



PREQIN

SECONDARY MARKET UPDATE

Q2 2017

FOREWORD

Fundraising for secondaries funds slowed in Q2 2017; with five vehicles closing, the aggregate \$3.8bn raised is one of the lowest quarterly totals in recent years. This follows on from a record high in Q1, when several mega funds held a final close leading to a total of \$19.4bn being raised, representing 71% of the total capital secured by funds closed during the whole of 2016. However, despite the slowdown in Q2, it looks as though 2017 could be a record year for secondaries fundraising. It is also worth noting that the quarter saw final closes for two vehicles pursuing a preferred equity strategy – including Whitehorse's Liquidity Partners' debut vehicle – as investors embrace the increasing stratification in the secondary fund market.

There are currently 45 funds in market seeking \$32.4bn – the aggregate capital targeted is down from the start of 2017 due to the closures of certain mega vehicles, but is still a significant amount, showing that the secondaries fundraising market remains competitive. One of the vehicles currently raising capital is Ardian's ASF VII Infrastructure, which is looking to secure \$700mn – if it reaches its target, it would be the largest ever dedicated infrastructure secondaries fund.

Secondaries funds continue to show themselves to be safe investments, with less than 2% of secondaries funds delivering negative net IRRs. Investors are not forgoing multiples for the attractive IRR rates being attained either: the average median net multiple currently delivered by secondaries funds across all vintages is 1.47, higher than the 1.37 average for all private capital funds. This performance bodes well for the secondaries managers currently in market seeking capital.

Preqin is tracking 754 investors that have indicated a willingness to sell fund interests on the secondary market within the next two years, up from 731 investors in Q1 2017. With \$178bn in unrealized value still trapped in buyout, venture capital and growth funds that are 10 years or older (a 2006 vintage), there appears to be ample opportunity for secondaries managers to put their money to work.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

p3	Fundraising
p4	Funds in Market
p5	Sellers and Transactions
p6	Performance

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 | 🌐: www.preqin.com/smm

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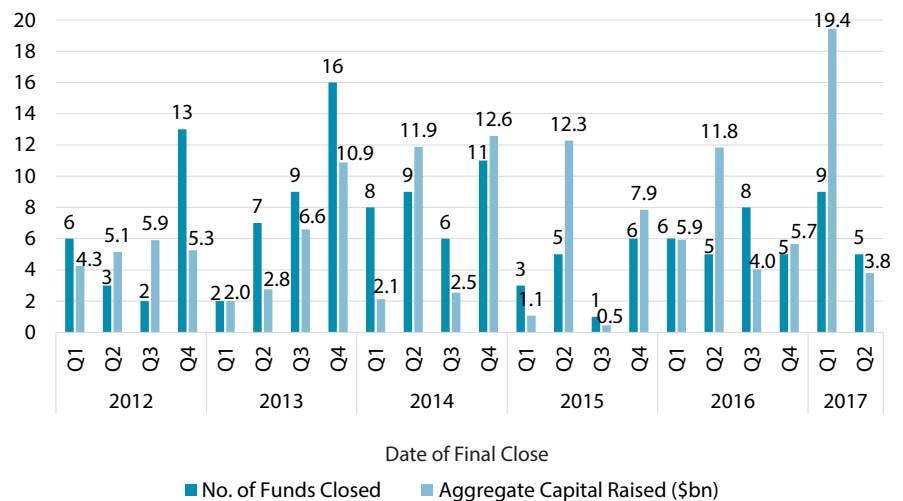
FUNDRAISING

In Q2 2017, five secondaries funds raised a total of \$3.8bn (Fig. 1). Given the record \$19.4bn raised by funds closed in Q1 2017, and the fact that H1 2017 has already generated 84% of the total amount secured in 2016 and 79% of the total raised in the record year of 2014, it seems that 2017 is still on track to set a new annual record.

