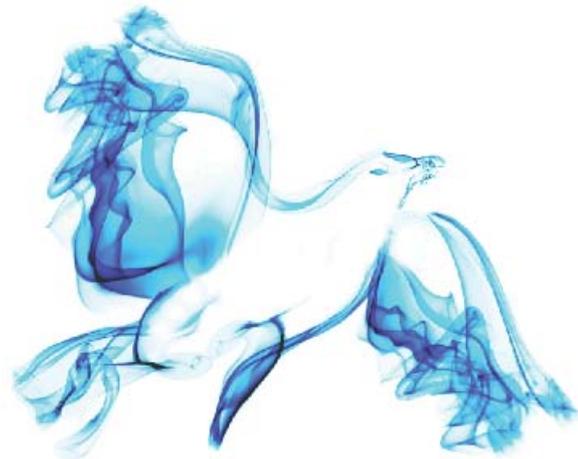


Preqin Special Report: Secondary Market Outlook

March 2011



Methodology:

Preqin, the alternative assets industry's leading source of data and intelligence, welcomes you to Secondary Market Outlook, a look into secondary market buyers and sellers, their views of the market and the outlook for the secondary market in the year ahead.

Secondary Market Outlook has drawn upon Preqin's Secondary Market Monitor, the online secondary service which tracks likely buyers and sellers of private equity and private equity real estate fund interests, providing an invaluable tool for secondary market participants. Preqin's team of dedicated analysts are in continuous contact with 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. The database contains profiles for over 590 secondary market buyers and over 240 sellers. It also contains over 1,400 additional possible secondary market sellers that are no longer investing, are over-allocated to the private equity and real estate asset classes, or have put their private equity investments on hold.

We hope that you find the information included within this report useful and we welcome any feedback or suggestions you may have for future editions.

Contents:

Secondary Market Overview	p. 3
Secondary Market Sellers of 2011	p. 4
Who Are The Future Secondary Market Sellers?	p. 5
Traditional Secondary Market Buyers	p. 6
Institutional Investor Appetite for Secondary Investments	p. 7
Secondary Market Outlook for 2011 and Beyond	p. 8
Secondary Market Monitor	p. 9

Secondary Market Overview

Secondary market deal flow during 2010 saw a marked improvement on levels of activity in 2009. With reports of a considerable number of secondary market deals completing throughout the course of the year, it is estimated that secondary market deal volume reached approximately \$20 billion in 2010.

The major factor restricting the flow of activity in 2009 was the wide gap between bid prices and fund net asset values (NAVs). As public equities improved considerably throughout 2009, many investors were less inclined to sell off their private equity investments at such a discount. Despite the decrease in discounts to NAV that resulted, buyers' interest for purchasing private equity fund stakes on the secondary market persisted due to their awareness of the other benefits of secondary purchases. The alignment of buyer and seller expectations of secondary market prices over the past year has played a major role in the growth of deal flow and resulted in a number of large deals completing in 2010:

- In April 2010, Bank of America sold a \$1.9 billion portfolio of private equity fund interests to AXA Private Equity, representing one of the largest private equity secondary market transactions to date. The transaction involved a mature portfolio as approximately 60% of commitments had already been called down. It consisted of 90% buyout funds, of which 30% were considered large funds.
- In July 2010, Lexington Partners purchased a portfolio of Citigroup's proprietary investments in its funds of funds, mezzanine funds, feeder funds and co-investment funds. StepStone Group took over the management of funds.
- Public Sector Pension Investment Board sold over \$1 billion of private equity fund stakes to CPP Investment Board in October 2010. It originally brought around \$2 billion of fund interests to the market, but eventually decided to remove the least funded commitments included in the offering. Cogent Partners acted as intermediary for the transaction.

Secondary market activity for 2011 also looks promising. There is still a healthy appetite for taking part in secondary transactions on both the buy and sell side among investors and several large secondary transactions have already taken place in early 2011. Deals in 2011 so far include Alberta Investment Management Corporation's (AIMCo) sale of an \$800 million portfolio of private equity fund stakes to Goldman Sachs Private Equity Group. The offering primarily consisted of interests in large buyout funds. AIMCo decided to sell off a portion of its private equity portfolio in order to reduce the fees it pays to outside managers and focus on making more direct investments. Another notable secondary deal in early 2011 involved Lexington Partners agreeing to acquire a £470 million private equity portfolio from subsidiaries of Lloyds Banking Group. Secondary market transactions are all listed in an archive on Preqin's Secondary Market Monitor database and can be downloaded for further analysis.

