PALICO

Secondary Pricing Report

Q4 2019

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AVERAGE PRICES AND PREMIUMS CLIMB, MARKET BIFURCATION DEEPENS

The typical transaction on the secondary market is valued at 101 percent of net asset value in terms of mean, according to Palico's latest survey of limited partners who've purchased stakes in closed funds over the last six months. Among the three years that Palico has tracked secondary market pricing, this is surpassed only by the 103 percent achieved in the latter six months of 2018; it's also up from the 98 percent recorded in Palico's most recent October report. Measured in terms of median, typical pricing has held steady since October at 100 percent of net asset value. Intense competition for a select group of top-flight funds, as recession concerns grow, is skewing the mean upwards. The latest survey covers 43 private equity funds of all types, including buyout, growth, venture capital, real assets and credit, across all major regions of the world.

Secondary pricings based on successful bids over the last 6 months*

Fund	Pricing (% of NAV)	Vintage	Strategy
Abry Partners VIII	**102%**	2014	Buyout
Abry Senior Equity IV	**105%**	2012	Debt/Structured Equity
Advent Global Private Equity VII	**112%**	2012	Buyout
American Securities Partners VI	**103%**	2011	Buyout
Apollo Investment Fund VII	**95%**	2008	Buyout
Archer Capital Fund V	**96%**	2011	Buyout
Arclight Energy VI	**98%**	2015	Energy
Ares Corporate Opportunities Fund IV	**103%**	2012	Buyout
Bain Capital Venture Fund 2012	**94%**	2012	Venture Capital
Baring Asia Private Equity Fund V	**100%**	2011	Growth
Battery Ventures X	**97%**	2013	Venture Capital
Berkshire Fund VIII	**108%**	2011	Buyout
Bertram Growth Capital II	**97%**	2010	Growth
Blackstone Capital Partners VI	**104%**	2011	Buyout

*Through December 31, 2019

Secondary pricings based on successful bids over the last 6 months*

Fund	Pricing (% of NAV)	Vintage	Strategy
Bridgepoint Europe V	107%	2015	Buyout
Canaan IX	100%	2012	Venture Capital
Canaan VIII	92%	2008	Venture Capital
Capital International Private Equity Fund VI	77%	2012	Growth
Castlelake IV	106%	2015	Distressed Assets
Centerbridge Capital Partners III	108%	2014	Buyout
CHAMP Buyout III	79%	2009	Buyout
Chequers Capital XVI	99%	2011	Buyout
CVC Capital Partners Asia Pacific IV	98%	2014	Buyout
CVC European Equity Partners VI	106%	2013	Buyout
Friedman Fleisher & Lowe Capital Partners II	93%	2004	Buyout
GTCR Fund X	94%	2010	Buyout
KPS Special Situations Fund IV	118%	2013	Turnaround/ Special Situations
Lindsay Goldberg IV	130%	2015	Buyout

*Through December 31, 2019

Secondary pricings based on successful bids over the last 6 months*

Fund	Pricing (% of NAV)	Vintage	Strategy
Lone Star Fund X	**117%**	2016	Distressed Assets
Nordic Capital VIII	**103%**	2013	Buyout
Oak Hill Capital Partners III	**91%**	2009	Buyout
Oaktree Opportunities Fund IX	**88%**	2012	Debt/Structured Equity
Palamon European Equity II	**94%**	2005	Growth
Permira V	**109%**	2013	Buyout
Pharos Capital Partners III	**95%**	2005	Healthcare
Polaris Venture Partners VI	**99%**	2010	Venture Capital
Providence Debt Fund III	**100%**	2014	Debt/Direct Lending
Roark Capital Partners III	**101%**	2012	Buyout
Roark Capital Partners IV	**94%**	2015	Buyout
Thoma Bravo Special Opportunities Fund I	**109%**	2013	Growth
TowerBrook Investors III	**89%**	2008	Buyout
Vestar Capital Partners VI	**110%**	2013	Buyout
Windjammer Senior Equity Fund IV	**108%**	2013	Buyout