The \$3.8bn raised in Q2 2017 is relatively modest compared to previous quarters: only six quarters in the past five years have raised less capital. There were, however, notable successful fundraises by 17Capital and Whitehorse Liquidity Partners, a further sign of the growth of the secondary market (Fig. 4). 17Capital raised a total of \$1.3bn for 17Capital Fund 4, more than double the amount raised by its predecessor in 2014. Whitehorse Liquidity Partners' debut fund, Whitehorse Liquidity Partners I, successfully raised \$402mn.

Both 17Capital and Whitehorse Liquidity Partners pursue the niche strategy of

Fig. 1: Global Quarterly Secondaries Fundraising, Q1 2012 - Q2 2017

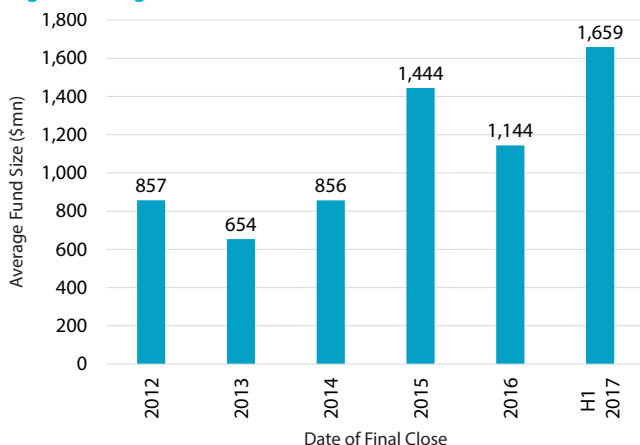


Source: Preqin Secondary Market Monitor

providing preferred equity financing to GPs and LPs as an alternative to traditional secondary market investments. Their fundraising successes highlight the attractiveness of these funds to investors, as it allows them to further diversify their investment portfolio. It also underlines the increasing attractiveness of the preferred equity financing option in the secondary

market, not only to GPs that want to solve legacy portfolio issues or return capital to investors, but also to LPs that can retain exposure to any future upside in their fund portfolio – an opportunity not available in a traditional sale of fund interests.

Fig. 2: Average Size of Secondaries Funds Closed, 2012 - H1 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 (\$bn)
Ardian	France	31.4
Strategic Partners Fund Solutions	US	19.6
Lexington Partners	US	19.0
Goldman Sachs AIMS Private Equity	US	18.9
Coller Capital	UK	17.5
HarbourVest Partners	US	11.3
Partners Group	Switzerland	9.4
Landmark Partners	US	7.6
Neuberger Berman	US	6.2
LGT Capital Partners	Switzerland	5.7

Source: Preqin Secondary Market Monitor

Fig. 4: Secondaries Funds Closed in Q2 2017

Fund	Firm	Final Size (\$mn)	Final Close Date
Hamilton Lane Secondary Fund IV	Hamilton Lane	1,900	Jun-17
17Capital Fund 4	17Capital	1,305	May-17
Whitehorse Liquidity Partners I	Whitehorse Liquidity Partners	402	May-17
ISF II	Israel Secondary Fund	100	Apr-17
European Secondary Opportunities II	Seligman Private Equity Select	86	Apr-17

