



Secondary Private Equity: A Growing Source of Returns and Liquidity

WHAT IS THE PRIVATE EQUITY SECONDARY MARKET?

- ▶ The aftermarket buying and selling of security interests in private equity investments
- ▶ Broadly defined, this includes the transfer of some or all of an investor's economic interest in private equity fund commitments (limited partnership interests) or direct investments in operating companies

MARKET HISTORY

Early Years (1984 – 2000)

- ▶ Niche market
- ▶ Limited liquidity
- ▶ Distressed sellers
- ▶ 15 or so specialty buyers dominant
- ▶ Volume 2-3% of PE commitments
- ▶ Assets trade at discount to NAV

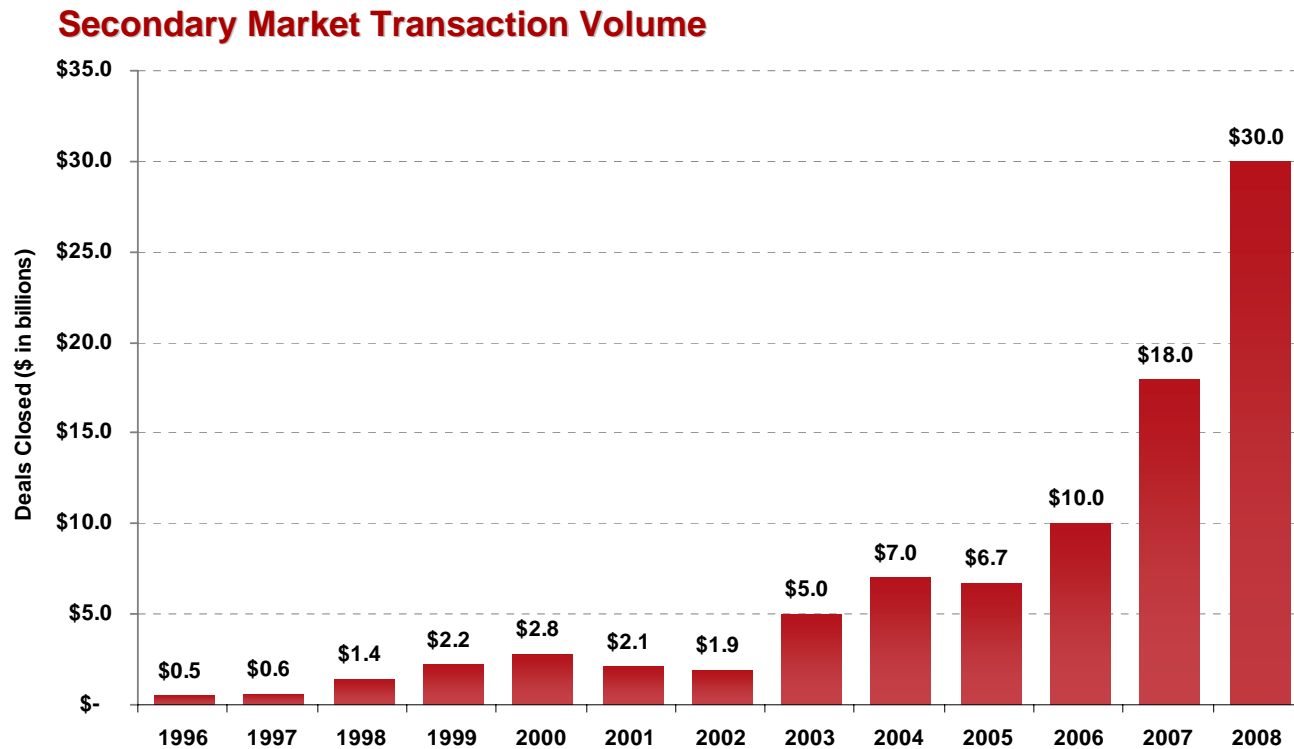
Expansion Stage (2001 – 2007)

- ▶ New entrants
- ▶ Surge in volume
- ▶ More sophisticated / efficient
- ▶ Depth of liquidity
- ▶ 50+ active buyers and growing
- ▶ Assets often trade at premium to NAV
- ▶ Availability of debt capital

