PERSPECTIVE

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FULL REPORT

Financial Sponsor Secondary Market 2019 Year-End Review

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As used herein, "Lazard Internal Estimates" refers to an internal database at Lazard that tracks financial sponsor secondary transactions. The database aggregates information gathered from publicly available sources, discussions with secondary investors and transactions Lazard has executed in the applicable calendar year. The database does not capture all financial sponsor secondary transactions, and certain values in the database are estimates.

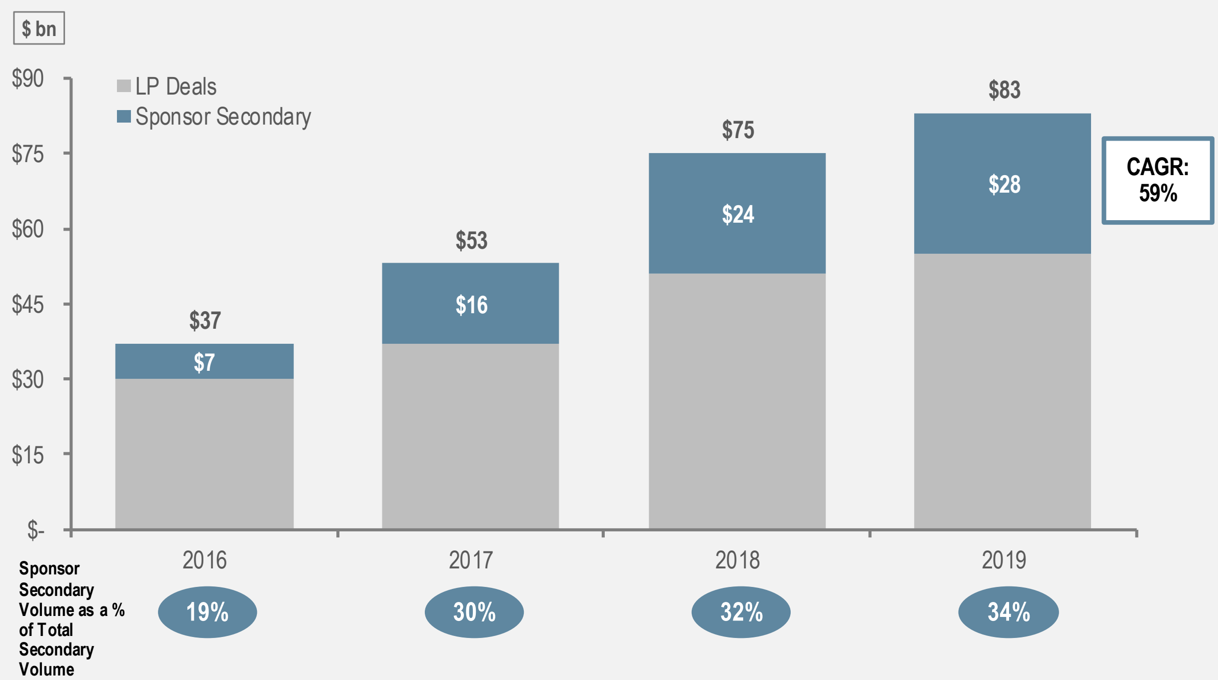
Another Record Year, but is the Growth Moderating?

Secondary transactions initiated by financial sponsors have become a significant part of the overall private secondary market. These transactions are known by various names, such as GP-led transactions or GP secondaries, however here at Lazard and within this report, we classify these transactions as financial sponsor secondaries or "sponsor secondaries". A key characteristic of these transactions is that the sponsor initiates or has substantial involvement with the process. Objectives of the sponsor vary, but ultimately, the goal of a sponsor secondary is to achieve a liquidity or capital-raising solution through the private secondary market. The past three years have seen strong growth in this segment of the secondary market as new structures and deal types have been executed by leading financial sponsors.

2019 represented another record year and based on Lazard Internal Estimates, $28 billion of sponsored secondary transactions closed across 58 transactions. This represents growth in transacted volume of 15% over 2018 and more than 70% over 2017 (see Exhibit 1 below). This year also was record breaking in terms of the number of $1+ billion transactions led by several of the largest sponsors in the world, including 3i, Ares Management Corporation, The Blackstone Group, Insight Partners, PAI, Global Infrastructure Partners and Warburg Pincus, among others.

Exhibit 1: Secondary Market Volume Estimates

2016 – 2019



Source: Lazard Internal Estimates.

Lazard's Private Capital Solutions team (formerly known as Lazard Secondary Advisory) is a trusted advisor to financial sponsors and private market investors. Our success and leadership in the market is an outcome of values and actions to provide strategic, sound and dispassionate advice to our clients. We leverage our integrated global private market platform that includes primary capital fundraising and private capital solutions. Exhibit 2 highlights notable Lazard transactions closed in 2019.

Exhibit 2: Notable Lazard-Advised Financial Sponsor Secondary Transactions
2019

ARES	ALTOS VENTURES	INSIGHT PARTNERS	THL Thomas H. Lee Partners
August 2019	**April 2019**	**September 2019**	**June 2019**
As reported in *Buyouts*, Lazard's client, Ares Management, transferred three investments representing ~$1 billion in unrealized value into a new fund vehicle in order to effect a liquidity solution for existing LPs. The deal also provided the newly formed vehicle with unfunded capital for follow-on investment opportunities.	As reported in *BusinessWire*, Lazard's client, Altos Ventures, executed a recapitalization of their 2008 vintage Fund IV which had generated strong returns for its existing investors. The portfolio included investments in the U.S. and Asia, and the top three assets consisted of 80% of unrealized value.	As reported in *Buyouts*, Lazard's client, Insight Partners, recapitalized assets held by multiple funds into a newly formed SPV. The transaction provided liquidity to investors and gave the sponsor additional time to maximize the value of the portfolio. The deal values the assets, which include investments in growth-stage LBOs and leading pre-IPO companies, at ~$1.4 billion.	As reported in *Secondaries Investor*, Lazard's client, Thomas H. Lee Partners ("THL"), completed the sale of five assets held in Fund VI to a THL managed continuation fund. The deal, valued at between $500 million to $1 billion, offered LPs a liquidity option and provided THL additional time and capital to realize the full value of selected assets.

