

Setter

Volume Report H1 2016

First In the Secondary Market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2016 and covers the following topics:

- › Total Volume of Secondary Deals
- › Secondary Volume H1 2016 vs. H1 2015
- › 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 2016
- › Changes in the Level of Competition
- › Changes in Debt Levels
- › Expected Returns of Secondary Purchases
- › Expected Distribution and NAV Changes in 2016
- › General Partners' Approach to the Secondary Market

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 2016? How much was completed in LBO, venture, real estate, infrastructure and hedge fund secondaries? What are the expected returns and debt levels?

This report summarizes the results of our survey of the most active buyers in the secondary market for alternative investment funds conducted early July 2016. Volume is defined as total exposure (NAV + unfunded in USD) purchased by the respondents, including only deals where a binding agreement was entered into during H1 2016.

We were pleased by the high response rate – of the 119 most active and regular buyers in the secondary market, 83 agreed to share their confidential results (see partial list of participants). Given the high response rate and the fact that nine of the ten largest buyers participated, the respondents to our survey represented 84.9% of the transaction volume, making it the most reliable and detailed study of the industry's activities.

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. 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.


H1 2016 in review

After several years of breakneck growth, the secondary market took a pause as the total volume of completed transactions decreased to USD 18.6 billion in H1 2016, from USD 20.6 billion recorded in the **Setter Capital Volume Report H1 2015**.

Although volume was down, the experience across different sectors was far from uniform. The private equity secondary market (funds and directs) decreased 7.3% year over year, to a total of \$15.3 billion. Real estate secondaries experienced the largest drop falling 36.7% to \$1.8 billion and hedge fund secondaries were down 13.1% as side pocket supply continued to evaporate. Energy fund secondaries were down slightly from \$350 million in H1 2015 to \$335 million in H1 2016 as low energy prices kept the 'bids' meaningfully apart from the 'asks'. Some noteworthy bright spots included infrastructure fund secondaries which increased 40% (\$614 million in H1 2015 to \$860 million in H1 2016) and venture fund secondaries which increased 55% (\$773 million in H1 2015 to \$1.2 billion in H1 2016).

While traditional fund secondaries were down 18% from \$15.3 billion in H1 2015 to 12.5 billion in H1 2016, 'direct secondaries' acted as a counterbalance, increasing 10.9% to \$6.1 billion (private equity directs were \$5.3 billion and real estate directs were \$800 million). Indeed, 49.3% of the survey respondents felt that more GPs attempted to liquidate or restructure older funds in H1 2016 compared to H1 2015 and 18.6% of respondents felt that a materially higher number of GPs had sought staples in H1 2016 as compared to H1 2015.

While the breadth and number of buyers continued to increase, the most significant activity was driven by the large buyers in the market. The ten largest buyers, defined as those that deployed more than \$600 million in H1 2016, accounted for 57.1% of the market's total volume (up from their 49% share in H1 2015), while 32 mid-sized buyers accounted for roughly 31.7% (vs. 35.2% in H1 2015) and 76 small buyers represented roughly 11.1% (vs. 15.8% in H1 2015). From a dollar perspective, small buyers had the most challenging first half with their total purchases down 35% from \$3.25 billion in H1 2015 to \$2.1 billion in H1 2016. Buyers continued to diversify their secondary focus with about 15% of participants buying other alternative investment types for the first time (infrastructure, real estate, etc.).



Buyer competition for deals continued to heat up in H1 2016 as noted by 95% of respondents who felt it was either similar or higher than last year. As a means to stay competitive, the use of debt to improve pricing and deal returns became even more prevalent as 15% of respondents felt that buyers had used significantly more leverage in H1 2016 as compared to the prior year.

Surprisingly, the level of intermediation decreased from 65.6% in H1 2015 to 56.2% of total secondary volume (\$10.5 billion) in H1 2016. This dip aside, we expect the level of intermediation to continue to rise in response to the entrance of new agents and as sellers struggle to stay on top of the ever growing buyer universe.

There were a total of 523 transactions in H1 2016, with an average size of approximately \$35.6 million. Although, the number of transactions was down from the 586 transactions completed in H1 2015, the average deal size increased 1.4% year over year.

The ranks of opportunistic sellers continued to grow, given investors' increasing familiarity and comfort with secondary sales along with the disappearance of the stigma associated with selling. Although pensions (34.5%) were the most active sellers in H1 2016, managers of funds across buyout, VC, hedge funds, fund of funds and secondary funds accounted for 28.9% of all sellers, as they continued to use the market to drive liquidity in their funds. Looking forward, most buyers expect pensions to be the most active sellers in H2 2016.

From a geographical perspective, North American sellers accounted for the largest proportion of volume (55.7%) in H1 2016 selling \$10.2 billion (vs. 54.2% in H1 2015), whereas Western European sellers sold \$5.7 billion (30.7% vs. 28.8% in H1 2015) and Asia-Pacific sellers accounted for much of the balance.

Buyers, whose expertise is modeling near and midterm fund performance, estimated NAV valuations would decrease 4% in H2 2016, while the pace of distributions would be flat. These forecasts are less optimistic than those in the **Setter Capital Volume Report H1 2015**, where buyers expected distributions to be 0.38% higher and NAV valuations to appreciate by 1.65%.

Looking forward, buyers expect full year 2016 volume to be \$39.7 billion, which would be down 20% from the \$49.6 billion transacted in 2015. This is much more pessimistic than what buyers expected in H1 2015 (**Setter Capital Volume Report FY H1 2015**), where they expected the growth rate to be 14.5% in the coming year.

Information Advantage.

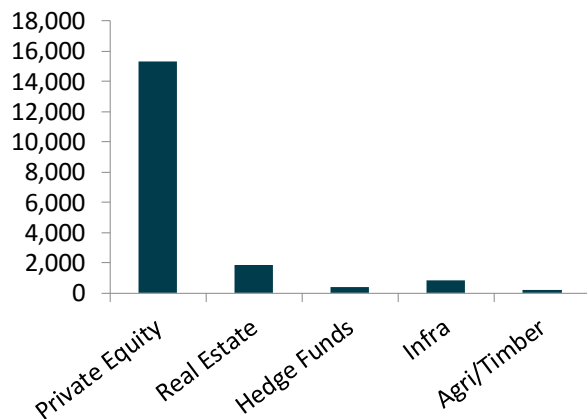
In the secondary market, knowledge is power. By providing granular custom portfolio analysis and industry-leading market research, we empower our clients to make the most informed decisions.