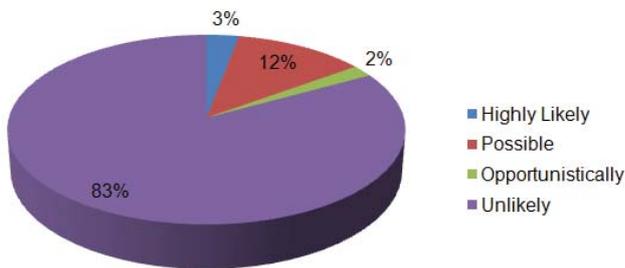
Secondary Market Sellers of 2011

Preqin’s team of dedicated analysts maintain contact with institutional investors worldwide in order to establish whether they plan to sell any of their private equity or real estate fund stakes on the secondary market.

The proportion of investors looking to sell interests in private equity or real estate funds is shown in Fig. 1. 17% of all LPs spoken to by Preqin show some level of interest for selling fund stakes on the secondary market within the next 24 months. Of these investors, 16% are considering doing so immediately and a further 65% are looking to do so within the next year.

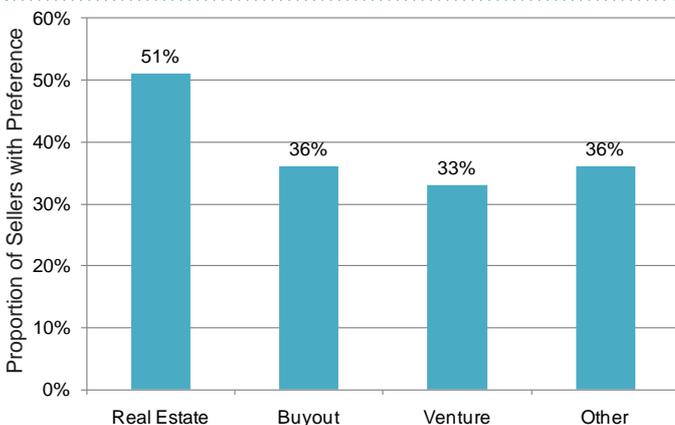
Investors use the secondary market to exit investments in private equity or real estate funds for a number of reasons.

Fig. 1: Proportion of Investors Likely to Sell Fund Stakes in the Next 24 Months



Source: Preqin

Fig. 2: Investor Selling Preferences by Fund Type



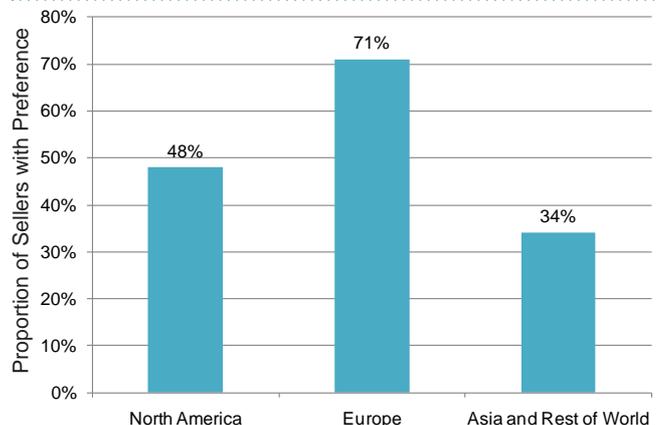
Source: Preqin

The capacity to generate liquidity, portfolio rebalancing and the ability to exit poor performing funds or non-core assets are all classed as important benefits of selling fund interests on the secondary market. More recently we are seeing institutions beginning to think about selling off fund stakes in order to comply with government regulations such as the Volcker Rule and Basel III.

When speaking with potential secondary market sellers, Preqin’s analysts establish which particular fund types and locations investors are looking to exit. While a considerable portion of investors have not yet decided which fund stakes they may sell on the secondary market, the fund types that investors are looking to sell are shown in Fig. 2. Private real estate is the most frequently stated fund type investors are looking to exit. Buyout and venture funds are also common fund types investors are looking to sell. Other fund types include distressed debt, mezzanine and fund of funds.

Investor selling preferences by a fund’s primary geographic focus are illustrated in Fig. 3. Investors are particularly interested in exiting European-focused funds, with 71% of potential sellers stating this as a selling preference. Secondary market buyers can view more detailed information on potential sellers’ plans for the year ahead, including the vintage years they are looking to exit, on Preqin’s Secondary Market Monitor database.

