Prior to the financial crisis of 2008, the secondary market for alternative investment funds (private equity, real estate, infrastructure, hedge and real asset funds) largely consisted of sales by distressed and other highly motivated sellers to a limited number of dedicated players, such as secondary funds and certain funds of funds. Funds sold were predominantly private equity, with very little in the way of real estate, hedge funds, or other alternatives changing hands.

The market has grown significantly in recent years with record capital raises by secondary funds and the marked increase in participation of all types of limited partners, both on the opportunistic buying and selling fronts. Furthermore, the increased participation of intermediaries, and the emergence of active markets for real estate and hedge funds and to a lesser extent timber and infrastructure funds, have contributed to this tremendous growth.

Based on actual data (i.e. not a survey) obtained from approximately 2000 of the largest global institutional investors in alternative investment funds that Setter Capital covers, we have observed the following:

- Half of major institutional investors are opportunistic sellers[1] that have checked market pricing on over USD 75 billion in fund commitments in the last eighteen months (see Appendix A).
- One third of major institutional investors are opportunistic buyers (see Appendix B).
- The breadth of the secondary market has increased significantly – with institutions actively buying and selling all types of funds across private equity, real estate, infrastructure, timber and hedge funds (see Appendix C).
- All types of institutions, from pensions to endowments to secondary funds are active in the market, buying and selling (see Appendix D).

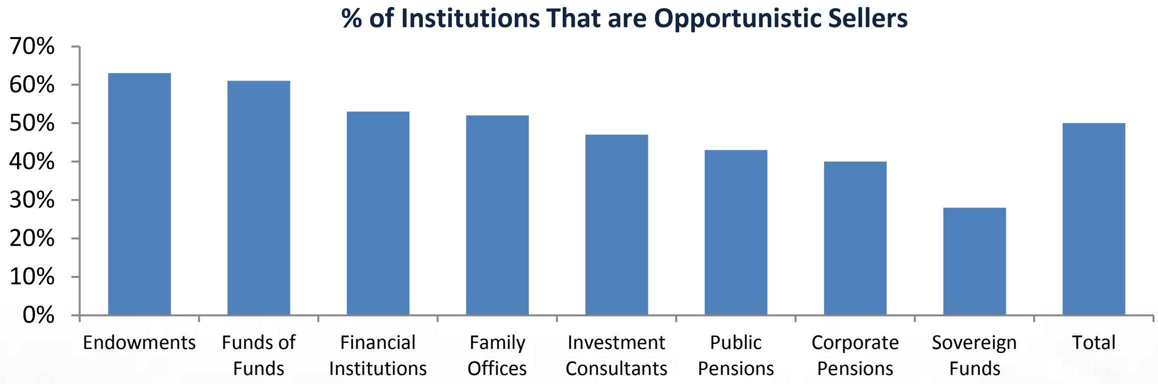
Although we do not present comparable historical data from the last cycle, we are comfortable in stating that liquidity in the secondary market is much higher today, driven by an ever increasing number of buyers and sellers. On average, an investor is able to receive more offers, in less time, for a given fund than in the past. Furthermore, the range of funds for which there is ready demand has increased dramatically – now holders of most funds across the spectrum of private equity, infrastructure, timber, real estate or hedge fund side pockets are able to access multiple knowledgeable, motivated, and competing buyers.