Setter

Total volume

Total secondary market volume for H1 2016 was \$18.6 billion. This is the volume estimate of the 119 secondary buyers with dedicated secondary efforts and includes 67 secondary funds, 37 funds of funds, 8 hedge funds, 5 investment consultants, and 2 pensions. We believe this estimate is reliable as the 83 survey respondents alone reported \$15.8 billion in volume in their survey responses. The figure is also 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 built teams dedicated to secondary purchases.

Types of assets purchased



Private Equity (Directs¹ & Funds): \$15.3 billion
(7.3% decrease YoY)

Real Estate (Directs & Funds): \$1.8 billion
(36.7% decrease YoY)

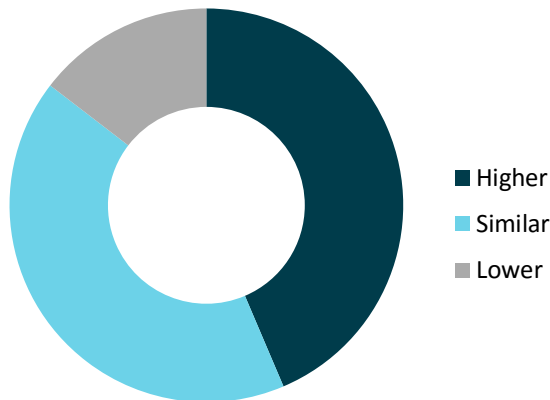
Hedge Funds: \$410 million
(13.1% decrease YoY)

Infrastructure Funds: \$860 million
(40.0% increase YoY)

Agri/Timber Funds: \$224 million
(1.5% decrease YoY)

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

H1 2016 volume vs. H1 2015 volume

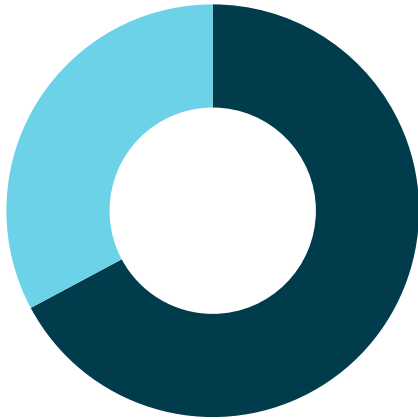


H1 2016 volume decreased 9.7% compared to H1 2015, which was roughly \$20.6 billion.

41.8% of survey respondents felt volume was similar to H1 2015, while 43.6% said it was significantly higher and 14.6% felt it was significantly lower, showing buyers' had mixed success in H1 2016.

Assets purchased

Funds vs. Directs



■ Total Funds by \$ Volume
■ Total Directs by \$ Volume

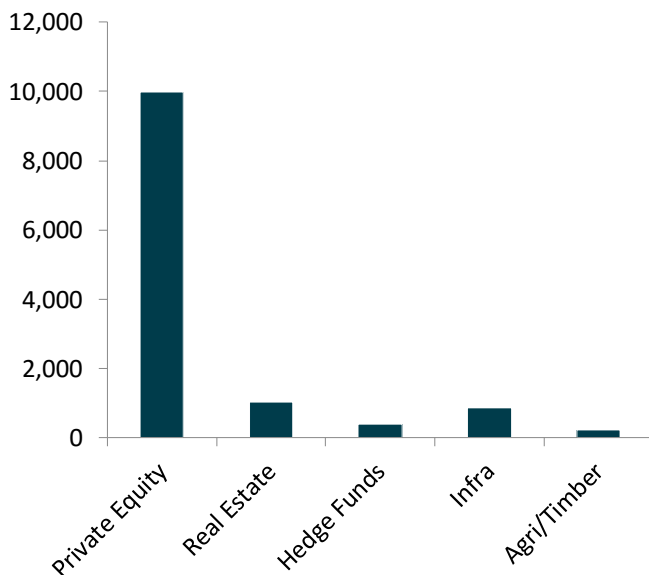
In H1 2016, \$12.5 billion of funds (67.2%) and \$6.1 billion of directs (32.8%) were purchased.

Secondaries of direct investments¹ increased from \$5.5 billion in H1 2015 to \$6.1 billion in H1 2016, which represents a 10.9% increase. Private equity directs and real estate directs accounted for 87% and 13% respectively of the total directs volume.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 72% funds and 28% directs.

¹ Secondaries of direct investments includes GP restructurings and purchases of single minority stakes and co-investments.

Breakdown of fund secondaries



Private equity fund purchases totaled \$9.99 billion (13.9% decrease YoY)

Real estate fund purchases totaled \$1.04 billion (54.8% decrease YoY)

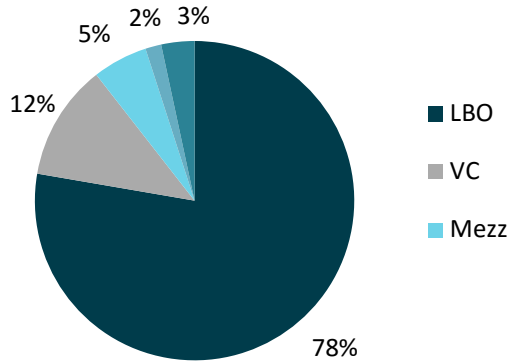
Hedge fund purchases totaled \$410 million (13.1% decrease YoY)

Infrastructure fund purchases totaled \$860 million (40% increase YoY)

Agri/Timber fund purchases totaled \$224 million (1.5% decrease YoY)

Types of funds purchased

Private Equity Funds



LBO – \$7.8 billion
(Down 17.9% YoY from \$9.5 billion)

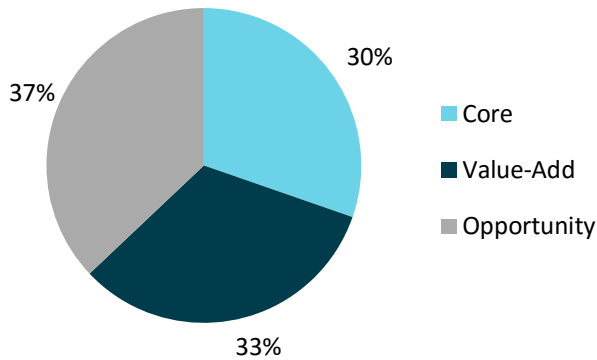
VC – \$1.2 billion
(Up 55.2% YoY from \$773.3 million)

