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The European Private Equity Data Service provides monthly coverage on the European private equity market and records fund launches and closings in Europe and Israel.

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Seven things you need to know about the Secondary Market.

1) What's going on? The secondary market has received increased attention over the last couple of years. While, secondary investors have been active since the late 1980s, it was not until 2000 that the market really took-off on the back of two large transactions, from JP Morgan Partners / Chase and Royal Bank of Scotland / NatWest. Both were the result of mergers between financial institutions. Market sources estimate that US\$ 2.1 billion of transactions closed in 2000, a 24% increase on 1999. However, this is an opaque market where sellers typically shun publicity. Given that these two deals alone represent US\$1.75 billion of volume in 2000, we view this estimate as conservative.

2) Is this a growth market? The growth of the secondary market is set to continue based on two main drivers: 1) activity is directly linked to capital raised; and 2) it is inversely related to liquidity from funds. From 1996 to 2000 private equity groups raised around US\$ 750 billion worldwide. Secondary activity historically runs at around 3% of funds raised, which will represent US\$ 22.5 billion over the life of these funds. The current lack of distributions further increases the percentage of LP interests that come to market. The fundamental case for the growth of the secondary market is confirmed by market participants, who are seeing strong deal-flow and forecasting record years in 2001 and 2002.

3) Who's in the market? On the investor side, something of an arms race has been playing out since 2000, with substantial funds being raised by each of the three principal groups: 1) The dedicated secondary groups; 2) The investment banks; and 3) The fund of funds. Of the dedicated secondary groups, Paul Capital Partners closed PCP VII (a US\$ 850 million fund) in July 2001, Lexington closed Lexington Capital Partners IV (a US\$ 606 million fund) in April 2001 and Landmark closed Landmark Equity Partners X (a US\$ 583 million fund) in May 2001. Lexington is aiming to go one better, clearly anticipating further mega-deals, and is reported to have undertaken a first close on a US\$2.5 billion target fund. Of the investment banking groups, BancBoston Capital, CSFB, Deutsche Bank and Goldman Sachs are increasingly active, as are the major fund of funds, which typically allocate up to 20% of available capital to secondaries.

4) What are these investors looking for? The classic profile for a secondary transaction is a fund or portfolio of funds that are substantially invested, with a top-tier manager and clear visibility on exit timing. Fund interests that match these criteria are of interest to all three groups of buyers. Younger vintage funds and funds that are not managed by brand name managers have a more limited audience. A number of specialist investors also look at direct secondaries, i.e. the restructuring of private equity investments (typically the corporate venturing activities of a corporation) as a new fund.

5) Why sell? A secondary sale enables investors to dispose of an otherwise illiquid asset, transfer obligations to fund capital commitments and obtain cash from a funded buyer. As the market develops LPs are increasingly able to manage private equity in a more active manner, as with other asset classes.

6) How does a secondary get priced? The valuation methodology employed by secondary groups is typically based on a computation of the price level necessary to achieve target fund returns. In practice this involves a bottom-up analysis of each fund's holdings on an investment-by-investment basis in order to determine likely exit horizons and amounts. The rule of thumb (and clearly every transaction has its unique characteristics) has historically been discounts to NAV of 20-30%. 1999 and 2000 technology fund portfolios currently attract significantly wider discounts, although this is expected to narrow as the effect of September and December quarterly write-downs come through.

7) Who should I talk to? In summary, the combination of a critical mass of volume and increased acceptability by both GPs and LPs means that the secondary market provides a genuine solution for owners of an otherwise illiquid asset class. Brain Capital is an active participant. We work with over 50 secondary buyers worldwide both as advisor to sellers of LP interests and consultants to secondary investors. Please contact us on the numbers listed opposite to learn more.

News and Developments from European Fundraisers Active in the Market

Status	Fund Name	Manager	Region	Stage	Sector	Target (Em/bn)	Close (Em/bn)
FIN	TVM V Life Sciences	Techno Venture Management	Germany, US	Early Stage	Life Sciences	250	336
FIN	AFINUM Beteiligungsgesellschaft	AFINUM	Germany	Expansion, Buyout	Not defined	50	75
1st	Royal London Private Equity	Royal London Private Equity	UK, Eur	Mid-Market	Not defined	0	0
FA	Corven Ventures	Corven	UK	Mid-Market	Healthcare / Outsourcing	na	0
FA	AGF Innovation 3	AGF Private Equity	France	Early-Stage	Technology	70	0

Status Key: FA - Fund Announced; 1st - 1st Close; 2nd - 2nd Close; 3rd - 3rd Close; Fin - Final Close; P - Pulled

Target Key: na - not available; ns - not set, Includes funds with a target size over E25m

Source: Somerset Capital. For an up to date schedule of European Private Equity fundraising activity contact James Miller on +44 (0)207 488 4401 or email james@aom-cap.com