The evolution of private equity secondary activity in the United States: liquidity for an illiquid asset

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In any market, secondary activity is driven by two major factors – volume in the primary market and investment structure. Even though institutional private equity vehicles have existed in the U.S. since the 1940s, the volume of activity in the primary market did not warrant an institutional approach to secondary activity until the mid-1980s, and only in the late 1990s did the market really begin to dramatically expand. This chapter will briefly explore the evolution of secondary activity in the U.S. and some of the primary factors in the growth of what is now clearly a global market.

What drives the need for liquidity?

Before delving into history, however, it is useful to cover motivation. The tables to the left (see Chart 1) summarise briefly the motivations of both sellers and buyers. Though in certain circles there is thought to be some stigma attached to fund managers whose fund has been sold, most transactions are driven by the strategic needs of the seller. In fact, in dollar terms, most transactions have been driven by large financial institutions – such as banks and insurance companies. Such sellers have decided that private equity is not a core business and use the secondary market to exit the asset class entirely, with the goal of redeploying capital into core business lines. In a similar fashion, over the last two or three years some high-net-worth individuals, no longer able to meet capital calls, have sold a number of their positions.

It is also important to note the buyer's motivation. Increasingly, investors with a long-term commitment to private equity are seeking to purchase positions in specific funds in order either to develop a relationship with a fund manager to gain access to future funds being raised, or to strengthen a relationship with a fund manager they are already invested in. Other buyers use the secondary market to manage portfolio issues, such as limiting the J-curve impact on a new portfolio, or rebalancing exposure between market sub-sectors.

Chart 1

Why do Institutions SELL Existing Private Equity Positions?	Why do Institutions BUY Secondary Private Equity Positions?
Most often, sales of private equity funds are driven by the internal motivations of the seller, and not the quality of the portfolio. Reasons for selling include: • Inability to fund future commitments • Need for current cash • Shift in institutional strategy away from private equity • Need to rebalance portfolio allocations • House cleaning of stub positions or problem funds that will not be supported in the future	Institutions purchase secondary positions for various reasons: • To generate returns based on the cash flow potential of the portfolio • To gain access to future funds to be raised by a general partner • To add vintage year diversity to an existing portfolio • To minimise J-curve impacts on a portfolio

Overview of the primary private equity market

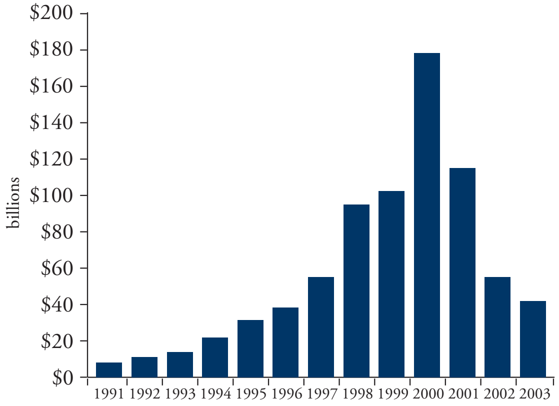
Institutionalised private equity is a very recent phenomenon. In 1946 two firms were formed in the U.S. to focus on bringing technical innovations developed during World War II into the commercial market – American Research and Development Corporation and J. H. Whitney & Company. (See Timeline on page 24.) Those firms had a number of successes – the creation of Minute Maid, the company that commercialised orange juice concentrate, and the foundation of Digital Equipment Corporation among them – but overall for its first 30 years the private equity market remained quite small, with an investor base dominated by high-net-worth individuals. Even the creation of the Small Business Investment Corporation (SBIC) program – which provides debt from the U.S. government to support private investment funds focused on small businesses – in 1958 didn't immediately dramatically increase investment activity in private equity.

Not until the U.S. Government clarified the legality of pension plans investing in private equity funds in the late 1970s did the market really begin to expand and become more institutionalised. The combination of this regulatory "blessing" on private equity, increased investment activity in information technology, the creation of buyout activity as a recognised sub-sector distinctly differentiated from the firm formation activity of venture capital, and a dramatic cut in capital gains taxes significantly

