

Content Includes:

Preqin Special Report: Private Equity Secondary Market

Will Growth Continue in 2013?

March 2013

Secondary Transactions

We review the private equity secondary market in 2012, including a look at the key players.

Fundraising

We look at historical secondaries fundraising and the outlook for the year ahead.

Investor Appetite

We explore investor appetite for the private equity secondary market – which LPs plan to buy and sell fund interests in 2013?



Foreword

The sales of large portfolios of fund interests by some institutional investors were a key feature of the private equity secondary market* in 2012. A number of investors sold private equity fund interests in an effort to conform to upcoming regulations, while other LPs sought to trim and rebalance their portfolios.

The amount of capital raised by secondaries funds that closed in 2012 increased considerably compared to prior annual fundraises, representing the second highest amount of aggregate capital raised by secondaries funds in any year. Many managers were able to exceed their fundraising targets, as well as the amount of capital that was raised by their predecessor vehicles.

Over the coming years, many LPs plan to continue to utilize the secondary market due to regulatory pressure and to streamline their private equity portfolios. In general, investor perception of the secondary market has continued to improve and LPs are comfortable both buying and selling fund interests, suggesting that 2013 is set to be another active year for the secondary market.

This report features analysis of data from Preqin's Secondary Market Monitor service, which analyzes secondaries transactions, pricing, and buyer and seller appetite, as well as fundraising conditions. The report also contains the results of interviews with over 40 institutional investors worldwide in March 2013, exploring their motivations for utilizing the secondary market, current appetite for buying and selling fund interests and views on the secondary market.

Data Source:

Access essential information on all aspects of the private equity secondary market using Preqin's **Secondary Market Monitor**, including potential buyers and sellers, profiles of secondaries funds, and more. This vital tool is constantly updated by Preqin's team of dedicated analysts through direct contact with institutional investors and fund managers around the world.

For more information, or to register for a demonstration, please visit:

www.preqin.com/smm

Key Findings

- Aggregate capital raised by secondaries funds that closed in 2012 was the second highest amount secured compared to any year previously. Several mega funds closed in the year, with more likely to close in 2013.
- 38% of investors interviewed view the secondary market as having growing importance in their portfolio and another 15% consider the secondary market to be a core part of their activity.
- Portfolio rebalancing was cited by 42% of LPs as the main motivation for selling fund interests; banks, insurance companies and pension funds are the most likely sellers.
- 98% of investors interviewed expect secondary market activity in 2013 to match or exceed levels seen last year.

**Private equity secondary market includes private equity, real estate and infrastructure secondary market activity.*

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Private Equity Secondary Market in 2012

A number of institutional investors have disposed of large portfolios in 2012, contributing to significant levels of activity in the private equity secondary market.

Boom Years and Tail-end Funds

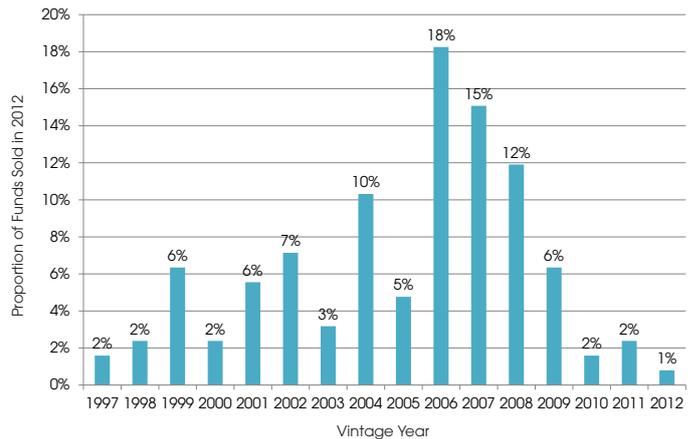
Following the onset of the global financial crisis in late 2008, many funds which were raised during the boom years have ultimately underperformed, which has motivated secondary market sales. As shown in Fig. 1, funds of vintage years 2006-2008 represented 45% of funds sold on the private equity secondary market last year. Thirty-eight percent of funds sold in 2012 were pre-2004 vintages, and therefore could be classified as ‘tail-end’ funds, which LPs are looking to sell in order to relieve part of their administrative burden, as well as decrease the number of GP relationships they maintain.