Source: Lazard Internal Database, Business Wire, Buyouts and Secondaries Investor.

Based on Lazard Internal Estimates this report details several trends observed in 2019, including:

- **The Americas remain the most active geography:** 55% of transactions closed, failed or were in the process of closing as of December 31, 2019 were from the Americas and the majority of this volume stemmed from large continuation fund transactions.

- **Transaction size continues to increase:** The average transaction size increased from ~$400 million in 2018 to ~$500 million in 2019, led by a significant increase in the number of closed transactions greater than $500 million. As a consequence, we have seen a notable increase in syndication efforts and thus an elongation of execution timeline.

- **Increased failure rate and time to transaction close:** In 2019, ~60% of the transactions brought to market were able to close within the year, which we believe is the lowest to date (in 2018, we saw ~85% of the transactions brought to market close within the year).

- **The deal type broadens:** Recapitalization and continuation fund structures accounted for 78% of the total number of closed transactions in 2019, of which pure single-asset deals represented 36%, a significant increase from 2018.

- **Preferred equity and capital solutions for private equity funds:** The preferred equity market continued to expand in 2019, and alongside the traditional liquidity solutions provided to owners of LP interests, the market has witnessed an increasing number of liquidity solutions sought after by sponsors at the fund level.

- **Increased breadth and depth in the buyer market:** Secondary firms continued to specialize in the types and size of deals they execute, given the need to differentiate against peers, while an increasing number of LPs turned to the secondary market to generate alpha. In 2019, Lazard saw increased activity from traditional LPs in the sponsor secondary market; those who previously only participated as sellers in LP-led transactions. Today, we identify this universe of LPs as active market participcants, particularly in the syndication phase of sponsor secondary transactions.

- **Talent scarcity:** Advisors and investors in the secondary market are feeling a talent supply constriction, particularly in the mid-level ranks. To address this, secondary market participants are formalizing analyst and MBA programs to home-grow talent. While it may take a few years before fruition, market participants agree that the apprenticeship model is the best way to transfer knowledge and strengthen capability. In addition to formalizing recruitment programs, the broader private investing market is taking notice of the sponsored secondary market. For example, business schools are adjusting private equity and investing curricula to include secondary market topics. One example is Harvard Business School's case study on NewView Capital (Bernstein, Shai, Ramana Nanda, and Allison Ciechanover. "NewView Capital and Venture Capital Secondaries." Harvard Business School Case 820-038, October 2019. (Revised January 2020.)).

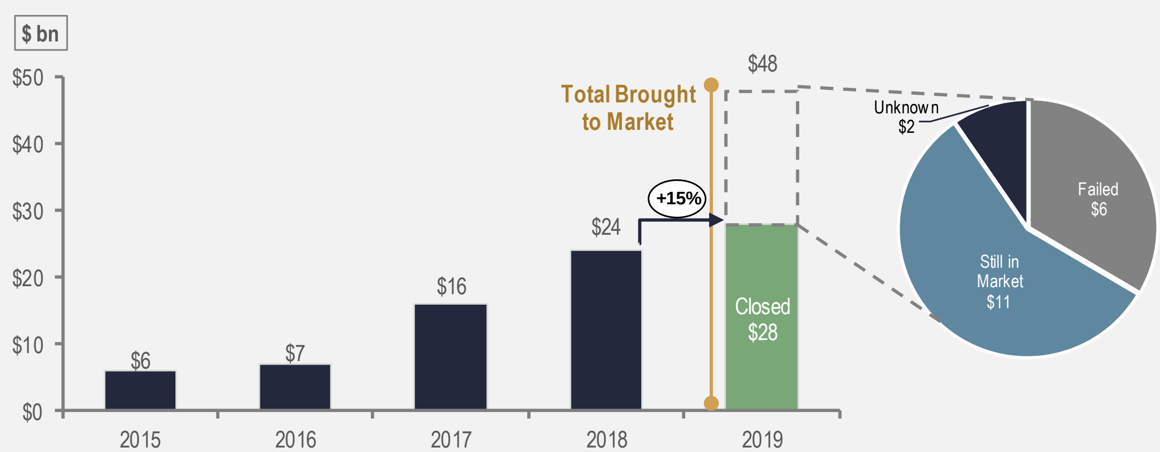
The beginning of 2020 continues to be active and based on Lazard Internal Estimates; ~$5 billion of transaction volume could close in the first quarter. Several large transactions are expected to come to market in the first half of 2020 and equity market volatility notwithstanding, we believe 2020 will be another record year.

Third Year of Consecutive Growth

Based on Lazard Internal Estimates, approximately $48 billion of transaction volume was either closed, failed or brought to market, as of December 31, 2019. Of the $48 billion, we estimate $28 billion closed, which represents a 15% increase from 2018 and more than 70% over 2017. A third year of double-digit growth in closed transaction volume was underpinned by multiple factors, of which we have listed a subset below:

- Stronger awareness and acceptance from financial sponsors that sponsor secondaries can provide positive outcomes for their portfolio companies and LPs
  - A sponsored secondary is a viable alternative to traditional exit routes such as a trade-sale or an IPO
  - A sponsored secondary can generate needed follow-on capital for portfolio companies (particularly when a sponsor has depleted unfunded capital)
  - A sponsored secondary can help fundraising efforts through staple capital generated in a transaction
- Current and forecast deal environment is competitive and sponsors are seeking to hold strong assets longer, particularly those with significant runway for value creation
- Increasing amounts of dedicated secondary capital needing to be deployed
- Broadening of the buyer universe
- Desire from LPs to crystallize returns by electing liquidity options

Exhibit 3: Sponsor Secondary Market Volume Estimates
2015 – 2019



Source: Lazard Internal Estimates.
Note: Includes transactions that closed, were in the process of closing as of December 31, 2019 and were reported to have failed in 2019.

In 2019, based on Lazard Internal Estimates, approximately 60% of the transactions brought to market were able to close within the year. This percentage is significantly lower than those in previous years (~85% in 2018) and reflects a number of factors including:

- **Substantial new transactions brought to market late in 2019:** These transactions take several months to complete and a number of deals were initiated in the second half of the year.

