

Setter Capital Volume Report

Secondary Market H1 2014



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Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2014 and covers the following topics:

- Total Volume of Secondary Deals
- Secondary Volume H1 2014 vs. H1 2013
- Breakdown of Volume between Funds and Directs
- Breakdown of Volume by Type of Assets Purchased
- Breakdown of Volume by Geography of Assets Purchased
- Profile of Buyers
- Number of Deals and Average Deal Size
- Buyers' Scope of Interest
- Profile of Sellers
- Percentage of Intermediated Deals
- Predicted Secondary Deal Volume for FY 2014



H1 2014 in Review

H1 2014 marked the busiest period for the secondary market to date. Volume was up 47% from the same period last year, driven by new and incumbent buyers who optimistically and aggressively put money to work and the large number of sophisticated LPs who executed on opportunistic sales they had been contemplating for years. Indeed, Setter Capital had its most successful first half with \$2.8 billion in completed transactions.

In addition to higher dollar volumes in almost all areas, the first half saw an even greater increase in the number of transactions reflecting these same trends and the broader adoption of secondary market strategies employed by active LPs. More and more investors are becoming permanent fixtures on the secondary market, seeing it as an important portfolio management tool.

The Survey

As the secondary market continues to grow and evolve, we seek to take a comprehensive and methodical approach to quantifying the market and identifying trends. Using a survey approach, we asked principals directly the same questions that buyers, sellers, agents and secondary fund LPs often ask us. How much was completed in H1 2014? How much was completed in venture capital, real estate, infrastructure and hedge fund secondaries? How much of the market is intermediated?

This report summarizes the results of our survey of the most active buyers in the secondary market for alternative investment funds conducted mid-July 2014. Volume is defined as total exposure (NAV + unfunded in USD) purchased by the respondents and participants included only deals where a binding agreement (e.g. P&S) was entered into during H1 2014.

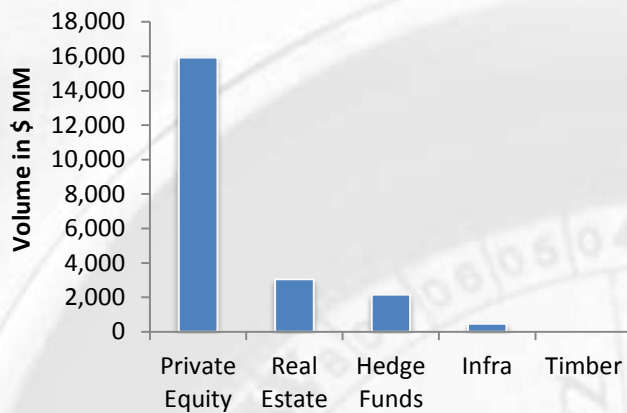
We were pleased by the high response rate – of the 126 most active and regular buyers in the secondary market, 81 agreed to participate (see [partial list of participants](#) on page 15). Being mindful of response bias, we compared the list of respondents to those who had declined to respond, and did not find any meaningful or obvious differences in the known and observed levels of activity between the two groups. For example, 3 of the largest 6 secondary funds declined to participate. We then estimated and charted the total volume, number of transactions, and other reported figures herein by prorating the survey results based on the proportion of small, medium and large buyers that participated.

We hope you find the results interesting and useful. We welcome any questions and would be happy to provide further insights into the results.

Total Volume

Total secondary market volume for H1 2014 was \$22 billion. We derived this figure by taking the \$14.3 billion in volume reported by the 81 survey respondents and grossing it up in proportion to the number of small, medium and large active buyers that did and did not participate. \$22 billion is the volume of secondary purchases of the 126 secondary buyers with long-time dedicated secondary efforts that include 87 secondary funds, 33 funds of funds, 12 hedge fund focused secondary funds, 12 investment consultants, two pensions and one insurance company. We believe this estimate is conservative, as it does not include the activity of over 1000 opportunistic and non-traditional buyers, whose combined activity may be significant. For instance, the activities of all sovereign funds (including ADIA, ADIC, GIC, Temasek, etc.) were excluded entirely, even though some have recently built teams dedicated to secondary purchases.

