



The Development of the Secondary Market for Private Equity and Implications for Korea

September 25, 2013

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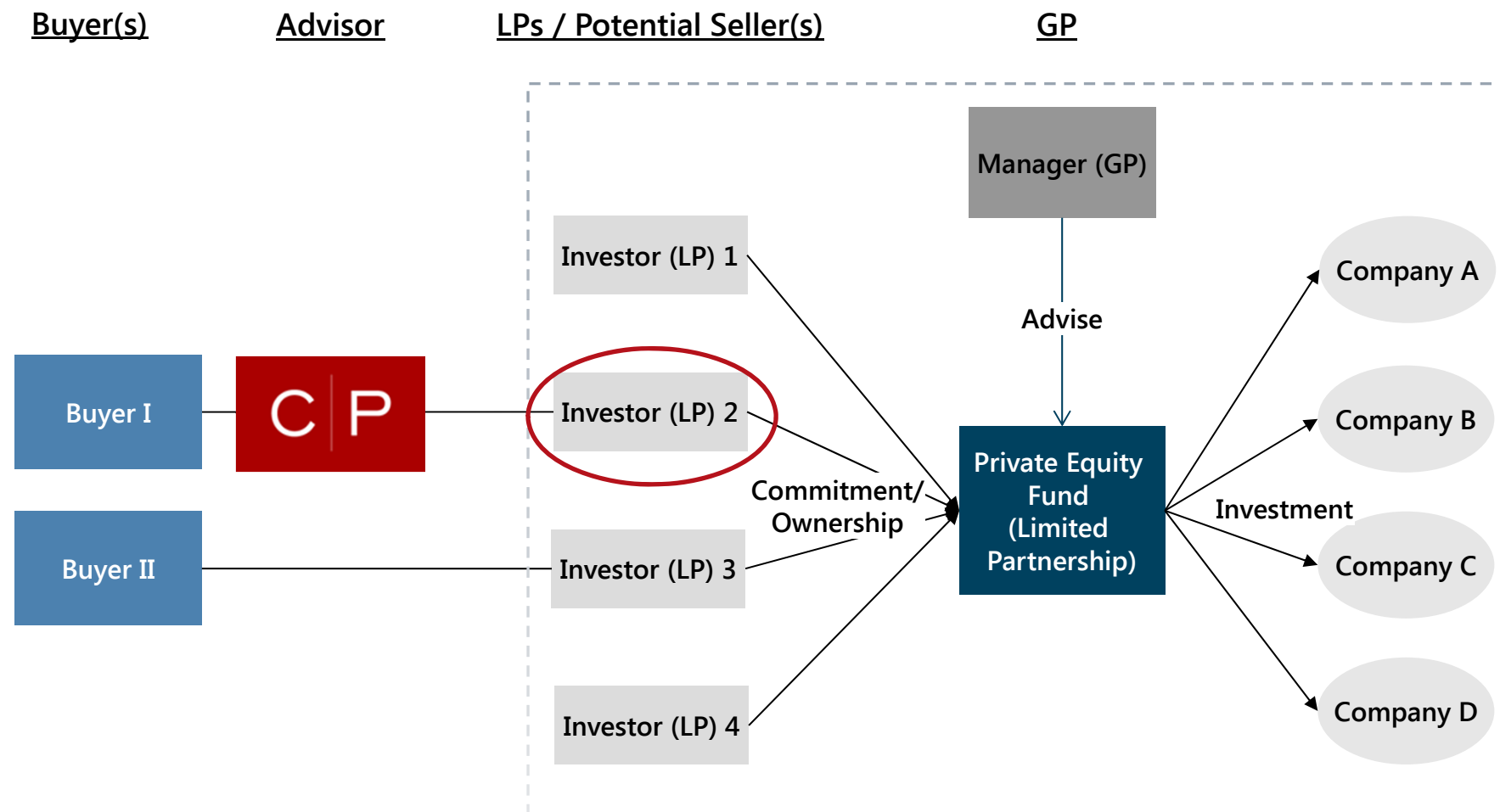
A market where investors purchase securities or assets from other investors, rather than from issuing companies themselves. Stock exchanges - such as the New York Stock Exchange or KRX Korea Exchange are secondary markets.

Secondary markets exist for other securities as well, such as when funds, investment banks or other type of investors purchase bonds, options, futures, mortgage etc. from counterparties.

In any secondary market trade, the cash proceeds go to an investor rather than to the underlying company/entity directly. In the primary market prices are often set beforehand, whereas in the secondary market only basic forces like supply and demand determine the price of the security.