- **Larger deals requiring syndication:** Approximately a third of deals in 2019 that closed, were in the process of closing, or were reported to have failed, were greater than $500 million and as such required syndication. Based on anecdotal responses, closing timelines were elongated 4 – 8 weeks to accommodate the syndication process. As such, transactions launched in late Q3 and Q4 were highly unlikely to close in the calendar year.

- **Increased failure rates in 2019:** Failure rates in 2019 rose ~25% when compared to 2018. Reasons are often specific to each transaction, but in general, pricing expectations, structures and perceived quality of the underlying assets were the key drivers. We also believe that a certain amount of "irrational exuberance" led some sponsors (and advisors) to bring deals to market prematurely with portfolios and assets unable to withstand investor scrutiny.

Our discussions with market participants suggest favorable supply and demand dynamics will support continued growth in the sponsor secondary market:

- **Demand:** Investors in sponsor secondaries have raised significant amounts of capital. According to Preqin, as of December 31, 2019, more than $51 billion of capital was raised by secondary firms in the past 24 months. Alongside the pure-play secondary capital are other pockets of secondary capital managed by participants in the market such as traditional LPs, pension funds and family offices, all of which are increasing their attention and capital allocation towards sponsor secondary deals. That said, there is a finite amount of human capital available to underwrite potential sponsor secondary deals and as such, lead investors have become selective in the deals they decide to "run at" as the opportunity cost of not successfully closing the transaction is significant.

- **Supply:** Sponsors are dedicating time and resources to better understand the dynamics of the secondary market and how to use it as a tool to manage their portfolios. As such, discussions have evolved into strategic debates, focused on how to utilize the secondary market to their advantage. Sponsor secondaries are being viewed as an alternative and viable route to generate portfolio liquidity as well as a pathway for sponsors to hold certain assets longer. This system-wide acceptance has supported a strong supply of well-known sponsors executing sponsor secondaries and there are few signs that would suggest a slowdown. That said, not all sponsors can successfully execute a sponsor secondary and investors will quickly shift attention away from transactions that lack strong transaction rationale, detailed information, sponsor alignment and transparency.

While there are strong supply and demand dynamics, we note that the secondary dry powder available in the market today is not necessarily targeted toward the highly concentrated (i.e., single-asset) portfolios that have become increasingly present in the market. The demand "lag" in capital earmarked for concentrated portfolios could drive a slower future growth rate in consummated transaction volume.

Noticeable Shift in Distribution of Transactions

Lazard Internal Estimates suggest that the distribution of transactions by size shifted noticeably in 2019 vs. 2018 and 2017. The total number of deals brought to market increased from 65 in 2018 to 94 in 2019 (~45% increase). However, to our knowledge, only 58 of the 94 transactions brought to market closed before December 31, 2019. The number of large-cap transactions significantly increased relative to that of the smaller end of the market, mostly driven by the United States. Of the closed transactions in 2019, the top 10 deals accounted for more than 45% of transaction volume, of which nine were $1+ billion transactions.

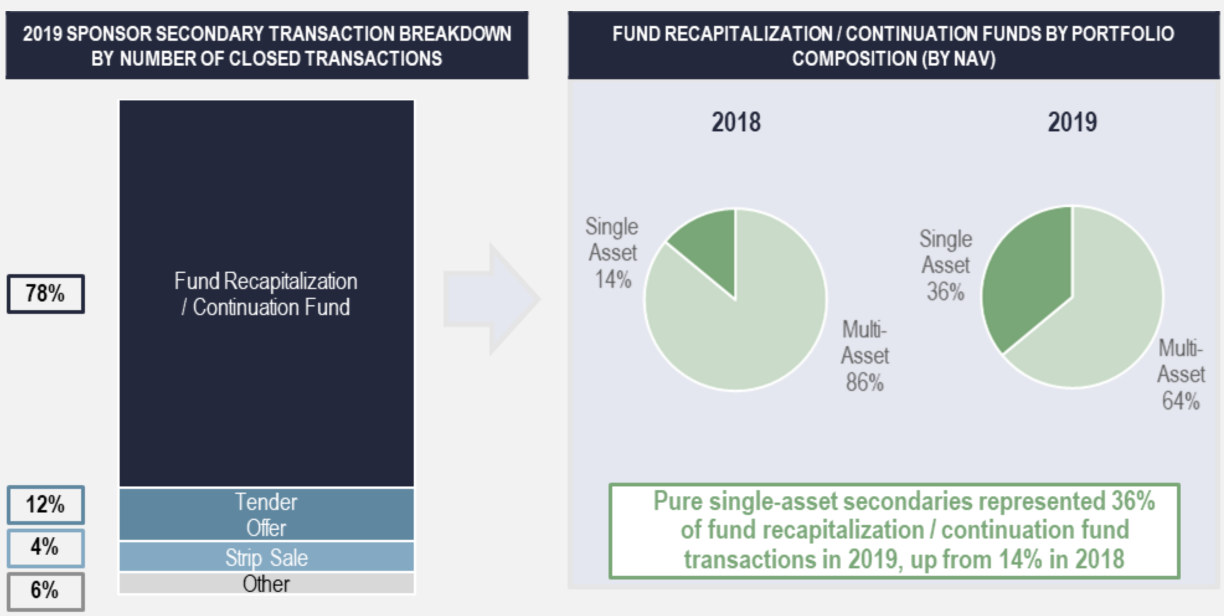
Exhibit 4: Sponsor Secondary Transactions Segmented by Geography and Size
2017 – 2019

Source: Lazard Internal Estimates.
Note: Includes transactions that closed, were in the process of closing as of December 31, 2019 and were reported to have failed in 2019.

Concentrated Portfolios Increase

In 2019, financial sponsors increasingly utilized the secondary market to achieve liquidity solutions for more concentrated portfolios. With sponsors becoming better versed in the opportunities the secondary market can offer, there has been a rise in acceptance of secondary transactions as alternatives to traditional exits pathways. Consequently, more sponsors used the secondary market as the preferred avenue to generate liquidity for prized assets, especially assets that have strong growth prospects. We observed this with the increased number of continuation funds holding single assets, some of which have successfully closed above $1+ billion (the Warburg Pincus / Allied Universal transaction, for example). Lazard expects the trend towards sponsors offering concentrated portfolios in the secondary market to continue.