Mezzanine – \$557 million
(Down 15.9% YoY from \$662.3 million)

Fund of Funds – \$161 million
(Down 44.3% YoY from \$289.2 million)

Energy – \$335 million
(Down 4.2% YoY from \$349.7 million)

Real Estate Funds

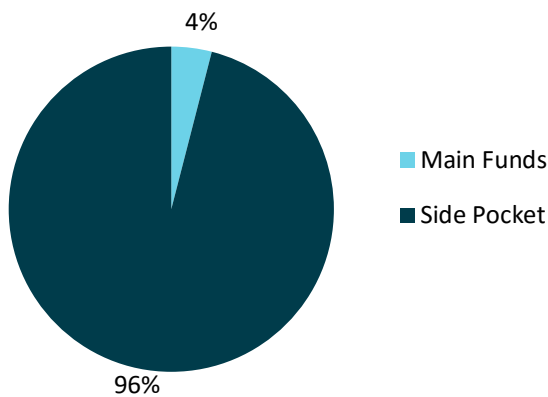


Core – \$314 million
(Down 34.8% YoY from \$481.7 million)

Value-Add – \$338 million
(Down 52.4% YoY from \$709.7 million)

Opportunity – \$384 million
(Down 65.1% YoY from \$1.1 billion)

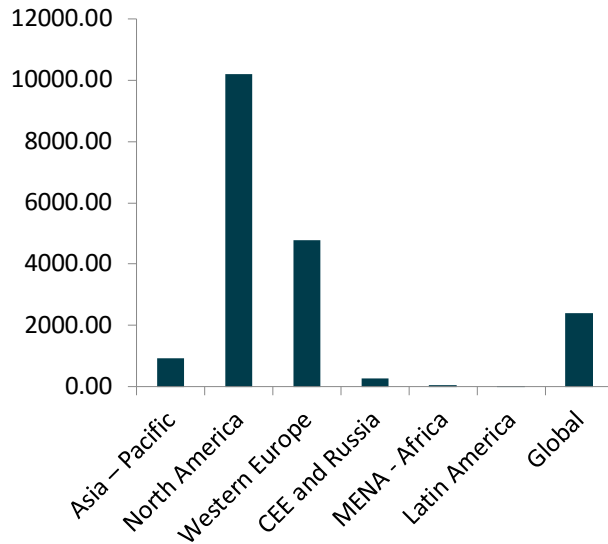
Hedge Funds Purchased



Side Pockets – \$393 million
(Up 9.05% YoY from \$360.4 million)

Main Funds – \$16 million
(Down 85.6% YoY from \$111.3 million)

Geography of assets purchased



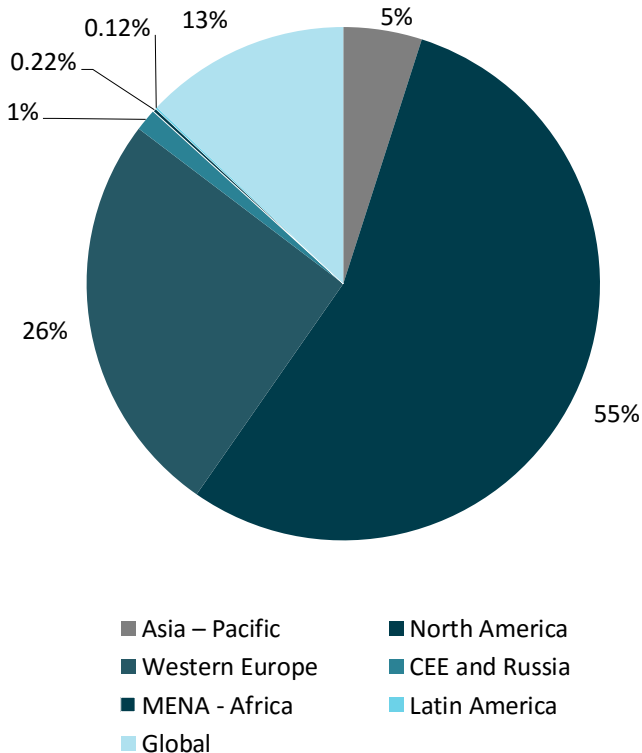
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2016:

North America – \$10.2 billion
(Down 17.7% YoY from \$12.4 billion)

Western Europe - \$4.8 billion
(Down 7.7% YoY from \$5.2 billion)

Global – \$2.4 billion
(Up 322% YoY from \$.7 billion)

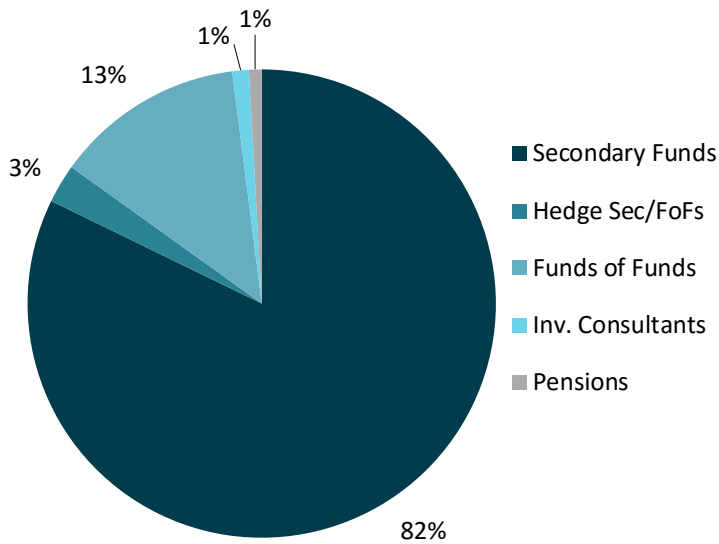
Asia-Pacific – \$922 million
(Down 45.8% YoY from \$1.7 billion)



In terms of percentage, North America focused funds and direct investments accounted for 54.7% of total volume, Western European assets accounted for 25.6% and global focused funds/directs accounted for 12.9% of sales.

