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# Secondary Market for Alternative Assets: A Seller's Market

August 2014

## Secondaries Fundraising

We analyze the growth in secondaries fundraising in recent years.

## Top Secondaries Managers

We take a look at the top secondaries fund managers by uncalled capital.

## Pricing

We examine trends in the premiums and discounts at which listed private equity vehicles trade.

## Investor Preferences

What types of fund interests are investors looking to purchase on the secondary market?



**Plus** Special Guest Contributor:  
Michael Hacker, **AlpInvest**



# Secondary Market for Alternative Assets: A Seller's Market

Secondary market activity has continued apace in 2014 so far, with various forecasts suggesting that activity is likely to reach record levels by the end of the year. This Preqin Investor Network report takes a closer look at the factors behind this level of activity, and what this means for holders of private equity, infrastructure and real estate fund interests.

## Transactions and Fundraising

The glut of completed secondary market transactions can be largely attributed to the pressure created on the demand side, with ample amounts of capital committed to dedicated secondaries funds in recent years. The rationale for investor interest in secondaries funds lies in the belief that opportunities exist to acquire attractive private equity assets from banks and other financial institutions as well as large pension funds seeking to pare their investment portfolios.

The size of funds being raised seems geared towards large portfolio acquisitions; although the number of secondaries funds raised annually has not changed dramatically, more capital is being committed to funds raised by these dedicated secondaries players, with the average secondaries fund reaching as high as \$1.3bn in 2012.

Looking at uncalled capital as a proxy for the investment capacity of a firm (acknowledging that for secondaries funds, it includes capital that may be used to fund future calls for already completed secondaries transactions) suggests that there remains significant amounts of dry powder to be funnelled into purchases of fund interests on the secondary market.

**Fig. 1: Annual Secondaries Fundraising, 2006 - 2014 YTD (As at 7 July 2014)**



Source: Preqin Secondary Market Monitor

## Key Findings

- 2012 to 2014 YTD is the most consistent fundraising period in recent years for secondaries, with a combined total of \$55bn raised so far.
- The number of secondaries funds raised annually in the last five years has remained fairly steady, ranging between 19 and 23.
- The top 10 managers of secondaries funds by uncalled capital have an aggregate \$40bn available to invest.

**Fig. 2: Top 10 Secondaries Fund Managers by Uncalled Capital (As at 31 July 2014)**

Firm	Firm Location	Uncalled Capital (\$bn)
Ardian	France	11.8
Lexington Partners	US	7.7
Goldman Sachs AIMS Private Equity	US	5.3
Coller Capital	UK	4.1
HarbourVest Partners	US	2.5
Strategic Partners Fund Solutions	US	2.1
Partners Group	Switzerland	1.9
LGT Capital Partners	Switzerland	1.8
Neuberger Berman	US	1.5
Pomona Capital	US	1.4

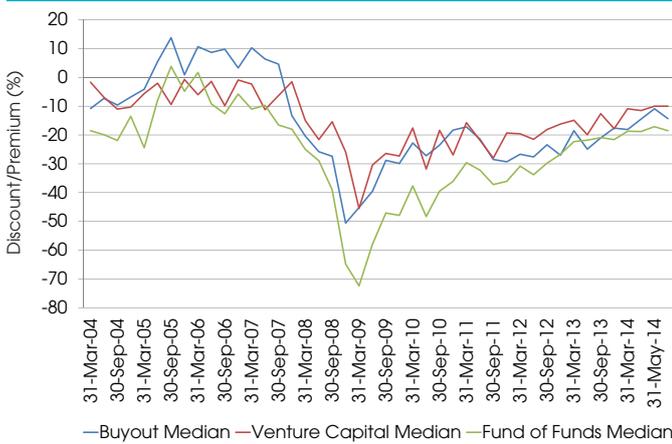
Source: Preqin Investor Network

## Did You Know?

In April 2014, Ardian closed the largest amount of capital ever raised for a secondaries fund – \$9bn for Ardian Secondary Fund VI. To find out how Ardian is likely to deploy this capital, [login](#) to Preqin Investor Network to view its profile (and those of the largest secondary buyers), or [register](#) for free access to the Network. Review details on its investment plans and preferences, as well as a sample of historical transactions.

