

Secondary Opportunities Fund III, LP

Secondary Market Investment Opportunity

Overview

Fundamentally, private equity assets – when held through funds, funds of funds, feeder funds or other similar holding structures – are illiquid investments with long holding periods (typically 10 to 12 years for fund interests) during which time investors have no, or limited, rights to liquidity and investors receive limited information about the performance of the underlying portfolio companies. An investor in such a structure that requires liquidity prior to the sale of the underlying assets by the fund has few alternatives to selling the interest on the secondary market.

A range of dynamics in the private equity industry, such as an evolving regulatory environment, ongoing limited partner portfolio management becoming standard and a rising number of Fund Sponsor restructurings following the 2008/2009 crisis, can create attractive opportunities to purchase private equity assets on a secondary basis, particularly in the small- to mid-size transactions segment of the secondary market on which the Secondary Team focuses.

The Primary and Secondary Markets

The volume of private equity assets has grown significantly from 2003 to 2012 as more investors have entered the asset class, existing investors have increased allocations to private equity and larger commitments of capital have been made to increasingly larger investment funds. The Manager estimates that at the end of June 2012 the net asset value of private equity investment globally amounted to US\$2.2 trillion while the amount of capital available for investment (commonly referred to as 'dry powder') globally actively seeking investment opportunities amounted to US\$1.0 trillion. The former figure is an estimate of the assets potentially available for sale on the secondary market.

The demand side of the secondary market is primarily driven by the aggregate amount of capital managed by dedicated, traditional secondary funds that are skilled and equipped to price and transact portfolios of mature private equity assets (commonly referred to as 'secondaries dry powder'). As of December 31, 2012, UBS estimates total secondaries dry powder to be \$35 billion globally.