Fig. 3: Investor Selling Preferences by Location Focus



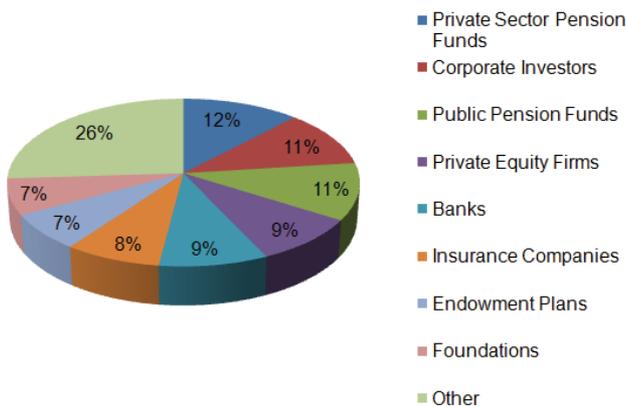
Source: Preqin

Who Are the Future Secondary Market Sellers?

Preqin's Secondary Market Monitor now contains profiles for over 1,400 additional potential secondary market sellers. Investors that are either no longer investing or over allocated to the private equity or real estate asset classes and investors that have put their private equity investments on hold are the prime targets for buyers of secondary fund interests and are now accessible on the Secondary Market Monitor.

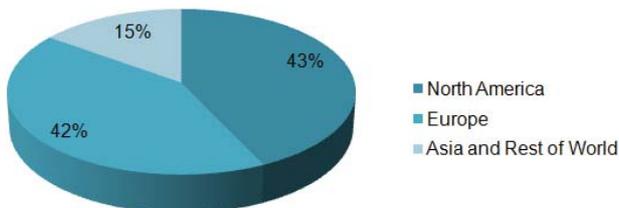
The potential secondary market sellers by firm type are shown in Fig. 4. Private sector pension funds form the largest portion of the possible secondary market sellers, comprising 12% of the potential sellers. Firm types such as foundations and endowment plans, which each make up a considerable 7% of all the possible sellers, are reliant on returns from investments and charitable donations so are therefore more

Fig. 4: Potential Sellers by Firm Type



Source: Preqin

Fig. 5: Potential Sellers by Location



Source: Preqin

susceptible to adverse economic conditions. They are more likely to have ceased making alternative investments and be in a position where they need to sell some fund investments. We are also seeing more banks coming to the market to offload illiquid and no-core assets after the financial downturn.

Potential secondary market sellers by location are shown in Fig. 5. North American investors represent the largest proportion of those LPs that are no longer investing, are over-allocated or have put their investments on hold, making up 43% of the possible sellers, with European investors following shortly behind comprising 42% of the potential sellers. Using the new seller search on the Secondary Market Monitor (Fig. 6), buyers can also look for possible secondary market sellers by the fund types, locations and vintages they have exposure to, so are able to access and contact the possible secondary market sellers which best match their needs.

Fig. 6: Preqin Secondary Market Monitor - Potential Seller Search

Investing In:	Private Equity	
Investor Status:	No Longer Investing	
Fund Types previously invested in:	Buyout	
Amend Search Criteria		
Firm	Firm Type	Location
A.P. Møller - Mærsk Group	Corporate Investor	Denmark
AA Capital Partners	Private Equity Fund of Funds Manager	US
AAC Capital Partners	Private Equity Firm (Investor)	Netherlands
Abbey National	Bank	UK
Abca Capital Private Equity	Private Equity Firm (Investor)	South Africa
AGF Pension & Life Assurance Scheme	Private Sector Pension Fund	UK
Agrupación Mutua del Comercio y de la Industria	Insurance Company	Spain
Akzo Nobel Pension	Private Sector Pension Fund	Netherlands
Albemarle Private Equity	Private Equity Firm (Investor)	UK
Alcoma	Foundation	US
Aldus Equity	Private Equity Fund of Funds Manager	US
Alecta Pensionsförsäkring	Private Sector Pension Fund	Sweden
All Souls College Oxford Endowment	Endowment Plan	UK
Allied Irish Banks	Bank	Ireland
ALM Brand Life Insurance Company	Insurance Company	Denmark
AmBank Group	Investment Bank	Malaysia
American International Reinsurance Company	Insurance Company	Bermuda
Azora Investment Co.	Private Equity Firm (Investor)	Japan
Arbeidsmiljøfondet	Foundation	Norway
Asset Value Investors	Asset Manager	UK
1 2 3 4 5 6 7 8 9 10 ...		
Number of Sellers Meeting Selection: 283		

Source: Preqin

Traditional Secondary Market Buyers

Preqin's team of analysts are also in continuous contact with managers of secondaries funds in order to ascertain their fundraising and investment activity.