Source: Preqin Secondary Market Monitor

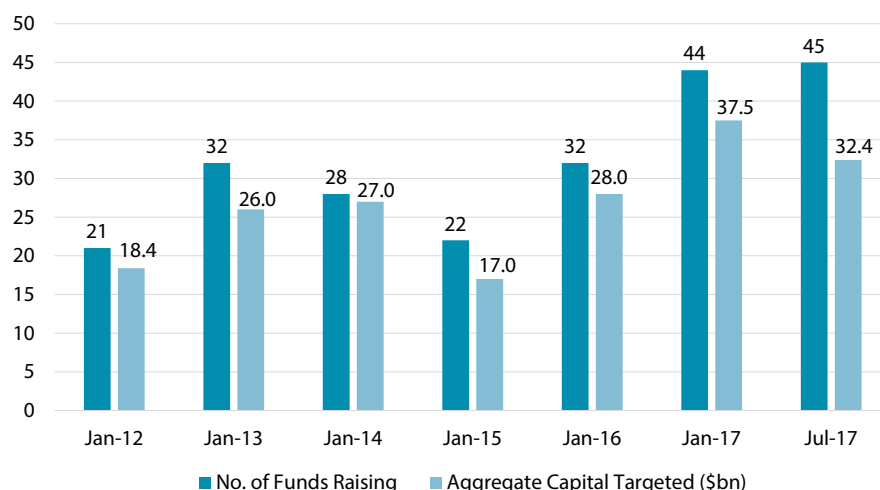
FUNDS IN MARKET

As shown in Fig. 5, there are 45 secondaries vehicles in market collectively seeking \$32.4bn in capital as at the start of Q3 2017. There is one more fund in market than at the start of the year, although the amount of capital sought is down from \$37.5bn to \$32.4bn. This is due to the closure of some of the larger vehicles that were previously in market, such as Strategic Partners VII and Alpinvest Secondaries Fund VI, which sought \$5.5bn and \$6bn respectively.

Two-thirds of secondaries funds seeking capital target North America, while funds focused on the region account for 75% of the total capital being sought (Fig. 6). There are four Asia-focused secondaries vehicles seeking just under \$1bn in total capital.

Of the funds currently seeking capital, there are five real estate secondaries seeking \$5.0bn in aggregate (Fig. 7). There are also two infrastructure vehicles

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



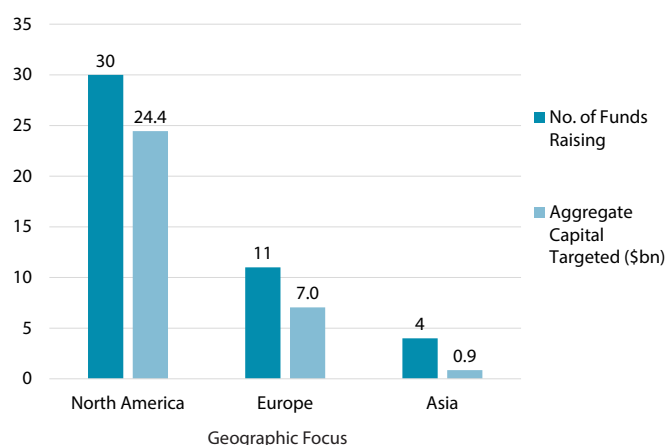
Source: Preqin Secondary Market Monitor

seeking capital: ASF VII Infrastructure is seeking \$1.5bn and Stafford Infrastructure Secondaries Fund II is looking to secure \$276mn.

The largest secondaries vehicle currently in market is Vintage Fund VII, which is

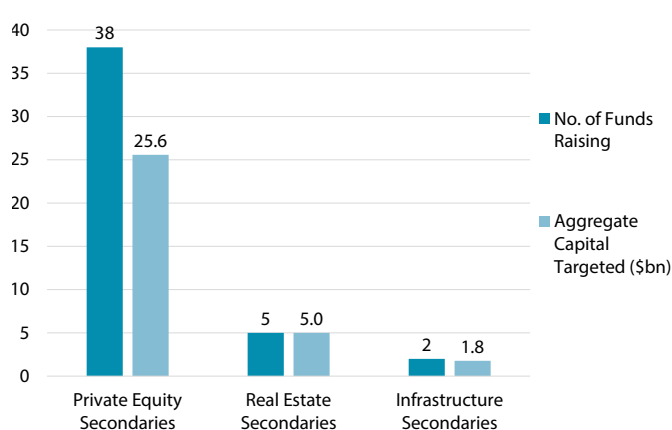
managed by Goldman Sachs AIMS Private Equity, and aims to raise \$5.0bn (Fig. 8). The fund has already held several interim closes. In total, \$10.5bn has been raised via interim closes by all secondaries vehicles currently in market.

