SECONDARY MARKET OUTLOOK

November 2015

TABLE OF CONTENTS

1 HISTORY AND BACKGROUND

Illiquid by nature, the private equity asset class is characterized by its long-term horizon (10-12 years) dedicated to buy-and-hold investors. The secondary market first emerged as a marketplace for the trading of private equity interests in response to the need for liquidity. This relatively young yet mature segment of the private equity market has experienced remarkable growth over the last two decades.

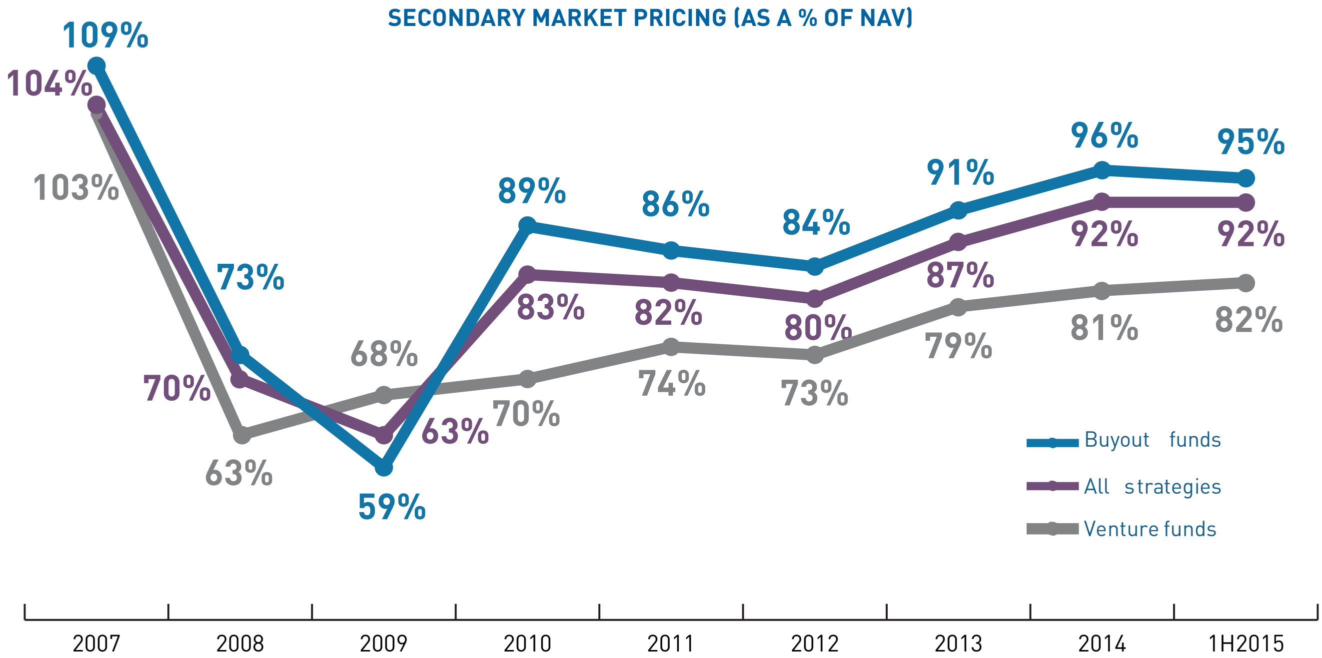
The roots of the secondary market date back to the 1980s, when a few firms started to buy interests in existing LBO and VC funds. Shortly after the dot-com crash, the secondary market became an increasingly active segment as many investors were looking to sell their outstanding private equity commitments, especially within the venture capital segment.

Between 2004 and 2007, the secondary market saw a surge in activity and started to become more efficient: for the first time, assets were traded at or above their estimated fair values. The market shifted from a niche sub-category in which the majority of sellers were distressed to an attractive dynamic market with many participants and a large supply of assets. Thereupon, the evolution of the secondary market was in line with the maturation of the larger private equity industry.

2 CURRENT MARKET

PRICING AND VOLUME

From 2007-08, the global financial crisis effectively put an end to more than a decade of continuous growth in the secondary market. Increasing difficulty in pricing private equity assets in turbulent market conditions drove buyers' pricing far below vendors' expectations. Net asset value (NAV) pricing reached an all-time low at approximately 60% in 2009 (i.e. an average discount to NAV of 40%).



Source: Cogent Partners, July 2015

Source: Cogent Partners, July 2015

In response to pricing pressure, deal volumes declined by 40% between 2008 and 2009, as high discounts discouraged many potential vendors from attempting to sell. The majority of activity on the secondary market during this period was in early secondaries – interests in funds that were less than 50% drawn down and whose vendors were generally motivated by their incapacity to meet future drawdowns.

As confidence and stability returned, pricing and deal volumes both increased over the 2010-2011 period. Typical pricing returned to more balanced levels at 15-20% discount to NAV and transaction volumes reached a new high in 2011, surpassing the $25bn mark. After two years of unchanged transaction volumes, the secondary market has been experiencing substantial growth since 2013.

After initially reaching a record volume of $27.5bn in 2013, the secondary market went on to beat that record with transaction volumes of $42bn in 2014, a banner year for this market. Not only did the market experience an uptick in volumes; pricing levels also increased in both 2013 and 2014. By the end of 2013, overall secondary market pricing had increased to 89% of NAV (i.e. an 11% discount to NAV), mainly driven by strong distribution activity, a nearly 30% increase in public markets and record secondary fundraising.

In line with 2014 records, the pricing and volume on the secondary market in 2015 barely varied for all strategies. Pricing reached 92% of NAV on average in H1 2015 (vs. 91% in H2 2014), and market volumes continued to hit high levels with $15bn in transaction volumes recorded (vs. $16bn in H1 2014)

High prices and high-quality assets

Due to the current higher prices on the secondary market, the overall deal flow is consistently increasing, as is the average quality of the underlying assets. In 2009, given the discount levels, LPs were reluctant to participate in secondary market sales, with the exception of distressed sellers and highly distressed assets. In the current market environment, with pricing levels high, the reasons for sale range from pure liquidity to portfolio allocation considerations. Secondary market volumes are thus at their highest, and secondary opportunities include all types of assets, allowing an experienced secondaries manager to select mature high-quality assets with a great deal of visibility into future exits. This is especially true for managers who know how to select well-performing companies from existing portfolios.

BUYERS & SELLERS

Buyers

According to Preqin, public and private-sector pension funds were the most active buyers in H1 2015, together accounting for 34% of total purchases, followed by insurance companies (11%). According to Setter Capital, secondary buyers are mainly located in North America (59%) and Europe (40%).

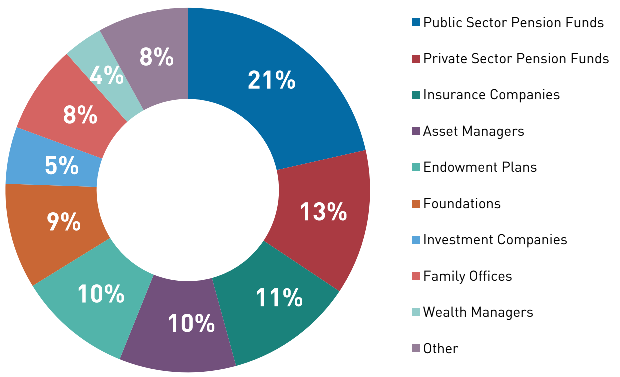
Drivers for buyers include avoiding the J-curve effect, accessing funds that were over-subscribed at the time of fundraising, and strengthening existing relationships with fund managers by committing more capital to their funds instead of other GPs.

Sellers

As in 2014, seller profiles are relatively balanced in 2015, with eight main categories of secondary sellers. According to Preqin, pension funds and banks are expected to be active sellers in the upcoming months, respectively accounting for 42% and 36% of the total volume. Indeed, over the last few years they have increasingly used the secondary market to build special portfolios designed to comply with regulatory requirements.

In H1 2015, according to Coller Capital, most of the sellers in terms of sale volume were located in North America; Western European sellers accounted for 29%, while sellers from the Asia-Pacific region represented 15% of total volume.