Exhibit 5: 2019 Sponsor Secondary Transaction Breakdown

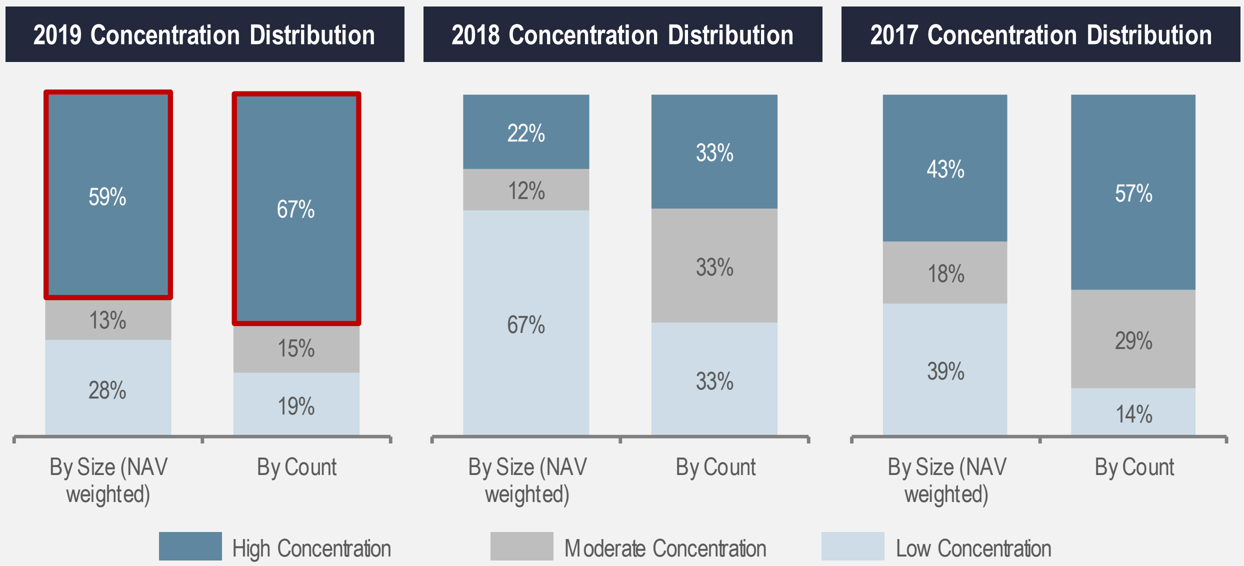


Source: Lazard Internal Estimates.
Note: Only includes transactions that closed as of December 31, 2019.

The volume of pure single-asset deals, as a percent of fund recapitalizations / continuation funds in 2019, increased by 22% from 2018. The most active investors in the single-asset secondary transaction space tend to be secondary investors with broad investment platforms and/or direct investment capabilities.

- Fund recapitalizations / continuation fund structures represented 78% of total closed deals in 2019, up from 63% in 2018
- Pure single-asset deals as a percent of total fund recapitalizations / continuation funds in 2019 represented 36%, up from 14% in 2018

Exhibit 6: Lazard's Observation of Portfolio Concentration in the Sponsor Secondary Market
2017 – 2019



Source: *Lazard Internal Estimates.*
Note: See U.S. Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines § 5.3 (2010) for details on how agencies measure market concentration.

Using Lazard's closed sponsor secondaries track record, Lazard created a comparable metric to assign "concentration scores" to portfolios brought to market between 2017 – 2019. Lazard utilized the same methodology as the Herfindahl-Hirschman Index ("HHI Index"), which is a commonly accepted measure of market concentration. Identical to the HHI Index, Lazard's portfolio concentration score is calculated as the sum of the square of each asset's share of the portfolio NAV:

$$\boldsymbol{Portfolio\ Concentration\ Score} = \sum_{i=1}^{n} s_i^2 \times 100^2$$

A score above 2,500 indicates high concentration; between 1,500 and 2,500 indicates moderate concentration; and below 1,500 indicates low concentration. Below we outline examples.

- **High Concentration:** A portfolio with three underlying companies each representing 33% of the portfolio NAV would have a portfolio concentration score above 2,700 and would be classified as highly concentrated. Using this methodology, a single-asset transaction by definition will have a perfect concentration score of 10,000.

- **Moderate Concentration:** A portfolio with five underlying companies each representing 20% of the portfolio NAV would have a portfolio concentration score of 2,000 and would be classified as moderately concentrated.

- **Low Concentration:** A portfolio with ten underlying companies each representing 10% of the portfolio NAV would have a portfolio concentration score above 1,000 and would be classified as less concentrated.

Preferred Equity and Fund Financing Solutions

The preferred equity (and related fund financing solutions) market continued to expand in 2019 and alongside specialist firms, is increasingly attracting traditional secondary investors given the downside protection inherent to the instrument as well as its ability to offer, in theory, relatively defined returns. These structures can be used by funds, investors and/or management companies to achieve a broad range of strategic objectives, including:

