

# 2014 Secondary Market Buyer Survey Results

## *UBS Private Funds Group*



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# UBS Secondary Market Buyer Survey Results<sup>1</sup>

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## Observations

### Transaction Volume Breakdown

- 2013 transaction volume of \$26.5 billion was relatively flat compared to 2012, with deal activity accelerating in H2 2013
- With fewer large intermediated LP portfolio sales, buyers increased their appetite for less traditional transactions, including GP-led portfolio liquidity solutions

### Dry Powder and Fundraising

- All-time high dry powder of \$45.8 billion, up approximately \$3.5 billion a year ago
- Consolidation continued as the largest 15 buyers account for 76% of dry powder in 2014, compared to 71% in 2013
- Active fundraising environment with 30+ buyers seeking in excess of \$25.0 billion

### Competitive Dynamics

- Buyers' hit rates declined meaningfully to 20% in 2013, from 30% in 2012
- In response, buyers lowered targeted returns, explored utilizing leverage and executed more transactions through buy-side brokers
- Approximately 20% of transactions in 2013 included a deferred payment structure

### Outlook for 2014

- Transaction volume is expected to increase with a continued interest in GP-led portfolio liquidity solutions—buyers ranked these transactions as the 3<sup>rd</sup> largest source of expected volume for 2014, compared to 5<sup>th</sup> in 2013



Note:

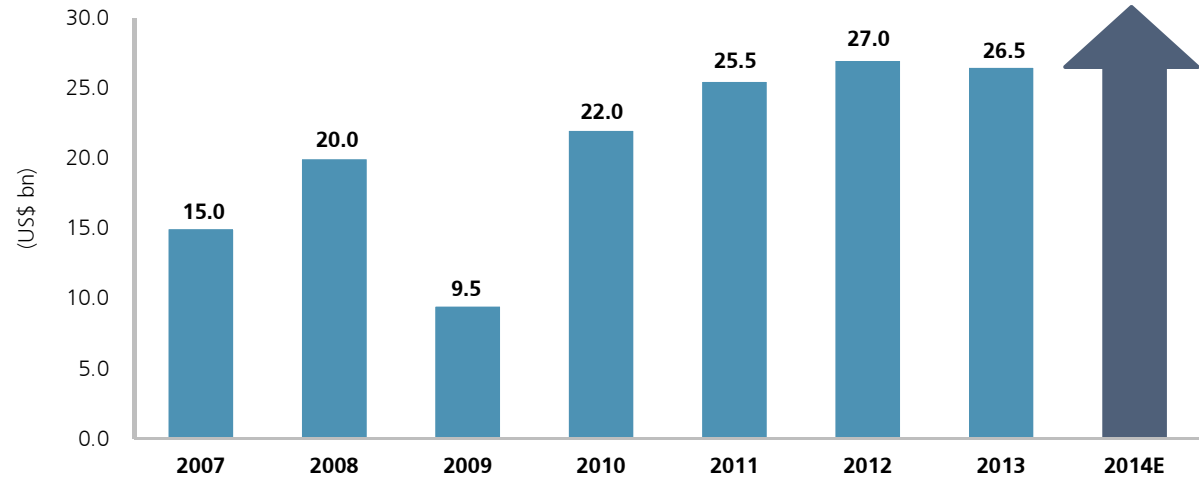
<sup>1</sup> Based on UBS survey conducted in early 2014 with over 80 secondary buyer respondents

# Secondary Market Transaction Volume<sup>1</sup>

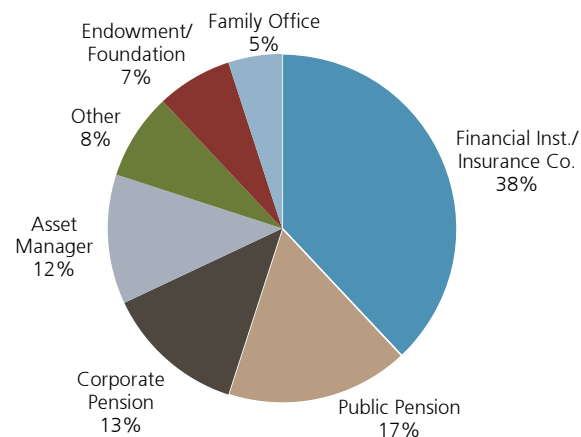
A decrease in large intermediated LP portfolio sales increased buyer appetite for GP-led portfolio liquidity solution transactions