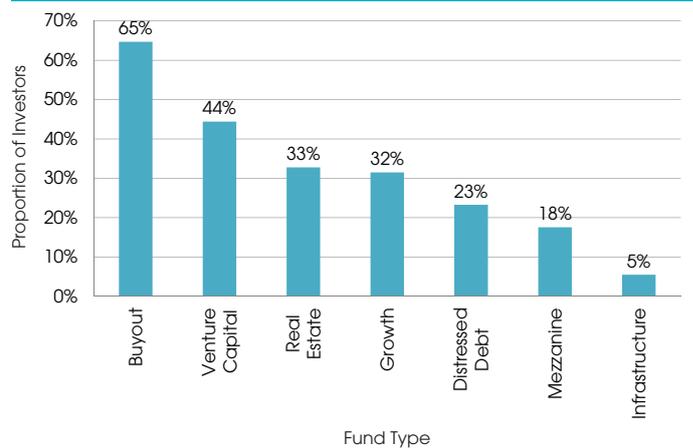


**Fig. 3:** Listed Private Equity Discount/Premium to NAV over Time



Source: Preqin Investor Network

**Fig. 4:** Investors' Buying Preferences By Fund Type



Source: Preqin Investor Network

Pricing and Investor Preferences

Preqin Investor Network actively tracks the premiums and discounts at which listed private equity vehicles trade, as these provide a good proxy for the price at which secondary fund interests trade. The impact of large amounts of capital chasing alternative assets in the secondary market has meant that the value of the average asset has been trending upwards. Discounts at which listed private equity funds are trading are now at their narrowest levels post-economic crisis, as is widely believed to be the case for the private markets for alternative assets.

The pricing impact is further exacerbated by a growing number of non-traditional LPs taking an interest in buying into funds on the secondary market, adding competitive pressure on some of the smaller portfolio and single transaction deals. In Preqin Investor Network's survey of investors conducted earlier this year, 48% indicated that the secondary market was of core or growing importance to their private equity portfolios. Reasons cited by investors for buying include the mitigation of the J-curve effect experienced in investing in private equity funds, and the opportunity to gain access to the best performing managers.

Preqin Investor Network profiles 395 investors interested in directly acquiring fund stakes on the secondary market. These firms add competitive pressure in auctions, improving the price outcome. They can place greater value on a fund interest if they are already invested in the fund and eager to increase their exposure, with time to completion reduced given their knowledge of the fund and certainty of GP approval.

When considering preferences by fund type, notable investor demand is witnessed across a wide variety of funds, with buyout funds in the highest demand (as seen in Fig. 4). There is a small but growing interest in acquiring infrastructure funds on the secondary market.

Key Findings

- Secondaries prices are at their highest level post-financial crisis (measured as a discount to NAV).
- Investor demand exists across a wide variety of fund types.
- Buyout funds are in the highest demand, with almost two-thirds of investors interested in acquiring these on the secondary market.
- A third of buyers are interested in buying real estate fund interests on the secondary market.

Outlook

The high level of pricing presents great opportunities for holders of private equity assets. With some of the most highly sought-after funds selling at premiums to NAV, the opportunity exists to lock in the strong performance experienced by private funds in recent years. Potential sellers can transact with secondary fund of funds managers or fellow LPs that may be seeking to access particular managers to consolidate or improve the risk/return profile of their fund portfolio.

Investors can also get in touch with intermediary firms which are experienced in assisting investors with selling on the secondary market. Secondary intermediaries provide services such as identifying the most marketable funds in an investor's portfolio, developing an effective sales strategy, setting price expectations, identifying potential buyers and managing an auction process, as well as dealing with the administrative processes involved in the transfer of fund interests.

Did You Know?

California Public Employees' Retirement System (CalPERS) has set up a committee to review potential secondary market purchases. Keep track of the latest news on the secondary market and secondary buyers through Preqin Investor Network - visit [www.preqin.com/pin](http://www.preqin.com/pin) to login or gain access to this free service.



# A Secondary Buyer's Perspective

- Michael Hacker, Managing Director, AlpInvest



## How has your level of activity changed in the past 12 months compared to the 12 months prior to that?

AlpInvest has deployed capital in the secondary market at a very consistent pace over the past five years and continues to target an annual deployment of \$1.0bn to \$1.5bn in secondaries. While we have seen the volume of secondary opportunities actually continue to increase steadily in 2013 and again in 2014, the composition of the deal flow has been more variable.