A Brief U. S. Private Equity Timeline

1946	American Research and Development Corporation (ARD) founded by George Doriot and J.H. Whitney & Company founded by Jock Whitney; institutionalised private equity funds begin
1958	The Investment Company Act of 1958 creates the Small Business Investment Company (SBIC) Program helping to provide funds for privately owned and operated venture capital investment firms
1968	Bull market for IPOs: ARD takes Digital Equipment public generating an IRR of 101%, raising the profile of venture capital
1972	Kleiner Perkins raises $8.5 million for its first venture capital fund
1977	KKR executes its first buyout transaction
1978	Capital gains tax rate slashed from 49.5% to 28%; Labour Department clarifies that pension plans can invest in private equity
1980	Total commitments raised for private equity: $600 million
1982	Venture Capital Fund of America, the first specialised secondary fund, founded by Dayton Carr
1984	Landmark Partners, secondary fund specialist, founded by Stan Alfeld
1986	John Hancock (to become HarbourVest in 1997) completes its first secondary transaction through its fund-of-funds
1991	Total commitments raised for private equity: $8 billion
Early 1990s	Changes in bank and insurance regulations result in the first large wave of secondary portfolio sales
1996	Chicago Board of Trade seeks to develop an exchange program for private equity partnerships, which closes after a couple of years
1998	New York Private Partnership Exchange founded; acts as a clearing house for private equity partnership sales
1998	Lexington Partners – a group spun-out of Landmark Partners in 1994 – raises the first secondary fund exceeding $1 billion
2000	MeVC Draper Fisher Jurvetson Fund I, first publicly-traded private equity fund-of-funds in U.S. launched; fund later dramatically restructured under pressure from investors
2000	Total commitments raised for private equity: $59.4 billion
2001	Annual capital commitments raised by specialist secondary funds peaks at $4 billion
2001	Aon Insurance completes the first secondary securitisation with securities rated by a credit rating agency
2002	W Capital, first fund developed to purchase direct company positions on a secondary basis, formed
2002	Coller Capital, a global entity based in London, raises the largest secondary fund ever at $2.5 billion
2002	Total commitments raised for private equity: $54.9 billion
2003	AIG completes $1 billion securitisation, the largest to date
2003	HarbourVest completes $1.3 billion "structured secondary" transaction with UBS
2003	Total commitments raised for private equity: $43.9 billion
2003	Total commitments raised by specialist secondary funds: $2.9 billion

Chart 2:
Commitments to US Private Equity Partnerships



Source: The Private Equity Analyst, 2003

Chart 3:
Capital Raised by Secondary Fund Specialists*

* Importantly, this analysis excludes significant capital dedicated to secondary acquisitions by fund-of-funds with secondary allocations and primary investors with secondary buying programs.

Source: Campbell Lutyens/Thomson Financial/Venture Economics

increased commitments to the sector throughout the 1980s. Volumes increased in the primary market to the point where the first specialised secondary funds were created to deal more effectively with liquidity needs.

But this activity paled in comparison to market growth in the decade of the 1990s (see Chart 2). Private equity went from being a "cutting edge" asset pursued by such thought leaders as endowments and foundations, to a core holding of most large institutional investors – with average portfolio allocations ranging from 5 per cent for public pension plans to nearly 15 per cent for endowments and foundations. In addition, the venture capital boom of the late 1990s attracted new entrants to private equity, with an increased number of funds of funds raised targeting the high-net-worth retail sector. The steep rise in public market valuations also resulted in increasing portfolio sizes, driving dollar allocations to private equity higher as well. All these factors led to a 20-fold increase in annual commitments to private equity in the U. S. between 1991 and 2000.

Vintage year 2000 was a market peak in more ways than one, however. The fall since then in both funds raised for private equity and in investment performance has led to a period of turmoil and re-evaluation that is still being played out, with secondary activity playing a major role in that restructuring.

The structural issue

As mentioned previously, secondary activity is driven by two major factors – volume in the primary market and investment structure. By far the most common investment vehicle in the private equity markets in the U.S. is the limited partnership. In return for certain legal protections and benefits – mainly, limited liability and look-through tax status – investors in limited partnerships receive stakes in a vehicle that:

- *Is individually negotiated and documented* between the general partner and the limited partners, with little standardisation.

- *Requires the approval of the general partner upon transfer* from one investor to another.

- Consists of positions that are *not usually marked-to-market*, with valuation guidelines that can differ dramatically between fund managers.

All of these characteristics result in the classic definition of an illiquid security. In exchange for this inherent illiquidity, investors typically enjoy a return premium in private equity investments – but to realise that premium requires staying the course over a good portion of the 10-year life of most partnerships. Thus, though volume in the primary market had reached the point by the mid-1980s that a more active secondary market should have developed, investment structure militated against that growth.