The aggregate amount of NAV acquired in GP-led portfolio liquidity solution transactions was over \$2.8 billion (vs. \$2.4 billion in 2012) with increased participation rates based on the number of buyers

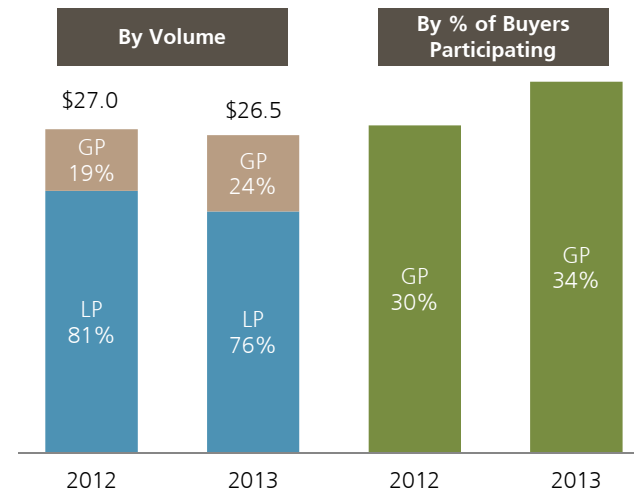
Transaction Volume<sup>2</sup> – Historical and Projected



2013 Seller Type by Volume



GP-Led Portfolio Liquidity Solution Transactions vs. LP Deals



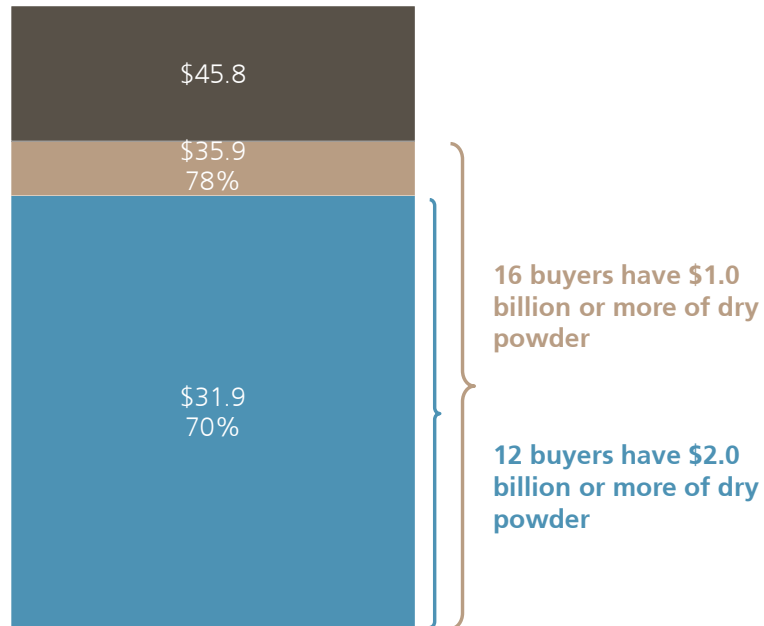
Notes:

- 1 Based on UBS survey conducted in early 2014 with over 80 secondary buyer respondents
- 2 Represents purchase proceeds plus unfunded relief for executed deals. Based on UBS estimates and publicly available data as of March 2014