Introduction to Private Equity Secondary Market

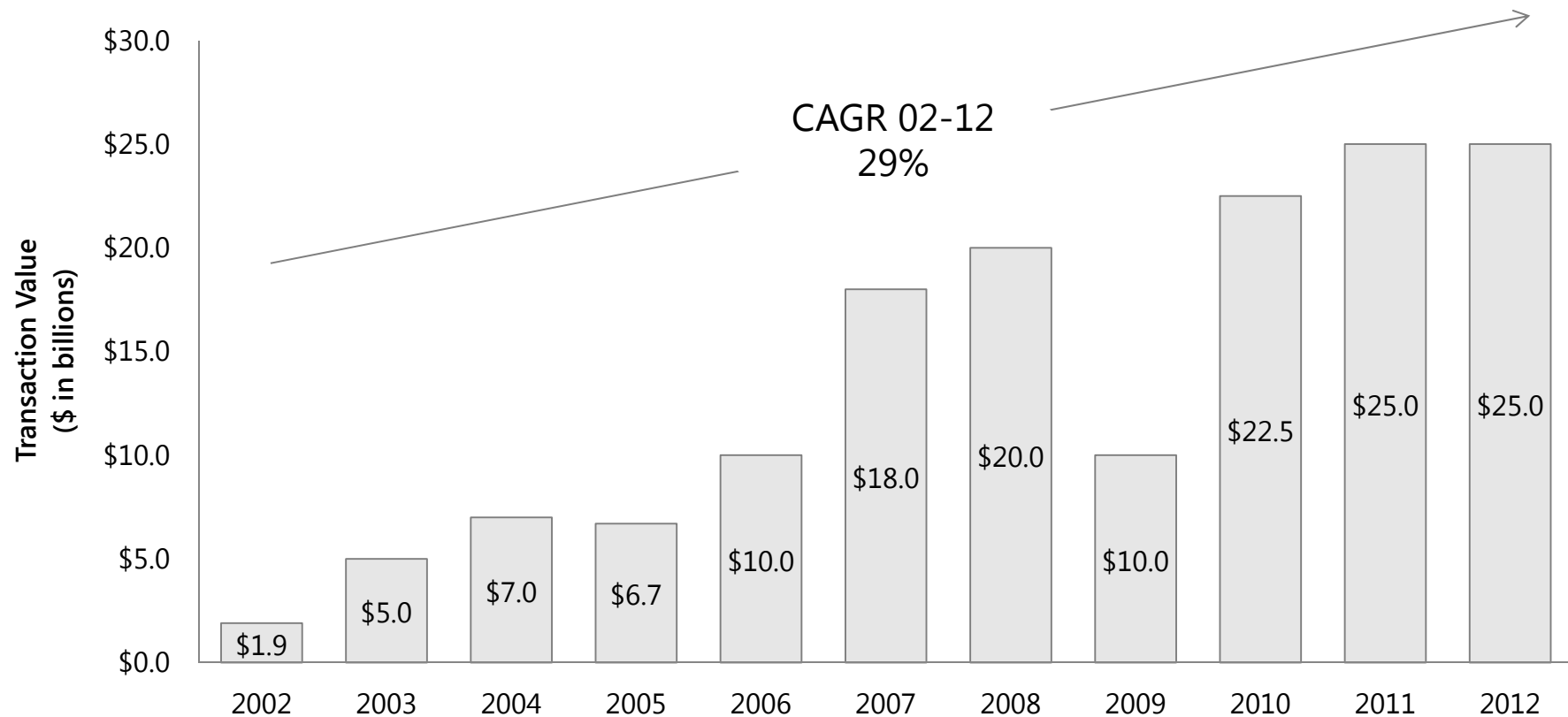
Cogent Partners advises its clients with regards to the sale of their interests in private equity funds



Private Equity Secondary Market Transaction Volume

Transaction volume of private equity secondary has seen steady growth in the past decade, despite the slowdown in 2009 due to the financial crisis