The rise of specialised secondary funds

Negotiated sales of partnership positions have always been a feature of the private equity market. But in the early stages of the development of the primary market, secondary activity was sporadic with transactions arranged in a haphazard, one-off fashion. Finding a potential buyer for a position was as difficult as executing a transaction. The increasing institutionalisation of private equity investment in the late 1970s and early 1980s led to a subsequent increasing institutionalisation of secondary sales. By the mid 1980s, groups such as the Venture Capital Fund of America and Landmark Partners had pioneered specialised secondary funds whose sole function was to buy secondary positions (see Timeline on page 24). Similarly, primary fund of funds managers, such as HarbourVest, began to include specific allocations to secondary purchases in their overall funds. These vehicles had several distinct advantages over the way in which secondary purchases had been structured prior to this time:

- *Dedicated capital* to enhance the probability of sales execution.

- *Experienced professionals* knowledgeable about valuing pools of private investments, analysing partnership documentation and negotiating transaction approvals with general partners, limiting the impact of investment structure on execution.

- *Size and scope of both capital and personnel* necessary to complete larger, institutional portfolio purchases.

However, these pioneers had relatively few followers at the beginning (see the listing of many of the active secondary funds and their dates of foundation at the end of this article). Volumes in the primary market were still relatively low and, importantly, transactions were often executed at significant discounts to the fund manager's reported Net Asset Value, often by 25 per cent or more. The primary motivation for secondary funds is of course to make money for their managers and investors, and buying positions at a discount helps minimise losses in a falling market and generates returns in a rising market. It also means, however, that sellers need to be motivated to sell if the result is to incur losses.

Motivation in the form of regulatory changes occurred in the early 1990s. Regulators at both commercial banks and insurance companies in the U.S. changed the capital requirements for these institutions, forcing them to set aside more capital to support the private equity on their balance sheets. In addition, both these industries were under some pressure, with capital becoming a scarce commodity. A number of them made the strategic decision that private equity was no longer a core business, resulting in an upsurge of selling – and more interest from institutional investors seeking to make commitments to secondary funds.

However, the main driver of growth for specialised secondary funds in the 1990s was the growth in the primary market. Over the past 15 years about 3 per cent of outstanding commitments traded in the secondary market in an average year. As detailed in Chart 2, the growth in the primary market in the U.S. surged during the decade, leading to dramatic growth in both secondary activity and in the creation of new secondary funds. Chart 3 illustrates the growth in commitments of capital to secondary fund specialists that parallels the growth in commitments to the primary funds market.

Chart 4: The Five Largest Specialised Secondary Funds

Fund	Year Closed	Commitments ($mm)
Coller International Partners IV	2002	2,500
Lexington Capital Partners V	2003	2,000
CSFB Strategic Partners II LP	2003	1,600
Lexington Capital Partners II	1998	1,100
Goldman Sachs Vintage Capital II	2001	1,100

It should be noted that the numbers in Chart 3 actually understate commitments to the secondary markets. They do not include either allocations to secondaries that are part of primary funds of funds, nor the in-house secondary programmes of institutional investors, such as CalSTRS and the Washington State Investment Board, who have staff and capital dedicated to secondary investing. This activity is much more difficult to track, as the exact sub-allocations to secondaries within funds of funds, or allocations within institutional investors' alternative programs, are not widely advertised.

The market changed and matured in other ways as well. Though groups such as VCFA have maintained focused strategies — investing only in the U.S. in smaller transactions – the growth of the European market meant that private equity was becoming global. As institutional investors built international portfolios their selling needs became international as well. Established firms such as Landmark began to operate globally, and newer firms – such as Coller Capital – were founded as global entities. In addition, the specialised secondary funds began to attract new competitors, such as investment banks like Goldman Sachs and DLJ/CSFB, which launched secondary funds of their own. Other players, such as new market entrant W Capital, focused on differentiated strategies such as buying corporate portfolios of direct company investments. As a result, most portfolio sales of any size became auctions with a higher level of efficiency and the late 1990s saw the creation of the first billion dollar secondary funds. (See Chart 4 for a list of the five largest secondary funds raised to date).

Emerging liquidity technologies

Transactions executed through emerging liquidity technologies are another source of secondary activity, but they are not as easily tracked as the activity of the specialised secondary funds are. These technologies include such diverse strategies as trading exchanges and Asset Backed Securities. Most of these technologies were recently developed out of frustration with various aspects of the secondary market. These frustrations include:

- *Heavy discounts to general partners' reported Net Asset Value (NAV)*: Discounts to NAV have widened dramatically since 2000, as secondary investors have sought additional cushion to protect themselves in a declining market. As a result, discounts to reported NAV of 50 per cent to 75 per cent have become common, especially where venture capital funds are concerned.

- *Time consuming transfer process*: Once the buyer and seller settle on financial terms of a purchase, the process of transferring positions can be long and protracted. Each transfer requires the approval of the general partner and frequently includes a Right of First Refusal that must be offered to the other limited partners. In a large portfolio, final transfer of the entire portfolio can take months.