BUY SIDE

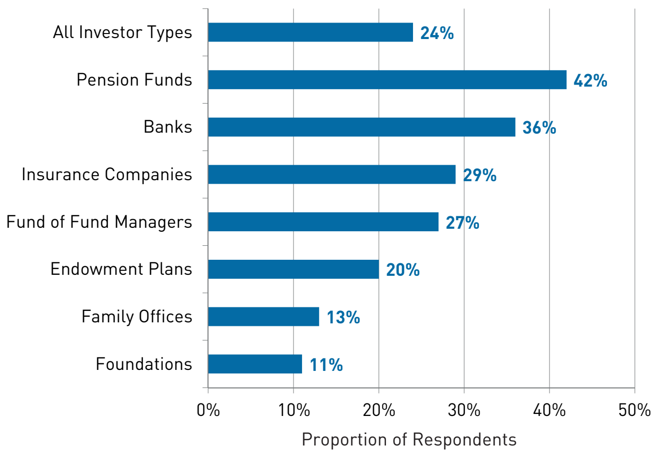


Source: Preqin Secondary Market Monitor

- J-curve mitigation
- Large amounts of capital available to be deployed
- Discounts on NAV
- Valuable portfolio management tool
- Access to funds over-subscribed during the initial fundraising process
- Possibility to consolidate relationships with existing GPs by increasing exposure to their funds instead of committing capital to other fund managers

SELL SIDE

- Redirecting capital to new strategies
- Reducing the number of manager relationships
- Relieving the administrative burden of monitoring a vast number of funds



Source: Preqin Secondary Fund Manager Survey, February 2015

SECONDARY MARKET SUPPLY 2014/2015

Fund of funds / Asset Managers

- Tail-end wind-downs
- Opportunistic selling

Description: Remaining value to paid-in ratio (RVPI) for funds 10 years or older has significantly increased, and there is over $120bn of NAV in funds at least 10 years old.

Portfolio Composition: In many cases, highly mature portfolio of numerous small positions. Sellers are typically looking to alievate the administrative burden of monitoring rather than optimizing pricing.

2014 Volume: $4bn

2015 Trend : =

Timeframe : 3-5 years

Financial Institutions

- Regulatory driven sales

Description: Banks and insurance companies continue to divest assets that are not permissible under Volcker and/or costly from a regulatory capital standpoint. Volcker extension will reduce supply from banks in 2015 vs.2014

Portfolio Composition: Selling of portfolios of all types; bank portfolios tend to be more concentrated in North American butout, energy and real estate funds.

2014 Volume: $14bn

2015 Trend : ↘

Timeframe : 1-3 years

Other Limited Partners

- Active portfolio management
- Portfolio rebalancing
- Too many managers

Description: Investors are using the market to alter their allocations across sub-strategies and to focus their portfolio on fewer managers.

Portfolio Composition: Often portefolios of varying vintages and asset types, with selling LPs looking to capitalize on continued attractive pricing. Frequently may include sales of fund managers that are currently raising new vehicles.

2014 Volume: $17bn

2015 Trend : ↗

Timeframe : Ongoing

General Partners

- Fund restructurings
- Fund-Level tender offers
- Secondary direct sales

Description: General partners are increasingly utilizing the secondary market to restructure their funds and/or provide liquidity for limited partners.

Portfolio Composition: GP-led transactions have typically involved buyout funds, while direct sales represent a more diverse opportunity set; typically mature funds that are seeking to provide a comprehensive solution for LPs.

2014 Volume: $7bn

2015 Trend : ↗

Timeframe : Ongoing

Source: Greenhill Gogent

MID-MARKET VS LARGE SECONDARY FUNDS

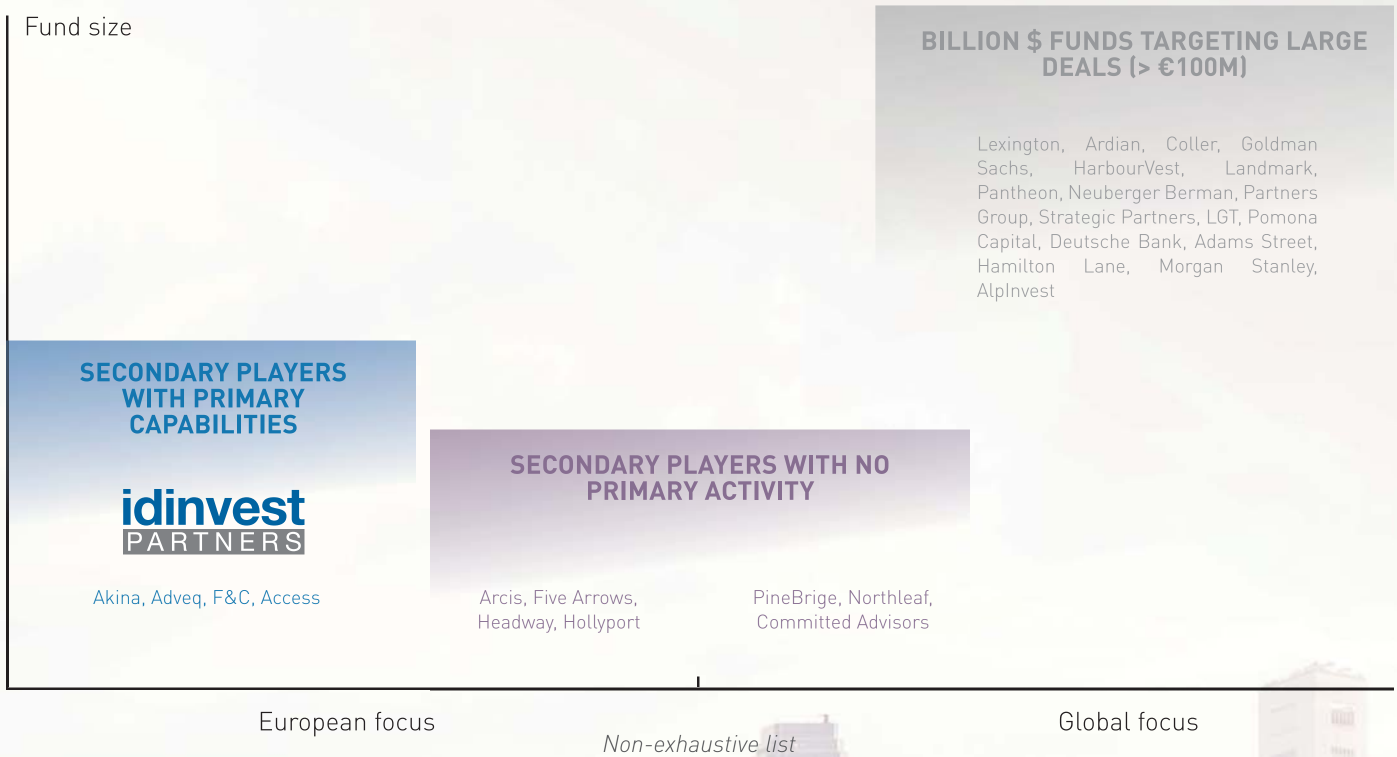
There are no clear boundaries between small/mid and large secondary funds. The principal difference between "large" and "small/mid" secondary funds lies in their targeted transaction sizes.

Nevertheless, referring to funds in terms of their sizes results in the following market mapping:

- Multi-billion euro funds (ex. Coller Capital, Ardian): given their size, these funds have to target large secondary transactions (often over €100m) in order to invest the fund within the investment period. By nature, this strategy leads to portfolios of fund interests that are largely diversified in terms of vintages, geographies, quality of underlying companies, and private equity strategies, ranging from venture capital to later-stage private equity and private debt. These funds perform in the same way as a stock index and are thus strongly linked to market fluctuations.
- Funds with a size of < €500m (e.g. Idinvest Partners, Akina, Access): these funds, in general, have a clear investment focus and target smaller transactions (< €50m) within their investment universe. They prefer to focus on building strong relationships with GPs and often hunt down direct secondary transactions where they can be highly competitive by cherry-picking the best opportunities. Opportunistically, they also invest in fund portfolios.

Funds in the "in-between" range are rare, as they have to target larger transactions to deploy the fund within their investment period and must compete in the same market segment as the multi-billion euro funds. However, their operational capabilities and deployment capacities are limited and restrain them from being as competitive as the larger funds are.

It is possible to sum up the secondary market competitive landscape as follow:



Non-exhaustive list

As mentioned above, the majority of secondary players focus on large deals involving multi-interest portfolios in transactions exceeding €100m (e.g. Lexington, Ardian, Goldman Sachs).

Furthermore, as shown in the figure above, only a few firms with primary capabilities are competing in the European market (Idinvest Partners, Akina, Adveq, F&C and Access). Other market participants do not have a primary activity (such as Arcis, Five Arrows, Headway and Hollyport) and sometimes also pursue a global instead of a European focus (PineBridge, Northleaf and Committed Advisors).

SMALL/MID-MARKET SECONDARY FUNDS

Small and mid-sized transactions generally refer to tactically-built portfolios with a strategy targeting the highest-quality assets and managers. These secondary buyers find relative value in the market through a geographical, vintage and/or strategic focus.
The remarkable difference between large and mid-market secondary funds lies in the depth of examination of investment opportunities. Indeed, small and mid-market secondary managers (i.e. funds of < $500m) can be very selective about the deals they choose since there are more interests for sale in accordance with their fund size.

In mid-market secondary transactions, the underlying companies are generally small, low-profile companies, often in second-tier cities, having no previous relationship with large banks or other well-known counterparties that might serve as references.

