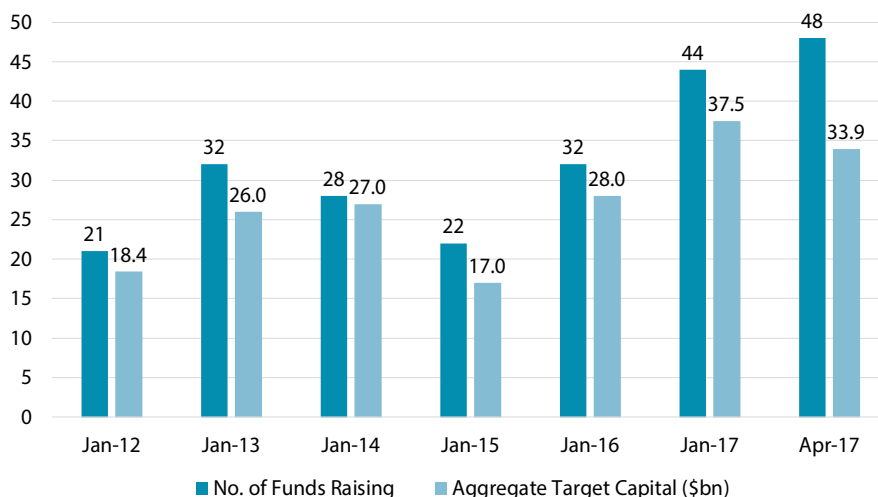
Source: Preqin Secondary Market Monitor

# FUNDS IN MARKET

There are 48 secondaries vehicles seeking capital as at the start of Q2 2017, which represents more funds in market than at any other point (Fig. 5). These funds are seeking an aggregate \$34bn. The relatively large number of funds seeking capital is a combination of managers returning to the market following fundraises in 2014 as well as new managers entering the market in a sign of a maturing market.

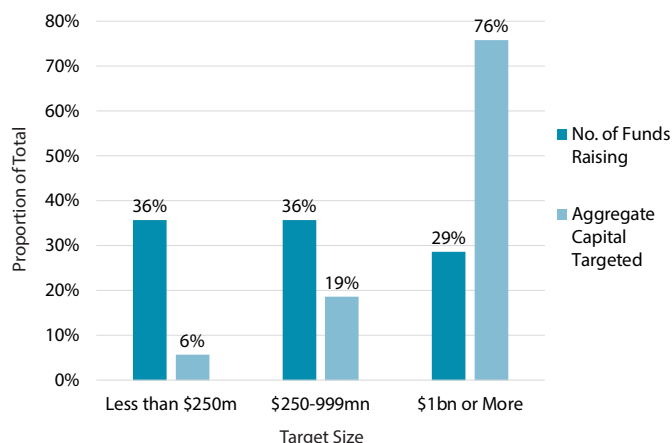
As shown in Fig. 6, funds seeking less than \$1bn represent 72% of secondaries funds in market. However, funds seeking \$1bn or greater represent more than two-thirds (76%) of the aggregate capital sought.

Fig. 5: Secondaries Funds in Market over Time, 2012 - 2017



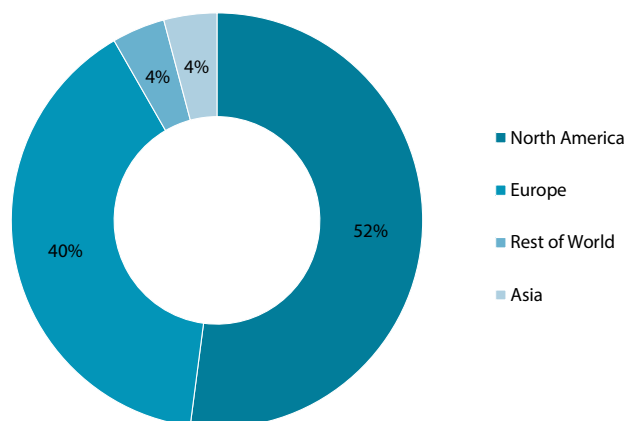
Source: Preqin Secondary Market Monitor

Fig. 6: Secondaries Funds in Market by Target Size (As at April 2017)



Source: Preqin Secondary Market Monitor

Fig. 7: Secondaries Funds in Market by Manager Location (As at April 2017)