- *Limited appetite for unfunded commitments*: Fund managers of most secondary funds have been typically attracted to fully (or nearly fully) invested positions that could be evaluated as going concerns on a bottom-up basis and that resulted in predictable cash flows and realisation streams. As a result, secondary funds tend to severely discount positions with significant undrawn capital to compensate for the greater risk of the to-be-invested portions of the portfolios.

- *Limited market for single, small positions*: As secondary specialists grew larger, their attention has necessarily shifted to larger portfolio purchases. The largest funds are rarely interested in bidding on smaller single positions unless there is an overlap with a position that was recently added to their portfolio.

Over the past five years these frustrations have led to the creation of a number of new technologies that are summarised below. None of these has emerged as "the answer" to the issues noted above, but most of them add to the toolkit of professionals seeking to solve specific problems.

Trading exchanges

The first tool brought forward as an alternative to specialised secondary funds was the trading exchange. The goal of an exchange is to provide a method of better matching supply and demand by making positions targeted for sale or purchase known to a wide audience. The Chicago Board of Trade in the mid-1990s first tried such an exchange, but lack of volume and profitability led to the program's demise. A few other vehicles that followed in their footsteps – such as Private Trade – also foundered, leaving the New York Private Placement Exchange as the largest practitioner in the field.

In the past, trading exchanges have not been particularly successful as they have been passive vehicles. Posting a position for sale on such a site does not create impetus towards a transaction and doesn't address the execution problems regarding structure. Though helpful to individuals not familiar with the market, trading exchanges as currently structured have not become a solution of choice for institutions.

Publicly traded vehicles

Attacking the liquidity problem head-on, via the creation of publicly traded vehicles, has been tried, albeit sporadically. In the U.S., regulatory issues have made this extremely difficult. During the Internet boom a number of "business development companies" – such as CMGI, Internet Capital Group and MeVC Draper Fisher Jurvetson – were launched. All of them suffered significantly as the tech boom faltered, with MeVC making headlines not only with performance issues but also with internal personnel disputes and investor lawsuits. Its original strategy of investing alongside the private equity funds of Draper Fisher Jurvetson was found to be in violation of U.S. securities laws and it had to be dramatically restructured.

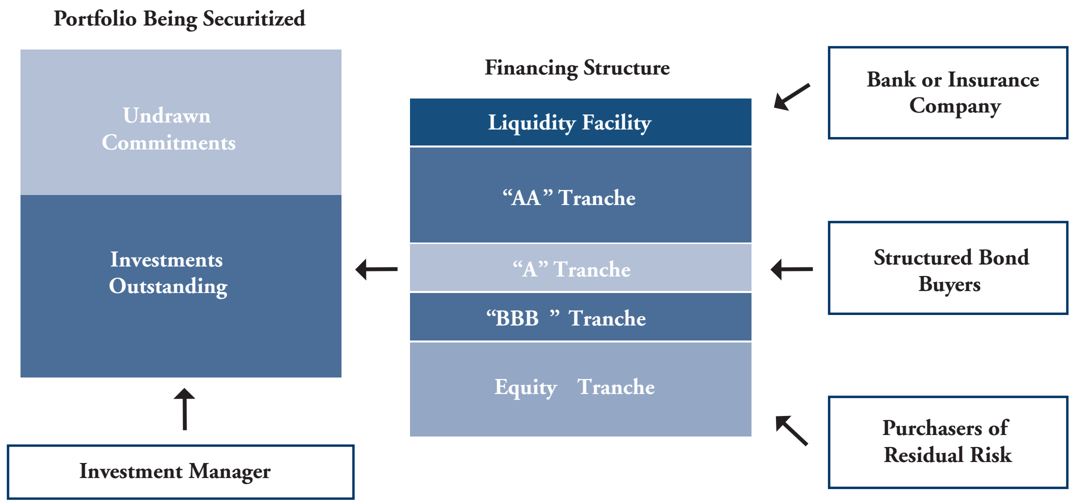
By and large these vehicles have not been successful in the U.S. and it is unlikely they will threaten limited partnerships as the investment vehicle of choice. Furthermore, they only provide liquidity for their investors (though actual trading volumes have often been very light) and don't provide a wider solution for partnerships already in existence. It is worth noting, however, that the experience of such publicly traded vehicles in the U.S. stands in marked contrast with that of Europe, where their use has met with much more success.