Consequently, the secondary funds that are most successful in the small and mid-market have the following characteristics:

- Broad and efficient information flow and sourcing advantages due to primary capabilities and a constant deal flow;
- Geographical reach with specialized teams and resources;
- Access to the small-cap segment, i.e. the least efficient segment of the market.

These funds are able to make accurate assessments about valuations and strategies, investment teams and individual companies without the benefit of detailed external information.
In addition, managers with experience in a particular market segment can benefit from their knowledge of underlying companies to cherry-pick the best ones and invest in these via direct secondary transactions.

A profitable strategy: focus on mature, cash-generative transactions

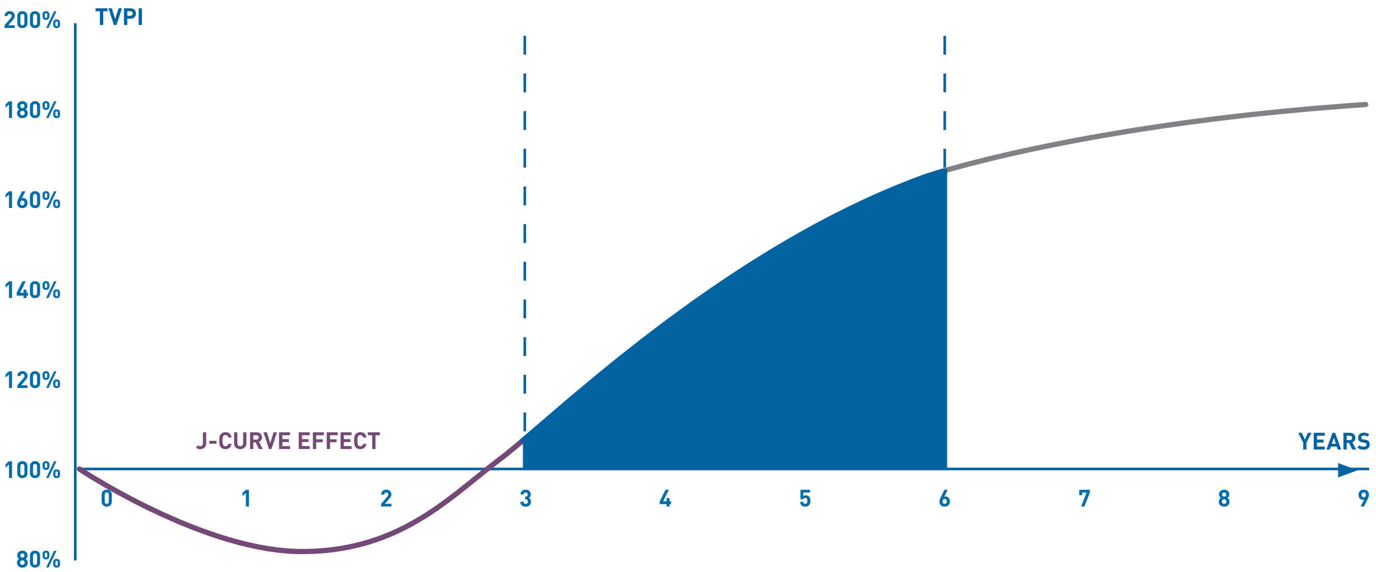
Mid-market secondary funds are the best positioned to adopt a strategy focused on mature, cash-generative transactions. Large-cap secondary funds may have difficulties implementing such an investment focus because their portfolios are too large and diversified for them to select mature assets only. On the contrary, the investment pace of mid-market secondary funds allows them to carefully cherry-pick the best mature opportunities. Thus, they are able to provide investors with access to the full range of secondary investment benefits.

By purchasing such mature assets well into the life of the fund, secondary investors do not pay the management fees incurred during the investment period. If they are able to negotiate a discount to NAV, secondary investors may further improve returns.

Indeed, primary fund investors pay the underlying fund managers to compile a portfolio of unlisted companies over time and to realize profits from years 3-4 through to the fund's termination. In the early years, NAV therefore generally reflects costs and early losses, and successful investments are frequently carried at cost until a new financing event or realization provides a new value. NAV typically decreases in the early years of the fund before increasing, producing the so-called J-curve effect.

In a mature secondary strategy, managers are likely to invest in funds that are largely drawn down and invested, with mature portfolio assets and good visibility into exit context and timing.

Private equity fund cycle



EARLY SECONDARIES

- Funds largely undrawn
- Unknown portfolio yet
- Full impact on management fees
- No visibility on exit timing

MATURE SECONDARIES

- Commitments are largely drawn and invested
- Portfolio assets are mature and can be analysed and specifically valued
- Few assets are value-adjusted (room for NAV uplifts)
- Good visibility on exit timing

LEGACY PORTFOLIOS

- Funds fully drawn (no capital available for add-ons or equity cure)
- Remaining assets are fully written up (limited room for NAV uplifts)
- Exit window has often passed

TVPI: Total Value Paid-In

LARGE CAP SECONDARY FUNDS

Large transactions in the secondary market often involve "package" portfolios of mixed-quality fund interests that offer an indexed exposure to secondaries. These portfolios are usually broadly diversified by industry, vintage and/or geographic focus and offer a wide exposure to secondary market opportunities.

Multi-billion euro secondary funds need to target very large deals to comply with their investment size and investment period; as a consequence, they have well-run processes. However, investing in smaller companies requires accurate information that may not be immediately available. Without some knowledge of such companies' markets and competitors, it is difficult to assess their current and potential value. Smaller companies are therefore more appealing to smaller funds targeting smaller deals.

Large portfolios transactions (> $100m) are generally intermediated, and large secondary funds need to maintain close relationships with intermediaries and sponsors. Besides, they are more likely to buy large portfolios from existing LPs than to purchase direct interests in individual companies.

In addition, fierce competition for large deals often leads to higher pricing, to the benefit of sellers of large diversified portfolios.

In 2014 and 2015, the record volumes of transactions on the secondary market were driven by large-cap secondary funds engaging in deals worth hundreds of millions of dollars: General Electric's GE Capital, the Pennsylvania Public School Employees' Retirement System and the Canada Pension Plan Investment Board.

Sample of deals realized in 2014-2015

Selling Institution	Type	Transaction Size (M)	Status
Canada Pension Plan Investment Board	Fund Portfolio	$1,500	Recently came to market
Citigroup Inc.	Fund Portfolio	$1,200	Bank sold remaining stakes in funds managed by Metalmark Capital to Lexington Partners
GE Capital	Fund Portfolio	$1,300	Ardian purchased the portfolio in 2014
Mizhuo Financial Group	Fund Portfolio	$1,000	Lexington Partners purchased the portfolio in late 2014
Pennsylvania Public School Employee's Retirement System	Fund Portfolio	$1,750	Ardian purchased the portfolio in late 2014

Source: Dow Jones Private Equity Analyst, Dow Jones Private Equity News

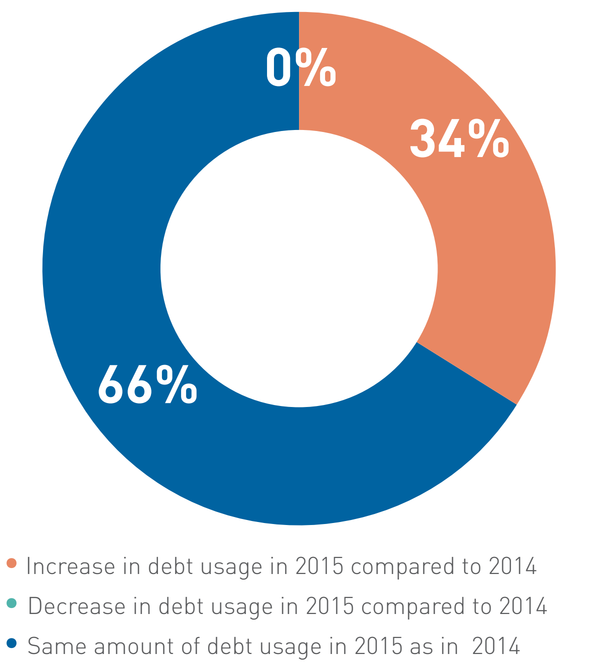
LEVERAGE

In comparison to smaller funds, large-cap secondary funds are more likely to use significant amounts of leverage. When buyers are concerned about returns because of the pricing environment, they increasingly tend to use leverage; debt is therefore likely to play a major role in purchases in the near future. Even secondary firms that were not previously prone to using leverage have started to explore this strategy. According to Preqin, 34% of respondents predict debt usage will increase in 2015-16.

The use of leverage can take different forms. Buyers can use it to support the purchase of a secondary portfolio, or as a cash management tool at the fund level. Leverage also provides more power to buyers, enabling them to do a deal on their own rather than having to split it with other buyers. Finally, debt can be used in the form of deferred payments or seller financing, enabling buyers to pay for the deal in several instalments and thereby appear more competitive to price-sensitive sellers.