Fig. 6: Secondaries Funds in Market by Geographic Focus



Source: Preqin Secondary Market Monitor

Fig. 7: Secondaries Funds in Market by Fund Type



Source: Preqin Secondary Market Monitor

Fig. 8: Five Largest Secondaries Funds in Market (As at Q2 2017)

Fund	Firm	Firm Location	Target Size (\$bn)	Status
Vintage Fund VII	Goldman Sachs AIMS Private Equity	US	5.0	Third Close
Landmark Equity Partners XVI	Landmark Partners	US	4.0	First Close
Crown Global Secondaries IV	LGT Capital Partners	Switzerland	2.5	First Close
Partners Group Real Estate Secondary 2017	Partners Group	Switzerland	2.0	Raising
Lexington Middle Market Investors IV	Lexington Partners	US	2.0	Raising

Source: Preqin Secondary Market Monitor



SELLERS AND TRANSACTIONS

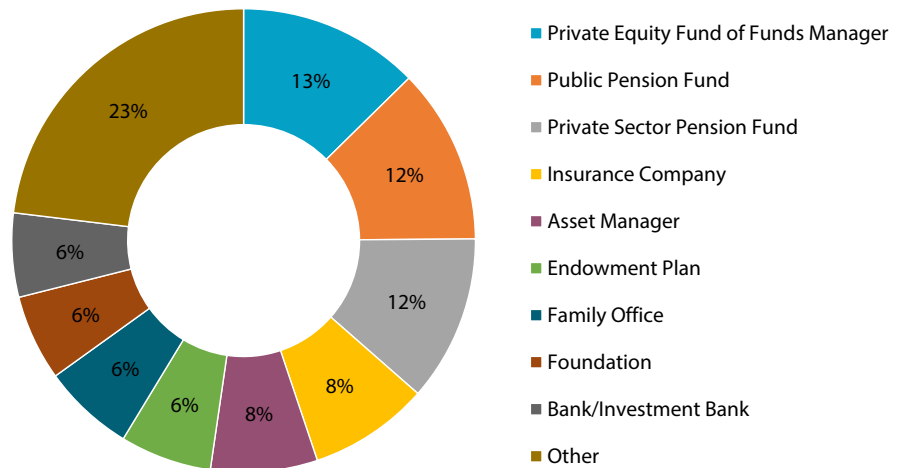
Preqin maintains regular contact with investors to find out their upcoming plans for the secondary market and, as at the end of Q2 2017, Preqin has identified 754 firms that have indicated interest in selling fund interests on the secondary market in the next 12-24 months. This is a higher number than 731 at the end of Q1 2017, and a quarter of these expected sellers are made up of private equity fund of funds managers and public pension funds (Fig. 9).

These firms will potentially bring a variety of funds to market; the majority will potentially sell buyout funds, just under half will potentially sell private debt funds, while 43% could sell venture capital funds (Fig. 10).

The majority of expected sellers are concentrated in North America and Europe, each home to 41% (Fig. 11). There have also been expected sellers identified in Asia (10%) and Rest of World (8%) including investors based in Australia, Brazil and the United Arab Emirates.

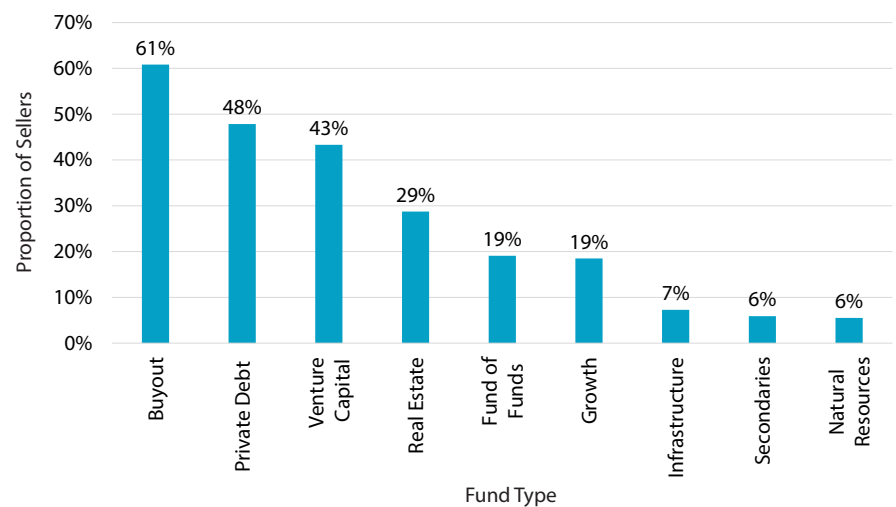
A sample of transactions completed this past quarter as tracked by Preqin are shown in Fig. 12, including Ardian's staple secondary transaction with Mubadala Investment Company worth a total of \$2.5bn.