Transaction Value ¹

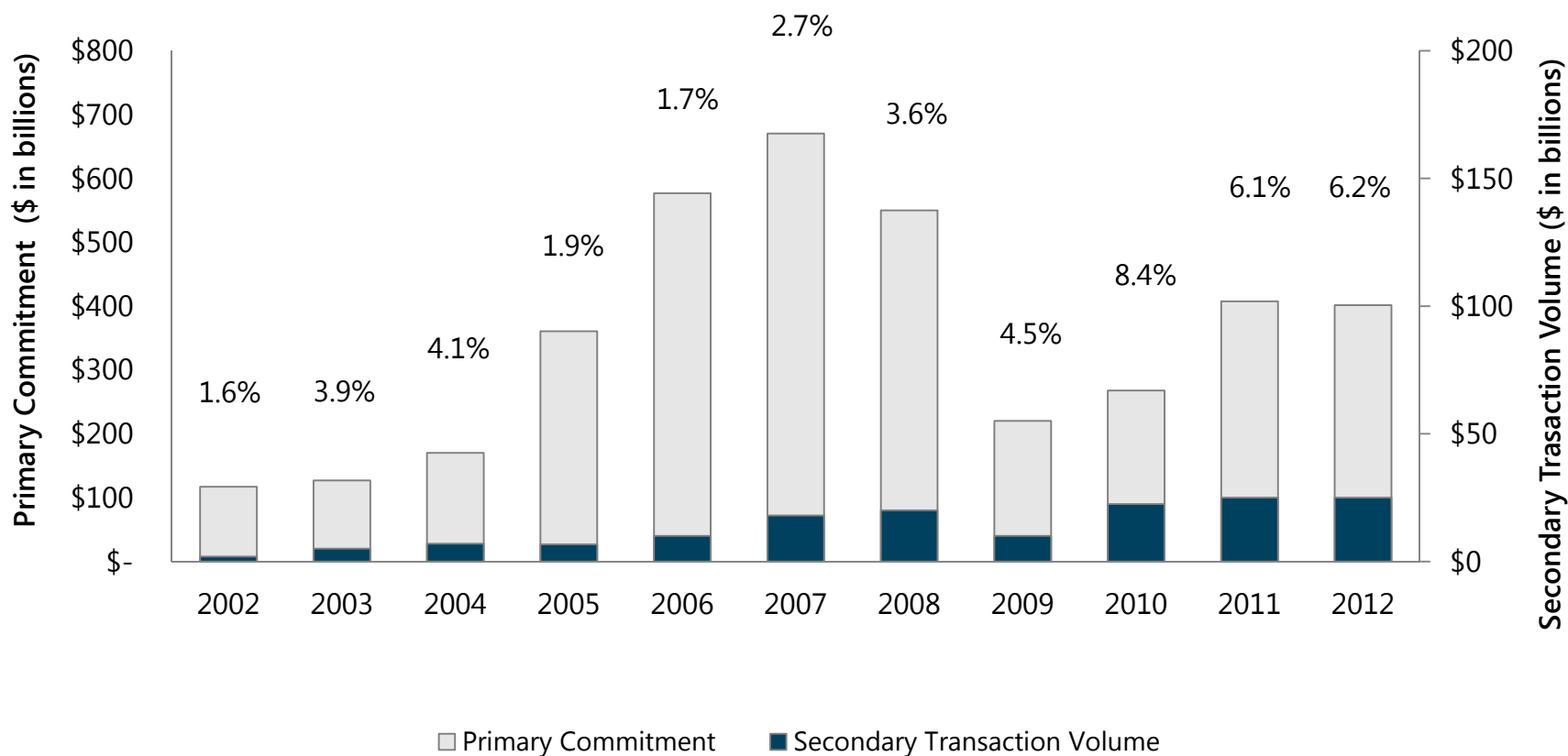


¹ Transaction Value based on Purchase Price plus Unfunded Commitments

Source: Cogent Partners

Global Private Equity Secondary Market vs. Primary Market

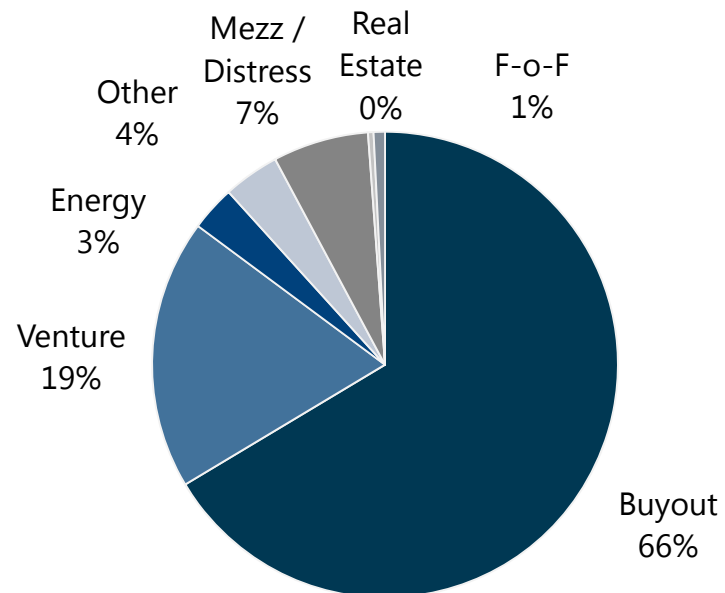
Despite recent growth, only between 2% to 8% of commitments trade on the secondary market, which is little compared to other secondary markets