Type of Assets Purchased



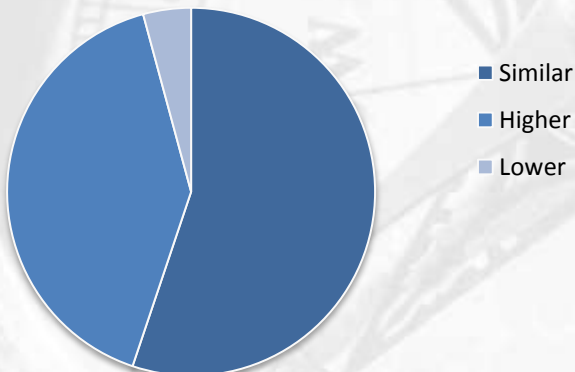
Private Equity (Directs¹ & Funds): \$16 Billion

Real Estate Funds: \$3.0 Billion

Hedge Funds: \$2.2 Billion

Infrastructure Funds: \$0.5 Billion

How Total H1 2014 Volume Compared to H1 2013 Volume?



This year's volume represents a 47% increase over H1, 2013 volume which was \$15 billion.

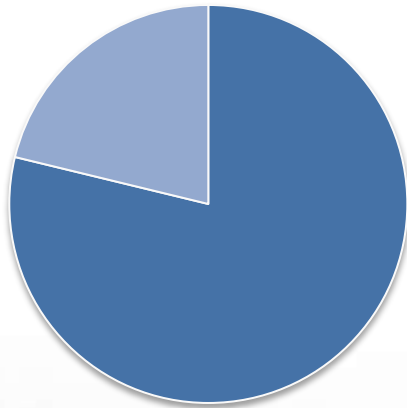
Consistent with this figure, 41% of respondents said H1 2014 volume was significantly higher than H1 2013, 55% felt it was similar and only 4% felt it was significantly lower.

Private Equity secondary volume increased from \$12 billion to \$16 billion, a 33% increase. Real estate volume remained roughly the same comparing to H1 2013.

¹ Directs include fund recapitalizations and restructurings, fund liquidations, and purchase of single minority stakes and co-investments.

Assets Purchased

Funds vs. Directs

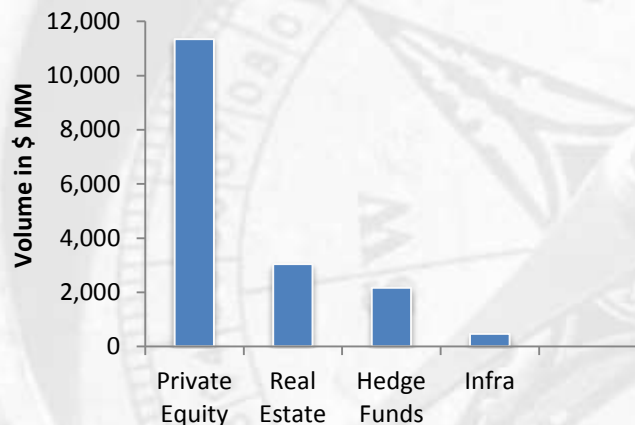


- Total Funds by \$ Volume
- Total Directs by \$ Volume

In H1 2014, \$17.0 billion of funds (79%) and \$4.6 billion of directs (21%) were purchased.

Secondaries of direct investments increased significantly from \$3.5 billion in H1 2013 to \$4.6 billion in H1 2014, which represents a 32% increase. This category includes the volume transacted in GP restructurings and purchases of single minority stakes and co-investments.

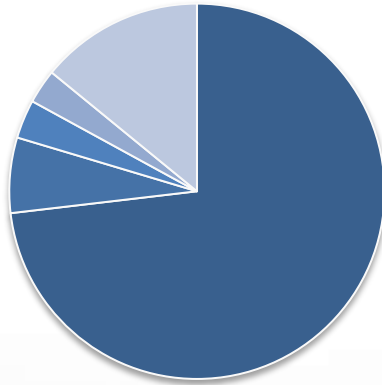
Breakdown of Fund Secondaries



- Private equity fund purchases totaled \$11.3 billion (~66% of total fund sales)
- Real estate fund purchases totaled \$3.0 billion (~18% of total fund sales)
- Hedge fund purchases totaled \$2.2 billion (~13% of total fund sales)
- Infrastructure fund purchases totaled \$0.5 billion (~3% of total fund sales)