Large Portfolio Sales a Key Feature of the Market in 2012

A number of large transactions were completed in 2012, as Fig. 2 displays, which illustrates the varied and global nature of the secondary market. It is expected that 2013 will continue to be characterized by similarly large transactions, with financial institutions such as banks and insurance companies still looking to sell a number of interests as a result of impending regulations, including the Volcker Rule, Basel III and Solvency II.

Furthermore, institutional investors such as pension funds are also likely to sell fund interests over the coming year in an effort to streamline their portfolios and reduce the number of GP relationships they maintain. The five employee retirement systems of New York City for instance are looking to reduce the number of manager relationships they maintain, from almost 100 managers to 60 over the next few years. Furthermore, Pennsylvania State Employees’ Retirement System announced in 2012 that it would be looking to reduce the number of GPs in its portfolio from almost 150 to between 40 and 50 GPs over the

Fig. 1: Breakdown of Funds Sold in 2012 by Vintage Year



Source: Preqin Secondary Market Monitor

next 10 years, with hopes to reduce the number to between 60 and 80 GPs over the next five years.

Preqin’s Secondary Market Monitor: A Vital Tool

Track activity across the secondary market using Preqin’s **Secondary Market Monitor**, including information on investors buying and selling private equity, real estate and infrastructure fund interests, details of secondaries funds in market and closed historically, secondaries transactions, and much more.

www.preqin.com/smm

Fig. 2: Notable Secondaries Transactions in 2012

Seller	Buyer(s)	Transaction Date	Transaction Size (mn)	Secondary Intermediary	Transaction Information
GM Asset Management	State Administration of Foreign Exchange	Jul-12	2,000 USD	-	The Chinese government agreed to buy stakes in a number of private equity funds, including vehicles managed by the Carlyle Group, the Blackstone Group and CVC Capital Partners, from General Motors’ (GM) pension plan.
Länsförsäkringar	Abu Dhabi Investment Council, QIC	Dec-12	1,500 EUR	Campbell Lutyens	Länsförsäkringar Alliance sold a €1.5bn private equity portfolio to Abu Dhabi Investment Council, which bought the bulk of the offering, and Australian QIC. The sale involved interests in “high quality” funds, including vehicles managed by Bain Capital, Advent International, Apax Partners, BC Partners, Berkshire Partners, Madison Dearborn, TPG Capital, IK Partners and TA Associates.
Lloyds Banking Group	Collier Capital	Aug-12	1,030 GBP	Campbell Lutyens	The assets in the sale include undrawn commitments expected to be £220mn at the completion of the deal. The portfolio is believed to consist of 70 mainly Europe-focused buyout fund interests. Collier Capital completed the purchase through its Collier International Partners VI
New York City Employee Retirement Systems	Undisclosed	Aug-12	976 USD	-	The interests were sold as two separate tranches; the first consisting of interests in funds managed by Clayton Dubilier & Rice, Silver Lake and Thomas H Lee Partners and the second consisting of funds managed by AEA Investors, Ethos Private Equity, HM Equity Management, NewSpring Capital, Tailwind Capital and Vitruvian Partners

Source: Preqin Secondary Market Monitor

Secondaries Fundraising

Aggregate capital raised by secondaries funds that closed in 2012 was significantly higher than in both 2011 and 2010. However, an increased amount of capital was placed with fewer managers.

Increase in Average Fund Size

Secondaries funds that closed in 2012 secured an aggregate \$21bn in capital commitments, as displayed in Fig. 3, which is almost double the amount of capital raised by funds that closed the previous year and the highest amount of capital since the peak seen in 2009. However, fewer secondaries funds closed in 2012 compared to 2011, indicating that LPs are now placing increased amounts of capital with a select number of established managers.

