Number of deals
and average deal size

Setter

Volume Report
H1 2019

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2019 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume H1 2019 vs. H1 2018

› Breakdown of Volume between Funds and Directs

› Breakdown of Volume by Type of Assets Purchased

› Breakdown of Volume by Geography of Assets Purchased

› Profile of Buyers

› Number of Deals and Average Deal Size

› Buyers’ Scope of Interest

› Buyers’ Return Targets

› Profile of Sellers

› Percentage of Intermediated Deals

› Predicted Secondary Deal Volume for FY 2019

› Changes in the Level of Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in H2 2019

› General Partners’ Approach to the Secondary Market

Setter

The survey

As the secondary market continues to grow and evolve, we seek to take a comprehensive and methodical approach to quantifying the market and identifying trends. Using a survey approach, we asked principals directly the same questions that buyers, sellers, agents and secondary fund LPs often ask us. How much was completed in H1 2019? How much was completed in LBO, venture, real estate, infrastructure and hedge fund secondaries? What are the expected returns and buyer debt levels?

This report summarizes the results of our 28 question survey of the most active global buyers in the secondary market for alternative investment funds conducted at the end of June 2019. Volume is defined as total exposure (NAV + unfunded in USD) purchased by the respondents, including only deals where a binding agreement was entered into during H1 2019. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate as 97 of the 120 most active and regular buyers in the secondary market agreed to share their confidential results (see partial list of participants on page 25). Given the high response rate and the fact that all ten of the largest buyers participated, the respondents to our survey represented 91.4% of the transaction volume, making it the most reliable and detailed study of the industry's activities.

Being mindful of response bias, we compared the list of respondents to those who had declined to respond and did not find any obvious or meaningful differences in the known and observed levels of activity between the two groups. We then estimated and charted the total volume, number of transactions, and other reported figures herein by prorating the survey results based on the proportion of small, medium and large buyers that participated.

We hope you find the results interesting and useful. We welcome any questions and would be happy to provide further insights into the results.

H1 2019 in review

After a record $79.7 billion in 2018, secondary market volume hit a staggering $46.0 billion in H1 2019 completed transactions, representing a 25.4% increase from the volume recorded in the **Setter Capital Volume Report H1 2018.**

Volume was mixed across alternative asset classes. The private equity secondary market (funds and directs) increased 33.5% year over year, to a total of $42.10 billion. Real estate secondaries (funds and directs) were down 39.2% to $1.9 billion, as were hedge fund secondaries which were down 35.1% to $340 million. Private equity fund secondaries were up 33.1% ($25.51 billion in H1 2019 from $19.16 billion in H1 2018), driven by the strong market for both LBO funds (up 24.5%) and purchases of VC funds (up 51.5%). Private debt secondaries were significantly up 279.3% ($2.2 billion in H1 2019 from $580 million in H1 2018) and energy fund secondaries were up 27.8% ($1.04 billion in H1 2019 from $810 million in H1 2018).

Traditional fund secondaries were up 23.9% from $23.06 billion in H1 2018 to $28.58 billion in H1 2019, while direct secondaries were up 27.8% from $13.64 billion to $17.43 billion (private equity directs were $16.59 billion and real estate directs were $840 million). Indeed, 57.1% of the survey respondents felt that meaningfully more GPs coordinated tender offers to their LPs or attempted to liquidate or restructure older funds in H1 2019 as compared to H1 2018 and 28.9% of respondents felt that a materially higher number of GPs sought staples in H1 2019 as compared to H1 2018.

While the breadth and number of buyers continued to increase, the most significant activity was driven by the large buyers in the market. The thirteen largest buyers, defined as those that deployed more than $600 million in H1 2019, accounted for 68.6% of the market's total volume (vs. 63.4% in H1 2018), driven largely by the increase in larger portfolios for sale and the record amounts of capital raised by the big players. 40 mid-sized buyers accounted for roughly 24.3% (vs.28.6% in H1 2018) and 67 small buyers represented 7.1% (vs.8.0% in H1 2018). Buyers continued to diversify their secondary focus with about 12.8% of participants buying other alternative investment types for the first time (infrastructure, real estate, etc.).

Buyer competition for deals continued to be strong as noted by 91% of respondents who felt it was similar to H1 2018 while only 2.6% of respondents that felt it was lower. As a means to stay competitive, the use of debt to improve pricing and deal returns became even more prevalent, as 17.1% of respondents felt that buyers had used significantly more leverage in H1 2019 as compared to the prior year and not a single respondent felt buyers used less leverage.

Agents intermediated $34.71 billion in deals in H1 2019, a marked increase of 46.4% over H1 2018. We expect the level of intermediation to rise in response to the entrance of new agents and as sellers struggle to stay on top of the ever-growing buyer universe.