*Through December 31, 2019

Premiums Near High, but Ratio of Funds Sold at Par or Better Holds Steady

On average, funds selling at par or better transacted at a 7 percent premium to net asset value over the last six months, runner up only to the 8 percent record achieved in the second half of 2018 and rising from the 5 percent notched in 2019's H1. Our October report showed a 6 percent average premium. Although the average price in the secondary market is gradually increasing, the number of funds selling above net asset value - approximately 53 percent - remains essentially unchanged since October and has actually fallen since the first half of 2019. Some 52 percent of funds sold at a premium to net asset value in the six months through October, while 64 percent were selling at par or better in 2019's first half.

Smaller Percentage of Tail-End Funds Masks Growing Market Bifurcation

Funds going for less than par are selling at an average of 93 percent of their net asset value, rising from 91 percent in our October report, marking a twelve-month high. The narrower discount is not, however, the result of growing bullishness; it's the impact of a shrinking secondary market share for tail-end funds (vehicles that are at least 10 years old). Tail-ends currently make up some 19 percent of volume, dropping from a third of funds in the first six months of 2019 and 24 percent as reported in October. Tail-ends typically sell at wider discounts to net asset value than younger funds. In addition to holding fewer assets - making them riskier bets - the more mature assets of tail-ends usually have less runway to appreciate than those of younger funds. Moreover, as tail-ends have typically returned most of their capital, sellers are generally willing to take steeper discounts on the rump that remains versus the more substantial proportion of assets held in younger funds. Revealing the widening pricing gap between funds that hit investors' sweet spot and those that have less appeal, the average discount to net asset value for tail-ends has widened over the past year, dropping to 91 percent of NAV over the last six months, from 94 percent in October and 96 percent in the first six months of 2019.

The Proportion of Early Secondaries also Declines

As 2020 unfolds, buyers are in the curious position of having to invest a near-record amount of dry powder – some $170 billion, according to industry estimates – at the same time that they are looking to invest more selectively due to rising recession worries. This is leading to more intense bidding and bigger bets on what are viewed as safer funds. In addition to leading to a bifurcation in pricing between tail-ends and younger funds, growing investor pickiness also means relatively fewer transactions for exceptionally youthful funds, so-called early secondaries (funds that are no more than four years old). Funds that qualify as early secondary opportunities may have greater appreciation potential than older funds (they have more time to improve assets and are at an earlier stage in the investment process), but they typically have relatively fewer assets to analyze. As investors increasingly bid up the prices of more transparent and more easily valued funds they are increasingly turning away from early secondaries. Some 14 percent of funds sold on the secondary market over the last six months qualify as early secondaries, versus 23 percent of the funds covered in our October report. The lower relative weighting of early secondaries means that the average age of funds sold on the secondary market over the last six months has lengthened to 7.4 years from 6.8 years in our previous survey.

Buyout Fund Pricing is Highest

Palico breaks out pricing according to private equity fund strategy for the first time in this report. It should come as little surprise that buyout funds, traditionally viewed as safest in the hierarchy of private equity risk, come out on top. Buyout funds of all types - whose portfolio companies tend to have relatively more developed and solidly profitable businesses - sell at 102 percent of net asset value. Stripping out one major outlier – the most heavily discounted fund in this survey of secondary market transactions – growth funds and venture capital funds are selling at respectively 100 percent and 96 percent of net asset value. Private equity funds of all strategies, whether they be buyout, growth, or venture capital are, on average, selling at historically high valuations, but in a secondary market where average pricing covers a wider spread. As investors prepare themselves for an eventual recession, they may become pickier, reinforcing the growing pricing gap between funds with top tier appeal and the rest.

> *“On average, funds selling at par or better transacted at a 7 percent premium to net asset value over the last six months”*