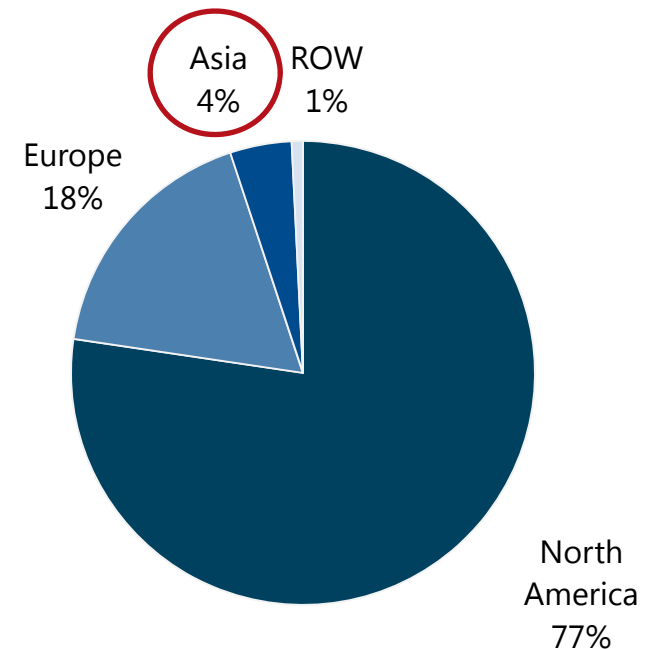
Private Equity Secondary Market – Strategies / Geography

Investors can buy and sell a variety of fund strategies and geographies, although the majority of the deal flow is driven by American buyout funds

2012 Fund Strategy Diversification^{1, 2}



2012 Fund Geography Diversification^{1, 2}



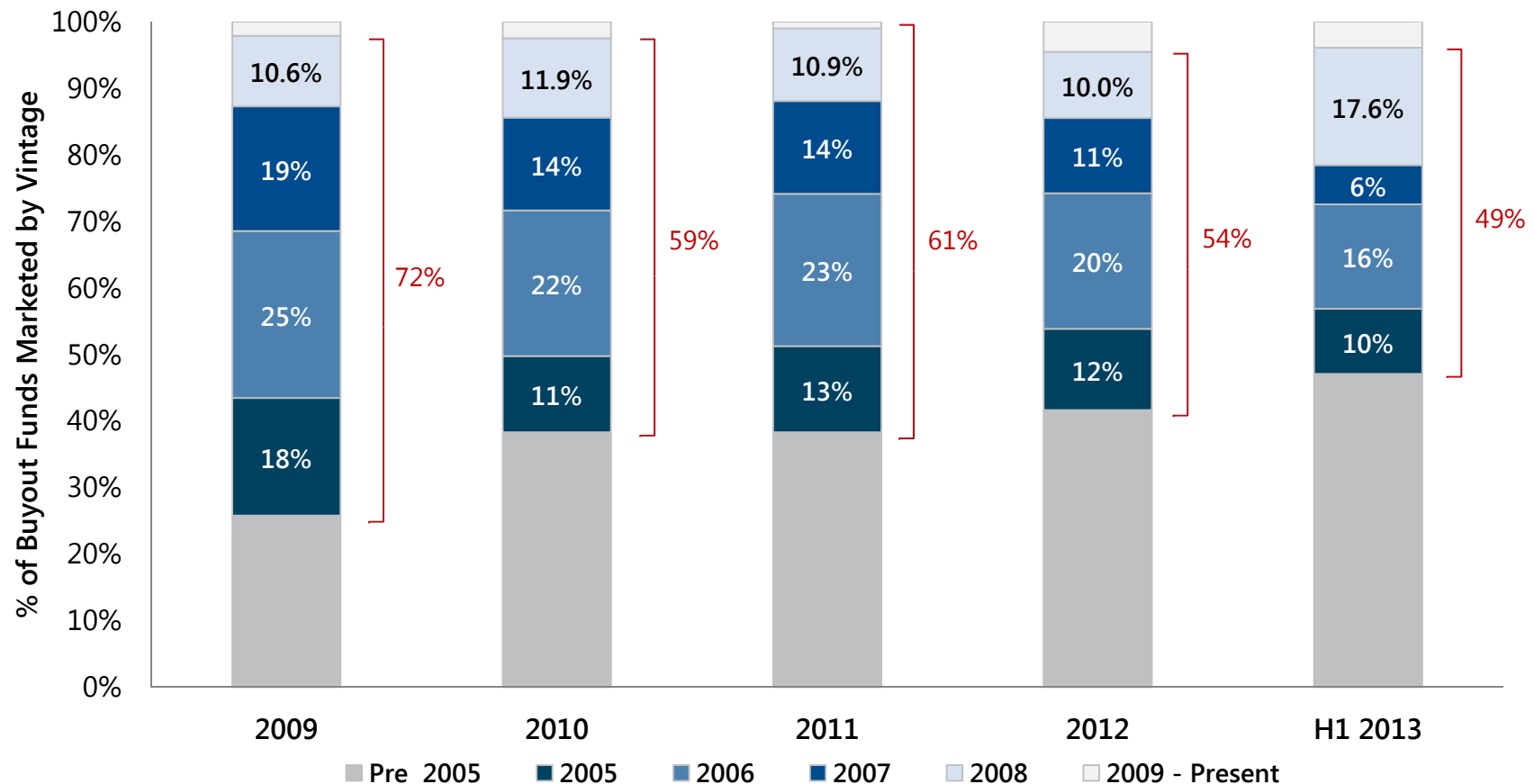
¹ Source: Cogent Partners completed transactions; may not be indicative of overall secondary market

