

the NAV represents US\$1.8 trillion and unfunded amounts to US\$1.0 trillion. The growth of the primary private equity market together with an increased propensity to trade will be the two key drivers of the continued growth of the secondary market as a derivative of the primary market.

Exhibit 9: Total PE assets have risen to US\$2.8 trillion<sup>53</sup>

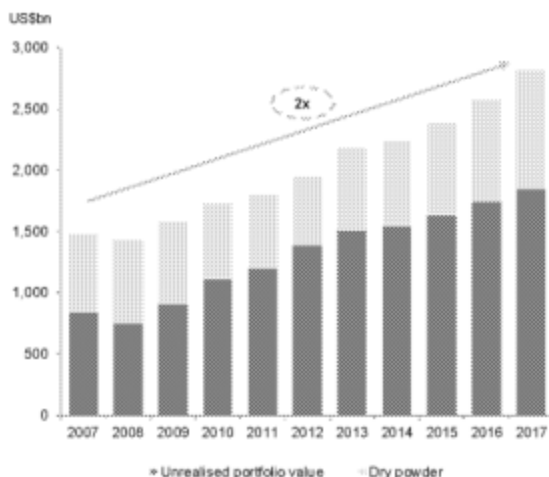
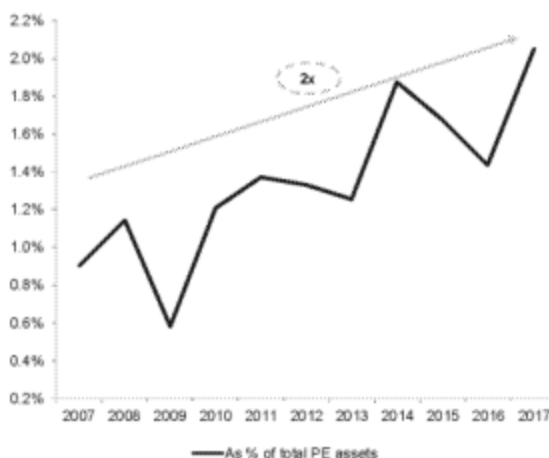


Exhibit 10: Annual Secondary volumes now 1-2% of total PE<sup>54</sup>



## Secondary market pricing – stable and driven by rational participants

Pricing in the Secondary market is a key factor that sellers consider when evaluating a decision to potentially transact. In 2017, the average headline high bid across all strategies remained strong at 93% of NAV.<sup>55</sup> While pricing increased slightly from the prior year, a closer review of pricing data revealed that younger funds with available dry powder received stronger pricing. Tail-end funds typically have few remaining unrealized assets with little projected uplift in value. This results in wider discounts than funds of more recent vintages whose assets still have potential for growth.

While overall buyout funds traded at 99% of NAV in 2017 (skewed positively by high demand for more recent vintage funds), other funds, and one-off transactions (*i.e.*, smaller portfolio deals without structure) traded at significantly larger discounts. There is an even greater price gap for perceived “out-of-favor” funds and lower-quality managers. It is Glendower’s opinion that staying focused on bottom-up fund and asset selection, often resulting in acquiring one or only a few funds from a given seller, may result in the ability to generate stronger performance than larger portfolio purchases. The Manager believes that buying a large diversified portfolio in an auction, with the use of significant leverage and/or transaction structuring, is effectively purchasing a levered private equity index with diminished ability to generate alpha.

It is important to note that while the Greenhill data of headline pricing captures bids received by sellers, it does not necessarily mean that most funds trade in the 90% range of NAV. The aggregate pricing data masks the broadening spread of discounts paid in the underlying deals which can be skewed by a number of factors, including large portfolio trades that often achieve strong pricing.

It is also worthwhile to note that the pricing data is as of the Record Date,<sup>56</sup> and does not factor in transaction structuring.

<sup>53</sup> 2018 Preqin Global Private Equity & Venture Capital Report.

<sup>54</sup> Glendower Capital based on 2018 Preqin Global Private Equity & Venture Capital Report; Greenhill Secondary Market Trends & outlook, January 2018; and Dow Jones Private Equity Analyst Guide to the Secondary Market, June 2017.

<sup>55</sup> Greenhill Secondary Market Trends & Outlook, January 2018

<sup>56</sup> Private equity funds typically report information to their investors, including the net asset value of their investment, on a quarterly basis. Secondary market transactions are typically priced with reference to the net asset value of an LP interest as of a specific reporting date, the “Record Date”.