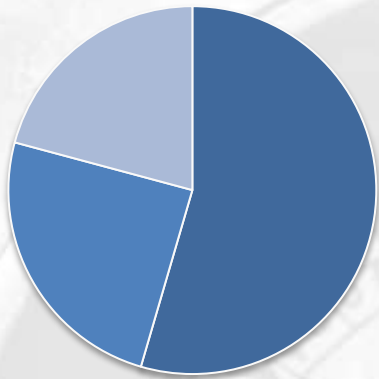
Types of Funds Purchased

Private Equity Funds Purchased



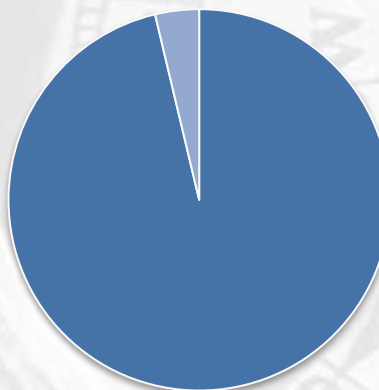
■ LBO	LBO – \$8.3 billion (73.1%)
■ VC	Energy – \$1.6 billion (14.1%)
■ Mezz	VC – \$0.7 billion (6.5%)
■ FoF	Mezzanine /Credit – \$0.4 billion (3.3%)
■ Energy	Fund of Funds – \$0.3 billion (3.0%)

Real Estate Funds Purchased



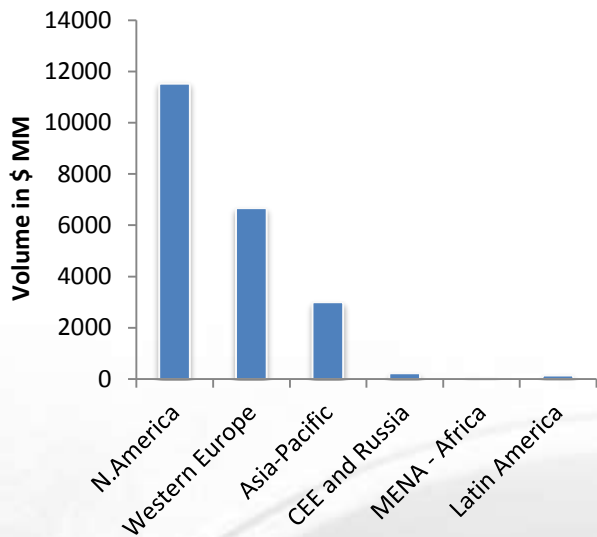
■ Core	Core – \$1.7 billion (54%)
■ Value	Value-Add – \$750 million (25%)
■ Opportunity	Opportunity – \$633 million (21%)

Hedge Funds Purchased



■ Side Pocket	Side Pockets – \$2.1 billion (96.3%)
■ Main	Main Funds – \$82 million (3.7%)

Geography of Assets Purchased

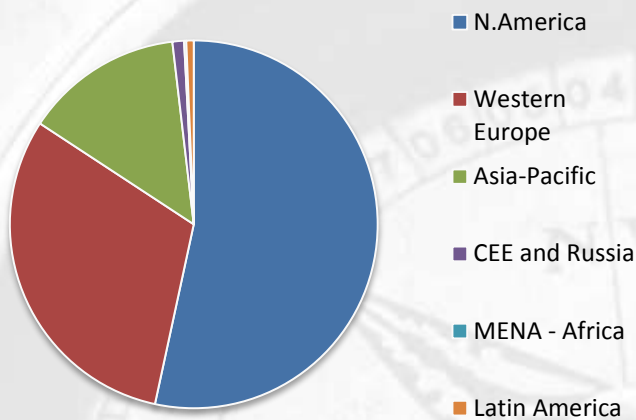


North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2014:

North America – \$11.6 billion

Western Europe - \$6.7 billion

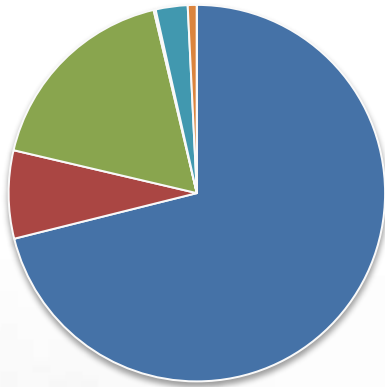
Asia-Pacific – \$3.0 billion



North American focused funds and direct investments accounted for over 50% of total volume, Western European assets accounted for 31% and Asia-Pacific focused funds/directs accounted for 8% of sales.