There were a total of 895 transactions in H1 2019, with an average size of approximately $51.40 million. The number of transactions was up 20.0% from the 746 transactions completed in H1 2018 and the average deal size increased 4.5%, driven in part by the large number of $500 million plus transactions that hit the market.

The ranks of sellers continued to grow as more institutions looked to actively manage their private market portfolios. Managers of funds across LBO, VC, hedge funds, fund of funds and secondary funds accounted for 35.5% of all sellers, as they continued to use the market to drive liquidity in their funds or liquidity to their LPs through coordinated tender offers. Banks were the next most active sellers[*], accounting for 19.5% of H1 2019 volume, up from 3.1% in H1 2018, while pensions accounted for 18.2%, insurance companies accounted for 10.3% and endowments and charities accounted for 5.2% of volume. Looking forward, most buyers expect pensions to be the biggest sellers in H2 2019 (35.0% of total transaction volume).

From a geographical perspective, North American sellers accounted for the largest proportion of volume in H1 2019 selling $26.42 billion (57.4% vs. 60.9% in H1 2018), whereas Western European sellers sold $8.94 billion (19.4% vs. 29.0% in H1 2018) and Asia-Pacific sellers[*] accounted for about $9.33 billion (20.3% vs. 7.8% in H1 2018). Other geographies such as the Middle East accounted for 2.9% of the total volume in H1 2019, up slightly from 2.4% in H1 2018.

Buyers, on average, estimate NAV valuations will increase 2.3% in H2 2019, while the pace of distributions will also increase 2.5%. These forecasts are a little more optimistic than those in the **Setter Capital Volume Report H1 2018**, where buyers expected distributions to increase by 2.0% and NAV valuations to increase by 2.3% in the following half year.

Looking forward, buyers expect FY 2019 volume to be $82.8 billion, which would be up 3.9% from the $79.7 billion transacted in FY 2018, which would make for another record year.

[*] The increase of banks & Asian institutions as a percent of sellers was largely influenced by Norinchukin Bank's $5 billion sale of funds in H1 2019.

More Insight.

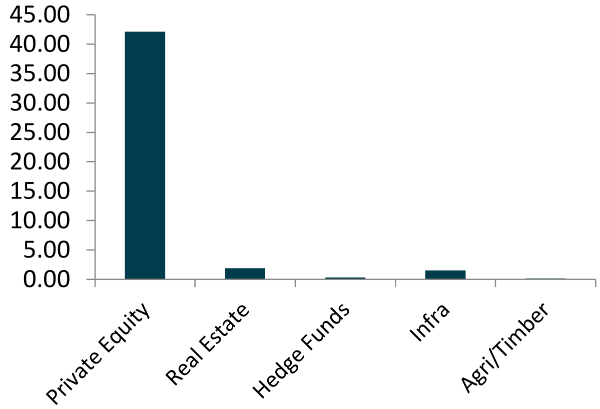
In the secondary market, knowledge is power.
By providing granular custom portfolio analysis and industry-leading market research, we empower our clients to make the most informed decisions.

Setter

Total volume

Total secondary market volume for H1 2019 was $46.0 billion. This is the volume estimate derived from the 120 secondary buyers surveyed with dedicated secondary efforts and includes 64 secondary funds, 41 funds of funds, 10 hedge funds, 4 investment consultants, and 1 pension. We believe this estimate is reliable as the 97 survey respondents alone reported $42.0 billion of volume in their survey responses. The figure is also conservative, as **it does not include the activity of over 1000 opportunistic and non-traditional buyers,** whose combined activity may be significant. For instance, the activities of all sovereign funds (including ADIA, ADIC, GIC, Temasek, etc.) were excluded entirely, even though some have built teams dedicated to secondary purchases.

Types of assets purchased



Private Equity (Directs[1] & Funds): $42.10 billion (33.5% increase YoY)

Real Estate (Directs & Funds): $1.91 billion (39.2% decrease YoY)

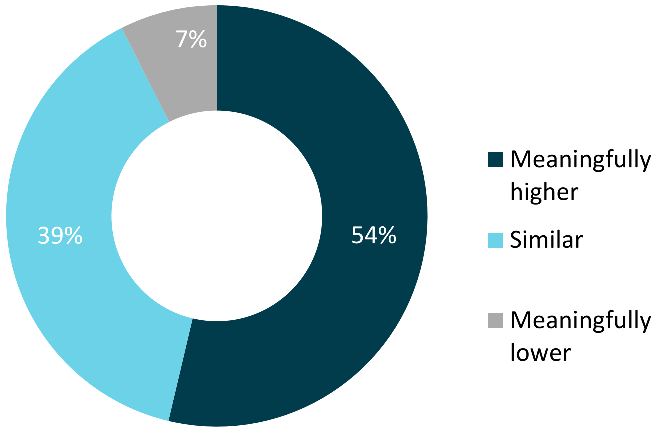
Hedge Funds: $340 million (35.1% decrease YoY)

Infrastructure Funds: $1.51 billion (8.6% increase YoY)

Agri/Timber Funds: $160 million (33.0% increase YoY)

[1] Direct include fund recapitalizations and restructurings, fund liquidations, and purchase of single minority stakes and co-investments.