Annual secondaries fundraising for 2005-2010 is shown in Fig. 7. \$22.8 billion was secured by dedicated secondaries funds that reached a final close in 2009 and a further \$10.8 billion in 2010, so there is currently a substantial amount of capital available to be invested in the secondary market. In addition to this, primary fund of funds managers which include an allocation to secondary market investments within their vehicles also have capital available to be deployed in the secondary market over the coming year.

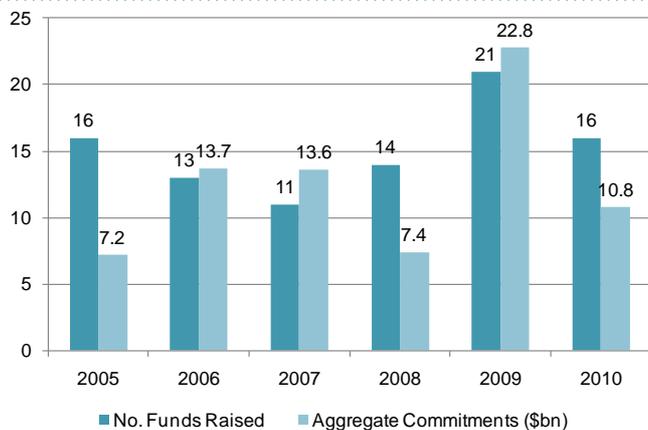
“Lexington Partners currently has the largest amount of estimated dry powder available...”

There are currently 33 secondaries funds on the road which will raise an aggregate \$24.3 billion if they all close on target. If there is an increased level of secondary market deal flow in 2011 as expected, fundraising could increase as managers draw down capital from existing vehicles and seek to raise capital for new secondaries funds.

Fig. 8, taken from the Secondary Market Monitor, shows the top 10 managers of secondaries funds by the amount of estimated dry powder they have available. Lexington Partners currently has the largest amount of estimated dry powder available for secondary investments, with around \$5.2 billion. The secondary

fund of funds manager is in the process of raising capital for the largest secondaries fund currently on the road. Lexington Capital Partners VII has a \$6 billion target and will look to purchase LP stakes in established global buyout, venture capital and mezzanine funds through secondary transactions. The fund will make investments ranging from \$1 million to \$1 billion. All data on historical and current secondaries fundraising is now available on the Secondary Market Monitor.

Fig. 7: Annual Secondaries Fundraising



Source: Preqin

Fig. 8: Top 10 Secondary Fund of Funds Managers by Estimated Dry Powder

Secondary Market Monitor - Buyers League Table

Show the top **All** located in **All Locations** based on **Estimated Dry Powder**

Firm	Firm Country	Estimated Dry Powder (mn USD)
Lexington Partners	US	5,258
Goldman Sachs Private Equity Group	US	4,022
Pantheon Ventures	UK	3,300
Landmark Partners	US	2,270
Partners Group	Switzerland	2,150
CS Strategic Partners	US	2,063
AloInvest Partners	Netherlands	2,053
AXA Private Equity	France	1,929
HarbourVest Partners	US	1,905
Collier Capital	UK	1,789

Source: Preqin

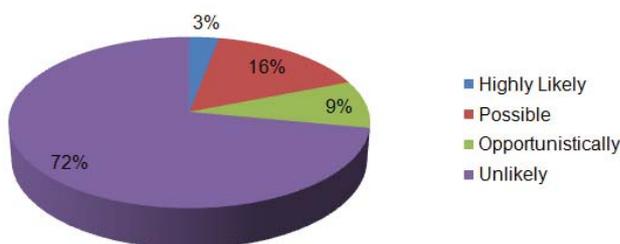
Institutional Investor Appetite for Secondary Investments

As well as the traditional secondary market buyers, such as secondary fund of funds managers and private equity fund of funds managers, there are also a large portion of institutional investors that are interested in taking advantage of the investment opportunities available in the secondary market.