² Based on number of funds and/or deals

Private Equity Secondary Market – Vintage Years

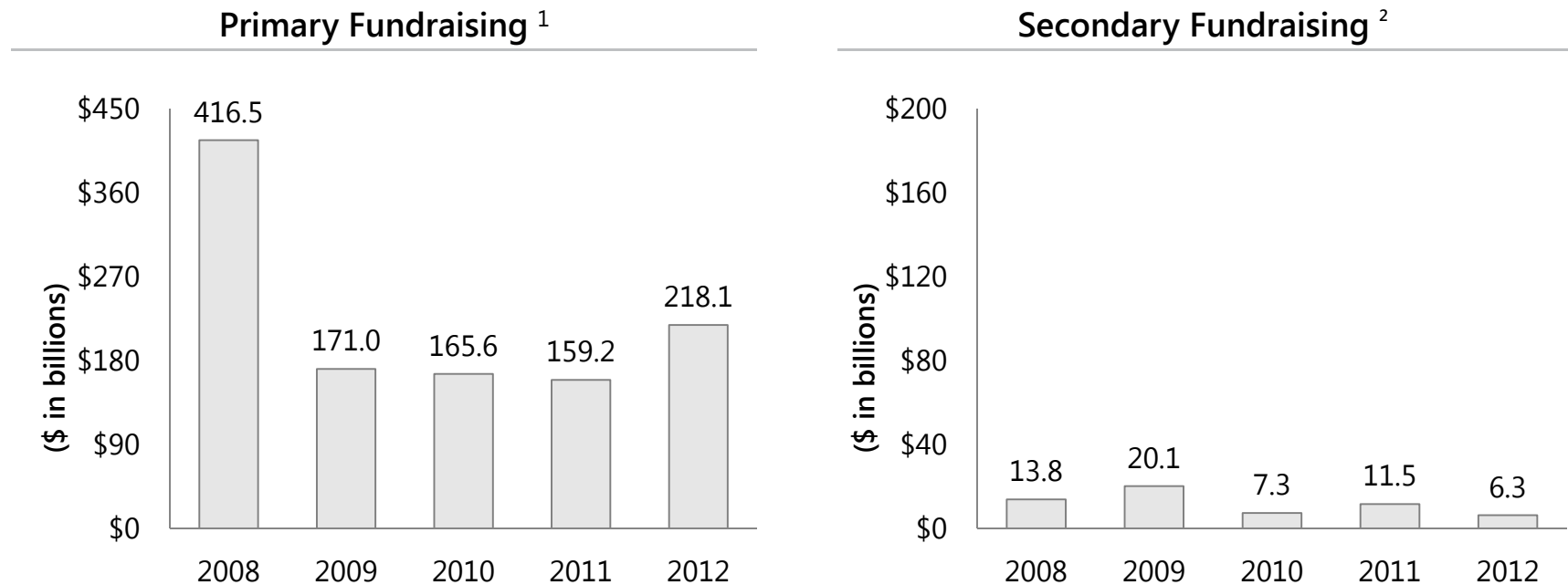
Following the financing crisis in 2008, investors required liquidity and had to sell commitments they made to 2005-2008 vintage year funds

- Cogent estimates that nearly 10% of the total fund commitments raised in those years have been sold on the secondary market



Private Equity Secondary Market in the US

In 2008, secondary market fundraising accounted for 3% of the primary market, however, this increased to 12% in 2009, given investors desire for liquidity