H1 2019 volume vs. H1 2018 volume

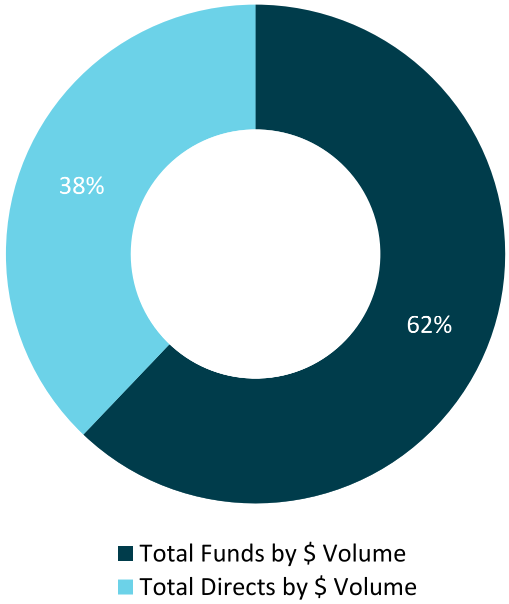


H1 2019 volume increased 25.4% compared to H1 2018, which was $36.7 billion.

Not surprisingly, 53.7% of survey respondents felt their volume was significantly higher while only 7.5% felt their volume was significantly lower.

Assets purchased

Funds vs. Directs[1]



In H1 2019, $28.58 billion of funds (62.1 % of total volume) and $17.43 billion of directs (37.9 %) were purchased.

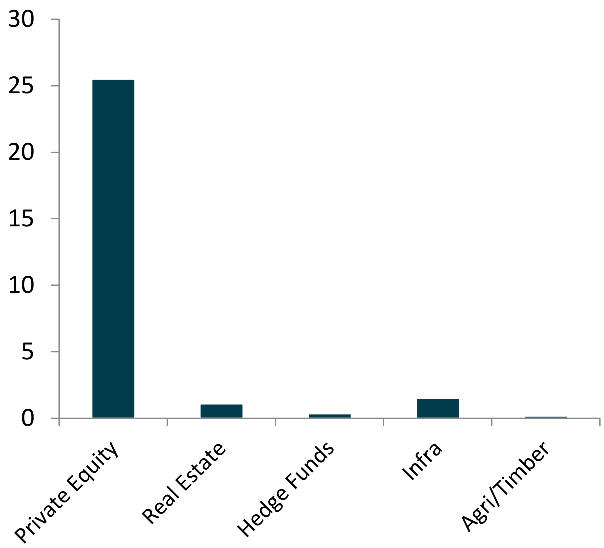
Fund secondaries increased 23.9 % in H1 2019, from $23.06 billion recorded in H1 2018. Direct secondaries[1] increased from $13.64 billion in H1 2018 to $17.43 billion in H1 2019, which represents a 27.8% increase from last year.

As a proportion of total volume, Directs went from 37.2% in H1 2018 to 37.9% in H1 2019.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 63.0% funds and 37.0% directs.

[1] Direct secondaries include fund restructurings, tender offers, and purchases of single minority stakes and co-investments.

Breakdown of fund secondaries



Private equity fund purchases totaled $25.51 billion (33.1% increase YoY)

Real estate fund purchases totaled $1.07 billion (42.9% decrease YoY)

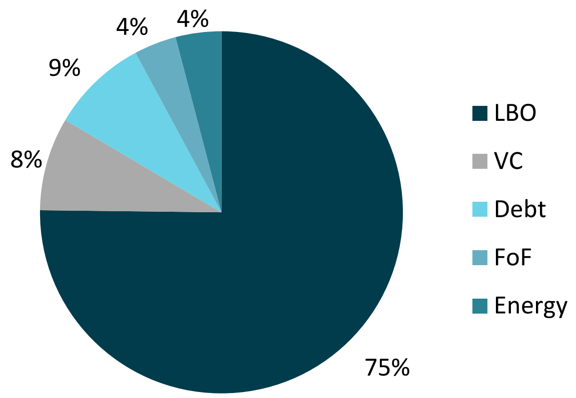
Infrastructure fund purchases totaled $1.51 billion (8.6% increase YoY)