Taken from the Secondary Market Monitor, the proportion of institutional investors looking to take advantage of the benefits of purchasing fund stakes on the secondary market is shown in Fig. 9. A notable 28% of institutional investors have shown some degree of interest in purchasing private equity or private real estate fund stakes on the secondary market within the next 24 months. Despite a decrease in the discount to NAV at which buyers can purchase funds on the secondary market over the past year, institutional investors have maintained an interest for taking part in secondary market transactions. The make-up of these investors by type of institution is shown in Fig. 10.

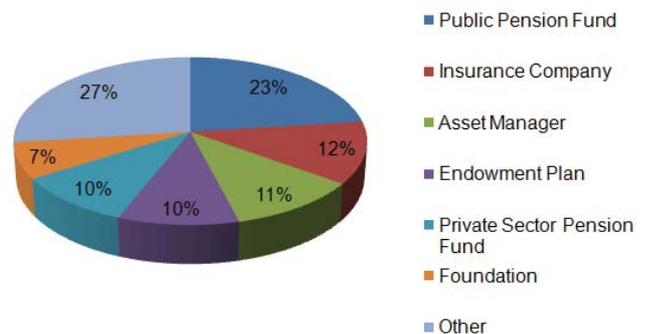
Institutional investors are looking to buy fund stakes on the secondary market for a number of reasons. A common motivation is mitigation of the J-curve effect. Buying a stake in a fairly mature fund enables investors to avoid the negative returns in the early years of investment and take advantage of the investment gains in the later stages as the underlying portfolios of companies mature. The ability to buy at a discount to NAV, vintage year diversification and the ability to access top performing managers also attract investors to the secondary market.

Fig. 9: Institutional Investor Appetite for Secondary Purchases



Source: Preqin

Fig. 10: Make-up of Investors Looking to Purchase Fund Stakes on the Secondary Market in the Next 24 Months



Source: Preqin

Secondary Market Outlook for 2011 and Beyond

Due to several motivational factors, investors' appetite for selling off stakes in private equity funds on the secondary market has grown over the past year. Secondary market pricing has reached levels at which potential sellers are happy, which has therefore resulted in more deals completing successfully.

Secondary market buyers have sustained an interest for purchasing private equity fund stakes on the secondary market, even after the discounts to NAV at which they can purchase secondary interests has decreased. Investors are better informed of the benefits associated with purchasing secondary fund stakes and are keen to take advantage of these benefits, even at an increased price. These benefits, coupled with the fact that there is also a lot of capital available to be deployed into the secondary market by the traditional secondary market buyers over the next 12-24 months, support predictions of increased deal flow.

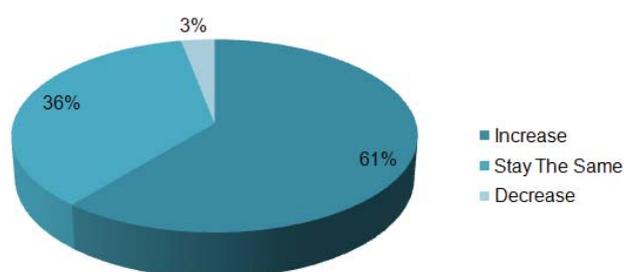
continue to use the secondary market as a valuable portfolio management tool in years to come.

If the balance in terms of supply, demand and pricing continues to improve, we are likely to see more notable secondary market transactions taking place going forward and further growth of secondary market deal flow well into 2011. As activity in the market increases, buyers, sellers and GPs need to make sure that they are well informed to successfully execute their strategy in a rapidly evolving, non-transparent market.

"...we are likely to see more notable secondary market transactions taking place going forward..."

A recent survey carried out for Preqin's upcoming 2011 Secondaries Review has revealed that investors have remained positive about activity on the secondary market, as a substantial 61% think that secondary market activity will increase over the next 12 months and a further 35% think that secondary market deal flow will stay at a similar level as 2010, as Fig. 11 shows. As there is still a positive attitude towards secondary investments among the investor community, it is likely that investors will

Fig. 11: Investors' Views on Secondary Market Activity for the Next 12 Months



Source: Preqin

Secondary Market Monitor

Unique, Industry-Leading Secondary Market Data

Preqin's Secondary Market Monitor is the industry's leading source of intelligence on the private equity and private real estate secondary fund markets. Key features of this powerful online service include:

- **Seller Profiles:** using Preqin's comprehensive database, view detailed and unique profiles on LPs known to be potential secondary market sellers. Includes potential sellers worldwide, listing name, type of LP, background, location, fund types, locations and vintage years the seller is looking to exit and has previously invested in, funds previously sold on the secondary market, a description of secondary market selling plans, news and key contacts.
- **Additional Possible Sellers:** search Preqin's Investor Intelligence and Real Estate Online databases for additional sellers based on investors' portfolio and investment statuses. Includes profiles for LPs that are no longer investing, are over-allocated, or have put investments on hold.
- **Buyer Profiles:** find secondary market buyers worldwide, listing name, type of LP, background, location, current areas of interest by location, fund type and vintage year, previous funds purchased on the secondary market, description of secondary market buying plans, news and key contacts.
- **Secondary Market Intermediaries:** pro-actively search for intermediaries best matched to your needs by transaction type, intermediary location, client location, size of secondary transactions represented and types of clients represented.

- **Secondaries Funds:** search for secondaries funds currently raising, recently closed and recently added. View a fundraising outlook and a history of secondaries fundraising. Also carry out advanced searches and view performance benchmarks for secondaries funds.
- **Secondaries Transactions:** view an archive detailing past secondary market transactions.
- **Preqin Price Indications:** get a Preqin price indication for your fund or portfolio whenever you need it, totally confidentially.

Preqin 2011 Secondaries Review

The forthcoming 2011 Preqin Private Equity Secondaries Review, due out in April 2011, will contain detailed information and profiles for buyers, sellers, intermediaries, funds, performance, fund of funds, pricing and more...

For this year's publication Preqin's dedicated team of analysts contacted hundreds of professionals from all different areas of the secondaries sector in order to provide the ultimate overview of the market. In addition to detailed analysis of market trends, the Review features hundreds of profiles containing exclusive intelligence gathered through direct communications with the institutions in question.

Secondary Market Monitor - Sellers Recent Additions / Updates		
Seller	Firm Type	Date Updated
Oslo Pensjonsforsikring	Public Pension Fund	23-Mar-11
ING Private Equity Access	Listed Fund of Funds Manager	23-Mar-11
Princess Private Equity Holdings	Listed Fund of Funds Manager	23-Mar-11
New Mexico State Investment Council	Sovereign Wealth Fund	23-Mar-11
California Public Employees' Retirement System (CalPERS)	Public Pension Fund	23-Mar-11
Reera Investment Bank	Investment Bank	23-Mar-11
Citigroup Alternative Investments	Asset Manager	22-Mar-11
Bank of Scotland	Bank	17-Mar-11
IDEA Capital Funds	Private Equity Fund of Funds Manager	17-Mar-11
Chevalier International Holdings	Corporate Investor	17-Mar-11
Leicestershire County Council Pension Fund	Public Pension Fund	14-Mar-11
Doctors Pension Funds Services	Public Pension Fund	14-Mar-11

Secondary Market Monitor - Transactions				
Fund	Seller	Buyers	Date	
GMT Communications Partners III	Bank of Scotland	Lexington Partners	January 2011	More
Curzon Capital Partners II	Immofinanz	Stichting Pensioenfonds voor de Woningcorporaties	January 2011	More
European Acquisition Capital Fund III	Not Yet Identified	Hollyport Capital	January 2011	More
Duke Street Capital VI	Bank of Scotland	Access Capital Partners , Lexington Partners	January 2011	More
3i Europe Partners IV	Bank of Scotland	Lexington Partners	January 2011	More
Barclays Private Equity European Fund	Bank of Scotland	Lexington Partners	January 2011	More
Bridgpoint Euro Private Equity II	Bank of Scotland	Lexington Partners	January 2011	More

For more information or to apply for a demo please visit:
www.preqin.com/secondaries

Preqin

Information for Private Equity Professionals

Preqin Private Equity provides information, products and services to private equity firms, funds of funds, investors, placement agents and investment consultants across the following main areas:

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

Available as:

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

For further information please contact:

Equitable House
47 King William Street
London, EC4R 9AF
United Kingdom

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

230 Park Avenue
10th Floor
New York, NY 10169
US

Telephone: +1 212 808 3008
Fax: +1 440 445 9595

Samsung Hub
3 Church Street
Level 8
Singapore 049483

Telephone: +65 6408 0122
Fax: +65 6408 0101

Email: info@peqin.com
Web: www.peqin.com