Securitisations

Private equity securitisation technology was adapted from the Asset Backed Security (ABS) market. This financial structuring tool (often called a Collateralised Fund Obligation) divides the cash flow from a portfolio of private equity funds into strips or tranches that have different payment priorities, each strip having a different risk/return profile (see Chart 5). The structure mitigates the discount to NAV compared to a traditional sale to a secondary purchaser by bringing structured bond buyers to the table to purchase the rated debt tranches at typical bond prices (reflecting the higher priority of payment).

Though this technology was first used in Europe as a way of providing an investment vehicle for primary funds of funds, its first use in the secondary market was by U.S. insurance company Aon Corporation. At year-end 2001 Aon consolidated most of the private equity partnership investments of its underwriting insurance companies into a special purpose vehicle – Private Equity Partnerships Structure I, LLC. The vehicle then issued a series of bonds rated by Standard & Poors, generating \$180 million of cash on positions totalling \$450 million in value, with the remaining exposure held by non-underwriting subsidiaries of Aon.

Chart 5: Secondary Private ABS Equity Structure



Note: The difference in size between the facilities is driven by the discount and the need to over-collateralize the top rated

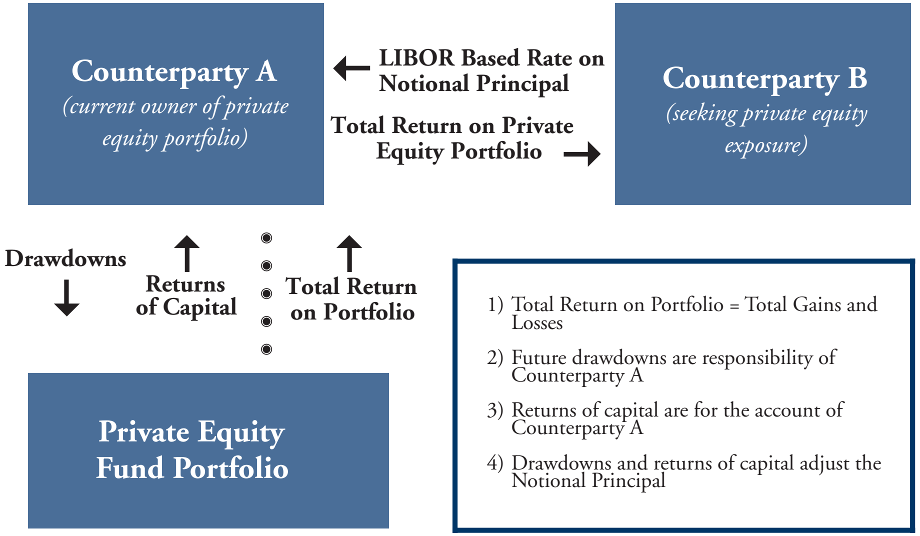
As has happened in the past, Aon was driven to utilise the structure in an effort to reduce its regulatory capital requirements as the rated tranches it held required less regulatory capital (though subsequently regulators have queried that treatment as the equity tranche of the structure retains the residual risk of the entire portfolio). Other transactions have followed in Aon's footsteps – with the largest being securitisations by AIG and Deutsche Bank – though their motivations were different.

However, the use of a securitised structure carries with it a number of drawbacks:

- *Selling the equity tranche is difficult*: For a seller seeking to totally exit private equity, selling the equity tranche can be difficult as it retains the residual risk on the entire portfolio.

- *High cost of structuring*: The complete structure requires an

Chart 6: Total Return Swap



experienced party to manage the portfolio, a financial institution to provide a liquidity facility covering unexpected capital drawdowns, and either a rating agency to rate the bond tranches or an insurance company to provide guarantees. To these costs must be added the fee paid to the advisor who oversees the entire structuring process.

• *Need for size and diversity*: For rating agencies to provide investment grade ratings or for insurance companies to provide guarantees at reasonable prices, the portfolio being securitised must be large and diverse.

• *Time required to execute*: Executing a securitised private equity transaction is complex and requires time to structure and sell. It does not expedite the process of selling a position or increase the certainty of a transaction.

Total Return Swaps

Total Return Swaps are derivative contracts designed to allow two parties to swap cash flows, changing the nature of the portfolio on their books. A few of these transactions have been executed over the past several years, but because their execution only involves the two counterparties and their advisors, details are more effectively kept confidential – resulting almost in a "stealth" product.

In the example in Chart 6, the institution holding the private equity portfolio on its books (Counterparty A) converts the private equity position to one matching the cash flows of a floating rate note portfolio. The buyer (Counterparty B) has a total stream of cash flows that resembles the purchase of a private equity portfolio funded by a Libor based loan. Swaps have certain advantages:

• *They can often reduce the level of discount to NAV* compared to a normal secondary sale. In fact, transactions have most often traded near reported NAV.