Hedge fund purchases totaled $340 million (35.1% decrease YoY)

Agri/Timber fund purchases totaled $160 million (33% increase YoY)

Types of funds purchased

Private Equity Funds



LBO – $19.18 billion
(Up 24.5% YoY from $15.4 billion)

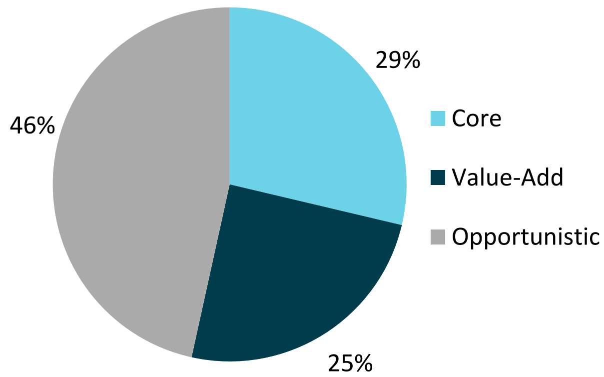
VC – $2.12 billion
(Up 51.5% YoY from $1.4 billion)

Debt – $2.2 billion
(Up 279.3% YoY from $580 million)

Fund of Funds – $970 million
(Up .2% YoY from $960 million)

Energy – $1.04 billion
(Up 27.8% YoY from $810 million)

Real Estate Funds



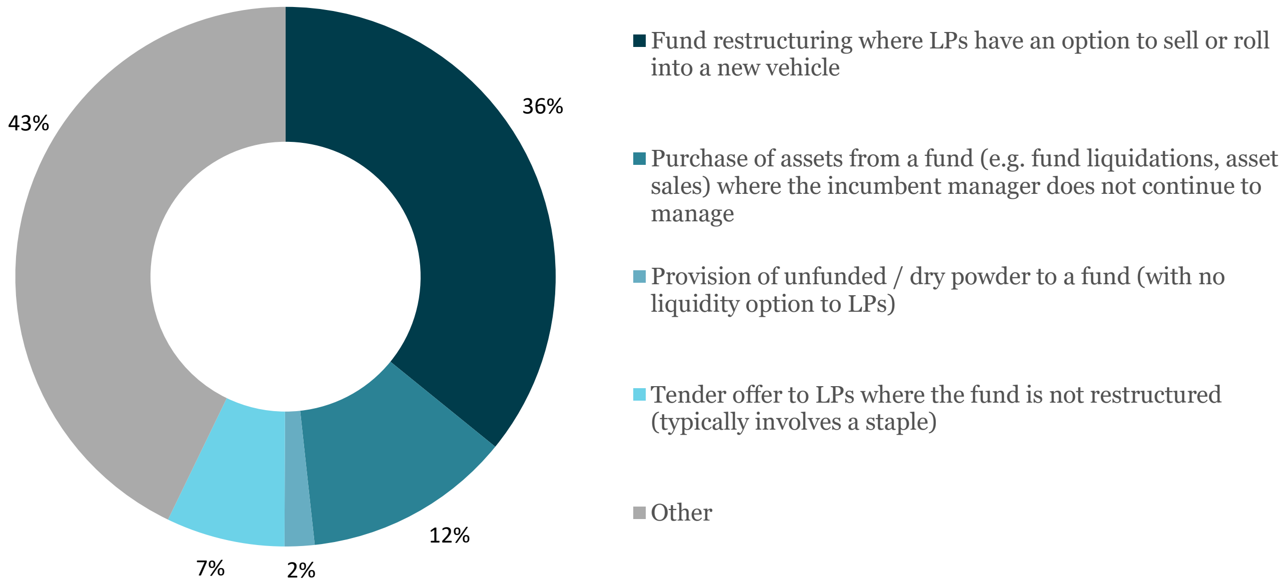
Core – $310 million
(Up 36.2% YoY from $230 million)

Value-Add – $ 260 million
(Down 54.2% YoY from $580 million)