As a result of this, the average final close size of secondaries vehicles has more than doubled in the past year, from an average of \$596mn in 2011 to an average of \$1.4bn in 2012. A number of sizeable fund closes in 2012 have contributed to this increase, including AXA Secondary Fund V, which became the largest secondaries fund ever raised when it held a final close in June 2012. It secured \$7.1bn, with an additional side car of \$900mn, and far exceeded its original target of \$3.1bn.

Predecessor Vehicles

In general, a strong track record is a prerequisite for many investors when deciding whether to invest with a fund manager. Evidence of this is clear within the secondaries fundraising market; a number of established managers closed funds in 2012 that surpassed the amount of capital raised for their predecessor vehicles. As shown in Fig. 4, four of the five largest secondaries funds that closed in 2012 secured greater capital commitments than the previous fund in the series.

More Mega Fund Closes on the Horizon?

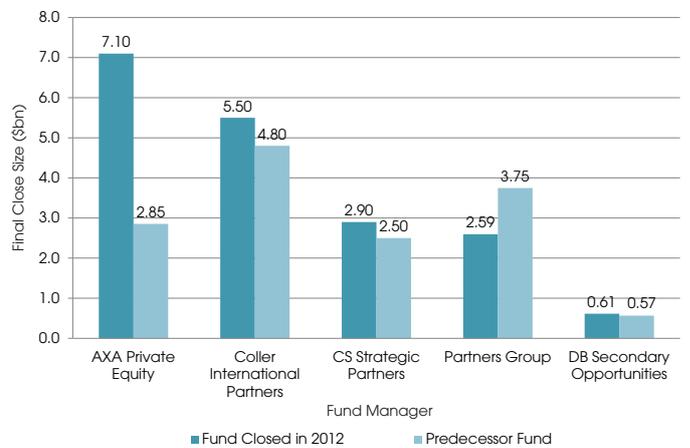
2013 has already seen LGT Capital Partners raise \$2bn for Crown Global Secondaries III and several large secondaries funds are on the road. As Fig. 5 shows, the top five secondaries funds in market are all looking to raise more than \$1.5bn. The largest secondaries fund in market is Dover Street VIII, managed by HarbourVest Partners, which had an initial target size of \$3bn and had already raised \$3.1bn by November 2012. With managers continuing to raise large funds, it is likely there will no shortage of capital to take advantage of secondary market opportunities in 2013.

Fig. 3: Annual Secondaries Fundraising, 2006 - 2013 YTD (As of 21 March 2013)



Source: Prequin Secondary Market Monitor

Fig. 4: Top Five Secondaries Vehicles Closed in 2012 by Final Close Size vs. Predecessor Fund Final Close Size



Source: Prequin Secondary Market Monitor

Looking for details on secondaries funds in market?

Secondary Market Monitor can help. View comprehensive information on all 36 secondaries funds in market, including interim and final closes, sample investors, and more.

www.prequin.com/smm

Fig. 5: Top Five Secondaries Funds in Market by Target Size

Fund	Fund Manager	Target Size (\$bn)
Dover Street VIII	HarbourVest Partners	3.0
Vintage Fund VI	Goldman Sachs Private Equity Group	3.0
Landmark Equity Partners XV	Landmark Partners	2.5
Paul Capital Partners X	Paul Capital	2.0
NB Secondary Opportunities Fund III	Neuberger Berman	1.6

Source: Prequin Secondary Market Monitor

Institutional Investor Appetite for the Secondary Market

Twenty-six percent of LPs interviewed by Preqin in March 2013 expressed an interest in purchasing fund interests on the private equity secondary market in the next 24 months.

Importance of LP Participation in the Secondary Market

Institutional investors represent an important source of capital for smaller portfolios and single fund interest sales as they tend to have a preference for smaller transactions as opposed to the large transactions that involve secondary fund of funds managers.

Importance of the Secondary Market in LPs' Portfolios

Fifteen percent of LPs interviewed believe the secondary market is of core importance to their private equity portfolio, as shown in Fig. 6, while an additional 38% of LPs indicated that the secondary market is of growing importance within their private equity portfolio. This suggests that the secondary market has the potential to grow further in the future, and one European asset manager told us: "As the market matures and becomes more efficient, it is inevitable that the number of participants will grow."