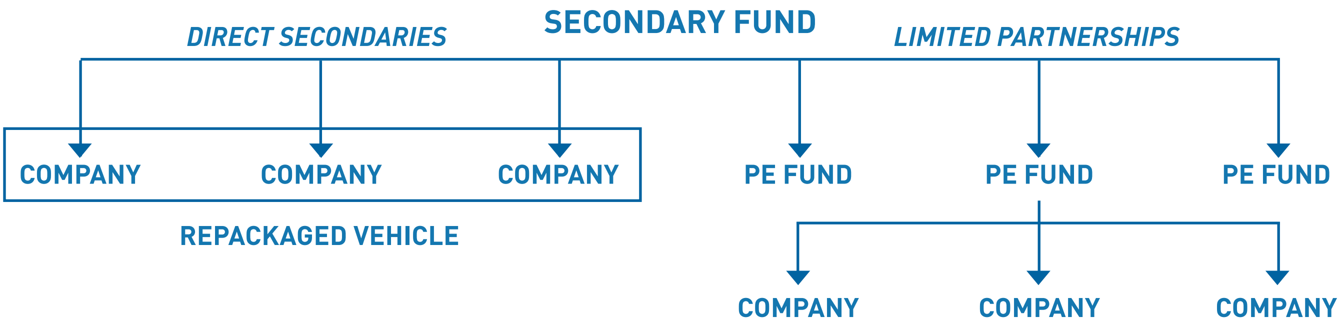
Leverage is increasingly used by large funds as they come up against the need to offer competitive bids for large deals. These funds mainly make use of leverage at the fund level. However, small/mid-cap funds are more inclined to use leverage in the form of deferred payments, which significantly lowers the risk incurred by the investors.

Managers of Secondary Fund's expectations for the amount of debt usage in the secondary market in 2015



Source : Preqin Secondary Fund Manager Survey, February 2015

3 DIFFERENT TYPES OF TRANSACTIONS



TRADITIONAL FUND TRANSACTIONS: SALES OF LIMITED PARTNERSHIP

The secondary private equity market has its foundations in the sale of limited partnership fund interests in private equity funds. In its simplest form, a fund interest transaction would entail the acquisition of a commitment to a private equity fund. Through the sale, the seller transfers its commitment to a secondary buyer including:

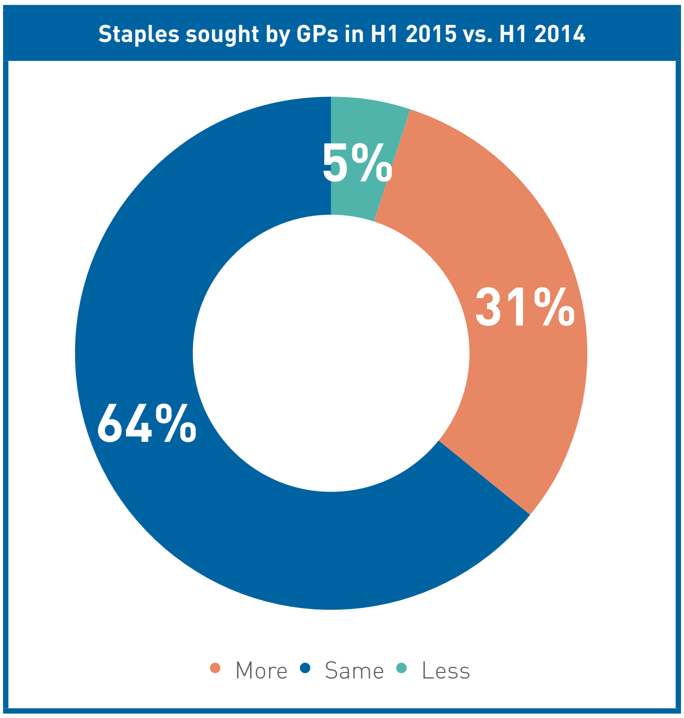
- The underlying investments in companies already made by the General Partner (GP) of the fund;
- All obligations under future capital calls made by the GP to the fund's new and follow-on investments; management fees and fund expenses (in other words, all unfunded commitments);
- The rights to receive future distributions from the sale of and/or dividends from the underlying investments.

Stapled transactions

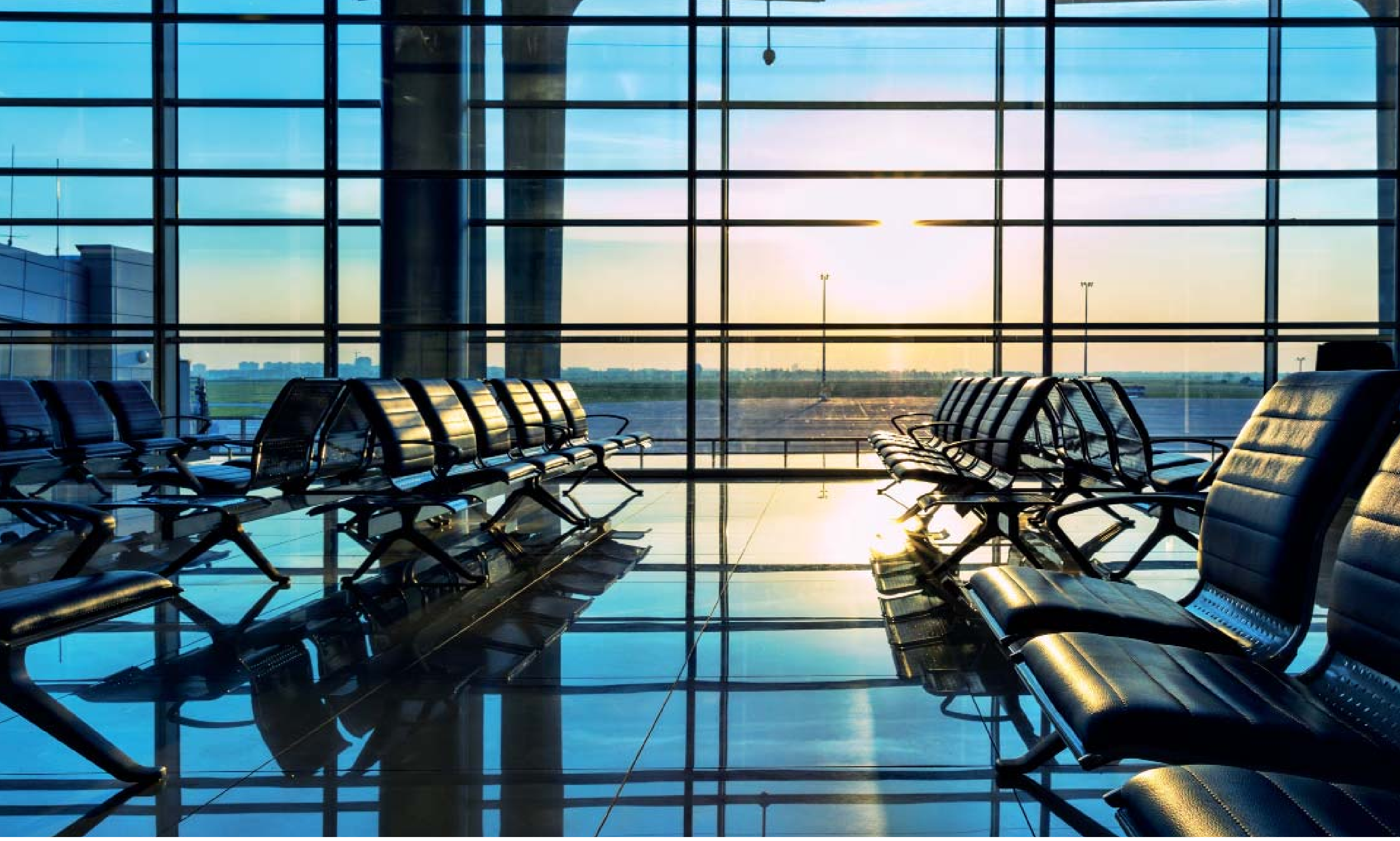
Over the past few years, the secondary market has become more exposed to stapled transactions (i.e. transactions where an investor acquires a position in an existing fund in combination with a blind-pool commitment to another fund managed by the same GP, usually in the fundraising phase). The increasing use of stapled transactions is due to several factors, namely:

- GPs are looking to enhance their relationships with their investor base as they acknowledge this is crucial to the success of their long-term business;
- Some LPs are unwilling or unable to invest in successor funds. Consequently, GPs are looking for new investors able to make new commitments;
- Certain GPs are experiencing difficulties in fundraising.

According to Setter Capital, 31% of respondents felt that a substantially higher number of GPs sought staples in H1 2015 compared to H1 2014.