Fig. 9: Expected Sellers in Next 12-24 Months by Firm Type



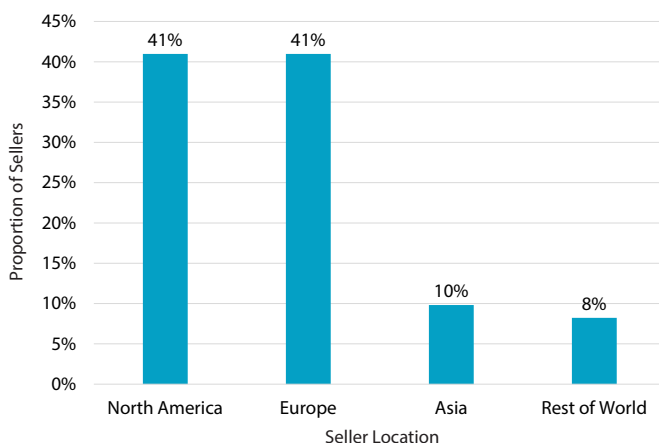
Source: Preqin Secondary Fund Manager Survey, January 2017

Fig. 10: Fund Types to Be Sold by Expected Sellers in the Next 12-24 Months



Source: Preqin Secondary Fund Manager Survey, January 2017

Fig. 11: Location of Expected Sellers in the Next 12-24 Months



Source: Preqin Secondary Market Monitor

Fig. 12: Sample Secondaries Transactions Completed in Q2 2017

Seller	Buyer	Fund Sold
LGT Capital Partners	Committed Advisors	TDR Capital II
Varma Mutual Pension Insurance Company	HarbourVest Partners	MML Capital Partners Fund VI
Pomona Capital	Commonfund Capital	Bridgepoint Europe IV
European Investment Fund	DB Private Equity	GMT Communications Partners III
AB Kelonia Placing	Stafford Capital Partners	Macquarie European Infrastructure Fund II
Mubadala Investment Company	Ardian	-
UniCredit Bank Austria	Bancroft Private Equity	Bancroft II

Source: Preqin Secondary Market Monitor

PERFORMANCE

In the last 10 years there are just two vintage years that have a negative minimum net IRR (2009 and 2013, Fig. 13), and only 2% of secondaries funds tracked by Preqin currently have a negative net IRR. This is a smaller proportion than for buyout funds, where 9% of funds have negative net IRRs, illustrating that secondaries are a relatively safe investment.

Secondaries funds typically have shorter holding periods and, due to funds often being purchased at discounts, provide

attractive IRRs compared to other asset classes. Fig. 14 illustrates that median net IRRs for secondaries vehicles exceed the median net IRRs for private capital funds across all vintages except 2007. As secondaries investments are made in the later stages when underlying investments have usually experienced some growth, secondaries funds should deliver lower net multiples compared to primary investment strategies. However, in the last 10 years, secondaries funds have higher median net multiples than the average for all private capital funds (Fig. 15).

The amount of unrealized value in primary funds is an indicator of the potential investment opportunity available to secondaries funds; in particular, mature funds with significant unrealized value have a greater need for alternative exit routes such as the secondary market. Fig. 16 shows that aggregate unrealized value for 2006 and older vintages (for buyout, venture capital and growth funds) stood at \$178bn in September 2016.