Profiles of buyers

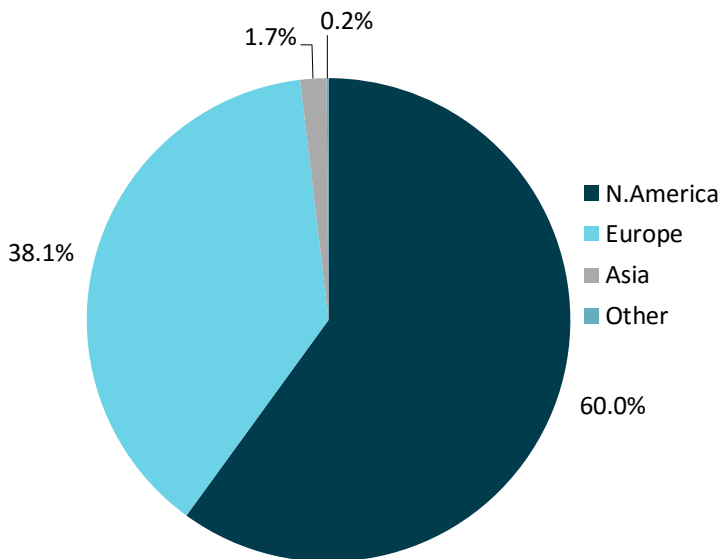
Type of buyers



Secondary funds were the most active buyers in H1 2016, accounting for 82.2% (\$15.3 billion) of total purchases, while funds of funds accounted for 13.1% (\$2.4 billion), and pensions accounted for 0.9% (\$162 million).

Please note: over 1,000 non-traditional buyers were not included in our survey and the resulting estimates.

Location of buyers¹



North American buyers transacted the most (60% of total volume) in H1 2016, up from 59.1% of total volume in H1 2015.

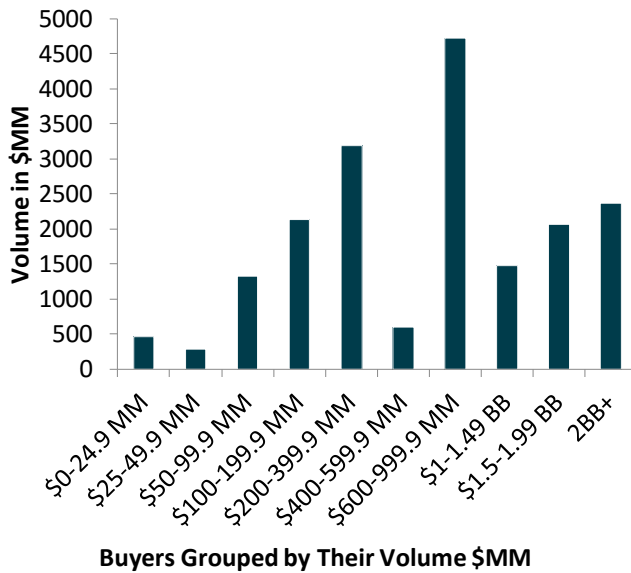
European buyers accounted for 38.1% of total volume in H1 2016, which was lower than H1 2015 (40.4%).

¹ Location is based on head office location.

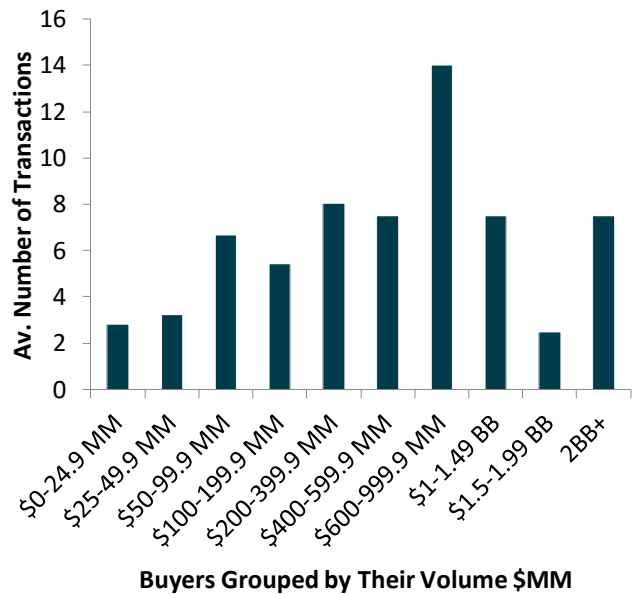
Activity levels of small, medium and large buyers

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:

Volume distribution by size of buyer



Average number of transactions by size of buyer



11 large buyers (defined as those that deployed \$600 million or more in H1 2016) purchased \$10.6 billion, representing approximately 57.1% of total volume across 104 transactions with an average deal size of \$102.9 million. This was an increase from H1 2015, where large buyers accounted for 49.0%.

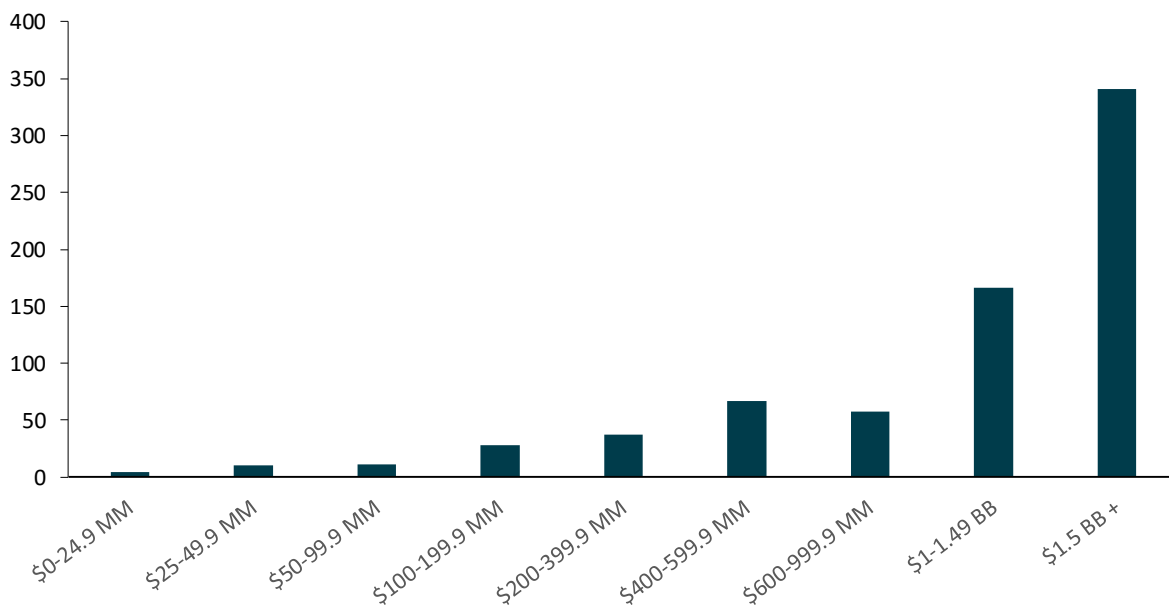
32 medium sized buyers (defined as those that deployed \$100 to \$599.9 million in H1 2016) purchased \$5.9 billion, representing approximately 31.7% of total volume across 171 transactions with an average deal size of \$34.5 million. This was a slight decrease from H1 2015, where they accounted for 35.2%.