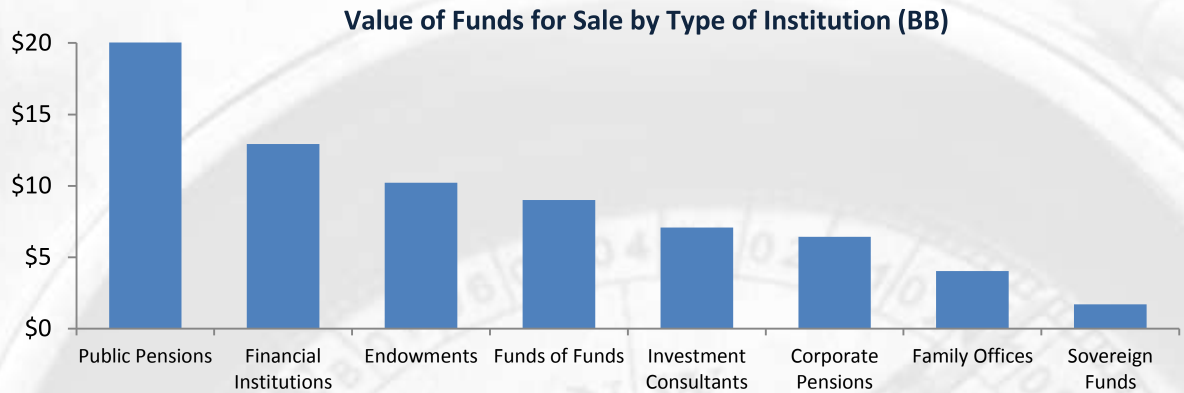
We believe that one benefit of the maturing secondary market is that the illiquidity risk of alternatives has been reduced materially relative to other asset types/classes (e.g. real estate direct investments, block holdings of listed equity, etc.). This may partially explain why alternative fund investors are willing to underwrite to lower returns than in years past.

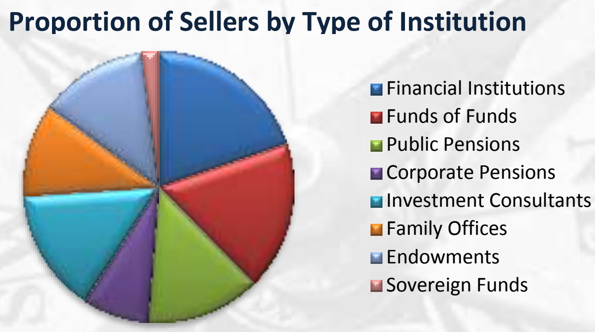
[1] The words buyer and seller refer to institutions that have indicated interest to buy or sell specific funds over the last eighteen months. As their seriousness to transact varies, pricing expectations may or may not be close to market clearing prices.

APPENDIX A: Supply Has Grown Significantly

Half of all major institutional investors are opportunistic sellers of over 75 billion in funds[2]