# Dry Powder<sup>1</sup>

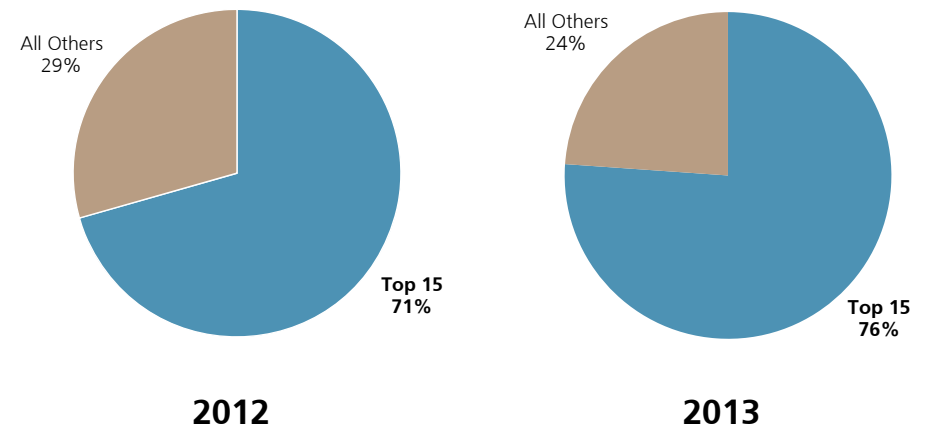
Dry powder increases to \$45.8 billion—an all-time high

## Dedicated Dry Powder: \$45.8 billion



- Buyers anticipate **deploying over 50%** of their dry powder during 2014

## Top 15 Buyers by Current Dry Powder

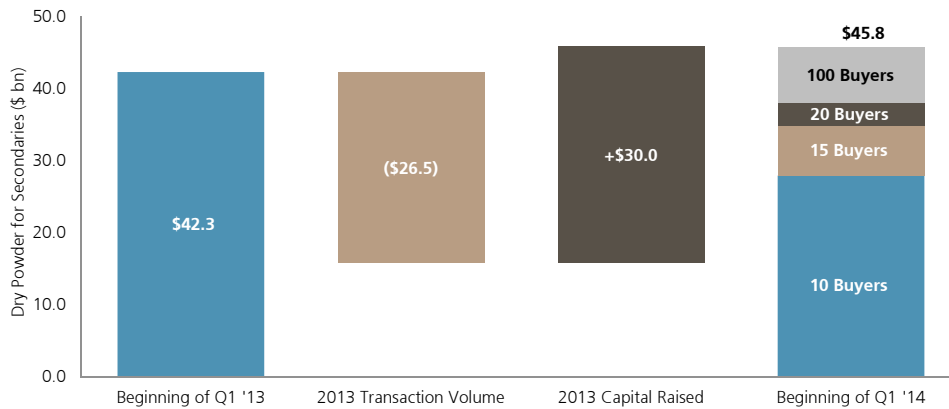


- In both years, a buyer needed **at least \$1.0 billion of dry powder to be a top 15 buyer**; however those top 15 buyers comprise a greater portion of the dry powder today

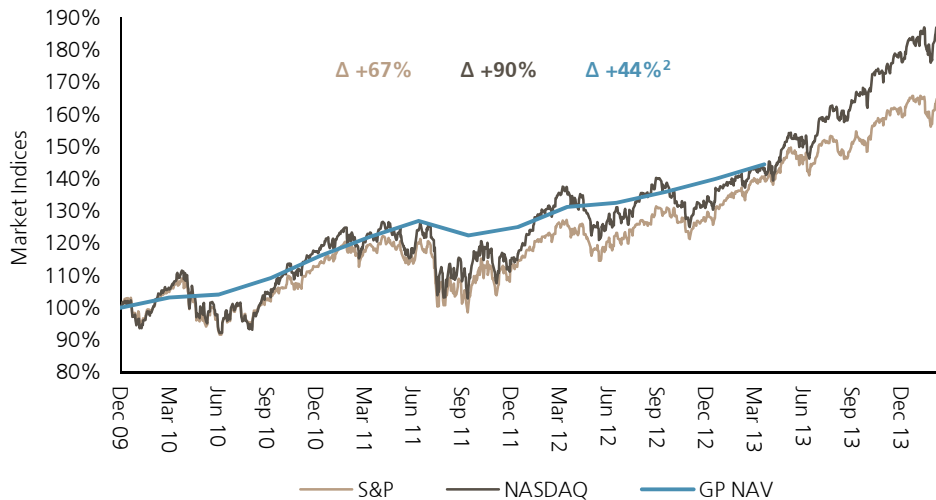
# Seller-Friendly Market Conditions

Acute supply / demand dynamics and favorable capital markets conditions have created a seller-friendly environment