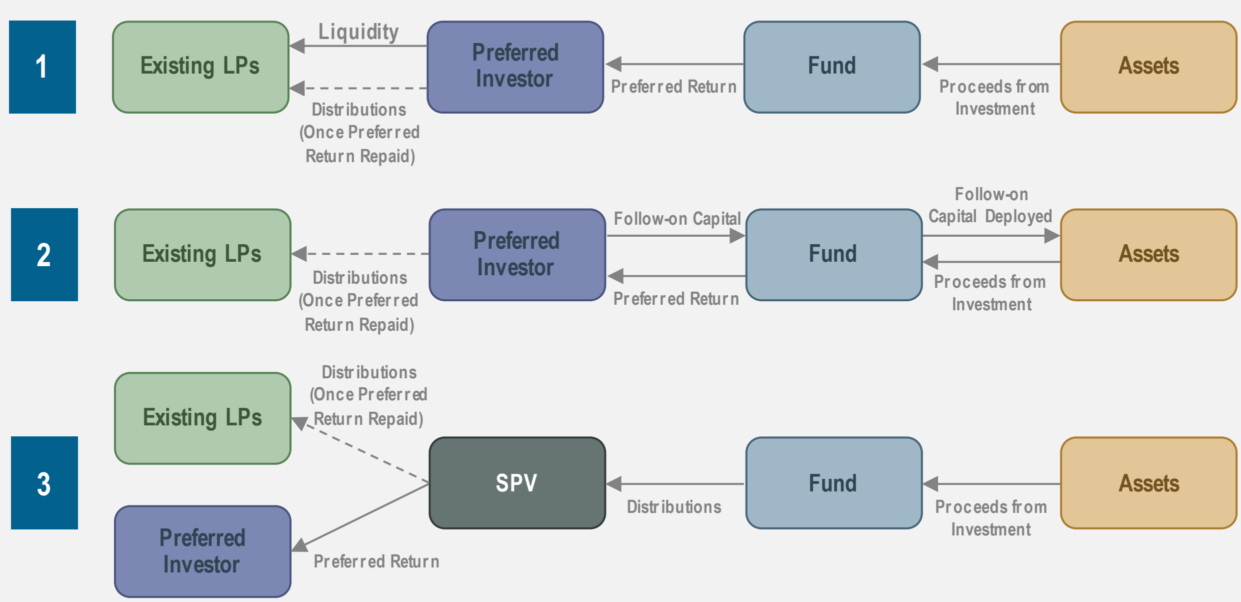
- **Fund recapitalizations:** Accelerate an outsized distribution with preferred equity. Can be attractive for existing LPs if liquidity is desired and / or pricing on the secondary market does not reflect the expected forward return profile of the fund (e.g., if the fund is invested in asset classes / geographies which are not well known to the secondary market).

- **Follow-on capital:** Used by sponsors to invest additional capital into the portfolio where the fund has already been fully deployed (and no recyclable capital is available). Can unlock incremental value for LPs without being diluted (as would occur if further common equity was raised).

- **LP portfolio liquidity solution:** Generate liquidity for an LP portfolio at no discount to NAV (up to 50%–67% LTV). If attractive pricing cannot be achieved through a sale, preferred equity can deliver a superior outcome for an LP.

- **Management Company financing:** Preferred equity can be used to finance sponsor commitment into future fundraises (thereby creating a leverage effect on sponsor returns above the cost of financing). Financing is secured against carried interest and sponsor commitments from future and previous funds.

Exhibit 7: Preferred Equity Transaction Structures



Real Estate Secondary Market

Sponsor secondary transactions in the real estate ("RE") market increased noticeably in recent years. We expect this growth to continue given that secondary RE market pricing is at close to record levels and fund recapitalizations led by RE sponsors are representing ~50% of current RE secondary market deal activity (versus less than 10% in 2013). RE secondary transaction volume (LP-led and sponsor-led) is estimated to be at least $7 billion in 2019 and we see substantial scope for further expansion, not least due to the amount of primary capital that has been raised in recent years.

While some of the key drivers for sponsor secondaries in RE are similar to private equity (e.g., holding outstanding assets for longer), we do also see a number of asset class-specific themes, including:

- **An alternative source of liquidity:** The secondary market can provide a source of liquidity for RE sponsors where optimal value for select assets cannot be achieved through traditional exit routes. While this theme applies to most sectors within the real estate market, it may be particularly pertinent in retail, where the pricing environment remains generally challenging.

- **Realigning investor cost of capital:** Unlike buyouts, RE can more naturally transition through multiple "sub-asset classes" during its life cycle (e.g., from value-add to core), with each transition potentially requiring a different cost of capital to accommodate. Once such a transition occurs, a fund recapitalization offers RE sponsors an alternative to selling to a third party, by transferring the asset into a new SPV, which the same RE sponsor will manage. We saw such a scenario play out in 2019 when Lazard advised ECE on the recapitalization of six European shopping centers (originally core+ assets) to a new core fund, supported by new investors with an appropriate cost of capital.

- **Non-traditional participants:** The sponsor-led market is also increasingly under consideration by previously non-traditional secondary investors in response to increasing challenges in the primary market for opportunistic funds, where a limited opportunity set has resulted in some sponsors having to either (i) push into new geographies / take on more development risk to deliver customary opportunistic returns or (ii) accept lower risk / return profile investments. In this context, a secondary transaction, alongside a quality sponsor and a well-known existing asset, can present a compelling alternative proposition.

Record amounts of capital have been raised by the largest RE secondary firms in recent years in anticipation of continued market expansion. Lazard has hired a dedicated senior professional to advise on real estate opportunities as we expect volume growth to continue and RE sponsors to increasingly recognize the compelling value proposition that can be offered by the secondary market.

Buyers in the Market

In line with the growth of the market, sponsor secondary buyers have been very active. Exhibit 8 below shows the number of transactions completed for a subset of buyers in 2019 by the amount of invested capital per transaction. Outlined below are key observations compared to 2018.

- The total number of transactions completed by single buyers continued to increase significantly, with a greater number of buyers participating in a double-digit number of transactions. In 2019, eight investors closed over 10 transactions, compared to 2018, when only two investors executed over 10 transactions.