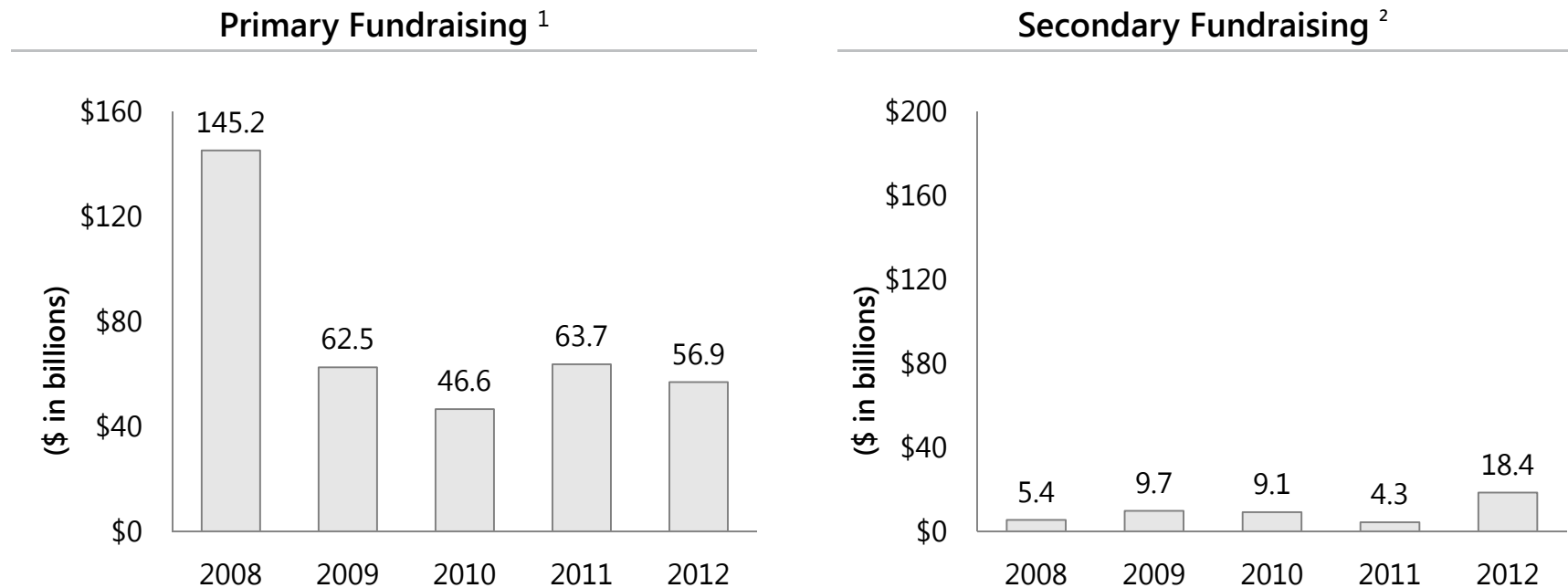
¹ Reflects funds raised by US based GPs, excludes FoF, Infrastructure FoF, Real Estate FoF

² Reflects fund commitment raised by US-based GPs, includes 20% allocation to secondaries by FoFs

Source: Cogent Partners, Preqin

Private Equity Secondary Market in Europe

Lagging behind initially, secondary market fundraising jumped to 32% of the primary investment in 2012, from 3% in 2008



¹ Reflects funds raised by Europe based GPs. Primary excludes FoF, Infrastructure FoF, Real Estate FoF

² Reflects fund commitment raised by Europe-based GPs, includes 20% allocation to secondaries by FoFs

Source: Cogent Partners, Preqin

Private Equity Secondary Market in Asia

In Asia, secondaries account for only small fraction (1-2%) of the primary market



¹ Reflects funds raised by Asia and Australia based GPs. Primary excludes FoF, Infrastructure FoF, Real Estate FoF

² Reflects fund commitment raised by Asia-based GPs, includes 20% allocation to secondaries by FoFs