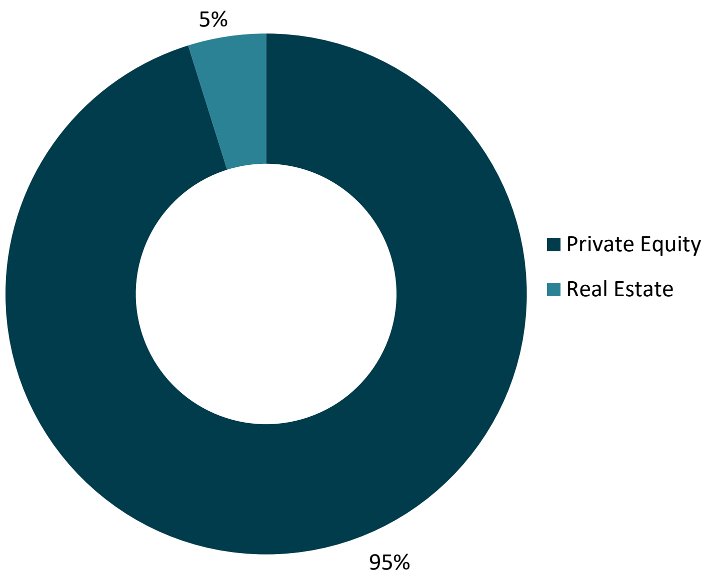
Opportunistic – $500 million
(Down 53.4% YoY from $1.07 billion)

Types of direct secondaries

Types of direct deals completed by buyers

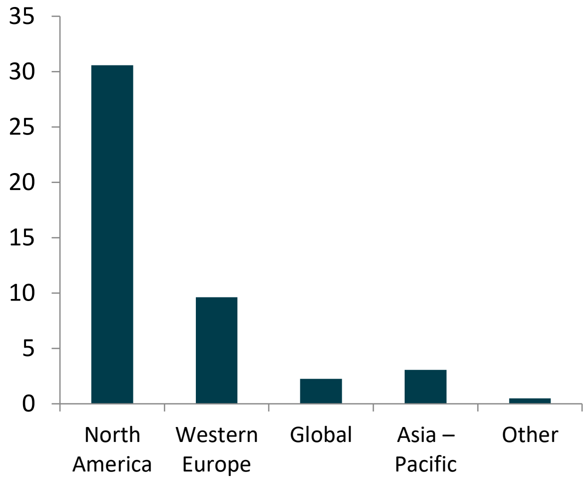


Private equity versus real estate directs



Private equity directs and real estate directs accounted for 95.2% and 4.8% respectively of the total directs volume.

Geography of assets purchased



North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2019:

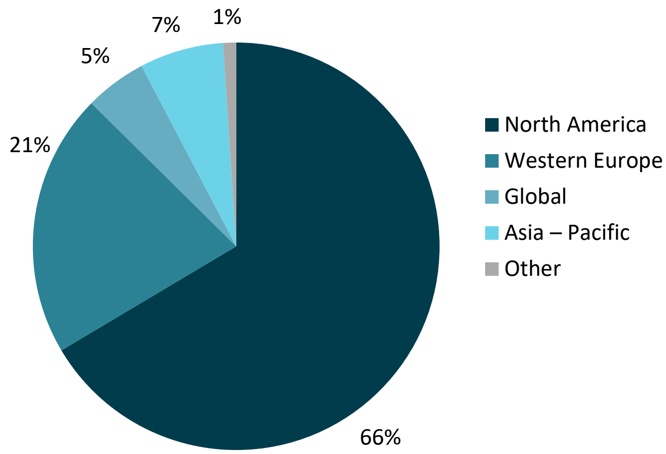
North America – $ 30.58 billion
(Up 65.7% YoY from $18.45 billion)

Western Europe - $9.63 billion
(Down 15.4% YoY from $11.38 billion)

Global – $2.26 billion
(Down 33.7% YoY from $3.41 billion)

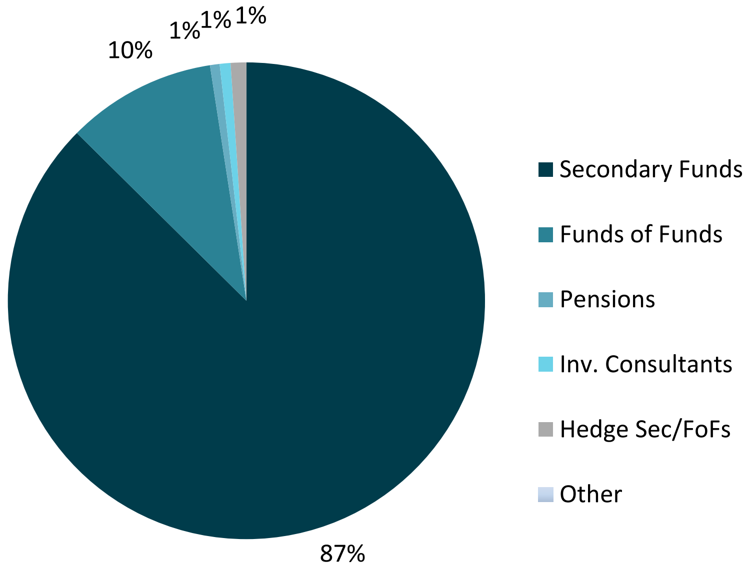
Asia-Pacific – $3.07 billion
(Up 40.3% YoY from $2.19 billion)

In terms of percentage, North America focused funds and directs accounted for 66.5% of total volume, Western European funds and directs accounted for 20.9 % and Asia-focused funds and directs accounted for 6.7% of sales.