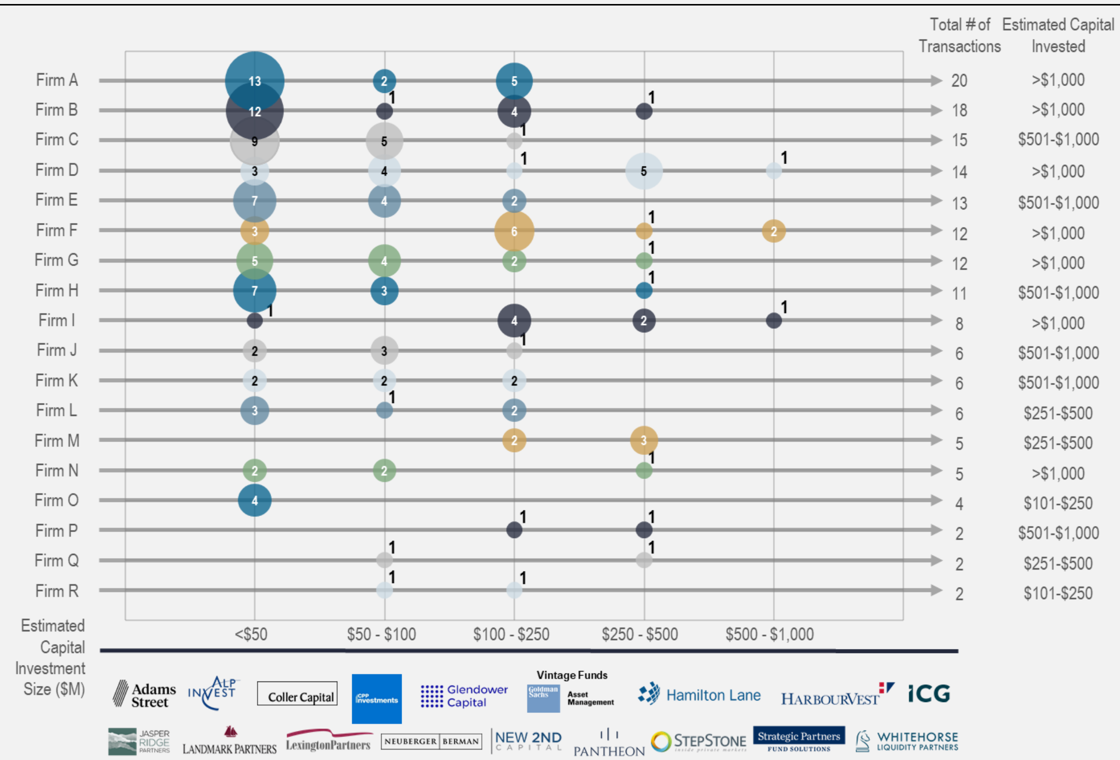
- 2019 had more investors deploying over $1 billion in sponsored secondary transactions than in 2018, despite the increase in the average number of transactions per investor.

- The number of under $50 million capital investments increased more than three-fold, from 13 to 42 over the 12-month period. In 2018, the number increased from four to thirteen over the 12-month period.

We believe that the driving force behind the 2019 investor activity was the greater number of highly concentrated portfolios tapping the secondary market. Many secondary investors have limitations to their exposure in a single company. With concentrated portfolios, such limitations effectively "cap" the equity check sizes of investors.

Exhibit 8: Number of Transactions by Selected Investors in 2019

Number of Transactions by Estimated Capital Invested



Source: *Lazard Internal Estimates, Lazard Year-End Survey.*

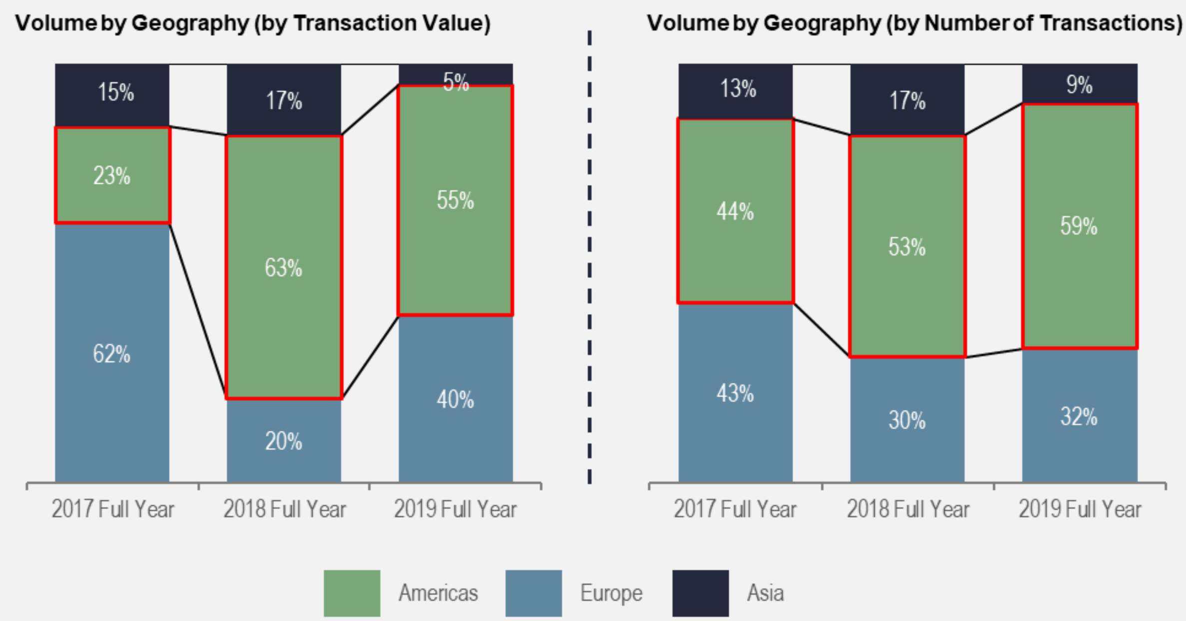
Ultimately, investors participated in a greater number of transactions, but with smaller capital investments on average, driving the surge of syndication exercises in 2019. More investors are taking the approach of making smaller commitments to many concentrated portfolios, synthetically creating diversified exposure.

Another active participant in 2019 that we expect to continue high activity are traditional LPs. LPs have always been part of the secondary market, however today we are seeing them become more active investors in the space.

Geographic Summary

The Americas continued to represent the majority of transaction volume in 2019 on a dollar basis, driven both by number of transactions brought to market and increase in transaction sizes. Europe regained share from 2018, largely driven by a handful of $1+ billion transactions despite an essentially flat number of transactions brought to market last year. Asia had the greatest decline in terms of both transaction volume and count.