Size of the Universe of Potential Buyers

Preqin regularly speaks to LPs in order to ascertain their level of interest in buying fund interests on the secondary market and has identified 444 institutional investors that have indicated they may buy fund interests in private equity and private real estate funds over the next 24 months. Of these LPs, 72% stated it was either a possibility or highly likely that they would purchase fund interests on the secondary market over the next two years. The remaining 28% take an opportunistic approach and look to purchase fund interests when favourable opportunities arise.

Motivation for Buying

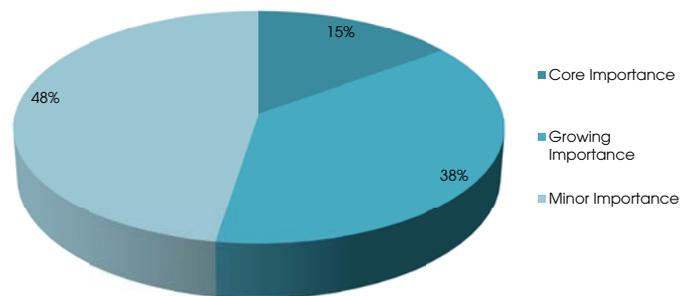
Two-thirds of LPs we interviewed cited the opportunity to purchase assets at a discount to NAV as a motivation for buying fund interests on the secondary market, an increase compared to the half of investors interviewed in March 2011 which cited the same benefit (Fig. 8). Mitigation of the J-curve was also mentioned by LPs as a reason for utilizing the secondary market, as it allows them to avoid the negative returns experienced in the early years of fund commitments. However, the proportion of investors citing this as a benefit fell from 35% of those interviewed in 2011 to 17% in March 2013. Certain investors also look to acquire fund interests on the secondary market in order to diversify their portfolios by vintage year or to gain access to funds managed by top-tier firms that may have been over-subscribed during their initial fundraising process.

Which LPs are looking to purchase fund interests?

Source potential new investors for your latest secondaries fund and analyze which types of LPs are looking to buy fund interests on the secondary market in the near future using Preqin's **Secondary Market Monitor**.

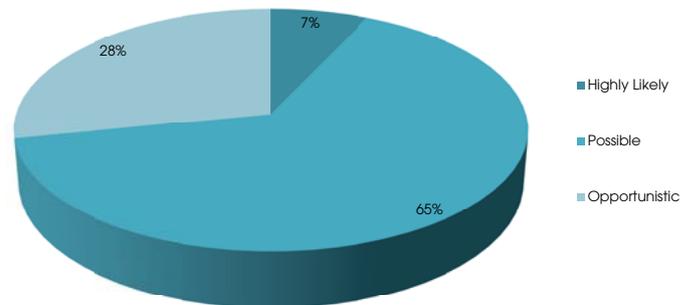
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Fig. 6: Importance of the Secondary Market within LPs' Private Equity Portfolios



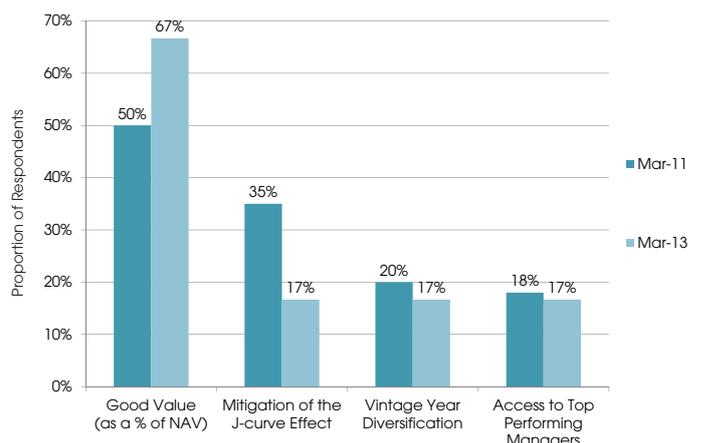
Source: Preqin Investor Interviews, March 2013

Fig. 7: Likelihood of Investors Buying Private Equity Fund Stakes on the Secondary Market over the Next 24 Months



Source: Preqin Secondary Market Monitor

Fig. 8: LP Buyers' Views on the Most Important Benefits of Buying Fund Interests on the Secondary Market



Source: Preqin Investor Interviews, March 2013

Investors' Motivations for Selling Fund Interests

Institutional investors under pressure to conform to new regulations will continue to look to sell fund interests. Non-distressed sellers increasingly view the secondary market as a portfolio consolidation tool.