## What proportion of deals you are involved in are intermediated?

We find that intermediaries can play an important role working with sellers in the secondary market. Since the first intermediaries were formed about 10 years ago, the number of these players has grown substantially to the point where we believe that over half of all secondary volume is intermediated in some way. Today, our experience shows that many LPs choose to hire an advisor, particularly to organize an auction process for the sale of a large portfolio of fund interests, and AlpInvest has sourced a significant number of investment opportunities through these intermediated processes. However, an important component of AlpInvest's strategy is to identify opportunities that are not broadly available to all secondary buyers. These transactions tend to be negotiated directly with the seller, and an intermediary (if any) serves primarily an advisory or confirmatory function.

## Are you seeing more competition from non-traditional LPs in auctions?

For several years we have seen institutional LPs trying to increase their level of direct activity in the secondary market, and we continue to see LPs of all stripes participating in the market, albeit at the margins. We have regularly seen LPs participate in secondary auctions; however, we find it is far less common to see these investors successfully navigate an auction process and prevail against dedicated secondary investors. In our experience the average LP approaches the secondary market opportunistically and we believe these LPs do not have the resources necessary to source, conduct due diligence and execute secondary transactions on a meaningful scale. Although a small number of large LPs have formed dedicated teams to pursue secondaries, we believe most LPs pursue secondaries on an indirect basis through an existing investor in the market.

## What impact is this having on pricing of the various fund types?

We believe that demand in the secondary market has increased as a result of an increased amount of dedicated capital raised

by new and existing secondary investors as well as capital from non-traditional buyers, including LPs. Since mid-2013, despite the increased supply of assets in the secondary market, we have seen increased competition for assets and higher prices. The focus of traditional LPs in the secondary market has often been on LP interests in US buyout funds managed by brand-name managers. Competition can be particularly noticeable in intermediated auctions for small to medium sized portfolios of these LP interests. However, these traditional LPs have not been a significant factor in large or complex transactions, where AlpInvest has historically been most active.

## What types of institutions are you seeing selling fund interests?

The seller universe in the private equity secondary market has been broad for some time. We believe that an increasing proportion of investment managers view the secondary market as an important portfolio management tool and that most sizeable institutional investors have at least contemplated a secondary transaction at some point. Financial institutions have been a very steady source of deal flow for AlpInvest for many years, as well as public pensions, endowments and funds of funds.

## Do you expect the current level of activity in the market to be sustained?

Because the volume in the secondary market has continued to set new records each year, it is always difficult to predict whether this trend of sustained growth can continue. However, our expectation for 2014 is that volume will once again increase year-over-year. We believe that the increased base of private equity assets outstanding, combined with an increasingly broad acceptance of the secondary market as a tool for portfolio management purposes, may point toward a sustained high level of volume for the foreseeable future.

### AlpInvest Partners

AlpInvest is a global private equity investor with \$52bn of assets under management as of March 31, 2014. AlpInvest's activities cover a broad range of private equity investing, including primary fund commitments, secondary purchases and co-investments. The firm's investments span the full spectrum of private equity, including buyouts, venture capital, growth capital, mezzanine, and distressed.

[www.alpinvest.com](http://www.alpinvest.com)



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### Preqin Investor Network

Are you tasked with pre-screening private equity, real estate or infrastructure fund opportunities?

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- **Detailed management and performance fee information**, deep dive fund strategy and investment team background on request.

Having used the Network to find and assess potential opportunities, you can request, analyze and compare detailed fund information.

#### Introducing Secondaries Data on Preqin Investor Network

- **Find contact information** for the largest secondary buyers
- **Keep track of secondaries pricing**
- **Keep on top of secondaries news**

To find out more about how **Preqin Investor Network** can help you, and to register for free, please visit: [www.preqin.com/pin](http://www.preqin.com/pin)

If you want any further information, or would like to request a demo of our products, please contact us:

#### New York:

One Grand Central Place  
60 E 42nd Street  
Suite 630  
New York  
NY 10165

**Tel:** +1 212 350 0100  
**Fax:** +1 440 445 9595

#### London:

Equitable House  
47 King William Street  
London  
EC4R 9AF

**Tel:** +44 (0)20 7645 8888  
**Fax:** +44 (0)87 0330 5892

#### Singapore:

One Finlayson Green  
#11-02  
Singapore 049246

**Tel:** +65 6305 2200  
**Fax:** +65 6491 5365

#### San Francisco:

1700 Montgomery Street  
Suite 134  
San Francisco  
CA 94111

**Tel:** +1 415 835 9455  
**Fax:** +1 440 445 9595

**Email:** [info@peqin.com](mailto:info@peqin.com)  
**Web:** [www.preqin.com](http://www.preqin.com)

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