Exhibit 9: Sponsor Secondary Volume by Geography
2017 – 2019



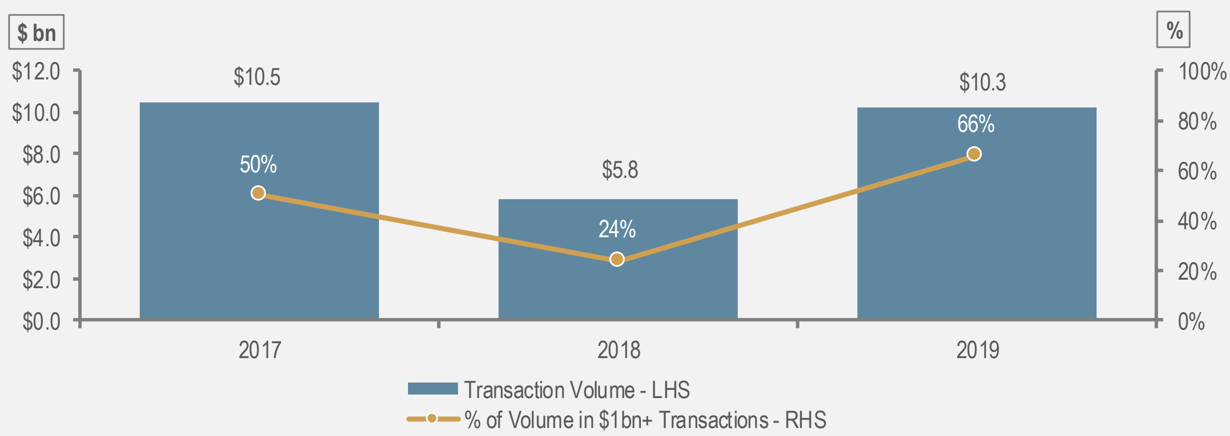
Source: *Lazard Internal Estimates.*
Note: Includes transactions that closed, failed or were in the process of closing as of December 31, of respective years.

We expect that the geographic distribution in 2020 will be similar to that of 2019, with the Americas representing the majority of the transactions by value and number of transactions. Given the relatively small size of the Asia market, a handful of successful transactions could yield significant market growth.

Europe Overview

In Europe, 2019 signaled the return of the large-cap secondary (greater than $500 million), with eight such transactions closing in the year (four in excess of $1 billion) in comparison to three in 2018. The result was a substantial uptick in transaction volume, which closed at ~$10 billion in 2019 (up ~75% from 2018).

Exhibit 10: European Sponsor Secondary Transaction Volume



Source: Lazard Internal Estimates.

Key themes observed last year include:

- **Continued proliferation of single-asset secondaries:** 2019 represented the busiest year on record for single-asset secondaries in Europe, with these deals representing the majority of transacted European sponsor secondary volume last year. Financial sponsors in Europe brought to market high-quality assets, seeking to hold on to trophy investments, particularly in cases where a sale to another financial sponsor was the most likely exit path. We expect this trend to gain further momentum in 2020 as financial sponsors seek alternative, more flexible sources of capital to continue holding successful investments beyond the constraints of a traditional 10-year fund term.

- **Price validation through traditional M&A:** One of the complexities of single-asset secondaries is the validation of the purchase price paid by secondary investors. In Europe, a number of transactions incorporated a price that was set by a traditional M&A process, which either concluded co-terminus with, or slightly prior to, the secondary transaction (most notably 3i). This development allowed sponsors to demonstrate a fair price to their existing investors and can also give further comfort to an incoming investor if, for instance, the successful M&A co-investor is a sponsor with higher return targets.

- **Sponsor and asset quality and alignment remains paramount:** The continued growth of the secondary market, and the resulting increased resource pressure on buyers has led to investors being increasingly selective on European deal flow. This theme was observed during the fourth quarter of 2019 when many secondary investors had already deployed meaningful capital earlier in the year, resulting in them opting out of processes that had low-quality assets. Sponsor and asset quality remains the most fundamental screening criterion for secondary investors.

- **Non-Traditional Secondary Investors:** The majority of the large European transactions involved substantial syndication exercises. For the first time, we saw meaningful active buyside participation in Europe from non-traditional investors, such as local pension funds and insurance groups, who applied more of a "co-investment lens" to underwrite these highly concentrated portfolios and, in many cases, relied heavily on the work done by, and their relationship with, the lead investor. We are seeing a shift in attitudes towards sponsor-led transactions from traditional limited partners, once heavily skeptical of the market, as transactions focus more on stronger sponsor alignment and increased transparency.

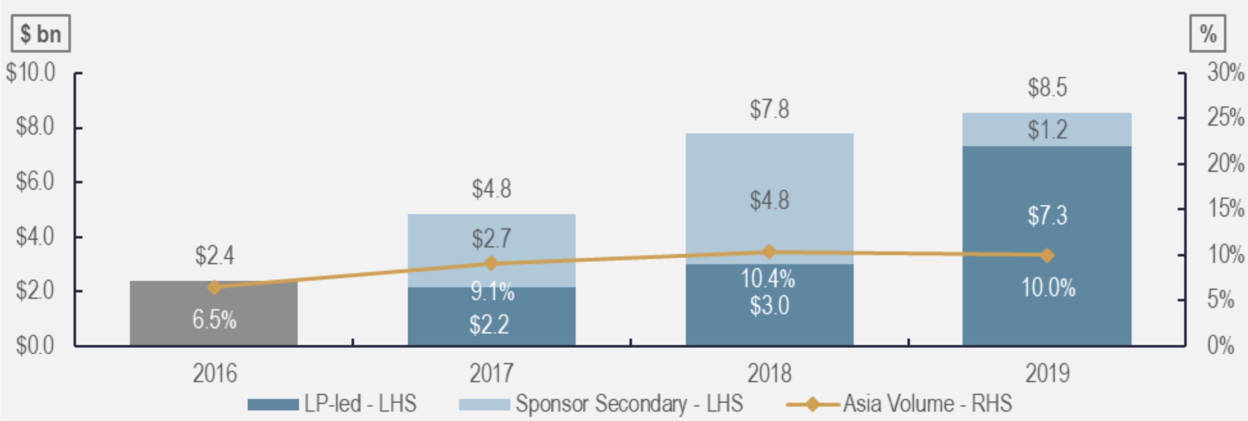
- **Venture capital:** Continuing a theme from 2018, we have seen further growth in the venture capital space. Lazard was active in advising sponsors across the asset class, a number of whom have been willing to access the secondary market in order to lock in strong returns for existing investors while simultaneously building relationships with new investors that wish to gain exposure to disruptive and high-growth companies (as part of a diversified portfolio).

We expect European volume in 2020, as in previous years, to be highly dependent on a relatively small number of large transactions. In this regard, the number of "brand-name" European sponsors that successfully accessed the market in 2019 should encourage a wider universe of their contemporaries to consider their own transactions in 2020. As such, Lazard expects Europe to remain a highly active marketplace for sponsored secondaries in the new year.