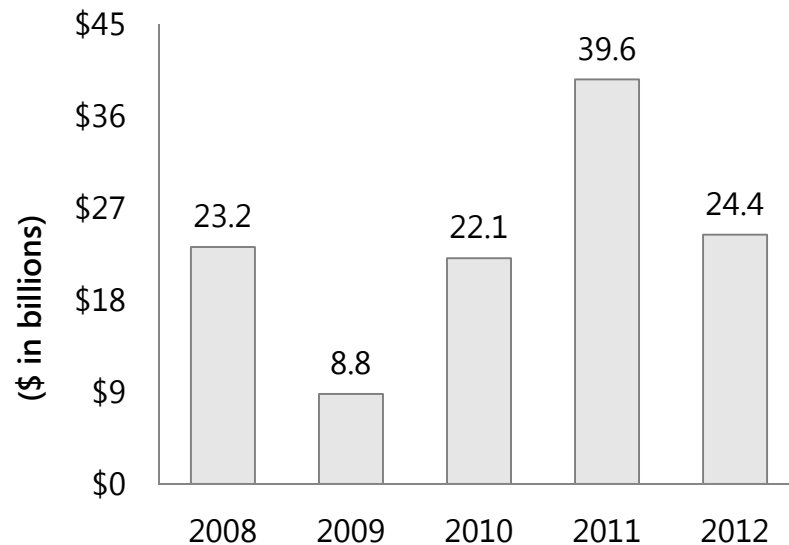
Source: Cogent Partners, Preqin

Private Equity Secondary Market in China

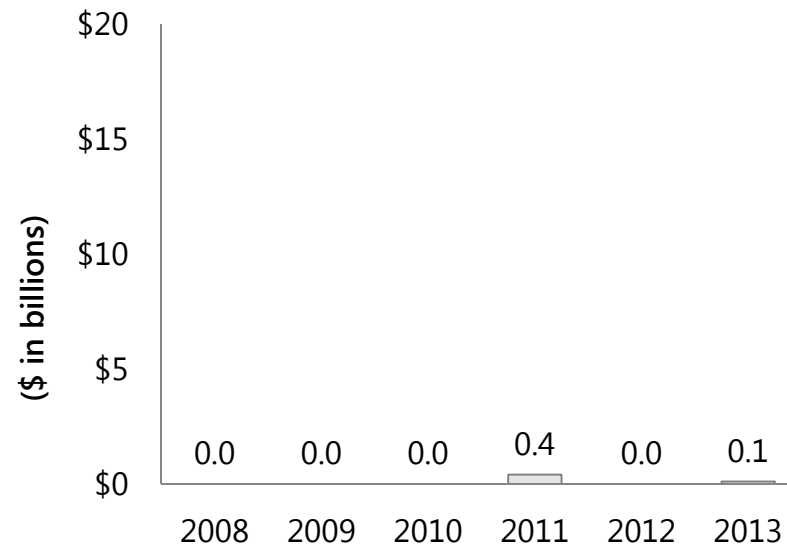
Despite a flourishing primary market with \$120b being raised during the past 5 years, there has been no dedicated secondary fund to purchase LP positions until earlier this year

- Newquest Asia raised a secondary direct fund with commitment of USD 390m in April 2011
- The first China-focused secondary fund to purchase LP positions was raised by Gopher in April 2013, with commitment of RMB 511m

Primary Fundraising ¹



Secondary Fundraising ²



¹ Reflects funds raised by Greater China based GPs. Primary excludes FoF, Infrastructure FoF, Real Estate FoF

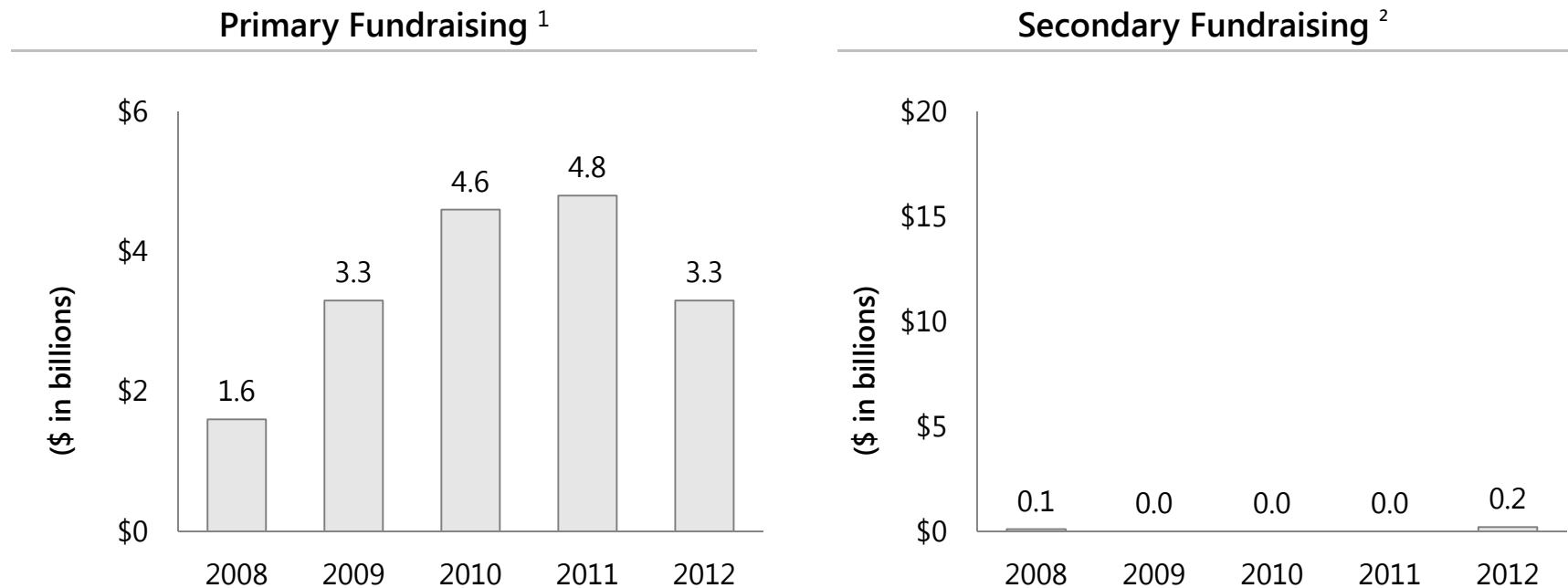
² Reflects fund commitment raised by Greater China based GPs, includes only secondaries, real estate secondary, infrastructure secondary and secondary direct funds

Source: Cogent Partners; Preqin

Private Equity Secondary Market in South Korea

Similar to China, only two funds for direct secondary opportunities (i.e. not LP interests) have been raised in South Korea