SECONDARY MARKET TRANSACTION VOLUME

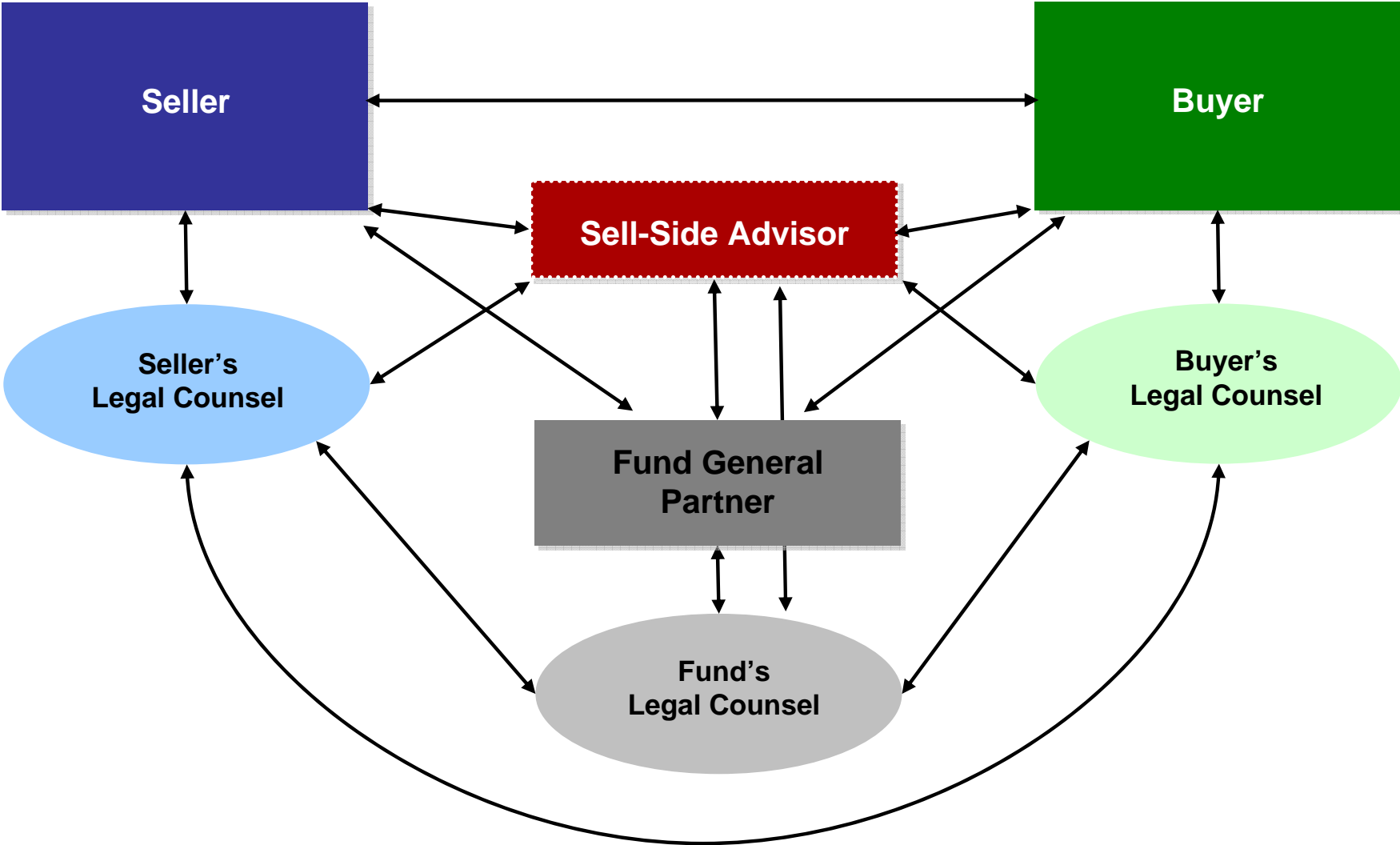
The secondary market has grown dramatically, driven by both long-term secular trends (increasing acceptance of the market, growth in private equity dollars) as well as near-term ones (need for liquidity on part of many investors)

- ▶ In 2008, endowments, foundations and financial institutions led the increase in secondary market volume



Source: VentureXpert, Cogent Partners

MARKET PARTICIPANTS



TYPES OF TRANSACTIONS

Sale of Limited Partnership Interests

- ▶ Straight Sale
- ▶ Securitization (CFOs)
- ▶ Stapled Transactions
- ▶ Structured Joint Ventures
- ▶ Total Return Swaps