Profile of Buyers

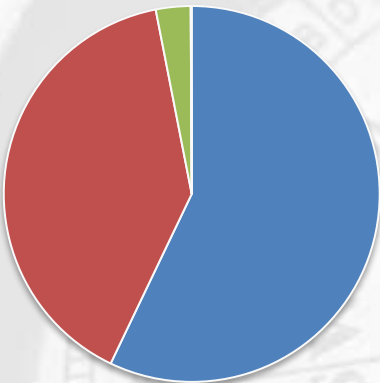
Types of Buyers



- Secondary Funds
- Hedge Sec/FoFs
- Funds of Funds
- Inv. Consultants
- Pensions
- Insurance
- Other

Secondary funds, funds of funds and hedge funds of funds/secondary funds were the most active buyers in H1 2014, with secondary funds accounting for 71% (\$15.4 billion) of total purchases, funds of funds accounting for 18% (\$3.8 billion), and funds of hedge funds/hedge fund secondary funds accounting for 8% (\$1.6 billion). Please note: over 1000 non-traditional buyers were not accounted for in our estimates.

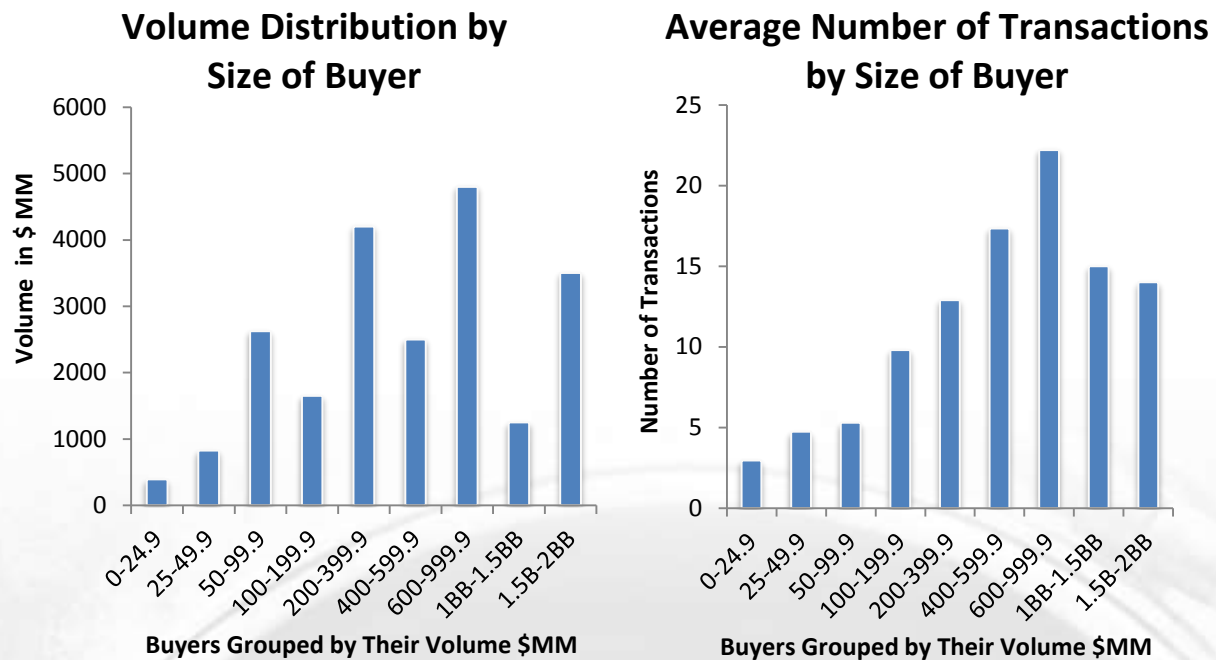
Location of Buyers



- N. America
- Europe
- Asia
- Other

North American buyers transacted the most (~57% of total volume) in H1 2014, followed by European buyers (~40%). Asian buyers accounted for 3% of total volume.