Fig. 13: Maximum, Median and Minimum Net IRRs by Vintage Year for Secondaries Funds

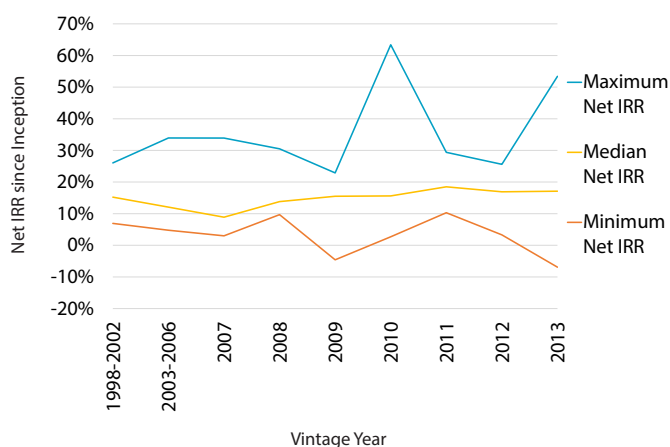


Fig. 14: Median Net IRRs by Vintage Year: Secondaries vs. Private Capital Funds

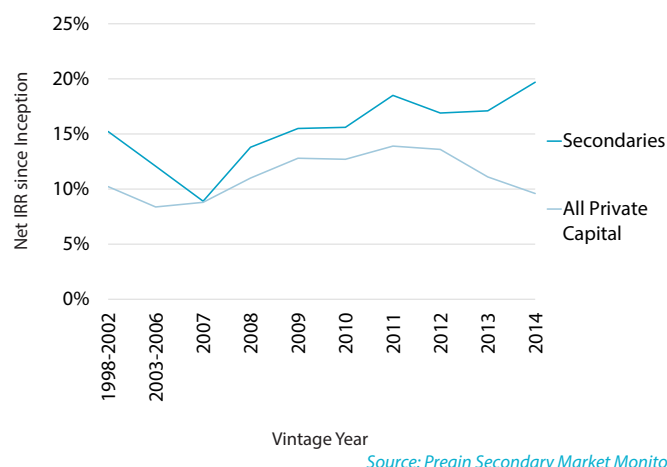


Fig. 15: Median Net Multiples of Secondaries Funds by Vintage Year

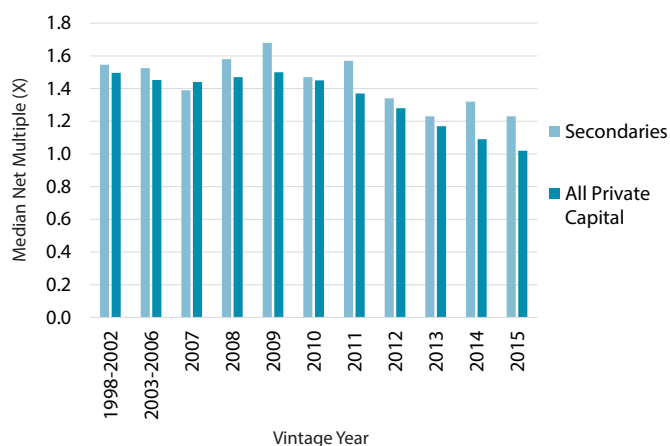
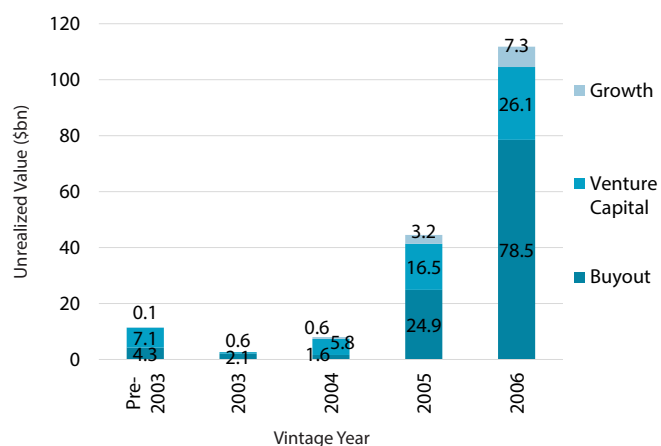


Fig. 16: Aggregate Unrealized Value in 2006 and Older Vintage Funds by Type (As at September 2016)



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