Source: Guide to the Secondary market, Dow Jones



DIRECT SECONDARIES

Direct secondary transactions involve the simultaneous acquisition of direct interests in selected portfolio companies, rather than limited partnership interests in investment funds.
According to the Guide to the Private Equity Secondaries Market, published by BVCA in 2015, secondary direct transactions are usually complex in that they involve different types of participants with their own objectives and priorities for the deal.
Participants typically include:

- The seller;
- Other shareholders (excluding management) in the portfolio companies being sold;
- Management of each underlying portfolio companies;
- Banks;
- Secondary investors;
- GP to be hired (where applicable).

Sellers have to find a balance between the expectations of other shareholders in the portfolio companies with preemption rights to share transfers, the desire of buyers to cherry-pick the best assets, and their own objectives.

The seller's main objective is to keep timing as tight as possible while ensuring that all or at least a certain number of assets are sold in the deal in order to maximize proceeds.

Buyers, on the other hand, will be keen on minimizing prices as long as they can agree on a deal or win the auction. They will have to identify the key portfolio companies and ensure that their shares are being acquired during the transaction. Buyers will also have to make sure that key managers are retained and incentivized.

As highlighted by Private Equity International (PEI), secondary direct managers must be able to create value by themselves, where traditional secondary firms rely on the operational expertise of underlying GPs.

Direct secondary investing allows the manager to create value through a cherry-picking approach consisting of a thorough selection of underlying assets. Portfolio performance will depend on the capacity of the manager to choose the best-performing assets, but also on his/her capacity to repackage the portfolio in a separate vehicle and hire a GP capable of managing the portfolio post-investment.

In order to succeed, the manager must have the resources and ability to conduct due diligence as well as to value multiple assets. Operational expertise and historical knowledge of the underlying assets are therefore critical.

Flexible structuring is also an important component, particularly for mature transactions sourced from other GPs. As explained previously, these complex transactions involve numerous stakeholders with potentially differing objectives. Unlocking potential requires both diplomacy and creative restructuring.

TRANSACTION TRENDS

According to the breakdown of transaction types completed by managers of secondary funds in 2014 (Preqin), the single fund purchase is still the most common transaction type completed, with 77% of respondents stating they completed a transaction of this type last year.

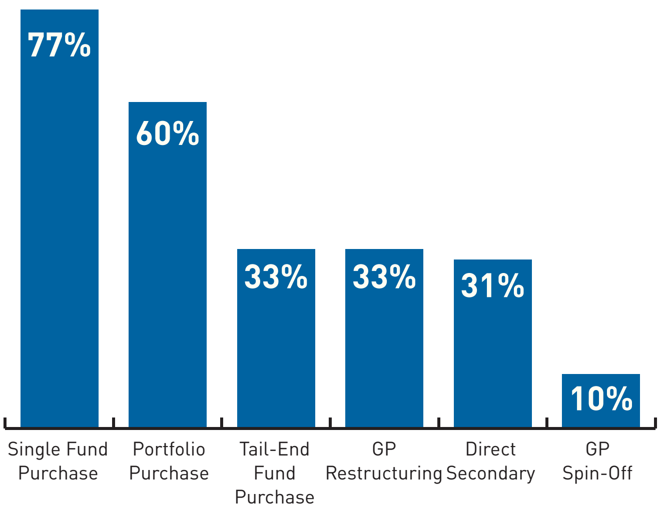
Similarly, 60% of respondents completed portfolio purchase transactions in 2014, while GP restructuring and tail-end fund purchases were mentioned by 33% of respondents respectively.

Given the percentage of managers that completed tail-end fund acquisitions in 2014, it appears that a substantial proportion of mature funds still had unrealized value. Moreover, 26% of the managers surveyed foresee an increase in their activity on this deal type in the upcoming months.

In recent years, the proportion of GP restructurings has increased. In this type of transaction, secondary buyers provide new capital to the GP while simultaneously buying out existing LPs. Even though restructuring is usually a complex undertaking, 19% of the buyers surveyed by Preqin are planning to close more restructuring deals in 2015.

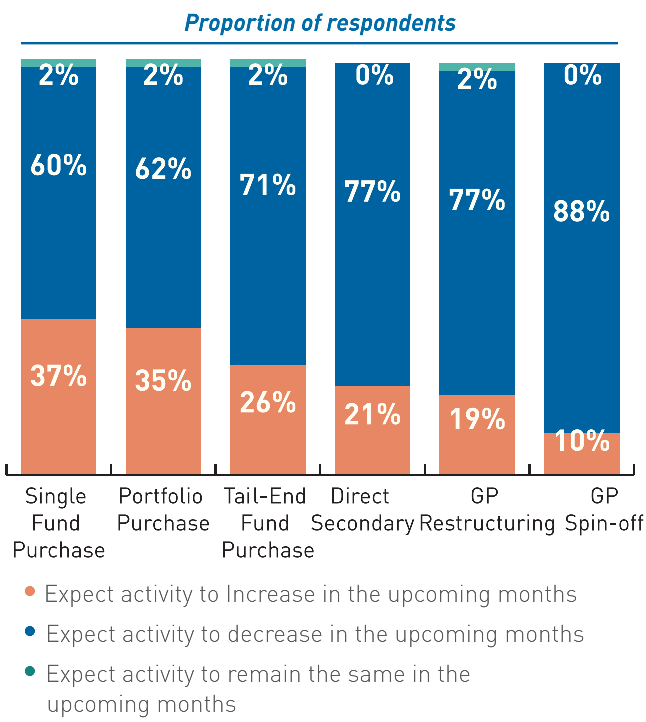
The amount of capital locked up in mature funds is reflected by the 31% of respondents that have completed direct secondary deals. In the upcoming months, 21% of the managers surveyed anticipate an increase in this type of transaction.

Breakdown of transaction types completed by managers of secondaries funds in 2014

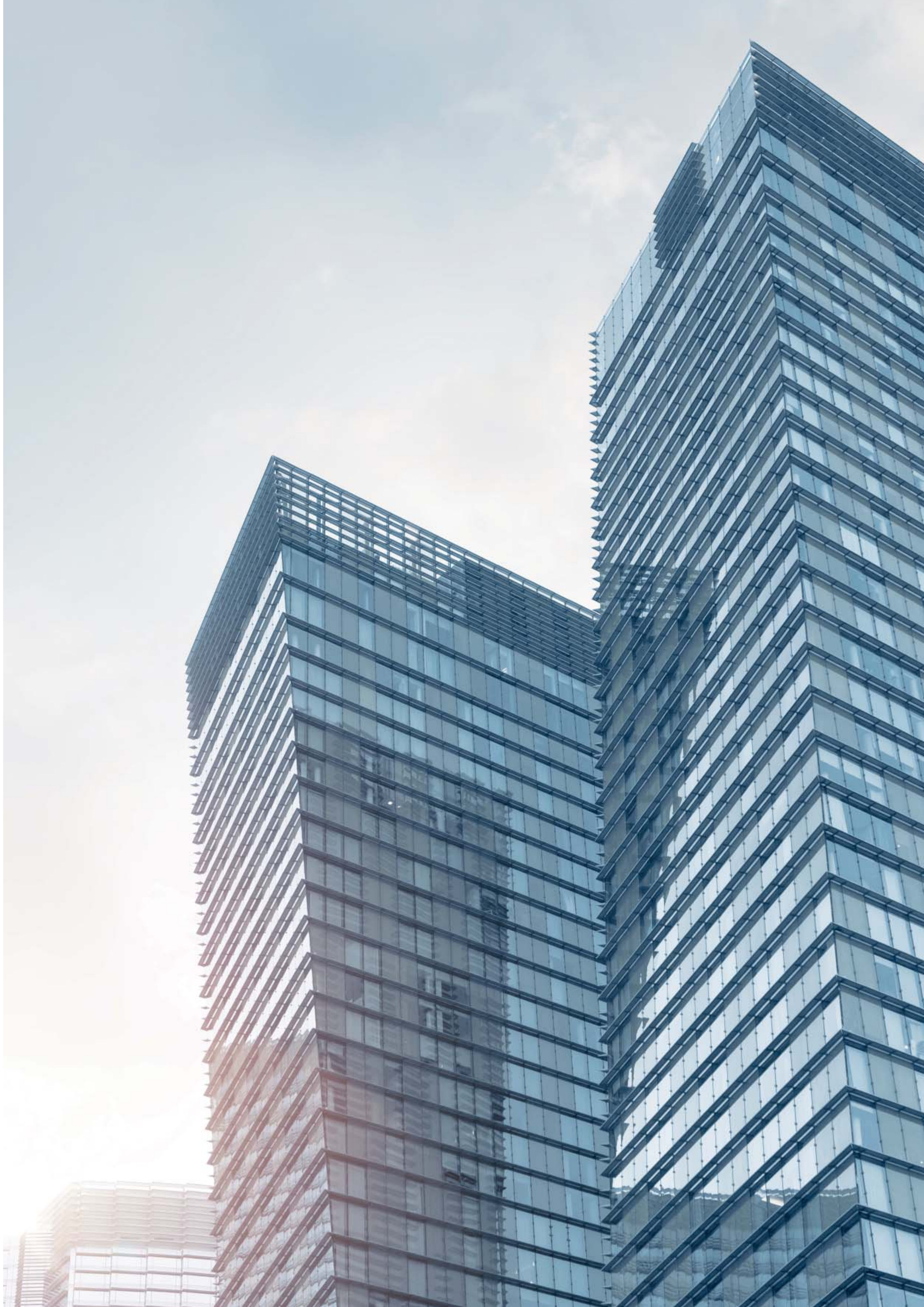


Source : Preqin Secondary Fund Manager Survey, February 2015

Managers of secondaries funds' expectations for the level of secondary market activity in the upcoming months by transaction type