Source: Preqin Secondary Market Monitor

Fig. 8: 10 Largest Secondaries Funds in Market (As at April 2017)

Fund	Firm	Target Size (\$mn)	Status	Location	Type
Vintage Fund VII	Goldman Sachs AIMS Private Equity	5,000	Third Close	US	Secondaries
Landmark Equity Partners XVI	Landmark Partners	4,700	Raising	US	Secondaries
Crown Global Secondaries IV	LGT Capital Partners	2,500	First Close	Switzerland	Secondaries
AlpInvest Secondaries Fund VI	AlpInvest Partners	2,000	Raising	Netherlands	Secondaries
Landmark Real Estate Fund VIII	Landmark Partners	2,000	Raising	US	Real Estate Secondaries
Lexington Middle Market Investors IV	Lexington Partners	2,000	Raising	US	Secondaries
Pomona Capital IX	Pomona Capital	1,750	Raising	US	Secondaries
ASF VII Infrastructure	Ardian	1,500	Raising	France	Infrastructure Secondaries
Adams Street Global Secondary Fund VI	Adams Street Partners	1,200	Raising	US	Secondaries
AESF VI	Ardian	1,000	Raising	France	Secondaries
ICG Strategic Secondaries Fund II	ICG Strategic Secondaries	1,000	Third Close	UK	Secondaries
Portfolio Advisors Secondary Fund III	Portfolio Advisors	1,000	Second Close	US	Secondaries

Source: Preqin Secondary Market Monitor

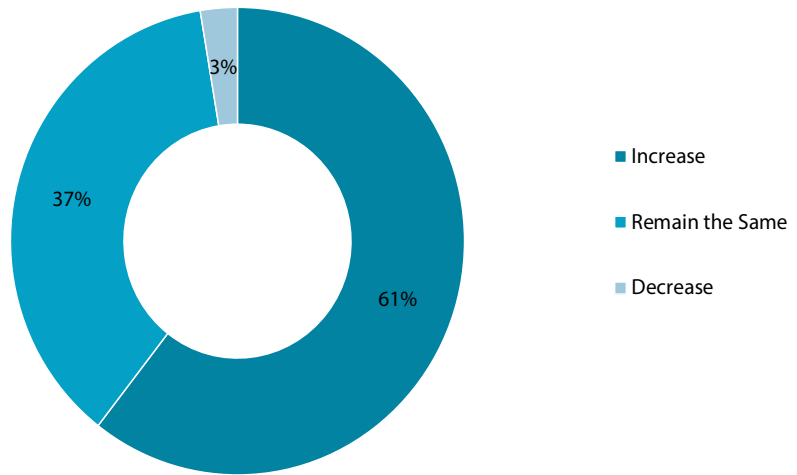


# BUYERS, SELLERS AND TRANSACTIONS

In January 2017, Preqin surveyed 40 active buyers of fund interests on the secondary market regarding their activity in 2016 and plans for 2017. Asked about their planned level of activity in 2017, almost two-thirds indicated that they anticipated spending more capital on secondaries than the previous year (Fig. 9).

They will buy from a diverse pool of investors as shown in Fig. 10, which illustrates the types of firm that have indicated to Preqin an interest in selling fund interests on the secondary market in the next 12-18 months. Overall, 731 investors are planning to do so as at Q1 2017. Fund of funds managers – including private equity, real estate and real assets fund managers – are the most populous of these potential sellers, representing 17% of the total. Fund of funds managers have shown a willingness in recent years to take advantage of strong pricing in the secondary market to liquidate their vehicles and return capital to investors.

**Fig. 9: Secondary Buyers' Expected Change in Value of Transactions Completed in 2017 Compared to 2016**



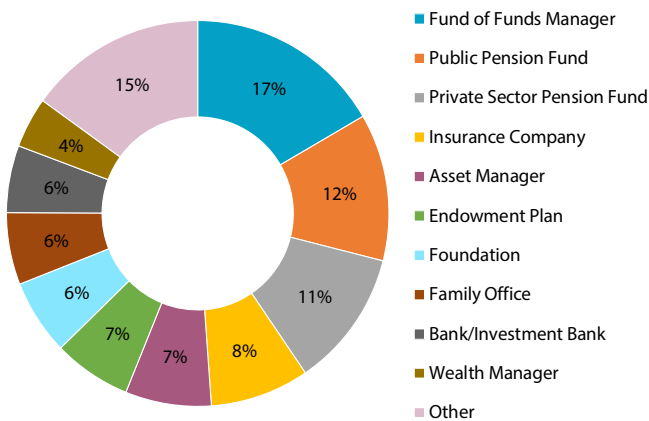
Source: Preqin Secondary Fund Manager Survey, January 2017