Profiles of buyers

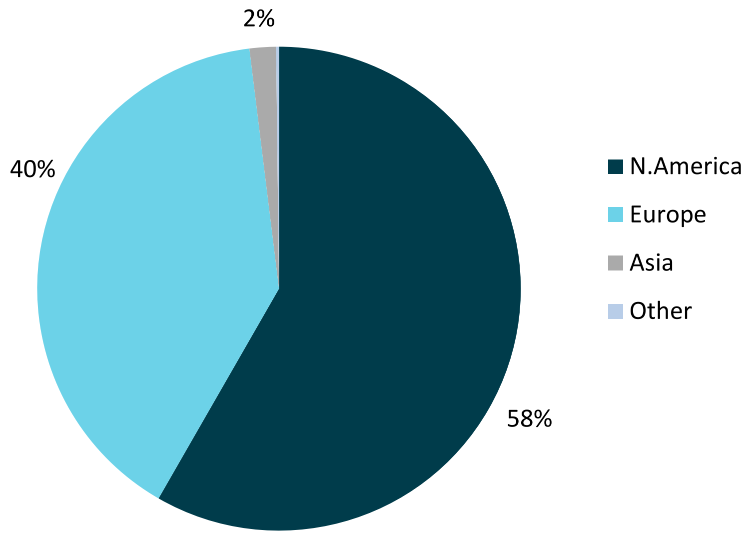
Type of buyers



Secondary funds were again the most active buyers in H1 2019, accounting for 87.4% ($40.23 billion) of total purchases while funds of funds accounted for 10.1% ($4.66 billion).

Please note: over 1,000 non-traditional buyers were not included in our survey and the resulting estimates.

Location of buyers[1]



North American buyers transacted the most (58.3% of total volume) in H1 2019, slightly down as a percentage from 62.8% total volume in H1 2018.

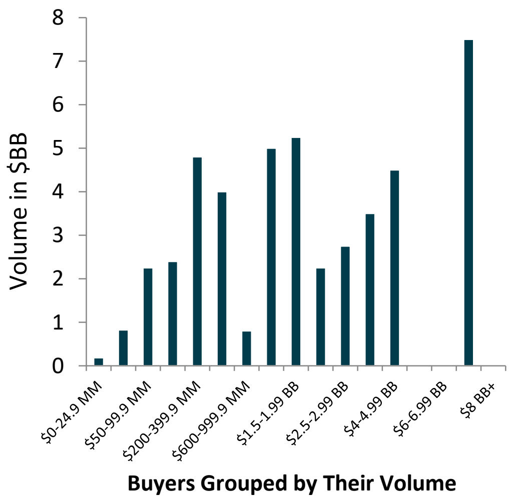
European buyers accounted for 39.7% of total volume in H1 2019, which was slightly higher than H1 2018 (35.0%).

[1]Location is based on head office location.

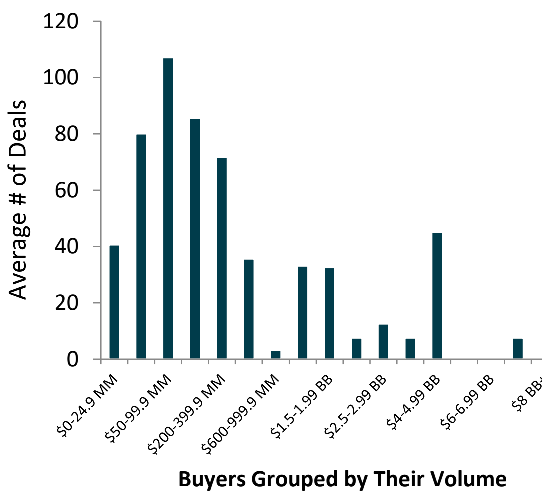
Activity levels of small, medium and large buyers

Applying the survey respondents' dollar volume and transaction numbers, while taking into consideration the proportion of small, medium and large buyers that did not participate, we estimated the market share of small, medium and large buyers as follows:

Volume distribution by size of buyer



Avg. number of deals by size of buyer



13 large buyers (defined as those that deployed $600 million or more in H1 2019) purchased $31.55 billion, representing approximately 68.6% of total volume across 155 transactions with an average deal size of $204.04 million. This was an increase from H1 2018, where large buyers accounted for 63.4%.