Source : Preqin Secondary Fund Manager Survey, February 2015



4 SOURCING

INTERMEDIATED VS. PROPRIETARY

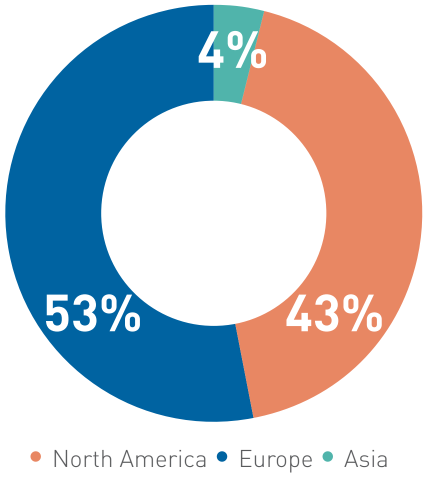
In recent years, secondary transactions have become more sophisticated and innovative to fit the needs of sellers, and the number of buyers has grown significantly. These changes have created opportunities for intermediaries.

On the seller side, intermediaries are responsible for generating competition for the interest in sales by approaching buyers. According to the Preqin survey, intermediaries also increasingly act on behalf of buyers, including both managers of secondary funds and non-dedicated institutional investors.

GPs also solicit intermediaries to manage increasingly complex restructuring processes as well as to be the link between LPs and prospective buyers. In addition, intermediaries may assist GPs in the disposal of portfolios of companies via direct secondaries.

Developing a strong relationship with appropriate intermediaries has become a key challenge for buyers of fund interests looking to find and complete deals, as 100% of large transactions are intermediated.

Breakdown of secondary intermediaries by location

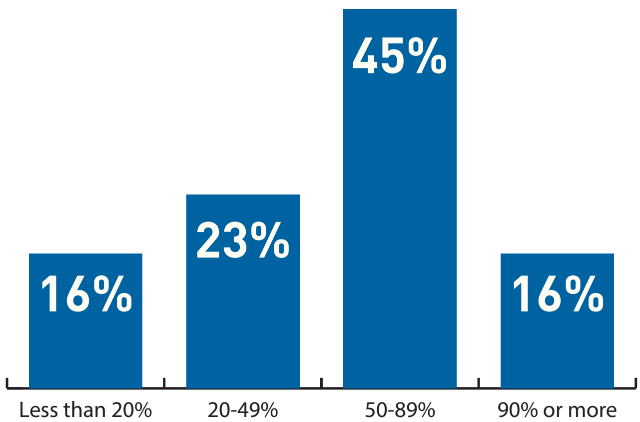


Source : Preqin Secondary Fund Manager Survey, February 2015

In the Preqin Secondary Fund Manager Survey, 61% of respondents indicated that 50% or more of the transactions they completed involved an intermediary on the buy side, the sell side or both.

Most of the intermediaries are based in Europe (53%), while 43% are located in North America.

Proportion of secondary market transactions in 2014 that used an intermediary



Source : Preqin Secondary Fund Manager Survey, February 2015

Nevertheless, small and mid-sized transactions constitute an area of the secondary market that remains relatively under-populated by intermediaries. First of all, intermediaries always receive a percentage commission on the deal, which reduces their interest in smaller transactions. Even when deals are intermediated, sale processes are often inefficient. This occurs for a wide range of reasons: for example, vendors often require a high level of confidentiality, which can hinder due diligence. Occasionally, the vendor may wish to remain anonymous until the deal is closed.

Under these circumstances, potential buyers may be asked to make a bid on the sole basis of the name of the fund involved and the size of the original commitment. In such cases, intermediaries will only approach investors who are known to have the required knowledge about the fund in question.

PRIMARY CAPACITIES

The secondary market has significant barriers to entry, especially in accessing limited or proprietary sale processes; but also in conducting full due diligence within short time frames on small, unknown companies and funds without any access to transparent information. Management companies with primary activities thus have a competitive advantage since the investment team can benefit from extensive sourcing as well as access to superior information and deals.

This is why GPs are increasingly using the secondary market to strengthen their relationships with LPs with whom they have already worked, but also to gain access to buyers with strong primary capabilities. GPs can benefit from buyers who demonstrate primary capabilities as they can court them for potential future funds. They are looking for long-term investment partners to deal with. In order to build these relationships with new LPs, GPs have become more proactive in securing transactions.

Moreover, GPs have managed to bring together multiple buyers with different strategies through global private equity platforms supporting dedicated direct, primary, secondary and co-investment capabilities, in addition to pure secondary buyers. This approach allows for a broad spectrum of buyer preferences. Unlike pure secondary firms, fully integrated private equity firms with both primary and secondary capabilities offer access to more GPs and constant interaction with them, as well as regular update on the underlying investments. They are also able to provide accurate information quickly and more efficiently.

5 TERMS & CONDITIONS OF SECONDARY FUNDS

Fund terms and conditions are one of the chief concerns of institutional investors active in the private equity market and they remain a sensitive issue in discussions between LPs and GPs.

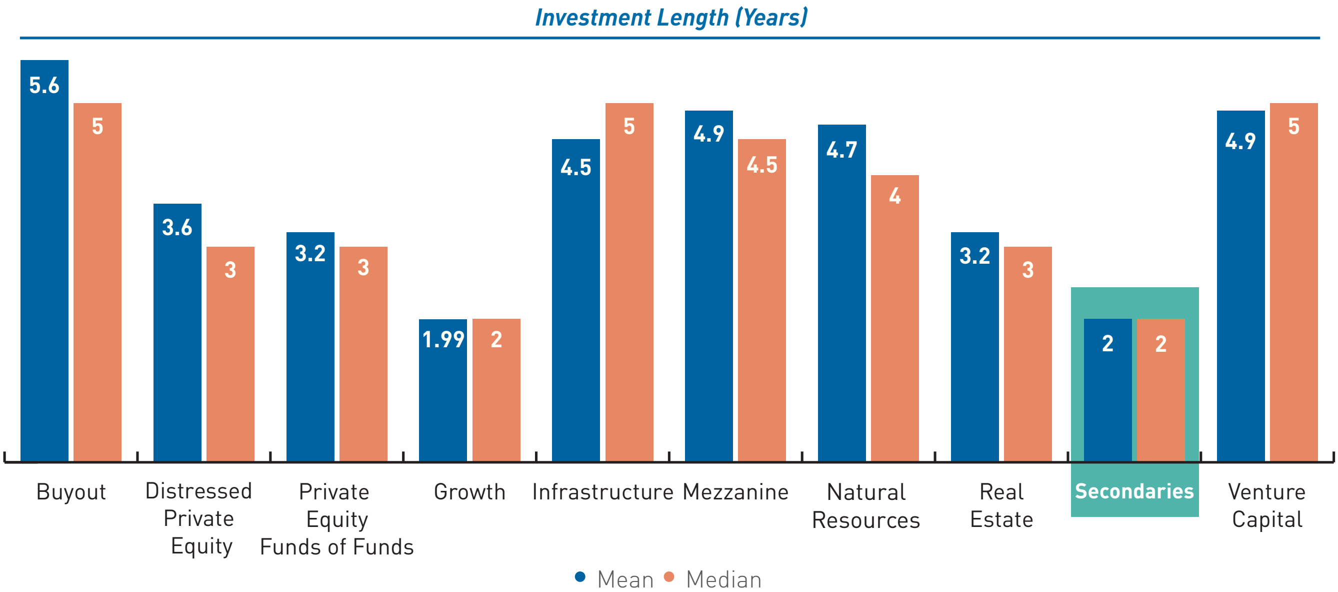
Management fees during the investment period are generally calculated as a percentage of the commitments made by the LP to the fund. The reason for this is that the main focus of the GP's workload during this period is the search for potential investments, driven by the size of total commitments to the fund and not the actual amount invested at this point in the fund's life.