• *They can speed the process of execution.* Once pricing is set between the buyer and seller, the transaction can be executed. Since the underlying positions are not actually exchanged (just the cash flows generated by those positions), approval by – or notice to – the general partners is not required.

• *They can be used on smaller positions and portfolios*, and as long as a willing counterparty can be found the swap contract does not need to be rated or insured.

What are the drawbacks of Total Return Swaps?

• *Swaps fail to remove assets from the "Seller's" balance sheet or generate upfront cash payments.* For a party that seeks to reduce its balance sheet or generate cash for other needs, Total Return Swaps do not offer the best solution.

• *Swaps generate counterparty credit risk.* Under a Total Return Swap, the two parties will be exchanging cash payments over the life of the contract, usually established as the life of the private equity portfolio. When entering into a contract, Counterparty A needs to ensure that Counterparty B will be able to make contractual payments not only this month, but also ten years from now.

• *These transactions do not eliminate administrative burdens.* Oversight of the private equity portfolio remains the responsibility of Counterparty A until the contract ends.

• *Limits Counterparty A's option to sell the private equity* positions before the end of the contract without renegotiating with Counterparty B.

Primary Secondaries

Over the past few months, another type of transaction has come to the fore: "Primary Secondaries". Primary Secondaries are structured as normal negotiated secondary sales. They differ from traditional secondary sales in that the targeted purchasers are not specialised secondary funds or other price driven buyers. Rather the buyers tend to be large, sophisticated institutional investors whose main focus is on primary private equity investing. These buyers seek to strategically purchase positions managed by specific general partner groups, in order to enhance their relationships with the objective of gaining ongoing access to future funds, or deepening relationships with groups they deem to be core to their primary program. They also seek to mitigate the impacts of the J-curve in their portfolios, especially in the case of very new portfolios under construction.

The process of matching primary investor interest with secondary positions for sale in a Primary Secondary can dramatically decrease discounts to NAV and, in certain cases, positions trade at a premium to NAV. This factor gives the primary secondary the potential to be a useful portfolio management tool for institutions to either buy or sell specific positions to rebalance sub-sector allocations.

Though very effective for selling individual positions or smaller portfolios, executing Primary Secondaries for a larger portfolio can be difficult because their execution requires them to be handled as a series of mini auctions. However, even in this situation primary secondaries have certain distinct advantages:

• *Dramatically improved pricing for the seller.* By deconstructing the portfolio, a seller can arbitrage inefficiencies in the market, achieving the highest prices available on a position-by-position basis from strategic investors who otherwise would not participate in a traditional auction process.

• *Most effective structure for portfolios with substantial undrawn capital.* Most specialised secondary fund managers dislike positions with large amounts of undrawn capital as their investment model is geared towards investing in more known cash flows. As a result, when they do bid on these positions, they tend to heavily discount them. Primary Secondaries dramatically improve sales prices for portfolios in this category as these investors look at secondary investments with significant amounts of undrawn capital in the same way that they look at primary investments in "blind pool" funds.

• *Access to long-term primary investors for fund managers.* Primary Secondaries are unusual in that they can serve the needs of fund managers as well as buyers and sellers. By cooperating and being active in the process, the fund manager can in effect use the sales transaction as a fund raising exercise, replacing a limited partner unlikely to invest in future funds with one actively seeking a long term relationship.

The future: the evolution continues

None of the emerging products noted above is the "killer application" that will replace specialised secondary funds. None of these tools is perfect for all situations, but they all expand the options available to address liquidity problems facing investors. Importantly, innovation is still dynamic – evolution continues and other more sophisticated and stylised tools will emerge.

A prime example is the recent "structured secondary joint venture" negotiated between HarbourVest and UBS. The venture does not clearly fall into any of the emerging technologies discussed previously, but is a very specific structure allowing UBS to reduce its exposure to private equity without taking a heavy upfront discount while HarbourVest is able to invest in the portfolio UBS had built. Though details have not been revealed, both parties will share in the upside potential of this portfolio. This structure does not seem to be a "cookie cutter" that can easily be replicated for other sellers and buyers, but rather may represent a new trend toward extremely customised solutions for large portfolios.

It should also be noted that the movement of institutional investors with a long term commitment to private equity towards use of Primary Secondary transactions, as both buyers and sellers, signals the advent of active portfolio management by sophisticated investors. The same investor actively selling positions to rebalance its portfolio could follow by buying secondary positions to increase exposure to a particular general partner group or industry sector. This trend may have significant long-term impact on the secondary market, not through its change in the tools used to execute secondaries, but by changing the motivations of buyers and sellers.