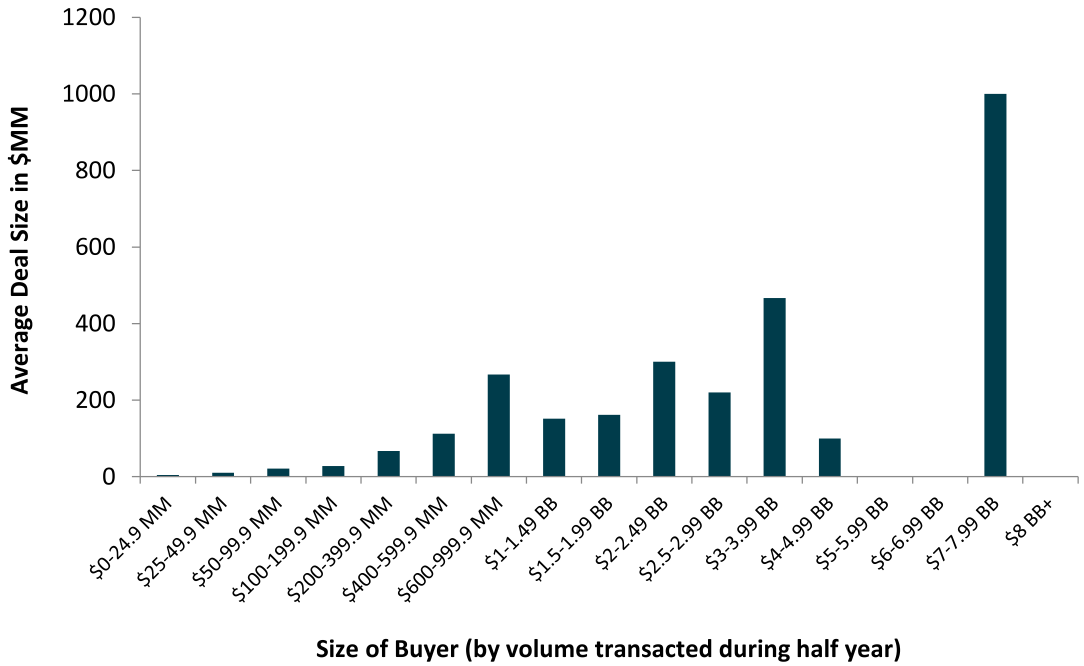
40 medium sized buyers (defined as those that deployed $100 million to $600 million in H1 2019) purchased $11.2 billion, representing approximately 24.3% of total volume across 310 transactions with an average deal size of $36.10 million. This was a decrease from H1 2018, where they accounted for 28.6%.

67 small buyers (defined as those that deployed less than $100 million in H1 2019) purchased $3.26 billion, representing approximately 7.1% of total volume across 430 transactions with an average deal size of $7.58 million. This was a decrease from H1 2018, where they accounted for 8.0%.

Number of deals and average deal size

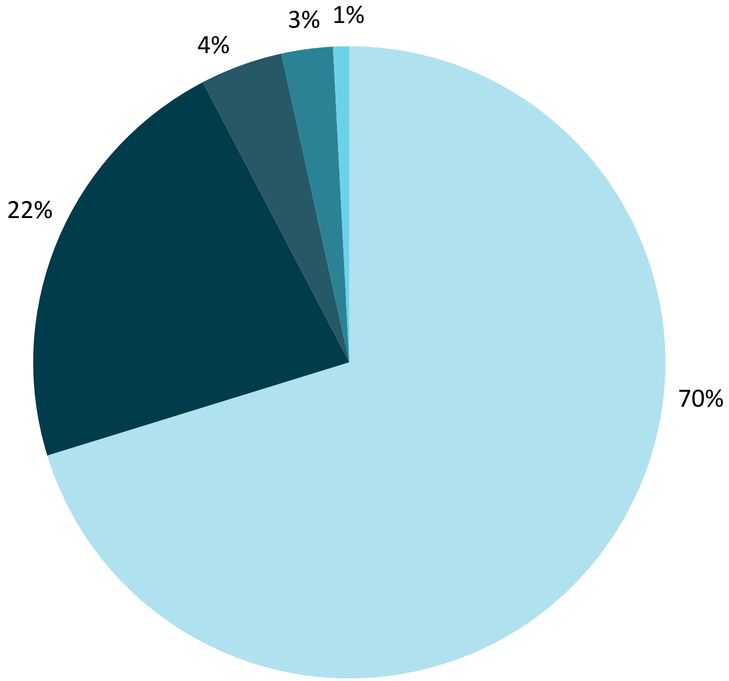
Buyers completed 895 transactions in H1 2019 across the entire secondary market for alternative assets, with an average size of approximately $51.40 million. The number of transactions increased 20.0% from 746 transactions in H1 2018, as did the average deal size up 4.5% from $49.19 million in H1 2018.