Moreover, management fees based only on the invested capital can lead to a non-alignment of interests between the GP and the LPs, as the GP will be inclined to deploy the fund rapidly, to the detriment of fund's performances.

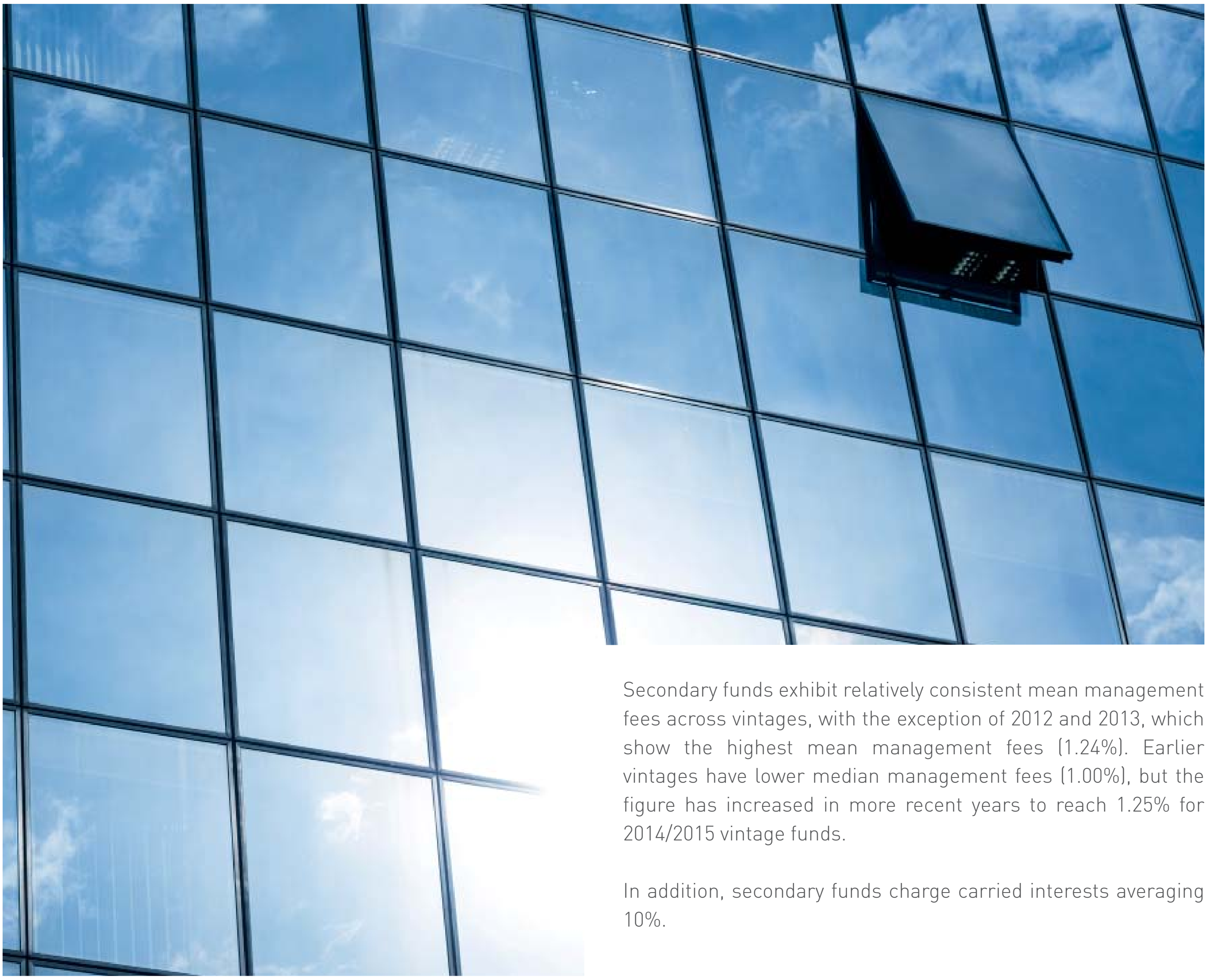
As management fees generally decrease after the end of the investment period, the length of the investment period as stated in the fund's terms by the GP is an important factor for LPs.

The mean and median investment periods by type of fund are presented in the graph below. Respondents are funds currently raising capital and not having started their investment period, or vintage 2013/2014 funds.

Average Duration of Investment Period by Fund Type



Source : Preqin

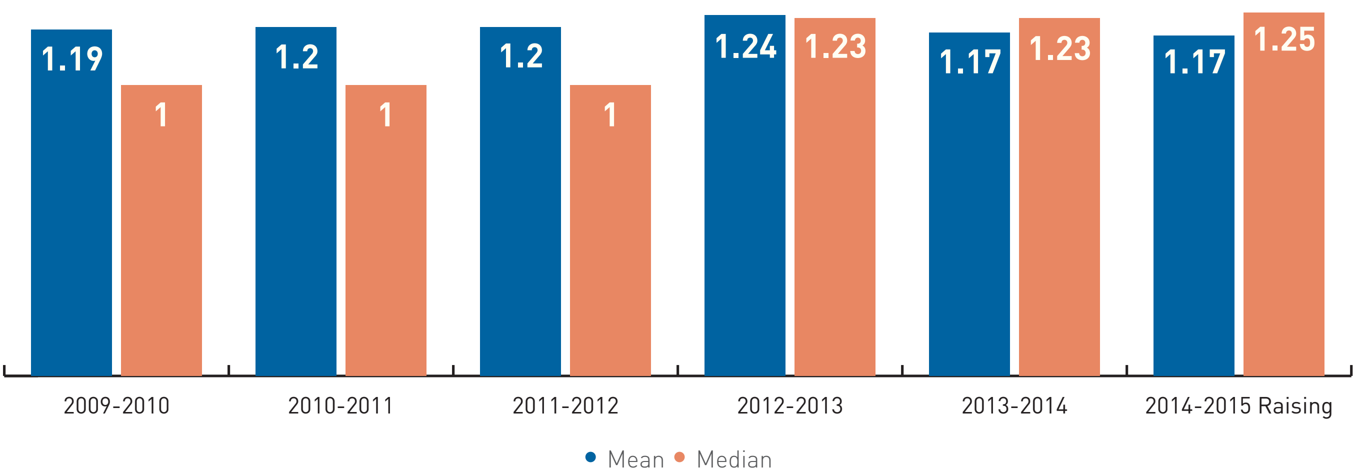


Secondary funds exhibit relatively consistent mean management fees across vintages, with the exception of 2012 and 2013, which show the highest mean management fees (1.24%). Earlier vintages have lower median management fees (1.00%), but the figure has increased in more recent years to reach 1.25% for 2014/2015 vintage funds.

In addition, secondary funds charge carried interests averaging 10%.

Average Management Fees by Vintage Year

Investment Period Management Fee (%)



Source : Preqin

6 RISK-RETURN PROFILE & PERFORMANCE

As the secondary market has experienced substantial development within the past decade, growing by 500% between 2004 and 2014, it has proven to be not only a means of securing liquidity, but also a valuable portfolio management tool, providing LPs with the flexibility to enhance the risk-return profiles of existing portfolios.

Secondary funds exhibit favorable risk-return profiles because secondary investments demonstrate the ability to decrease or even eliminate the risk of entering a blind pool and to improve the visibility and predictability of the expected exit from the underlying asset.

