

AXON PARTNERS H1/2017 SECONDARY MARKET SNAPSHOT

GLOBAL SECONDARY MARKET EXPERTISE AND NETWORK
 SUCCESSFUL TRACK RECORD IN EXCESS OF € 3.5 BILLION EXECUTED
 CONFIDENTIAL, PROFESSIONAL, RESOURCEFUL

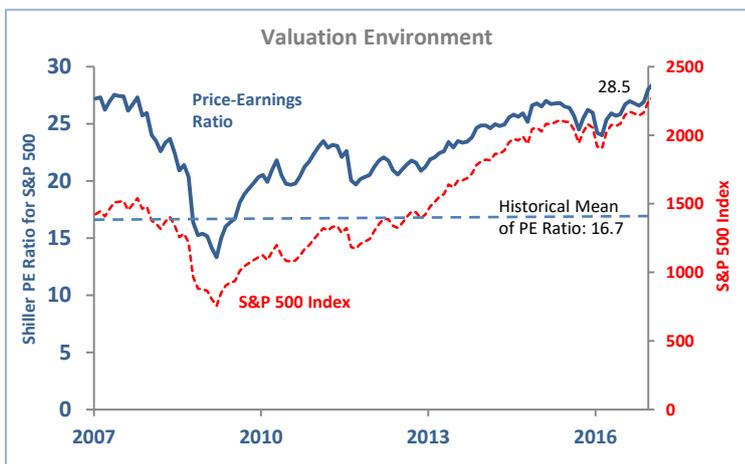
INTRODUCTION

AXON Partners is a secondary adviser and placement agent for investments in private assets (private equity, real estate, infrastructure, private debt). As an intermediary, we are closely tracking market trends and are in regular dialogue with sellers and buyers of fund interests globally.

WHERE DO WE STAND IN THE CYCLE?

As has been the case in the public markets, private assets investors have benefited from rising valuations and high levels of distributions over the past few years. Despite macroeconomic jitters and an uncertain geopolitical outlook in 2016, valuations remain at peak levels. As of mid-January 2017, the Shiller Price-Earnings Ratio for the S&P 500 Index stood at 28.5, 70% higher than the historical mean of 16.7.

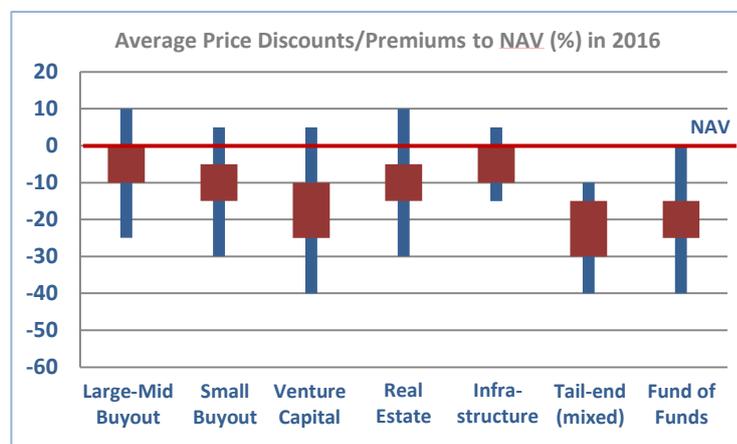
A similar trend can be observed in the private equity market. As Leon Black from Apollo Global Management famously pointed out back in April 2013, private equity managers should be selling “everything that’s not nailed down” amid rising valuations. Other private equity firms followed, leading to peak distribution activity in 2014/15. Since Leon Black made his comment, the S&P 500 Index gained another 45%, stretching valuations even higher.



STATUS OF THE PRIVATE EQUITY SECONDARY MARKET

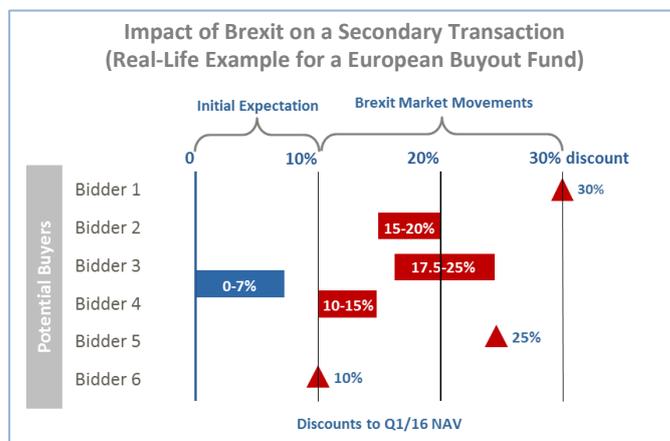
2016 was again a very active year in the secondary market with an estimated transaction volume of \$35-40 billion. Looking at the current deal flow, AXON Partners expects a similar volume for 2017. The market dynamics can be summarised as follows:

- Demand continues to be higher than supply, leading to higher pricing levels
- Sellers continue to capitalise on high valuations to take profits off the table and to rebalance their private equity portfolios



- Sellers are more opportunistic and price-focused than ever before
- Buyers apply lower return thresholds (recently 1.2-1.4x underwriting multiples for quality buyout assets) as a result of increasing competition and the use of leverage
- Lower quality and mature tail-end portfolios are also readily absorbed by the market due to the ongoing need to deploy capital (\$18.5 billion was raised by secondary managers between Q1-Q3/16, with an additional \$32 billion currently being sought)

Despite all these positive developments (it is a sellers' market!), the secondary market remains cyclical and responds quickly to unexpected market events. By way of example, AXON Partners worked on a number of secondary transactions during the Brexit vote in June 2016. Higher uncertainty coupled with the expectation of decreasing market valuations in Q2/16 led to immediate price adjustments by buyers in the range of 5-30%. Despite this recent drop, pricing improved quickly again within weeks and remained strong for the rest of the year (the real-life example shown on the right was finally completed at a low single-digit discount).



HOW TO USE THE SECONDARY MARKET

Higher volatility in capital markets, political risks and unfavourable currency movements today are playing a more prominent role in investment committee discussions compared to 12 months ago. The upcoming national elections in France and Germany and the implementation of Brexit may lead again to unexpected market events in 2017. As a result, the willingness amongst private assets investors to consider opportunities to sell has increased. In today's market, the sellers' main motivations to dispose of assets are the following:

- Attractive pricing
- Long-term strategic reasons
- Manager underperformance
- Portfolio risks (e.g. rising debt levels, slowdown in exit activity, longer holding periods)
- Administrative burden of legacy portfolios

HOW TO WORK WITH AXON PARTNERS

Every process starts with the evaluation of the client's goals and objectives and the portfolio at disposition. The initial assessment and the offer for a process are free of charge. For further information please contact any of our partners:

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AXON PARTNERS TRACK RECORD

- Advised on over 35 secondary transactions and €3.5 billion transaction value
- Single fund sales through to complex portfolio restructurings
- Advised family offices, funds-of-funds, pension funds, banks, insurance companies and general partners
- AXON Partners is 100% partner owned and free of conflicts

Source: AXON Partners, Princeton University Press (Robert J. Shiller)

Regulations: AXON Partners is approved and regulated by the Swiss Financial Market Supervisory Authority FINMA. AXON Partners LLP is authorised and regulated in the United Kingdom by the Financial Conduct Authority.