76 small buyers (defined as those that deployed less than \$100 million in H1 2016) purchased \$2.1 billion, representing approximately 11.1% of total volume across 248 transactions with an average deal size of \$8.3 million. This was a decrease from H1 2015, where they accounted for 15.8% of total volume.

Number of deals and average size deal

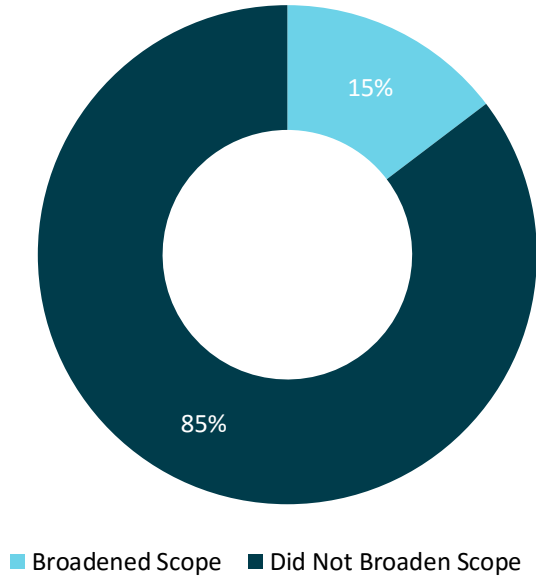
Respondents completed approximately 443 secondary deals in H1 2016, from which we extrapolated an estimate of 523 transactions across the entire secondary market for alternative assets, with an average size of approximately \$35.6 million. The number of transactions decreased 10.7% from 586 transactions in H1 2015 and the average deal size increased 1.4% from \$35.1 million in H1 2015.

Average deal size by size of buyer



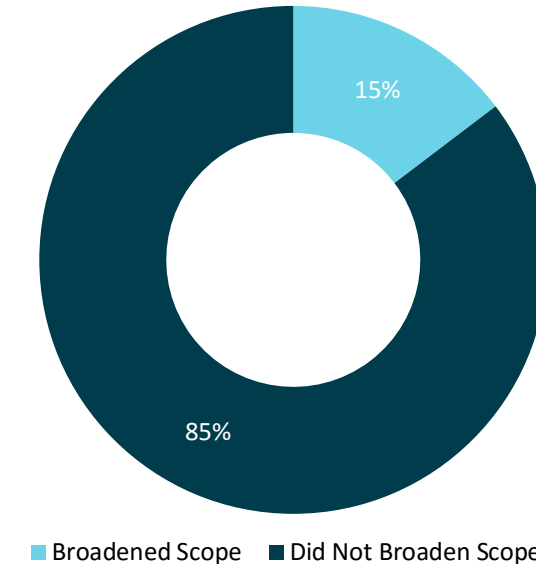
Buyers' scope of interest

Buyers that broadened their focus in H1 2016



Approximately 14.7% of participants broadened their secondary focus in H1 2016 to include buying other alternative investment types (e.g. infrastructure, real estate, portfolios of directs, etc.).

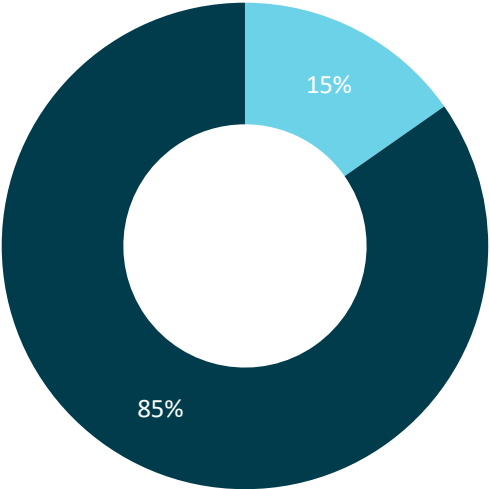
Buyers that intend to broaden their focus in H2 2016



Coincidentally, the same percentage of participants (14.7%) plan to broaden their secondary focus in H2 2016 to include buying other alternative investment types. This percentage represents a 32% decrease from buyer's expectations in H1 2015. This may represent a levelling off of buyers diversifying their secondary strategies.

Leverage and returns

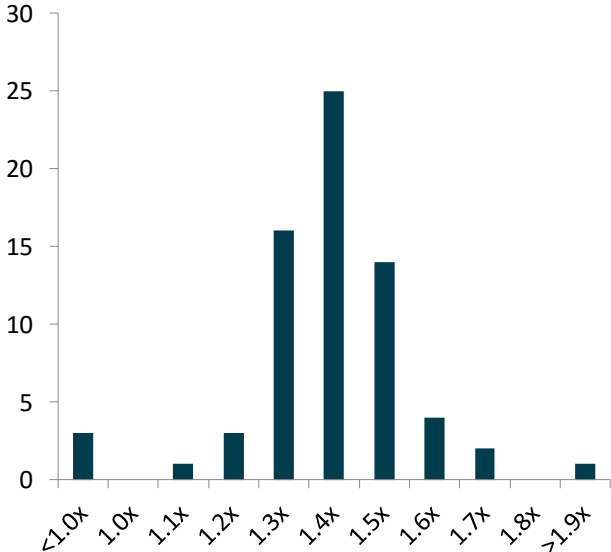
Level of debt used by buyers in H1 2016 vs. H1 2015



15.3% of respondents believed the level of debt used by buyers had increased significantly in H1 2016. 84.7% felt it was the same and no respondents felt it was less.