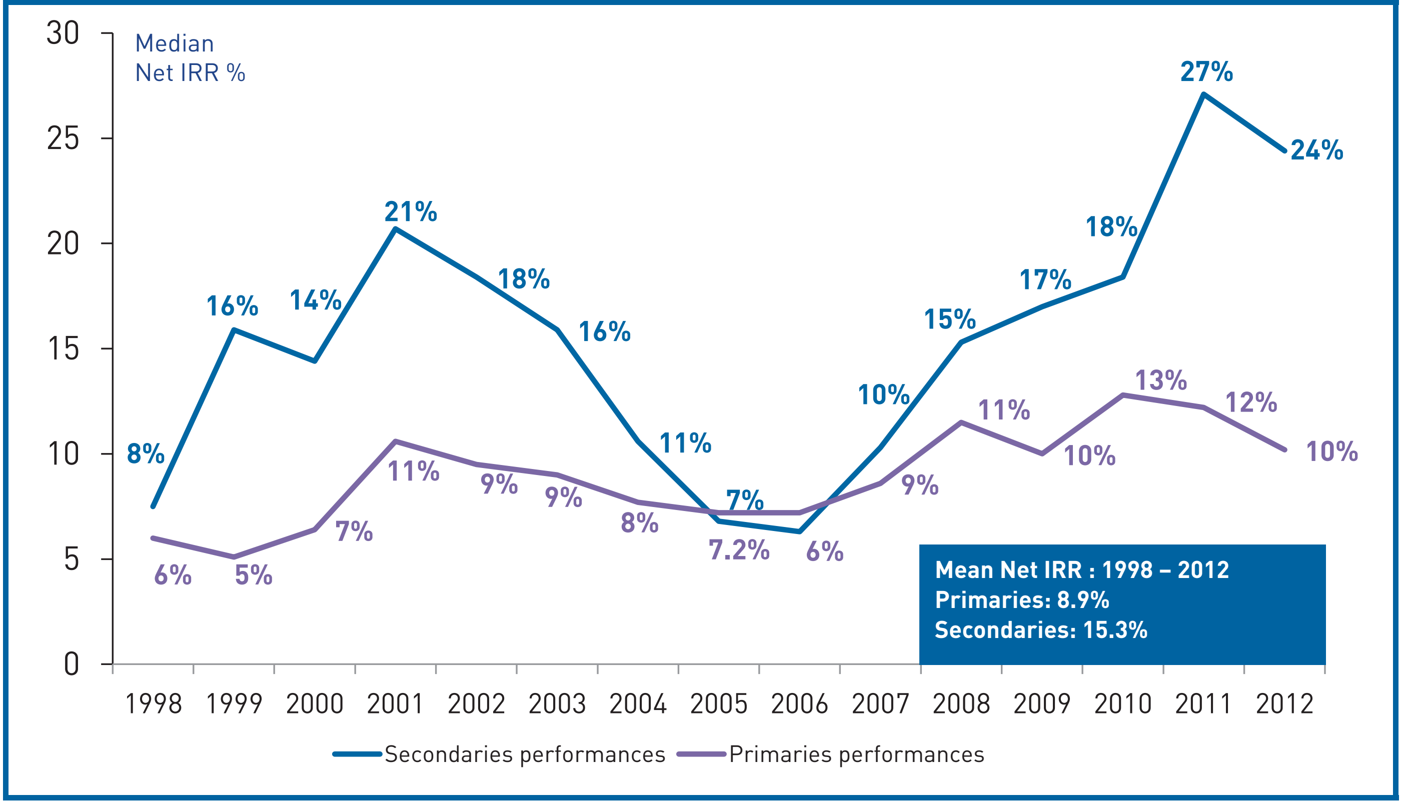
These risk-return profiles are driven by the following factors:

- Better visibility on costs and performance of mature assets in portfolios that are already majority-drawn down. This decreases/eliminates the risk of entering a blind pool. Therefore, secondaries experience lower loss rates.
- Mitigation of the J-curve effect by entering a fund at or after breakeven. Funds are already in a later phase stage with early positive cash flows or distributions.
- Ability to buy at a discount to NAV, thereby increasing potential returns.
- Retrospective diversification, providing access to earlier vintage years.
- Portfolio weighting: opportunity to gain or increase exposure to first-time funds, sectors, geographies or stages that have proven successful over a number of years or to optimize overall portfolio construction.

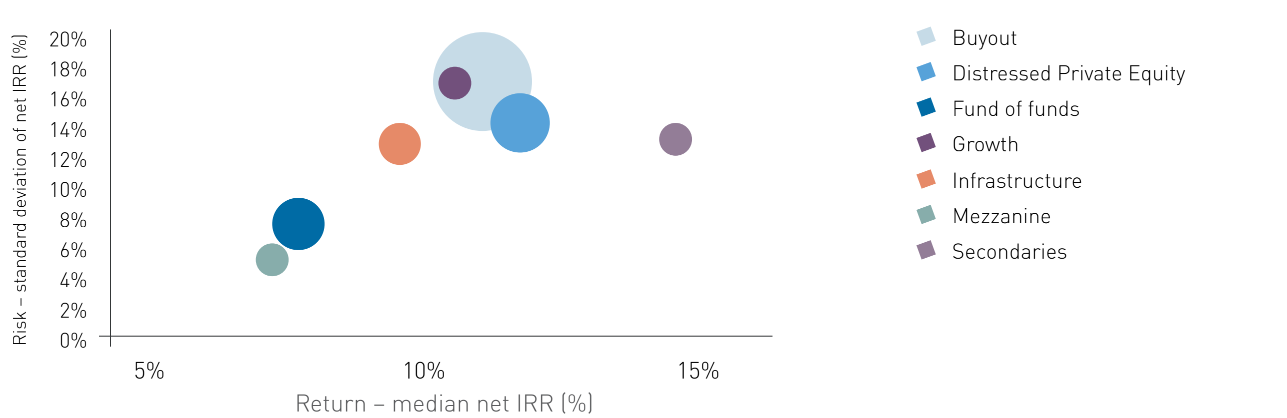
According to Preqin, secondaries' median net IRR appears to be more volatile than primaries'. Excluding the most recent vintages, the median net IRR fluctuates from 6% to 21% with an average of 13.6% across vintages. An indication of the volatility of secondary funds is given by the net IRR performance for top and bottom-quartile funds. Essentially owing to the impact of the discount, more apparent for recent investments, the latest vintages have a higher IRR.

In 2015, the pricing environment and the high number of buyers put pressure on potential returns. Yet the return expectations were higher than they were in 2014. According to a study conducted by Greenhill Cogent, the average expected return from secondary funds of 2015 vintage remains fairly high at 20% (vs. 19% in 2014).

EUROPEAN PRIMARIES VS SECONDARIES PERFORMANCES – PREQIN



RISK-RETURN PROFILES



Source : Preqin

As shown in the table below provided by Cambridge Associates, the Secondary Funds Only Index (which compiles data from 188 secondary funds formed between 1991 and 2014) performs well over the long run. As an example, the net return of the Secondary Funds Only Index is 47% higher on average than the S&P 500 return, and 40% higher than the Wilshire 5000 Total Market over a period of 10 years. The Wilshire 5000 Total Market is a weighted index of the market value of 3,691 stocks actively traded in the United States (most of them are publicly traded).

SECONDARY FUNDS ONLY FUND INDEX SUMMARY: END-TO-END POOLED RETURN
NET TO LIMITED PARTNERS

Index	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Secondary Funds Only Index	**9.84**	**11.99**	**13.76**	**11.76**	**12.00**	**13.18**
S&P 500	12.73	15.11	14.47	8.01	4.15	9.39
Wilshire 5000 Total Market	12.23	16.19	14.56	8.41	4.60	9.54

Source : Cambridge Associates

It is also possible to evaluate secondary performances through a public market equivalent (PME).

The public market equivalent is a performance measure that calculates an alternate internal rate of return (IRR) by applying the investment cash flows of the private equity vehicle to a public benchmark. Thus, the performance of a private equity holding can be compared with that of a roughly equivalent stock market investment.

The alternate PME IRR represents the return an investor could have obtained by buying or selling the index every time there was a capital call or distribution by the private equity fund.

The public market equivalent table shows the performance of secondary interests over time, with performances significantly higher on average than the S&P 500 Index and the MSCI World Index.

SECONDARY FUNDS ONLY FUND INDEX SUMMARY: END-TO-END POOLED RETURN COMPARED TO CA MODIFIED PUBLIC MARKET EQUIVALENT (MPME) *NET TO LIMITED PARTNERS*

CA Index	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Secondary Funds Only Index	**9.84**	**11.99**	**13.76**	**11.76**	**12.00**	**13.18**
mPME Analysis						
Russell 2000 Index	7.75	15.49	14.79	10.84	10.53	10.78
Value-Add (bps)	209	-450	-103	92	147	241
MSCI World Index	6.10	12.47	10.41	7.67	7.22	7.57
Value-Add (bps)	374	-48	335	409	478	561
S&P 500 Index	12.90	16.26	14.84	10.29	9.24	9.77
Value-Add (bps)	-306	-427	-108	147	276	342

Source : Cambridge Associates

7 SOURCES

- *Secondary Market Trends & Outlook,* Greenhill Cogent, July 2015
- *Funds of Funds and Secondary Funds Index and Benchmark Statistics*, Cambridge Associates, March 2015
- *Preqin Special Report: Private Equity Secondary Market*, Preqin, March 2015
- *Guide to the Secondary Market*, Dow Jones Private Equity Analyst, 2015 Edition
- *Setter Capital Volume Report, Secondary Market H1 2015*, Setter Capital, 2015
- *New Strategies for Risk Management in Private Equity*, Capital Dynamics, May 2014
- *White Paper – Private Equity Secondaries*, Capital Dynamics, June 2014
- *Guide to the Private Equity Secondaries Market*, BVCA – British Private Equity & Venture Capital Association, February 2014

Idinvest Partners

117, Avenue des Champs Elysées - 75008 Paris
+33 (0) 1 58 18 56 56 - www.idinvest.com
RCS Paris: 414 735 175
Management company approved
by the French Financial Market Authority (AMF)
under the number GP 97-123