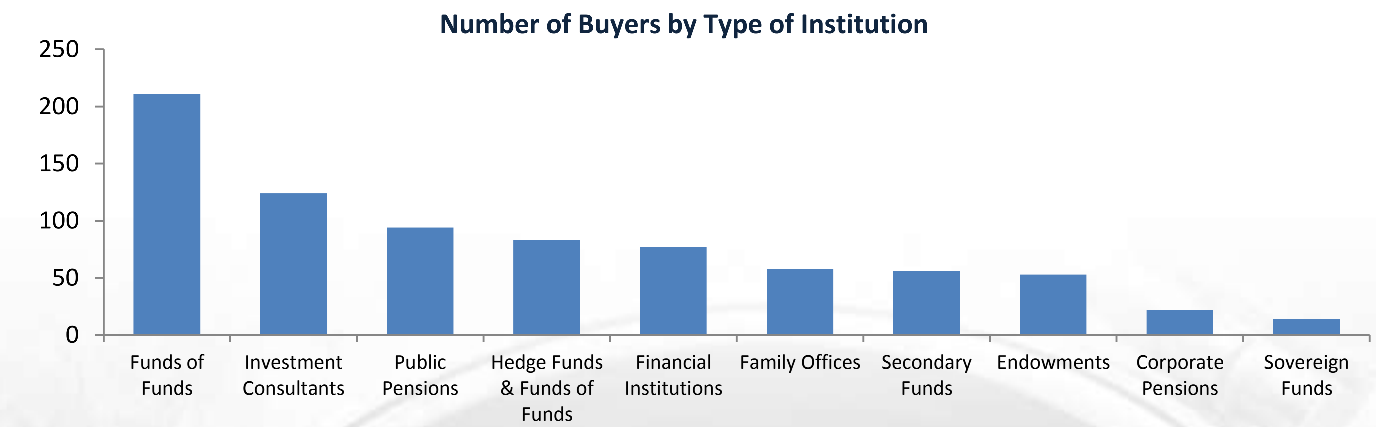


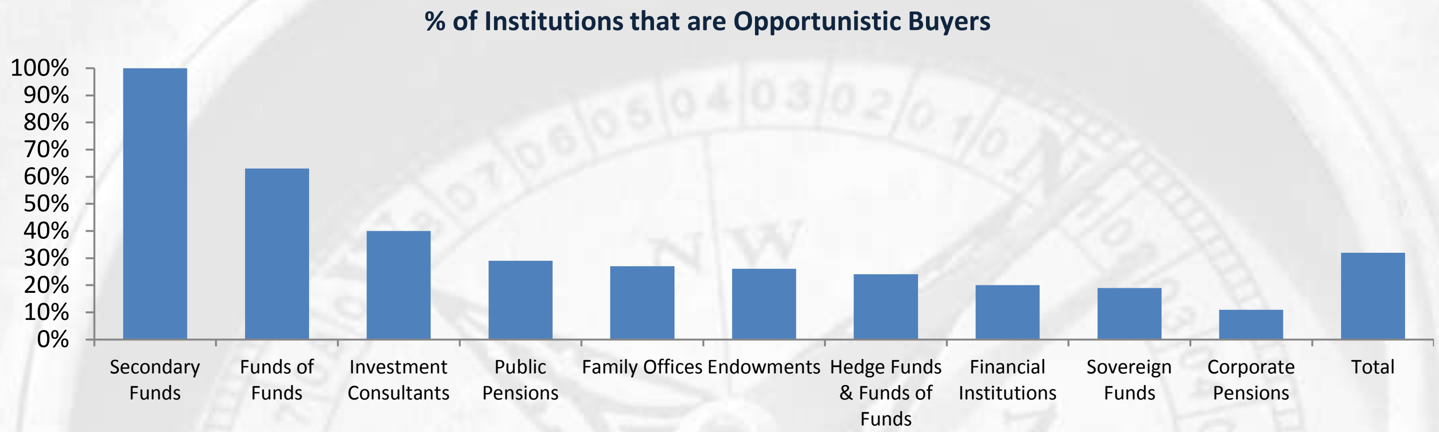
These charts do not show which types of institutions are the most motivated and serious, which, in our experience continues to be financial institutions and pensions. We expect in 2013, as in 2011 and 2012, that financial institutions and pensions will drive the majority of sales volume. Also, please note that funds of funds include listed funds of funds, which are often in a state of liquidation.

[2] Value of Funds for Sale is predominantly based on commitment sizes of funds that sellers shared with Setter over the past 18 months. In cases where sellers shared older (pre-2003) commitments or a seller engaged another intermediary, Setter used conservative estimations for value.

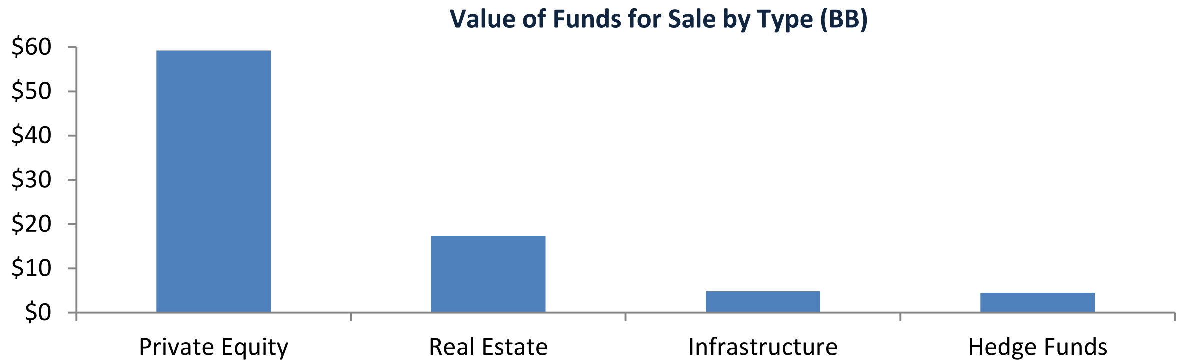
APPENDIX B: Demand Has Grown Significantly