Activity Levels of Small, Medium and Large Buyers



Applying the survey respondents' dollar volume and transaction numbers while taking into consideration the proportion of small, medium and large buyers that did not participate, we estimated the market share of small, medium and large buyers as follows:

87 small buyers (defined as those that deployed less than \$100 million in H1 2014) purchased \$3.8 billion, representing approximately 18% of total volume across 356 transactions with an average deal size of \$10.7 million.

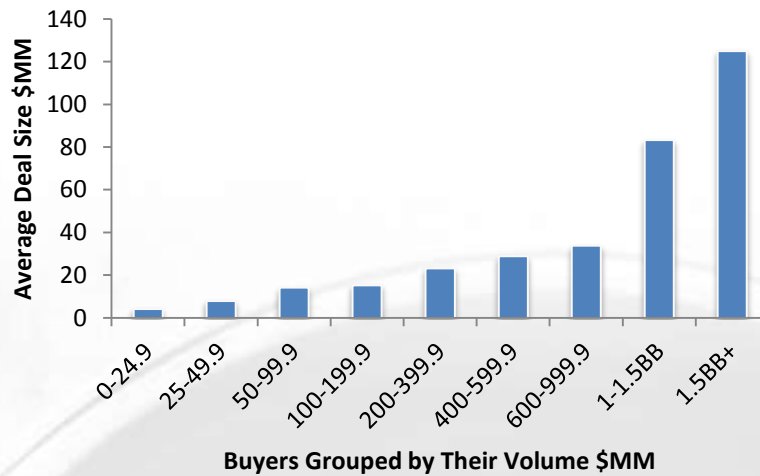
30 medium sized buyers (defined as those that deployed \$100 to \$600 million in H1 2014) purchased \$8.4 billion, representing approximately 38% of total volume across 348 transactions with an average deal size of \$24 million.

9 large buyers (defined as those that deployed more than \$600 million) purchased \$9.6 billion, representing approximately 44% of total volume across 213 transactions with an average deal size of \$44.9 million.

Number of Deals and Average Deal Size

Respondents completed approximately 606 secondary deals in H1 2014, from which we extrapolated an estimate of 917 transactions across the entire secondary market for alternative assets, with an average size of approximately \$23.5 million.

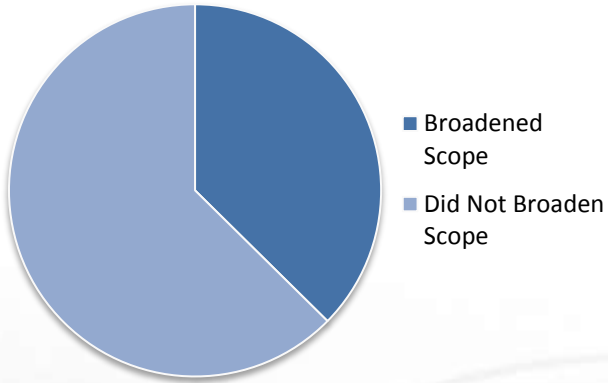
Average Deal Size by Size of Buyer



Interestingly, the average deal size decreased from \$28 million in 2013 to \$23.5 million in H1 2014, even though volume was up markedly.

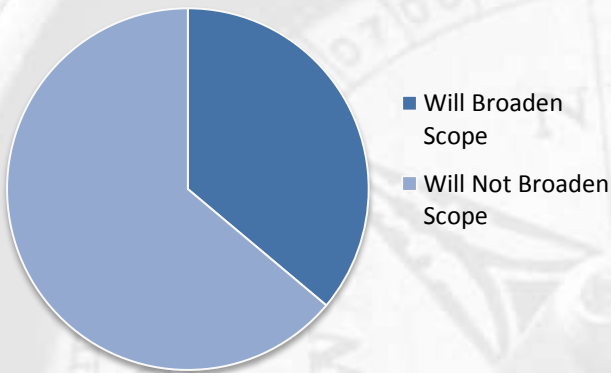
Buyers' Scope of Interest

Buyers that Broadened Their Focus in H1 2014



Approximately 37% of participants broadened their secondary focus in H1 2014 to include buying other alternative investment types (e.g. infrastructure, real estate, portfolios of direct, etc.). This percentage represents a 7% increase from 2013.