Marketing Portfolios More Accepted

The supply of interests to the secondary market comes not only from LPs with a need to sell interests, but also from non-distressed sellers that are selling fund interests to rebalance their portfolios. Though once LPs' use of the secondary market was viewed negatively, this is no longer the case, as one US-based endowment told us: "The stigma associated with the secondary market has waned and LPs are now much more comfortable marketing their interests."

Motivations for Selling

As can be seen from Fig. 9, 42% of LPs we spoke to for our survey stated portfolio rebalancing as the primary reason for selling fund interests, compared to 28% of LPs interviewed for a similar study conducted in March 2011. A number of LPs are planning to reduce the number of fund managers in their portfolios, or are looking to re-direct capital, often to focus on top performing fund managers. Liquidity was cited by 23% of respondents as a reason for selling fund interests, much less than the 54% that named this as a motivation in March 2011.

Types of Secondary Market Sellers

Preqin's Secondary Market Monitor tracks potential sellers of fund interests on the secondary market. Banks and insurance companies, which are facing a number of regulatory pressures, represent over a fifth (21%) of potential secondary market sellers, as displayed in Fig.10. Traditional secondary market sellers such as fund of funds managers and asset managers represent 19% of potential sellers. Interestingly, public and private sector pension funds account for a quarter of potential secondary market sellers.

Fund Types to be Sold

Buyout funds are the most common fund type that LPs are looking to exit on the secondary market, with 66% of LPs we spoke to looking to sell interests in this fund type in the future. Twenty-nine percent of LPs are looking to divest from venture capital funds, while 17% are looking to sell interests in fund of funds vehicles. Interestingly, public and private sector pension funds account for a quarter of potential secondary market sellers.

Identify potential buyers and sellers on the secondary market

Use Preqin's **Secondary Market Monitor** to identify over 700 potential buyers of fund interests and over 2,000 potential sellers. Search for LPs based on specific preferences such as fund type, vintage year, geography, and more.

For more information, or to register for a demonstration, please visit:

www.preqin.com/smm

Fig. 9: Investors' Motivations for Selling Fund Interests on the Secondary Market