Sale of Direct Interests

- ▶ Secondary directs
- ▶ Synthetic secondary / spinout
- ▶ Tail-end sale by GP

SELLERS

Pensions / SWFs	Banks	Insurance Companies	Corporates	Endowments	Publicly Listed PE Vehicles
<ul style="list-style-type: none"> ▶ CalPERS ▶ Ohio Bureau of Works Comp ▶ Temasek Holdings ▶ State of Connecticut 	<ul style="list-style-type: none"> ▶ ABN AMRO ▶ Macquarie ▶ Bank of America ▶ JP Morgan Chase ▶ Bank One ▶ Dresdner ▶ Merrill Lynch ▶ UBS ▶ Deutsche Bank ▶ NatWest ▶ Citigroup 	<ul style="list-style-type: none"> ▶ MetLife ▶ Equitable ▶ Abbey National ▶ Swiss Life ▶ AIG 	<ul style="list-style-type: none"> ▶ Vivendi ▶ Dayton Power & Light ▶ Lucent ▶ EDS 	<ul style="list-style-type: none"> ▶ University of Virginia ▶ Harvard University 	<ul style="list-style-type: none"> ▶ KKR Private Equity Investors ▶ SVG Capital

BUYERS

Firm Name	Location	Total AUM (\$ in millions)
Lexington Partners	New York	\$10,400
Coller Capital	London	\$8,400
HarbourVest Partners	Boston	\$7,500
Goldman Sachs & Co	New York	\$7,000
CS Strategic Partners	New York	\$6,300
Landmark Partners	Simsbury, CT	\$5,600
AlpInvest Partners	Amsterdam	\$5,000
Pantheon Ventures	London	\$4,900
Paul Capital Partners	San Francisco	\$4,200
Partners Group	Baar-Zug, Switz.	\$3,500+
Neuberger Berman	New York	\$2,900
Pomona Capital	New York	\$2,700
W Capital Partners	New York	\$2,500
Adams Street Partners	Chicago	\$2,040
Greenpark Capital	London	\$2,000
AIG Investments	New York	\$1,935
LGT Capital Partners	Pfaffikon, Switz.	\$1,500+
Liquid Realty Partners	San Francisco	\$1,500
SVG Advisers	London	\$1,371
Saints Capital	San Francisco	\$1,040
Hamilton Lane	Bala Cynwyd, PA	\$1,000+
Protostar Partners	New York	\$1,000
Arcis Group	London	\$960
Fondinvest Capital	Paris	\$960

Firm Name	Location	Total AUM (\$ in millions)
Venture Investment Associates	Peapack, NJ	\$950
Morgan Stanley AIP	West Conshohocken, PA	\$850
RREEF Private Equity	London	\$775
Newbury Partners	Stamford, CT	\$700
Unigestion	Geneva	\$686
Millennium Technology Ventures	New York	\$600
Permal Capital Management	Boston	\$590
Auda International	New York	\$570
PEI Funds	New York	\$510
Willowridge Partners	New York	\$500
Industry Ventures	San Francisco	\$400
Lake Street Capital	San Francisco	\$400
Headway Capital Partners	London	\$274
Tempo Capital Partners	London	\$274
Wilshire Private Markets Group	Santa Monica, CA	\$237
AGF Private Equity	Paris	\$200
Key Capital Corp	Cleveland	\$200
Vintage Ventures	Herzliya, Israel	\$190
Thomas Weisel Global Growth Partners	Boston	\$150
SL Capital Partners	Edinburgh	\$115
Kensington Capital Partners	Toronto	\$100
Abbott Capital Management	New York	\$95
Symmetry Investment Advisors	Chicago	\$71
Fort Washington Capital Partners	Cincinnati	\$60
Endeavor Capital Management	Westport, CT	\$50+

Source: Dow Jones 2008 Guide to Secondary Market Buyers

CURRENT STATE OF MARKET

- ▶ Supply outpacing demand
- ▶ Buyers attempting to access additional capital with 25+ currently fundraising
- ▶ Most sellers are motivated to reduce their unfunded commitment and are therefore selling less mature commitments (“primary secondaries”)
- ▶ Large bid / ask spread and pricing at steep discounts to NAV are making transactions difficult to consummate
- ▶ Instability in broader capital markets has increased embedded risk premium with buyers underwriting to 20%+ rates of return and becoming highly selective – bidding primarily on higher quality assets where they already have a deep understanding of value
- ▶ Most transactions that are closing are smaller incremental transactions rather than portfolio trades
- ▶ Dramatic increase in types of assets including real estate, infrastructure, energy and hedge funds