The majority (52%) of funds sold in Q1 2017 were buyout funds (as shown in Fig. 11), but a variety of other fund types were sold including natural resources and real estate funds. The best priced fund sold in the quarter was the 2010 vintage buyout

fund Oaktree Power Opportunities Fund III, which sold at par (to June 2016 NAV).

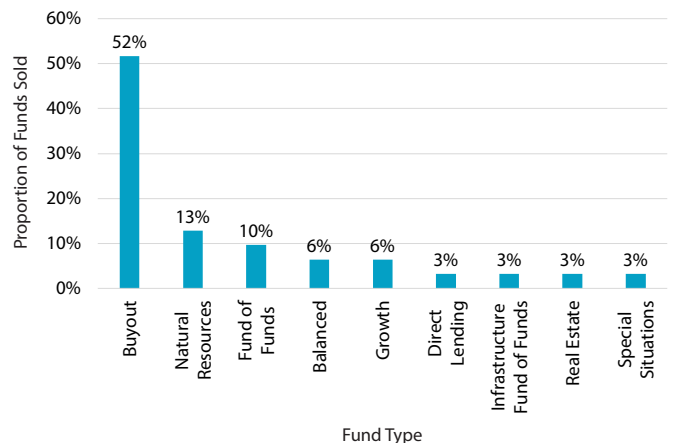
A sample of transactions completed in Q1 2017 – including Partners Group's sale of a portfolio for \$1bn – can be seen in Fig. 12.

**Fig. 10: Potential Secondary Market Sellers by Type**



Source: Preqin Secondary Market Monitor

**Fig. 11: Secondaries Funds Sold in Q1 2017 by Type**



Source: Preqin Secondary Market Monitor

**Fig. 12: Sample Secondaries Transactions in Q1 2017**

Seller	Buyer	Funds Sold	Aggregate Transaction Value (\$mn)
Partners Group	Goldman Sachs AIMS Private Equity	BC European Cap VII, BC European Cap VIII, Candover 2005, Cinven IV, Duke Street Capital VI, PAI Europe V	1,000
Spice Private Equity	-	Baring Asia Private Equity Fund VI, Carlyle Sub-Saharan Africa Fund, Helios Investors III, Navis Asia Fund VII, Northstar Equity Partners IV	31
Dallas Police & Fire Pension System	HarbourVest Partners	Merit Energy Partners E, Merit Energy Partners F-II, Merit Energy Partners G, Merit Energy Partners H, Ashmore Global Special Situations Fund IV, Oaktree Loan Fund 2x, Oaktree Power Opportunities Fund III	43

Source: Preqin Secondary Market Monitor

# PERFORMANCE

Secondaries funds continue to show themselves to be a safe investment; as seen in Fig. 13, only one vintage in the last 10 years has a negative minimum IRR. Only one fund in that period is currently returning a minimum net IRR, and overall, only three secondaries vehicles have a negative net IRR at present.

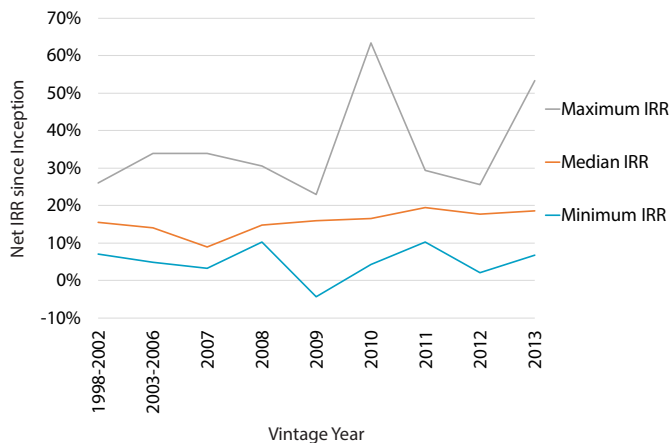
Secondaries funds typically have shorter holding periods and, with funds purchased

at a discount, provide attractive IRRs relative to other asset classes. This can be seen in Fig. 14, which shows that the median IRR for secondaries vehicles exceeds the median IRR for all private capital funds in aggregate across all vintages. Secondaries funds typically have shorter investment durations compared to other private capital strategies. Despite this, secondaries funds currently exceed all private capital funds across all vintages in

terms of median net multiples, as can be seen in Fig. 15.