** Probitas Partners is an independent provider of integrated, alternative investment solutions, offering an array of customised services that include placement of private equity funds and investment and liquidity management.*

Specialised Secondary Funds (as of 31/12/03)

Fund/Parent/Status	Current	Last	Website	Strategy	Year Founded	History	Other Businesses	Key Partners	Offices
Funds Focused On Partnership Purchases									
Amberbrook IV / Willowridge Inc. / Recently Closed	75	75	www.willowridgeinc.com	Focused on partnership investing	1995	Focuses some attention on "tag end" positions, is thought to be coming out with its fourth fund in 2003	Solely focused on secondaries	Jerry Newman	New York
AXA Secondary Fund II / AXA Private Equity / Closed in 2001	480	220	www.axaprivateequity.com	Focused on partnership investing	2000	Founded by the large European insurer and asset manager, the fund closed in 2001; it has a strategic relationship with Paul Capital	Part of a larger asset manager	Christopher Florin	Paris
Auda Secondary Fund / Auda Advisor Associates / In market	400	na	www.auda.net	Focused on smaller non-auction transactions	2003	Part of a larger money manager active in private equity and hedge funds, Auda closed on $133mm in August of 2003 on the way to a final year end close; this is their first focused secondary effort	Part of a larger asset manager	Marcel Giacometti	New York, Bad Homburg, Copenhagen, Stockholm, London, Sao Paulo, Buenos Aires, London
Carlyle Secondary Fund I / The Carlyle Group / Pulled from market	400	na	www.thecarlylegroup.com	Would have invested in partnerships globally	2002	Was raising money for its first fund before pulling it from the market; the lead partner of the fund was Jeffrey Moelis, formerly of Paul Capital	The Carlyle Group has a number of funds covering various private equity segments	Jeffrey Moelis	Washington, D.C.
CSFB Strategic Partners II / CSFB / Closed in 2003	1600	832	www.csfb.com	Focused on partnership investing globally	2000	Fund I closed in February, 2001 under CSFB ownership after being launched by DLJ before their merger	Part of a large investment bank	Stephen Can	New York
Fondinvest 6 / Fondinvest Capital / In Market	250	130	www.fondinvest.com	Focused on partnership investing globally	1994	Part of the CDC Ixis Group, a large French financial institution that has various operations in private equity; also runs a series of primary partnership fund-of-funds	Part of a large financial institution, also manages a FoF business	Charles Soulignac	Paris
Goldman Sachs Vintage III/ Goldman Sachs / Coming to market	1,000	1,100	www.goldmansachs.com	Invests in partnerships globally, with emphasis on portfolio sales	1998	Founded by the large US investment bank; it's latest fund came to market at the end of 2003	Part of a large investment bank	Goeff Clark	New York

Fund/Parent/Status	Current	Last	Website	Strategy	Year Founded	History	Other Businesses	Key Partners	Offices
Greenpark International Investors I / Greenpark Capital / Recently Closed	200	na	www.greenparkcapital.com	Will invest in partnerships globally	2000	Founded by Marleen Groen after leaving Coller; Greenpark is sponsored by RMF Investment Group, a Swiss alternative investment manager	Solely focused on secondaries	Marleen Groen	London
Landmark Equity Partners XI / Landmark Partners / In Market	750	583	www.landmarkpartners.com	Invests in partnerships globally, with emphasis on large portfolio sales	1984	Founded by Stan Alfeldt, one of the earliest players in secondary funds; fund closed on $400MM in March 2003 after being in the market for over a year	Also runs private equity and real estate FoFs, as well as a labor-friendly direct investment vehicle.	Frank Borges, Bob Shanfield	Simsbury, CT
Lexington Capital Partners V / Lexington Capital / Recently Closed	2,000	1,100	www.lexingtonpartners.com	Invests in partnerships globally, with emphasis on large portfolio sales	1996	Founded by a number of partners from Landmark; originally managed as a series of vehicles focused separately on buyouts, mezzanine and venture capital but now managed as a single global vehicle; original target was $2.5 billion	Also runs a co-investment vehicle for the state of Florida	Brent Nicklas, Wilson Warren	New York, London, Santa Clara, CA
Partners Group Secondary LP / Partners Group / In market	400	na	www.partnersgroup.net	Will be invested primarily in Europe and up to 80% may be invested in buy-out funds	1996	Partners Group, a joint stock company under Swiss law, was established in Zug, Switzerland; pioneer in structuring unique publicly traded private equity investment vehicles; this is their first dedicated foray into secondaries for this FoFs manager	Fund of Funds, Hedge Funds, Fund of Hedge Funds	Alfred Gantner, Stephan Schali	Zug, Guernsey, New York
Paul Capital Partners VII / Paul Capital Partners / In Market	800		www.paulcapital.com	Invests in partnerships in the US and Europe	1991	Founded as a secondary specialist, Paul is currently raising a venture capital FoF and also has a separate healthcare royalty vehicle; they have a strategic relationship with AXA and their current fund has been in the market for at least a year	Also manages a vehicle that invests in healthcare royalties	Phil Paul, Byron Sheets	San Francisco, New York, Paris, Basel
Pomona Capital V / Pomona Capital / Recently Closed	582	213	www.pomonacapital.com	Invests in partnerships globally	1994	Founded in 1994 as an independent company, ING purchased a significant interest in 2000; latest fund closed in December, 2002	Also manages primary FoFs, and is owned by ING	Michael Granoff	New York, London
TIFF Secondary Partners I/The Investment Fund for Foundations/ Recently closed	150	na	www.tiff.org/pub/	Focus is primarily on purchasing funds where TIFF has a previous relationship	1993	First specialised secondary fund effort from this fund of funds manager focused on serving endowments and foundations	Fund of Funds	David Salem	Charlottesville, VA