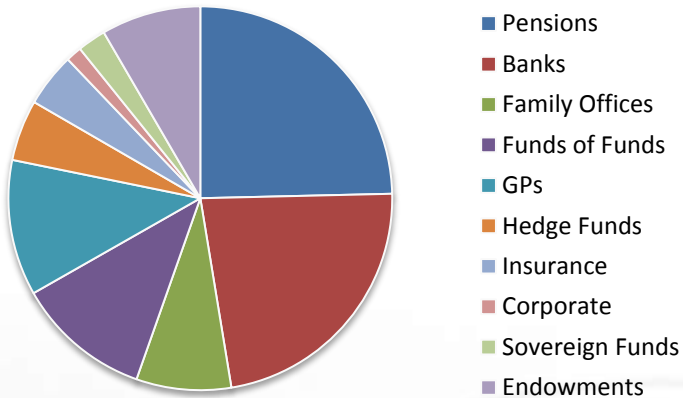
Buyers that Intend to Broaden Their Focus in 2014



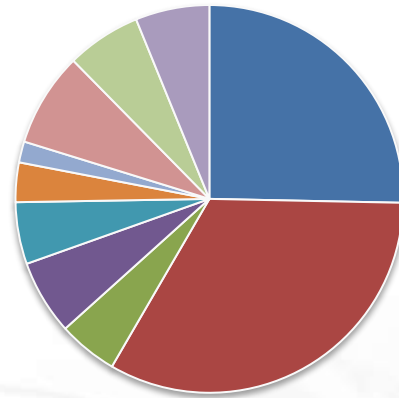
Approximately 36% of the participants plan to broaden their secondary focus in H2 2014 to include buying other alternative investment types. This percentage represents a 12% increase from 2013.

Seller Profiles

Types of Sellers in H1 2014

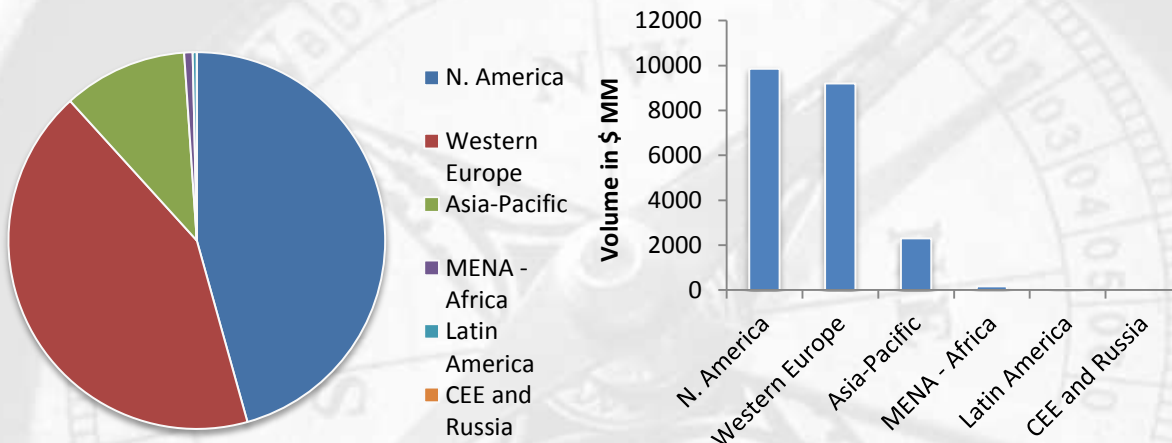


Expected Sellers for FY 2014



Pensions (25%) and banks (23%) were the most active sellers in H1 2014. Most buyers expect the trend to continue in H2 2014 with banks taking an increasing proportion.

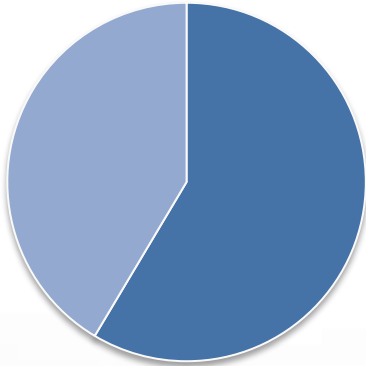
Geography of Sellers



In terms of Sellers' geographic locations, North America and Western Europe based sellers accounted for the vast majority of volume in H1 2014. North America based sellers sold \$9.9 billion (46%), whereas Western European based sellers sold \$9.2 billion (43%). Within Asia-Pacific, respondents noted that Australian sellers were particularly active.