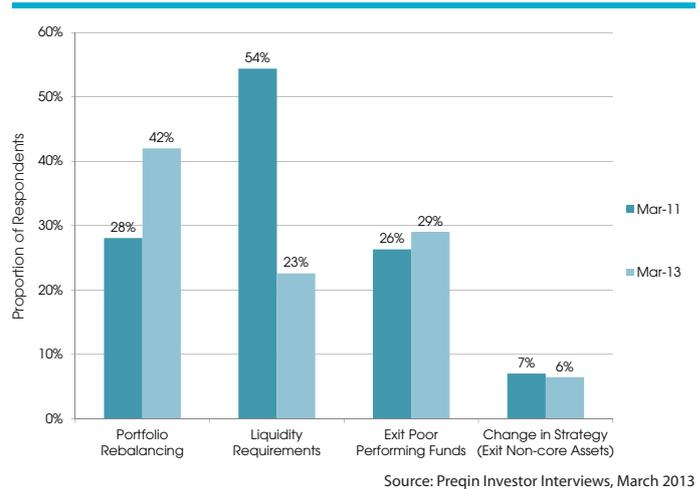


Fig. 10: Breakdown of Potential Secondary Market Sellers by Type

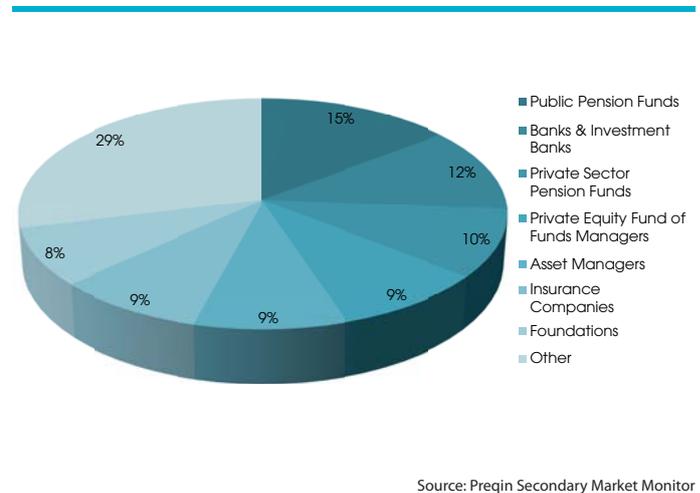
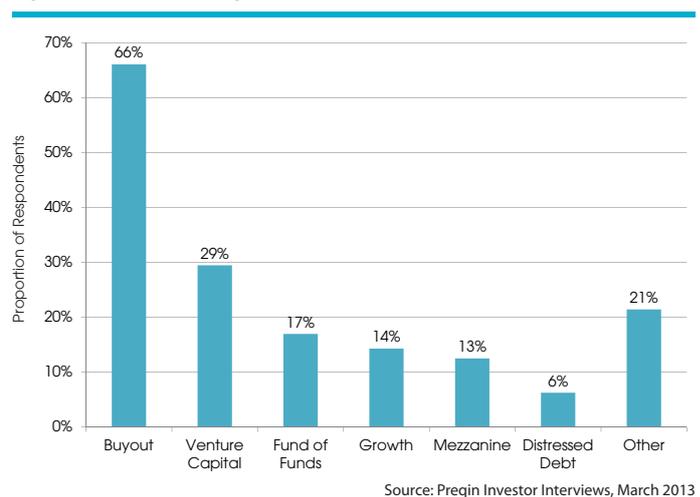


Fig. 11: Investors' Selling Preferences by Fund Type



Prospects for the Secondary Market in 2013

The majority of LPs Preqin spoke to in March 2013 believe that secondary market activity in 2013 will either match or exceed the levels seen in 2012.

Investor Expectations of 2013 Activity

Forty-three percent of LPs we spoke to believe that the level of activity on the secondary market this year will exceed last year, while a further 55% of the LPs we spoke to believe the level of secondary market activity in 2013 will remain the same as the levels witnessed in 2012, as shown in Fig. 12. A number of LPs cited regulation as a likely contributing factor to secondary market activity in 2013.

Limitations to Future Activity

Demand for secondary market purchases has increased following recent successful fundraises from a number of secondary fund of funds managers, which has created upward pressure on pricing. Furthermore, with the number of non-distressed sellers increasing, price expectations may be higher, and upward pressure is placed on pricing. Some respondents highlighted these issues surrounding pricing as potential impediments to growth in the secondary market.

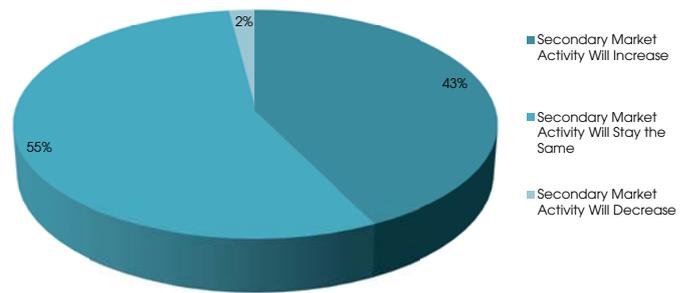
In previous years, the disparity between the pricing expectations of buyers and non-distressed sellers or those not facing regulatory pressure saw fewer transactions taking place than had perhaps initially been anticipated. However, with the bid-ask spread narrowing, we have seen an increased level of activity from these LPs. Fig. 13 shows that, in the past, decreases in the premium to NAV have corresponded with decreases in secondary market activity. Preqin tracks listed private equity prices and discounts/premiums to NAV which can be used as a proxy for secondary market prices and discounts; purchasing a share in a listed private equity vehicle is conceptually similar to buying a secondary interest in a limited partnership. The premium observed for secondary market interests dipped steeply in Q1 2009, which corresponded closely with a decrease in activity at the same time. In recent years, there has been a steady reduction in discounts observed, which has coincided with increased levels of secondary market activity and investor interest.