Fund/Parent/Status	Current	Last	Website	Strategy	Year Founded	History	Other Businesses	Key Partners	Offices
Vintage Venture Partners I / Vintage Venture Partners / Recently closed	60	na	www.vintageventures.com	Focused on Israeli secondaries	2003	Founded by the Dovrat Group	Focused on secondaries, though sponsor is active in primary info tech funds	Alan Feld	Herziliyah, Israel
Funds Focused On Direct Company Purchases									
KF Alternative Equity Investors / Keystone Financial Partners / In Market	85	na	none as yet	Focused on buying secondary positions in direct venture capital investments in Europe	2002	Founded by a tech entrepreneur and an investment banker with no previous private equity experience	Solely focused on direct secondaries	Phillippe Gugliemetti, Robert Pierce	London
Saints Inc.	Raises funds to invest in specific portfolio purchases		www.saintsvc.com	Focused on buying secondary positions in direct investments in technology and healthcare companies	2002	Saints Capital I was formed to purchase a portfolio of direct investments from the Van Waggoner mutual funds	Is also a boutique investment bank, and manages a small VC fund	Kenneth Sawyer	San Francisco
Funds Investing in Both Partnerships and Direct Companies									
W Capital Partners / W Capital Partners / In Market	150	na	www.wcapgroup.com	Focused on purchases of direct venture capital investments	2002	Formed by three partners with backgrounds in venture capital and distressed investing, as well as investment banking	Solely focused on direct secondaries	David Wachter, Stephen Wertheimer, Robert Migliorino	New York
Coller International Partners IV / Coller Capital / Closed in 2002	2,500	501	www.collercapital.com	Invests in partnerships globally, with emphasis on large portfolio sales	1990	Largest secondary fund to date, closed in October, 2002	Solely focused on secondaries	Jeremy Coller	London
European Secondary Development Fund III / ARCIS Group / In market	200	91	www.arcisgroup.com	Focused on smaller non-auction transactions - both partnerships and directs - in Europe	1993	Founded by Arnaud Isnard, who has been active in the secondary market since 1984; the firm has an informal strategic relationship with Venture Capital Fund of America	Solely focused on secondaries	Arnaud Isnard	Paris, London
Pantheon Global Secondary Fund II / Pantheon Ventures / In market	600	418	www.pantheonventures.com	Invests in partnerships globally; does directs as well	1982	Founded in 1982 as a primary fund of funds manager, the Global Secondary Fund was their first dedicated secondary fund effort	Core business is a series of private equity FoFs	Roddy Swire, Dave Braman, Jay Pierrepont	San Francisco, New York, Hong Kong
VCFA Private Equity Partners IV / Venture Capital Fund of America / In Market	250	50	www.vcfa.com	Focused on buying positions in middle market buyout funds in the US; does directs as well	1983	First firm to specialize in secondary purchases of partnerships and direct investments, it runs a series of focused secondary funds; solely focused on the US, it has an informal strategic relationship with ARCIS; fund currently in the market solely focused on buying positions in US mid market funds	Solely focused on secondaries	Dayton Carr, Brett Byers, Ed Hortek	New York, Chicago, San Francisco

Note: The matrix only includes third party investment vehicles that focus solely on secondary transactions, and thus doesn't cover primary fund of fund managers or others who invest in secondary transactions outside of specialised vehicles. Amounts in $mn. Information as of December 2003.
Source: Probitas Partners aggregated research.