■ Higher ■ Similar ■ Lower

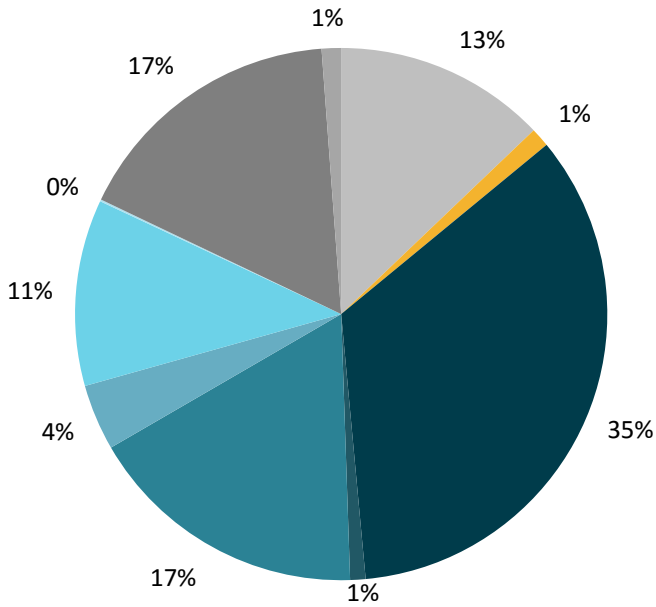
Expected multiple for secondary deals completed in H1 2016



Respondents predicted that the average gross multiple for secondary deals completed in H1 2016 would be 1.39x, which was slightly down from the 1.43x buyers expected in H1 2015.

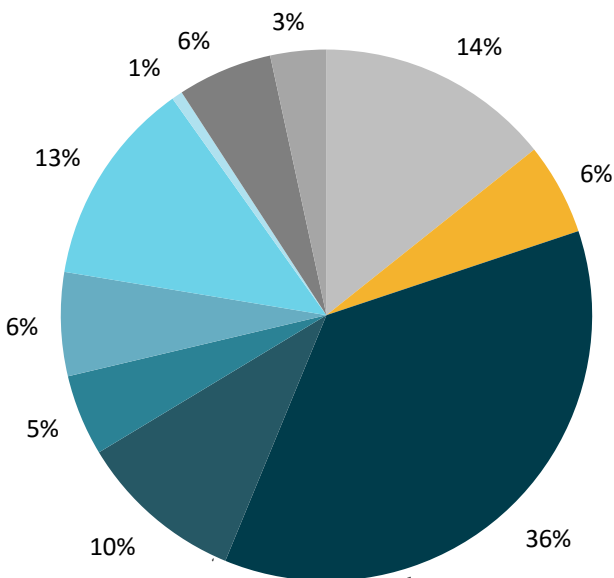
Seller profiles

Type of sellers in H1 2016



Pensions were the most active sellers in H1 2016 making up 34.5% of volume respectively. Most buyers expect pensions to be the biggest sellers again in H2 2016, with the remaining volume coming somewhat evenly from banks, funds of funds, secondary funds and sovereign funds.

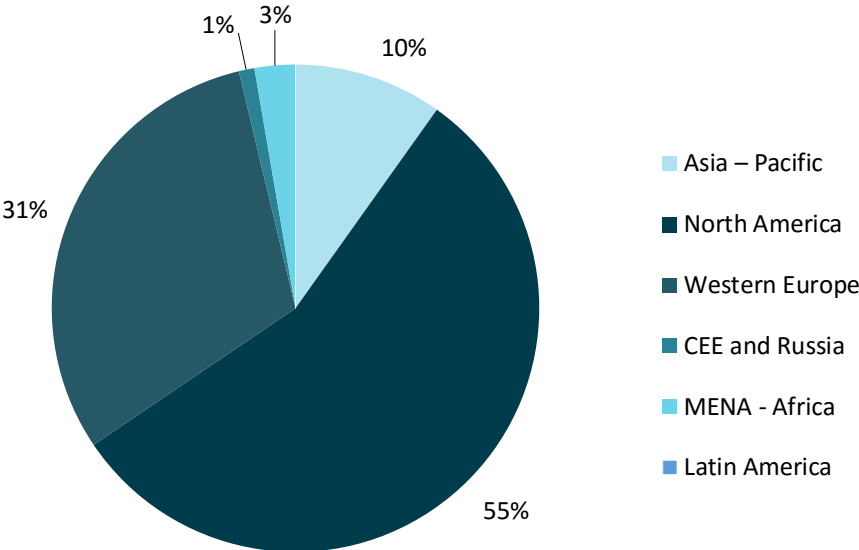
Expected sellers in H2 2016



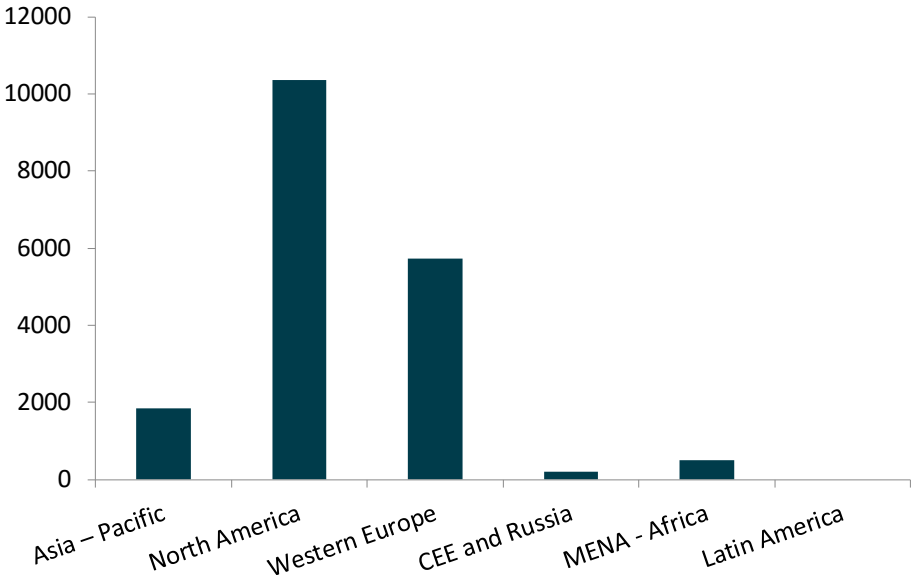
- Banks
- Pensions
- Family Offices
- Fund of Funds / Secondary Funds
- Other Fund GPS (non FoF or Sec Funds)
- Insurance Companies
- Sovereign Funds
- Endowments / Charities
- Hedge Funds / Hedge Fund of Funds
- Corporate - Balance Sheet (non-financial)