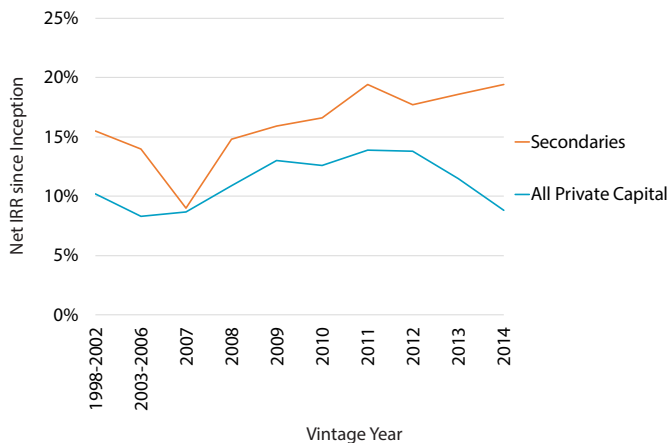
When asked what multiples they anticipate from investments made in 2016, the largest proportion (43%) of secondary buyers responding to our January 2017 survey expect multiples between 1.3X and 1.5X (Fig. 16), which is roughly in line with the average for previous vintages.

**Fig. 13: Secondaries Funds - Minimum, Median and Maximum Net IRR by Vintage Year**



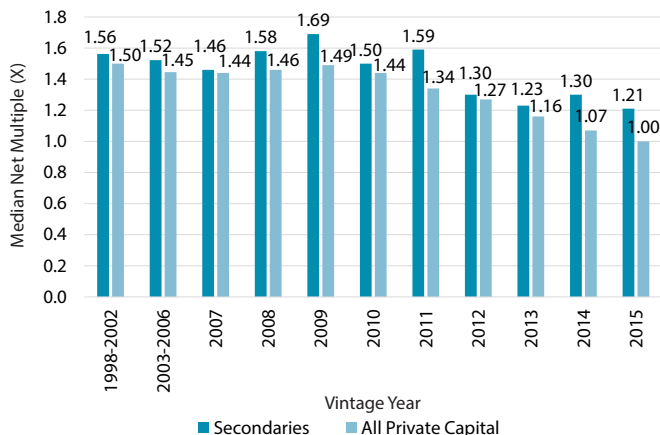
Source: Preqin Secondary Market Monitor

**Fig. 14: Median Net IRR by Vintage Year: Secondaries vs. Private Capital**



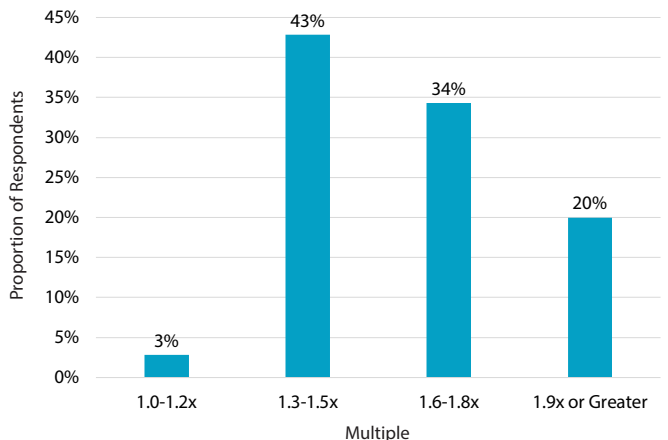
Source: Preqin Secondary Market Monitor

**Fig. 15: Secondaries Funds - Median Net Multiples by Vintage Year**



Source: Preqin Secondary Market Monitor

**Fig. 16: Secondary Buyers' Expected Net Multiple from Deals Completed in 2016**



Source: Preqin Secondary Fund Manager Survey, January 2017

**Identify** potential buyers and sellers of fund interests

**Benchmark** performance of secondaries funds

**Analyze** trends in secondaries fundraising and transactions

**Obtain** indicative pricing for funds of interest

**Search** for secondary intermediaries



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