

## Greenpark expects a successful 2011 in the global secondaries market for private equity funds

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- Transaction volume for secondaries back at a top level again
- Prices becoming more attractive to sellers
- New growth cycle expected for 2011 with an expected 10% increase in transaction volume
- Jump start for secondaries sales activity in Germany as a result of new regulatory requirements

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Greenpark Capital, a leading global investor in private equity secondaries with an investment focus on the European mid-market, expects another successful year in 2011 with a significant increase in secondaries market transactions. The highest peak in transaction volume to date of almost USD 20 billion\* was already achieved again last year in 2010. Due to a large pricing gap between buyers and sellers, 2009 showed a decline for the first time after years of steady increases. Prices are also currently moving measurably upwards again, which is a sign that buyers are conforming to market expectations. According to estimates for 2011, newly raised capital for secondaries is expected to exceed USD 26 billion\* which would reach the level of the previous peak in 2008.

### Strategic portfolio management via secondaries market transactions

Transactions involving participations in private equity funds in the secondaries market, so-called private equity secondaries, have developed into an important market since the late 1980s. Experts anticipate that this market will continue to develop dynamically in the future and that secondaries transactions will be used by investors in private equity to an even greater degree as a proven instrument for strategic portfolio management. Secondaries primarily involve the sale of fund units and not the sale of individual companies. It is estimated that over 80% of secondaries transactions worldwide involve limited partner positions, where a new secondaries investor takes over from an existing investor. In addition, there are numerous transactions in which entire private equity direct portfolios or parts of them are acquired – that is, individual companies pooled together in a portfolio – as part of a secondaries transaction and bundled into a new fund structure.

### Strong driver for new growth cycle at private equity secondaries

The increasingly mature primary markets for private equity investments in Europe and North America will mean a healthy increase in activity and excellent opportunities in the global secondaries market. At the beginning of a new growth cycle, Greenpark expects a 10 % increase in global transaction volume to USD 22 billion.

The current drivers in the European private equity primary markets, which also influence the secondaries markets, are the increased availability of debt capital to finance acquisitions as well as the upcoming expiration of the contractual investment period of many younger funds, which are holding large capital volumes that need to be invested. In addition, the private equity secondaries market is being propelled forward by the sale of tail-end portfolios, which must be sold as the funds are returning to fundraising. Selling pressure on the banks and insurance companies is also increasing. Their investments in private equity direct funds are subject to higher equity capital requirements due to the implementation of numerous regulatory changes such as AIFM, Solvency II and Basel III. These parameters are bound to have a major positive effect on the secondaries market, leading to it being increasingly used as an important instrument in active portfolio management.

### Germany: regulation jump-starts untapped potential

According to Greenpark, Germany is one of the most attractive European countries for direct private equity investment. This also justifies high expectations for the secondaries market. Nonetheless, the investment potential of the German primary market, especially in the mid-market segment, has not yet been realized due to the under-developed market for direct private equity investments. This also implies that the secondaries market remains relatively small in comparison to other European countries. According to Greenpark, the rapidly increasing pressure resulting from new regulatory requirements on banks and insurance companies is likely to jump-start the development of a secondaries market in Germany. This is because banks and insurance companies, especially in Germany, are among the major investors in private equity funds and are required to find new approaches to managing their investment portfolios.

Philippe Munch, investment director at Greenpark Capital and responsible for the German market, told journalists in Frankfurt: “Greenpark is already very experienced in the domestic secondaries market. We have been following the German market closely for ten years and in 12 transactions have invested more than 10% of our available capital locally. Greenpark specializes in the smaller to medium secondaries market, which is the dominant segment of the German primary market. Therefore, Greenpark is well positioned to benefit from further market developments in Germany”.

### Accepted asset class with attractive risk-return profile

Secondaries is now an accepted asset class, both with alternative investors and in the private equity market. According to Greenpark, absolute returns of secondaries are not as high as those of direct funds, but in most cases they are higher than classic funds of funds and at the same time offer an attractive risk-return profile. This is characterized by solid returns and lower risk due to low volatility and high current yield resulting from the early repayment of capital. Secondaries have established themselves as a promising asset class, especially in times of economic decline and financial market turbulence, where it can provide liquidity to investors.