Seller location

Geography of sellers

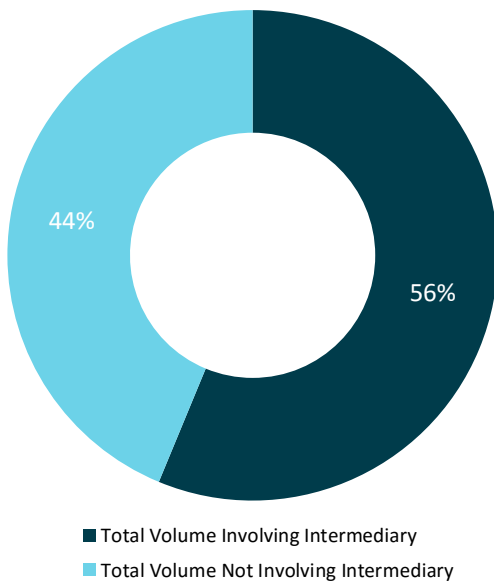


In terms of the location of sellers, North American and Western European sellers accounted for the vast majority of volume in H1 2016. North American sellers sold \$10.4 billion (55.7% vs. 54.2% in H1 2015), whereas Western European sellers sold \$5.7 billion (30.7% vs. 28.8% in H1 2015). Asia-Pacific sellers accounted for 9.8% of the total volume down from 13.3% in H1 2015.



Intermediation and level of competition

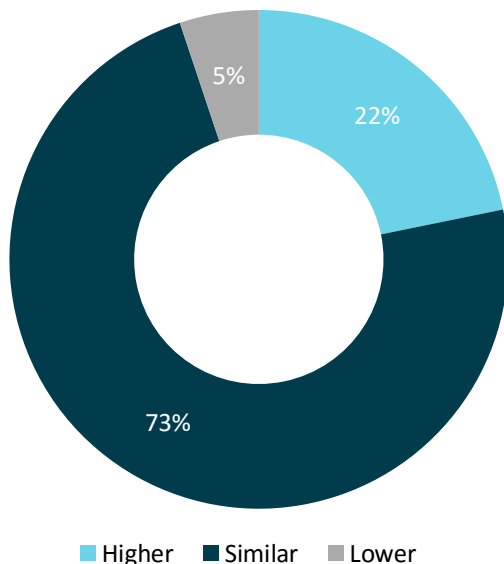
Volume of intermediated transactions



Approximately 56.2% (\$10.5 billion) of total secondary volume involved an intermediary, on either the buy or sell-side, as compared to 65.6% in H1 2015.

In terms of volume, agents intermediated \$3 billion less in deals, a decrease of 22.2% over H1 2015.

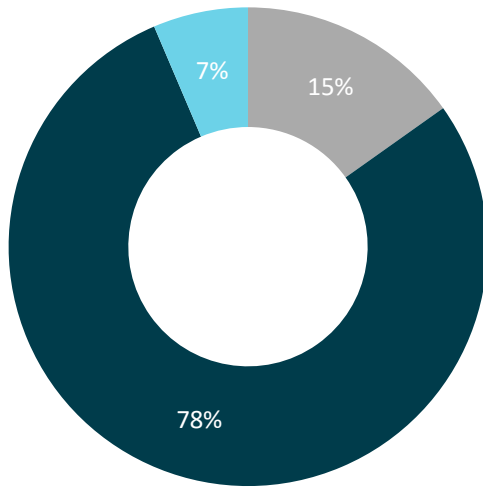
Buyer competition for deals in H1 2016 vs. H1 2015



73.1% of respondents felt buyer competition in H1 2016 was similar to H1 2015, while 21.8% felt buyer competition in H1 2016 was significantly higher. Only 5.1% felt buyer competition was lower in H1 2016.

Projected volume for H2 2016

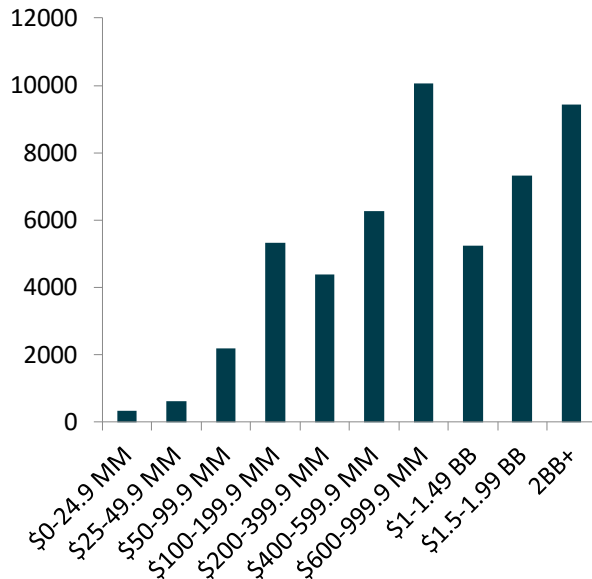
How H2 2016 volume will compare to H1 2016



■ Higher ■ Similar ■ Lower

78.4% of respondents felt that H2 2016 volume will be similar to that of H1 2016, 15.18% of respondents felt that it will be significantly higher and 6.4% felt that it will be significantly lower. Given that H2 volume is usually much higher than H1, this suggests buyers are less optimistic about the second half.

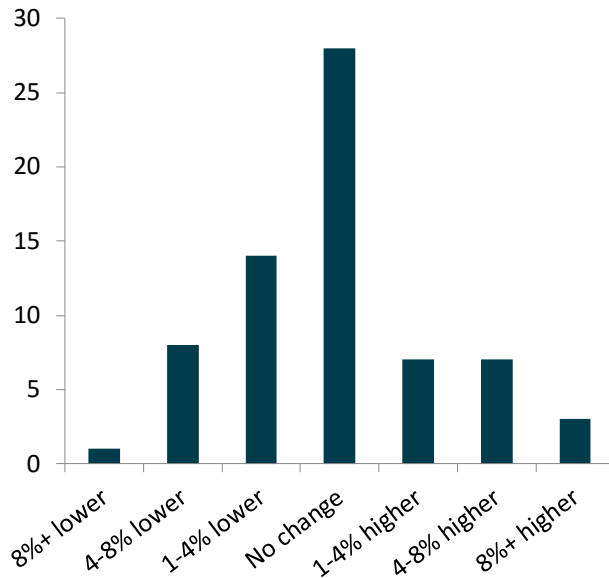
Predicted volume for H2 2016



Respondents predicted total volume for 2016 to be \$39.7 billion, which would represent a 20% decrease from the \$49.6 billion transacted in 2015. Assuming proportions do not change in 2016, this suggests private equity volume will be \$32.5 billion in 2016, real estate will be \$3.9 billion, hedge funds will be \$0.87 billion, infrastructure will be \$1.8 billion and agriculture & timber will be \$0.48 billion.