- STIC raised two secondary direct funds with commitment of \$117m in Aug 2008 and KRW240,000m in Oct 2012



¹ Reflects funds raised by South Korea based GPs. Primary excludes FoF, Infrastructure FoF, Real Estate FoF

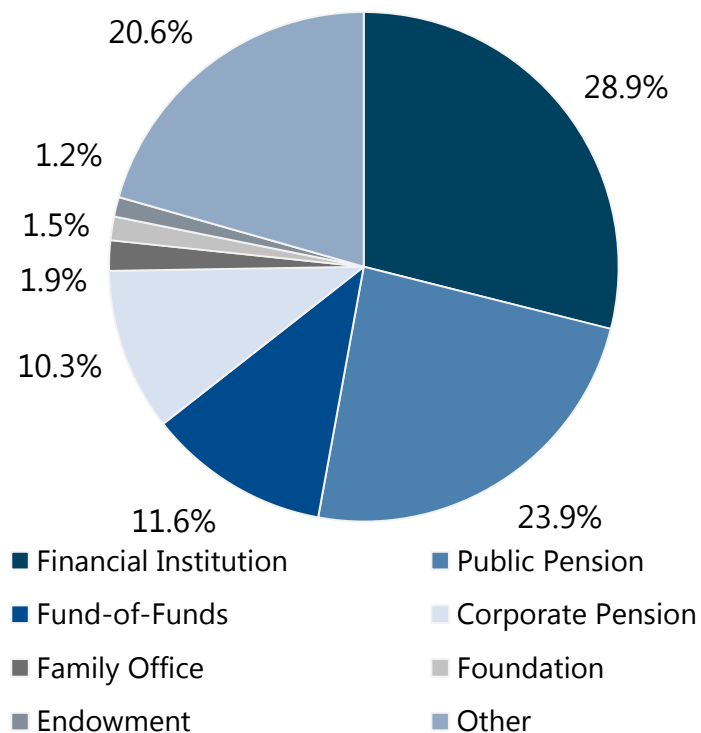
² Reflects fund commitment raised by South Korea based GPs, includes only secondaries, real estate secondary, infrastructure secondary and secondary direct funds

Source: Cogent Partners; Preqin

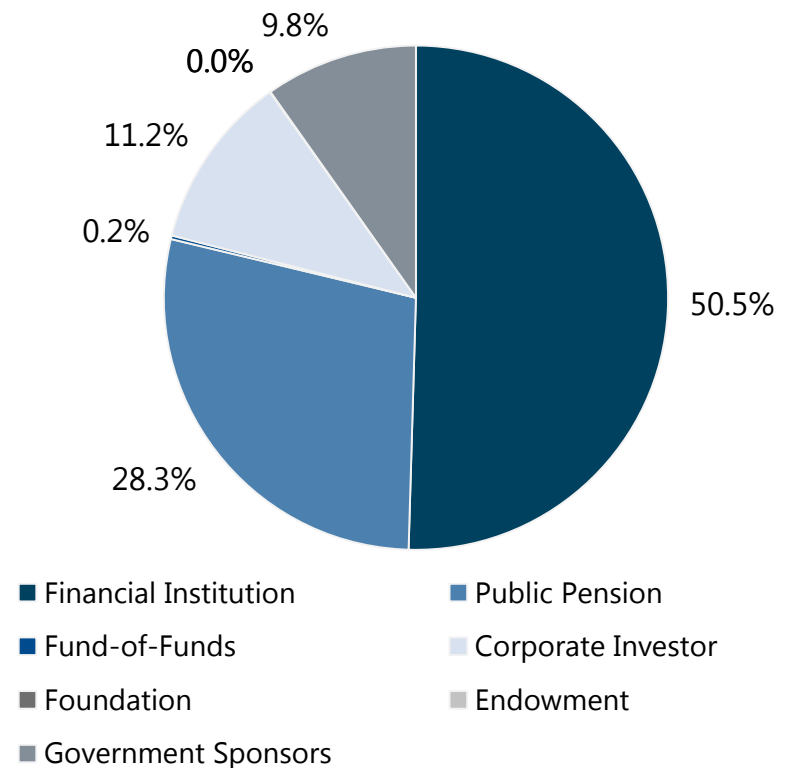
Global Sellers of PE Commitments vs. Korean Investors for PE

Financial institutions and public pension are the largest private equity investors in South Korea. Globally, these two investor groups were also the largest sellers of PE commitments

Global Secondary Sellers by Transaction Volume
2012



Korea LPs by Current PE AUM
2013



While there may be little demand/supply for private equity secondaries in South Korea yet, we believe this should be facilitated, in order to:

- Support primary managers and therefore financing of Korean companies
- Allow investors access to liquidity if they need it
- Follow developments in other developed financial markets