Asia Overview

While the Asia-Pacific secondary market in general grew in 2019 by around 10%, much of this growth was driven by the LP-led transactions in the secondary market. Sponsor secondaries were significant by number but went down in 2019 in terms of completed deal volume due to fewer large transactions closing. Interestingly, our discussion with market participants highlighted that many were evaluating sponsor secondary transactions throughout the year but the size and quality of opportunities were generally less attractive than that of prior years.

Exhibit 11: Asian Secondary Transaction Volume



Source: Lazard Internal Estimates.

In 2019, we observed increased deal flow in the venture and earlier-stage market, particularly in China and India, as (often highly valued) private assets needed more time to mature and IPO markets remained challenging. A key feature of the 2019 market was sponsors seeking to manage highly valued private portfolios, particularly in technology, by exploring ways to deliver liquidity to their investors in the secondary market. However, scrutiny of venture-funded technology companies, and companies with unsustainable financial models, increased, exacerbated by specific events such as the poor early performance of Uber after its IPO and the publicly reported challenges faced by WeWork. We noted increased skepticism from secondary buyer investment committees, particularly those with U.S. or European centric committees, regarding valuations, path and timing to profitability, and expected avenue and window for exit.

The 2020 outlook for Asia at the start of the year is generally positive; although the outbreak of the coronavirus disease (COVID-19) is likely to create headwinds and delay of sale processes particularly during the first quarter or first half of 2020. Off the back of some of the larger landmark deals and innovative transactions of 2017 and 2018, many sponsors looked at the liquidity solutions market with renewed curiosity and interest in 2019. We expect this trend to continue in 2020, as most of the Asia-Pacific region's major sponsors now seek to understand and explore the legitimate alternative exit routes the market can offer, particularly in single-asset situations where more time or capital may be helpful and where the current exit window is suboptimal and misaligned with fund investor liquidity requirements. Overall, we continue to believe these observations about the Asia-Pacific region to hold true:

- Well-advised and thought-through sponsor secondary transactions can benefit all stakeholders
- Pipeline of opportunities will remain strong as sponsors continue to assess various liquidity alternatives
- Opportunities where the timing, context and bid-ask spread are reasonable will succeed
- Investors in sponsor secondaries will seek to deploy significant capital into later-stage assets (and majority situations where possible) showing profitability or a nearer-term path thereto, and into developed parts of Asia
- Sponsors that are well known or have a proven track record of not relying on the IPO window to liquidity will become attractive secondary sponsor candidates

Recap of Lazard's 2019 Outlook

In early 2019, we made six predictions on the sponsor secondary market. Overall, with the exception of one, they have come to fruition. We summarize these predictions and outcomes in Exhibit 12 below.

Exhibit 12: Analyzing Last Year's Predictions

	LAZARD PREDICTIONS		2019 YEAR-END RESULTS
1	The financial sponsor secondary market will increase to \$25 - \$27 billion in closed volume	✓ Observed	Our estimates suggest that \$28 billion of sponsor secondary transactions closed in 2019
2	The U.S. market will dominate with over 60% of transacted volume	✓ Observed	The U.S. outpaced other regions with 59% of transaction volume by deal count
3	Venture capital direct secondaries will increase as more venture firms seek alternative routes to liquidity	✓ Observed	Venture capital backed secondaries represented significant volume with sponsors such as Accel KKR, Altos and Blackbird Ventures executing sponsor secondaries
4	Energy transactions will increase in number and volume. While closing these transactions will continue to be challenging, more energy sponsors will seek liquidity and capital solutions through the secondary	— Partially Observed	We noted many energy transactions launched in 2019, but there were very few closings
5	Corporate owners of private assets will use the sponsor secondary market as non-core assets start to become a drag on capital and earnings	✗ Not Observed	The number of corporates divesting private investment portfolios was lower than anticipated
6	Alternative asset classes including real estate, infrastructure and private debt will all see growth in transacted volume	✓ Observed	Notable deals were completed across private markets, with strong growth in real estate and private debt

Source: Lazard Internal Estimates.

Our predictions on total volume, lead geography, venture capital and the broadening of the alternative asset classes were on the mark in 2019. The market did not, however, see an increase in large corporate owners divesting private investment portfolios, nor did it see an increase in completed sponsor-led secondary transactions in the energy sector. Our estimates and engagement with the wider market suggest that up to \$6 billion of energy transactions were brought to market before December 31, 2019—however, only a handful were able to close in the calendar year.

Looking Ahead – Lazard's Predictions for 2020

The secondary market has benefited from the momentum and compounding effect of three consecutive years of strong growth. The pipeline for the beginning of 2020 indicates another record year and we are excited to see continued innovation in the market in terms of structures, participants and deal types.

In line with previous years, Lazard's Private Capital Solutions team anticipates the following trends in 2020, outlined below in Exhibit 13.

Exhibit 13: 2020 Predictions

1	**Continued Double-Digit Growth** *Mid-teens growth expected, with the extended time to close driving the slower growth*
2	**Single-Asset Transactions** *Continued growth driven by blue-chip sponsors executing $1+ billion deals*
3	**Club Deals to be Increasingly Prevalent** *Expected larger deals will require more syndicated capital and are likely to elongate the average time to close deals*
4	**More Specialization for Secondary Buyers** *Across size, transaction structures and sectors*
5	**Continued Growth in Asset Classes beyond Buyout** *Emergence sponsor secondary transactions involving credit, infrastructure and real estate*
6	**New Financing Structures** *Increasing prevalence of unique structured solutions to obtain leverage at the fund level*
7	**Large Entrants to the Buyer Universe** *One (or more) of the ten largest alternative asset management firms will start a secondary platform in 2020*

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We are a trusted advisor committed to long-term relationships with clients, providing thoughtful and innovative private capital solutions through a globally integrated platform.

A global leader in raising capital, executing secondary transactions and providing capital solutions for private investment funds. Our group has built one of the broadest institutional investor coverage networks in the industry and has cultivated relationships with over 1,500 investing institutions globally.

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ABOUT LAZARD

Lazard, one of the world's preeminent financial advisory and asset management firms, operates from more than 40 cities across 25 countries in North America, Europe, Asia, Australia, Central and South America. With origins dating to 1848, the firm provides advice on mergers and acquisitions, strategic matters, restructuring and capital structure, capital raising and corporate finance, as well as asset management services to corporations, partnerships, institutions, governments and individuals.

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