Expected distribution and NAV changes in H2 2016

Distribution Pace in H2 2016 vs. H1 2016

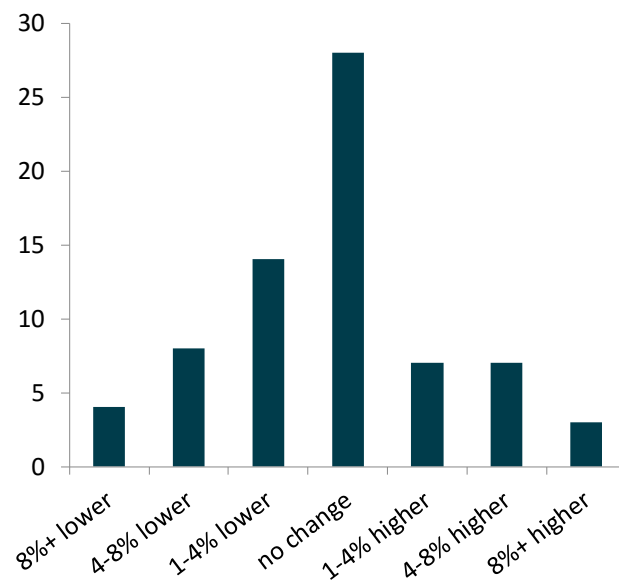


Most respondents expect the pace of distributions in H2 2016 to be the same as H1 2016.

On average, respondents expect the pace of distributions to not change in H2 2016.

Respondents were more pessimistic than they were in H1 2015, when they expected the pace of distributions to be 0.38% higher.

Change in NAV in H2 2016 vs. H1 2016

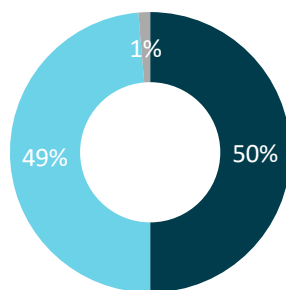


On average respondents expect NAV valuations to decrease 4% in H2 2016 compared to H1 2016.

Respondents were more pessimistic than they were in H1 2015, when they expected the NAVs to increase by 1.62% in H2.

General partners' approach to the secondary market

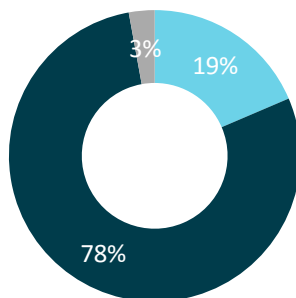
Liquidations and restructurings in H1 2016 vs. H1 2015



■ More
■ Same
■ Less

49.3% of respondents felt that more GPs attempted to liquidate or restructure older funds in H1 2016 compared to H1 2015.

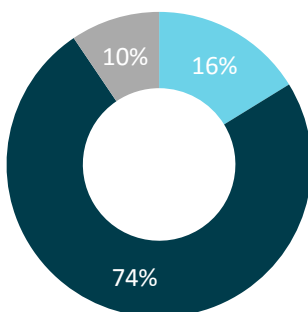
Staples sought by GPs in H1 2016 vs. H1 2015



■ More
■ Same
■ Less

18.6% of respondents felt that a materially higher number of GPs sought staples in H1 2016 compared to H1 2015.

GP restrictiveness on transfers in H1 2016 vs. H1 2015



■ More
■ Same
■ Less

Most respondents felt that GPs restrictiveness on transfers didn't change in H1 2016 compared to H1 2015.

Select respondents

ACG Capital
Adams Street Partners
Adveq
AGC Equity Partners
Alpinvest
Arcano Group
Argentum
BEX Capital
Canada Pension Plan Investment Board
Capital Dynamics
Central Park Group
Cipio Partners
Coller Capital
Commonfund Capital
Corbin Capital Partners
Dakota Capital
DB Private Equity
Fondinvest
50South Capital
Golding Capital Partners
Greenspring Associates
Hamilton Lane Advisors
HarbourVest Partners
Headlands Capital
Hollyport Capital
HQ Capital
ICG Strategic Secondaries
Idinvest
Israel Secondary Funds
Jasper Ridge
International Woodland Company (IWC)
Klinehill Partners
Landmark Partners
LGT Capital Partners
Lothian Pension Fund
Neuberger Berman
NewGlobe Capital
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Pantheon
Partners Group
Permal
Pictet Alternative Advisors SA
PineBridge Investments
Pomona Capital
Portfolio Advisors
Private Advisors
Private Equity Investors – PEI Funds
RCP Advisors
ROC Partners
17Capital
SL Capital Partners
Stafford Capital Partners
Stepstone
Strategic Partners Fund Solutions
Sturbridge Capital
Top Tier Capital Partners
TR Capital
Tyrus Capital
UBS Global Asset Management
Unigestion
Vintage Ventures
Vision Capital
Willowridge Partners

About Setter

Established in 2006, Setter Capital is a leading independent advisory firm specializing in providing liquidity solutions for fund managers and institutional investors in the secondary market for alternative investments. We serve a diverse institutional client base including some of the world's largest pensions, endowments, investment consultants and fund managers. To date, Setter Capital has completed over 400 transactions, representing more than \$20 billion in liquidity across venture capital, private equity, infrastructure, real estate, real asset, and hedge fund investments.

Setter Capital's mission is to make the secondary market more transparent and efficient for all market participants. To this end, Setter provides the market with complimentary secondary market research and analytical tools such as:

The Setter Liquidity Rating™ A unique rating system that allows buyers, sellers and creditors to assess the relative liquidity of over 7000 different fund families.

The Setter Volume Report™ and the Setter Price Report™
Two semi-annual reports that provide the most comprehensive and accurate assessments of the secondary market. Data is based on pricing of over 2000 funds and a survey of over two thirds of the most active secondary buyers globally.

SecondaryLink.com™ A professional network where over 4000 institutional LPs and GPs connect on primary due diligence and the secondary market.

Setter Capital Inc.
77 Bloor Street West, Ste 1220
Toronto, ON Canada M5S 1M2
+1 416 964 9555 Phone
+1 416 964 0699 Fax

settercapital.com