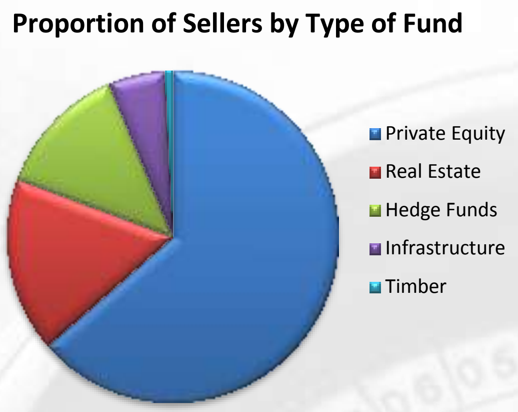
One third of major institutional investors are opportunistic buyers

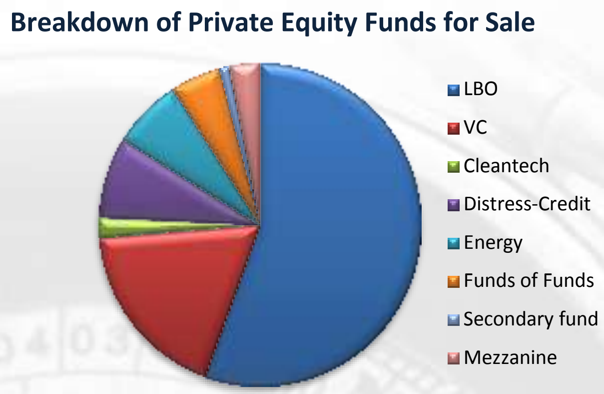


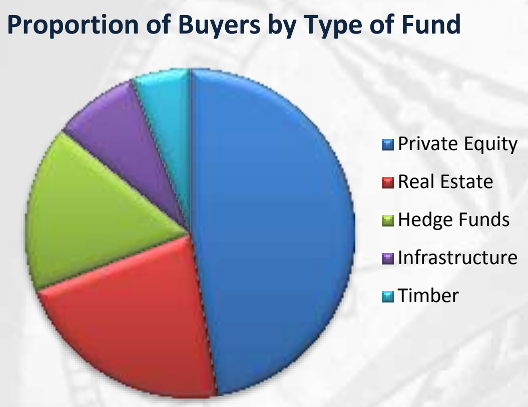


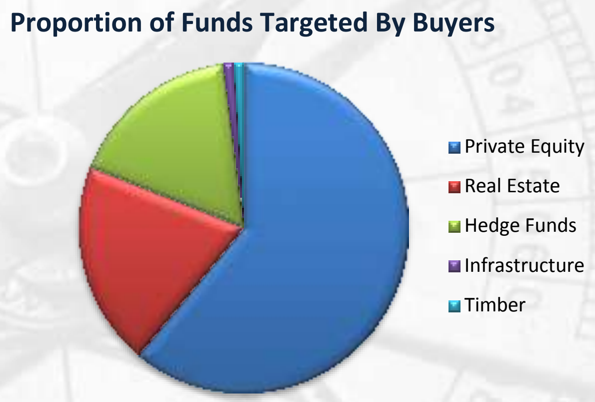
APPENDIX C: Market Breadth Has Grown Significantly











Please note that although sellers of hedge funds make up 13% of all sellers, the sale value of these funds is much smaller relative to other alternatives, as the average size of hedge fund side pocket interests is quite small.

APPENDIX D: Secondary Participation by Type of Institution

	Selling						Buying
Type of Institution	Private Equity	Infra-structure	Real Estate	Hedge Funds	Real Assets	**Total**	**Total**
Corporate Pensions	26%	2%	14%	5%	1%	40%	11%
Public Pensions	25%	2%	13%	4%	1%	43%	29%
Endowments	47%	1%	22%	6%	4%	63%	26%
Family Offices	44%	1%	6%	5%	1%	52%	27%
Financial Institutions	40%	2%	10%	4%	0%	53%	20%
Funds of Funds	50%	0%	13%	0%	0%	59%	63%
Investment Consultants	26%	2%	12%	9%	2%	49%	40%
Sovereign Funds	18%	0%	8%	1%	1%	28%	19%

This table lists several institution types and the percent of whom are selling a specific type of fund and the percent that are selling or buying in total. Percentages by fund type may add up to more than the total, as some institutions are selling several types of funds concurrently. Some institution types were not included in the above table such as hedge funds, hedge funds of funds and secondary funds.