2013 – A Record Year?

Ninety-eight percent of LPs interviewed by Preqin expect that secondary market activity will either increase or remain the same over the next 12 months. Primary driving factors for sellers in 2013 are likely to be regulations and the desire among LPs to reduce the number of GP relationships in their portfolios.

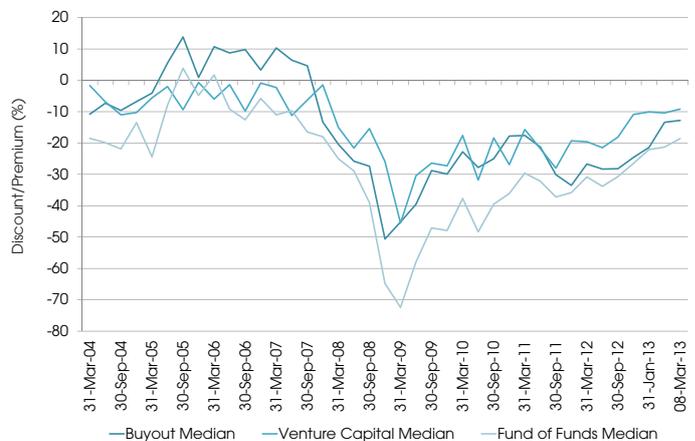
Secondary fund of funds managers that successfully raised capital in 2012 and prior to this are likely to be looking to deploy some of the large amounts of capital accrued during 2012 and will pick up these interests. In addition, primary fund of funds managers with secondary mandates and other institutional investors looking to further enhance their portfolios are also likely to purchase fund interests. With a number of managers seeking large amounts of capital in the year ahead and investor

Fig. 12: Investors' Expectations for Secondary Market Activity Over the Next 12 Months



Source: Preqin Investor Interviews, March 2013

Fig. 13: Discount/Premium to NAV by Fund Type, 2004 - 2013 YTD (As at 8 March 2013)



Source: Preqin Secondary Market Monitor

interest remaining high, 2013 is set to be another active year for the private equity secondary market.

Obtain a Preqin price indication for your fund or portfolio

Use the online pricing model on Preqin's **Secondary Market Monitor** to gain an approximate indication of the likely current value of your fund or portfolio.

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Preqin Special Report: Private Equity Secondary Market

March 2013

Preqin: Secondary Market Data and Intelligence

Source potential sellers of fund interests

Find out which investors are looking to sell fund interests on the private equity secondary market. Search for LPs by type, details of the fund interests they are looking to sell, and more.

Combine with Preqin's **Investor Intelligence** and **Real Estate Online** services to find additional sellers, including LPs no longer investing or that have put their investments on hold, as well as those over-allocated to private equity or real estate.

Find out which LPs are looking to purchase fund interests

Source potential new investors for your latest secondaries vehicle among LPs with an appetite for secondaries funds. Analyze which types of LPs are looking to buy fund interests on the secondary market in the near future.

Analyze the latest secondaries fundraising activity

See which secondaries funds are in market and which have recently closed. Examine secondaries fundraising over time by target and final close size, strategy and location.

View private equity secondary market transactions and recent news

Explore our archive of previous secondary transactions to find out which LPs have sold different fund interests on the secondary market and those which have purchased them.

Identify key secondary intermediaries

Identify intermediaries involved in the secondary market that match your requirements based on transaction type, intermediary location and client location, as well as size of transactions and types of client represented. View league tables to find out the key players in the market.

Obtain a Preqin Price Indication

Gain a confidential Preqin price indication for your fund or portfolio whenever you need it.

Arrange a demonstration today and find out how Preqin's Secondary Market Monitor can help you:

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