Intermediaries

Volume Involving an Intermediary



- Total Volume Involving Intermediary
- Total Volume Not Involving Intermediary

The level of intermediation increased slightly compared to 2013.

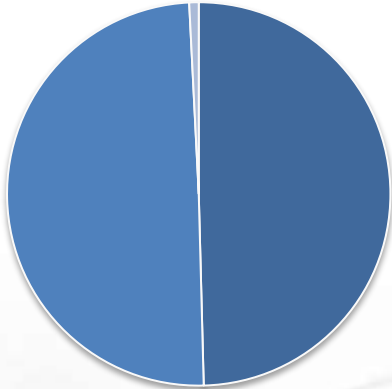
Approximately 59% (\$12.0 billion) of total secondary volume involved an intermediary, either on the buy or sell-side.

We expect the degree of intermediation in the secondary market to continue its rise in response to the entrance of new agents, and as sellers struggle to stay on top of the ever growing buyer universe.



Projected Volume for Full Year 2014

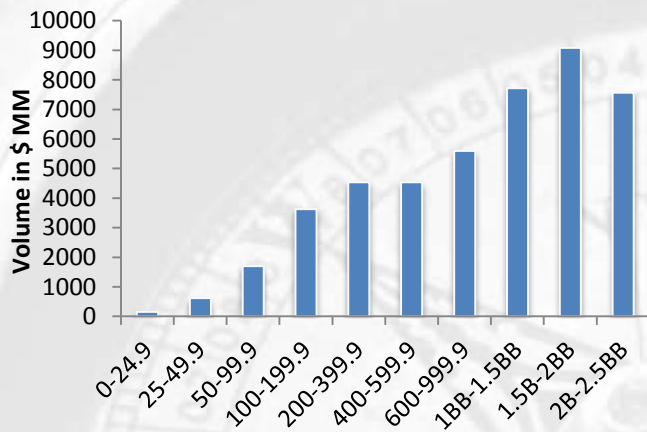
How Full Year 2014 Volume Will Compare to 2013



- Similar
- Higher
- Lower

The majority of respondents felt 2014 full year volume will be higher than 2013 or the same.

Predicted Volume for Full Year 2014



Buyers Grouped by Their Volume \$MM

Respondents predicted total volume for full year 2014 across all asset classes to be \$45 billion, which would represent a 25% increase over the \$36 billion transacted in 2013. Estimated FY 2014 volume is \$33.3 billion for private equity, \$6.3 billion for real estate, \$4.5 billion for hedge funds and \$1 billion for infrastructure funds.

Select Respondents

17Capital
Abbott Capital Management
Access Capital Advisors
Adams Street Partners
Adveq
Akina Partners
Alpha Associates
Auda International
Axe Capital
Canada Pension Plan Investment Board
Capital Dynamics
Casimir Capital
CBRE
Cipio Partners
Commonfund Capital
Coller Capital
Corbin Capital Partners
DAAM UK (Deutsche Bank)
Dorchester Capital Advisors
Evoco AG
Graphite Capital
Greenspring Associates
Hamilton Lane Advisors
HarbourVest Partners
Highland Associates Inc.
Hollyport Capital
Jasper Ridge Partners
Macquarie Group Limited
Merrill Lynch, Bank of America Corporation
Munich Private Equity Partners
Neuberger Berman
Northleaf Capital
Northern Trust Corporation
North Sky Capital
NorthStar Realty
Pantheon Ventures
Partners Group (Infrastructure)
Partners Group (Private Equity)
Partners Group (Real Estate)
PEI Funds
Permal Capital (Private Equity)
Permal Capital (Hedge Fund)
Pictet Alternative Investments
PineBridge Investments
Portfolio Advisors (Private Equity)
Private Advisors
RCP Advisors
Stafford Capital Partners
Siguler Guff Advisors
SL Capital
Stepstone
The International Woodland Company
TR Capital Group
Unigestion
Vintage Investment Partners
W Capital Group
Willowridge Partners