## Dedicated Secondary Dry Powder<sup>1</sup>



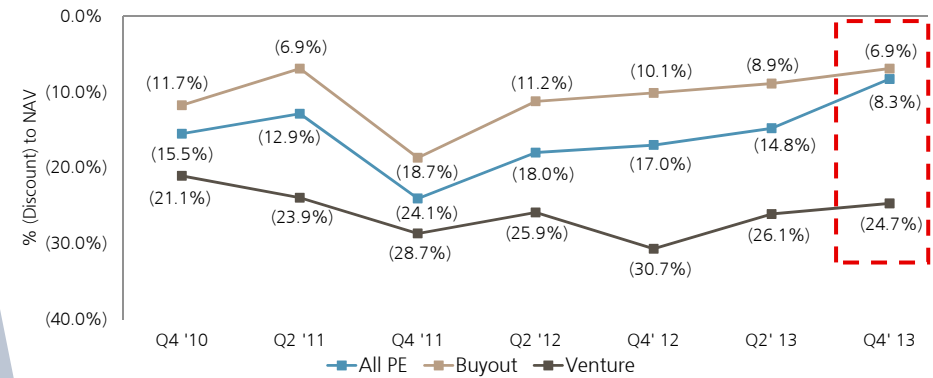
## Public Market and GP NAV Performance<sup>3,4</sup>



Notes:

- 1 Based on UBS survey conducted in early 2014 with over 80 secondary buyer respondents
- 2 Based on the average of high bids received from UBS intermediated transactions
- 3 S&P and NASDAQ indices from December 31, 2009 to February 28, 2014
- 4 GP NAV based on data from Preqin. Data is through March 31, 2013

## Historical Secondary Market Pricing<sup>2</sup>

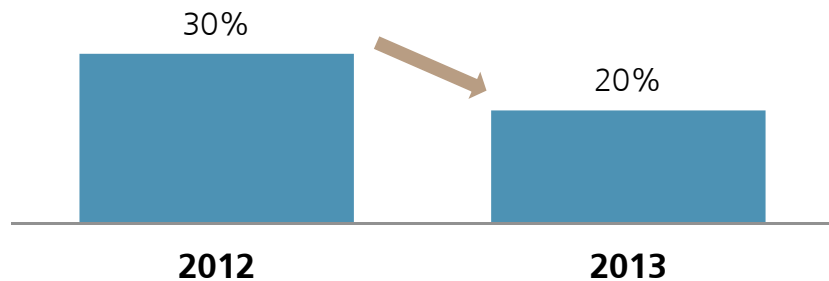


- A** Dedicated secondary buyers have become selective sellers
- B** Influx of leverage providers into the market
- C** Significant interest from non-dedicated secondary buyers
- D** Significant number of funds consistently trading at par and above
- E** Increasing occurrences of re-bidding from potential buyers

# Impact of Declining Hit Rates<sup>1</sup>

In addition to seeking unconventional opportunities, buyers are employing a variety of strategies to increase their competitive positioning

## How Many Times Were You a Winning Bidder?



- Individual buyers' **hit rates have gone down** meaningfully, demonstrating increased competition in the market
- **More non-dedicated secondary buyers have entered the market** in recent years, increasing the competition on individual transactions

- 1 **34% of buyers have lowered their targeted buyout return hurdles** in 2013 from the prior year
  - 62% of respondents are targeting gross IRRs between 17.5% and 25.0% (vs. 79% in 2012)
  - 70% of respondents are targeting gross multiples from 1.5 to 2.0x (vs. 82% in 2012)
- 2 This year, approximately **52% of transaction volume was intermediated** (vs. 57% in 2012)
  - Historically, intermediated volume has represented closer to ~2/3<sup>rd</sup> of the market
  - Increased usage of buy-side brokers
- 3 Greater willingness to focus on **less familiar assets**
  - Buyers were an existing investor 55% of the time for interests purchased (vs. 64% in 2012)
- 4 **Increased usage of leverage** through six main leverage providers

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