Average deal size by size of buyer



Payment Terms

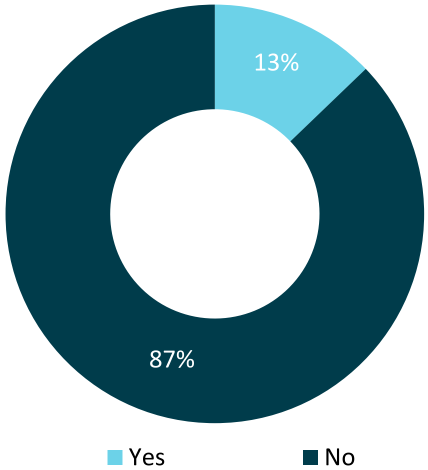
Although for 70% of their deals, buyers paid 100% cash on closing, 30% of deals involved other payment terms or structuring as outlined below.



- 100% cash paid on closing
- Payment was partially deferred (e.g. half on close, half in a year)
- Partial payment on close plus some upside sharing if a certain return or event occurs
- Preferred equity - a smaller consideration paid on closing - the buyer is entitled to a preferred return on distributions until some hurdle is achieved and limited upside thereafter
- Other

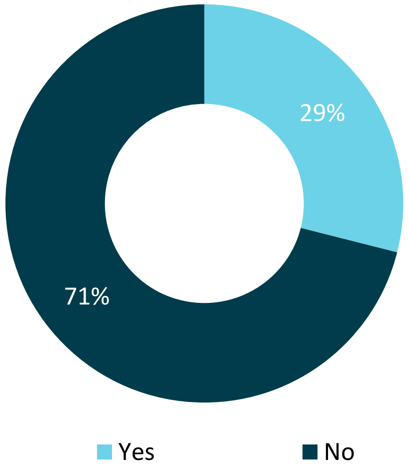
Buyers' scope of interest

Buyers that broadened their focus in H1 2019



12.8% of participants broadened their secondary focus in H1 2019 to include buying other alternative investment types (e.g. infrastructure, real estate, direct secondaries, etc.).

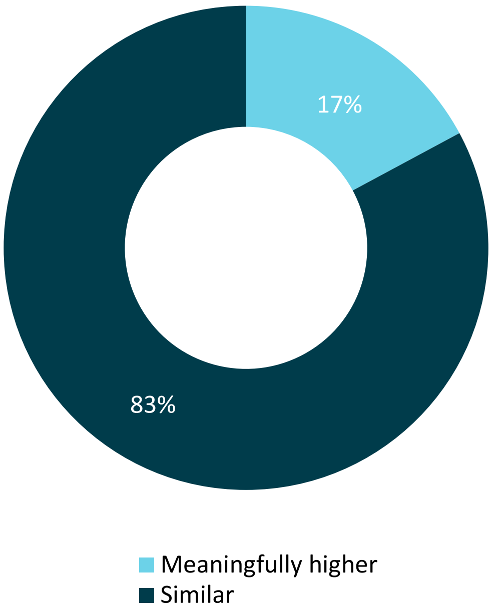
Buyers that intend to broaden their focus in H2 2019



28.9% of participants plan to broaden their secondary focus in H2 2019 include buying other alternative investment types.

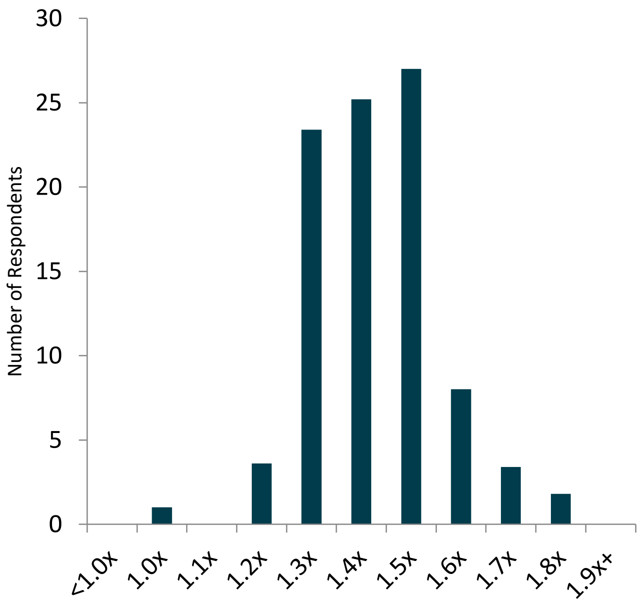
Leverage and returns

Level of debt used by buyers in H1 2019 vs. H1 2018



17.1% of respondents believed the level of debt used by buyers had increased significantly in H1 2019. 82.9% felt it was the same and no respondents felt it was less.

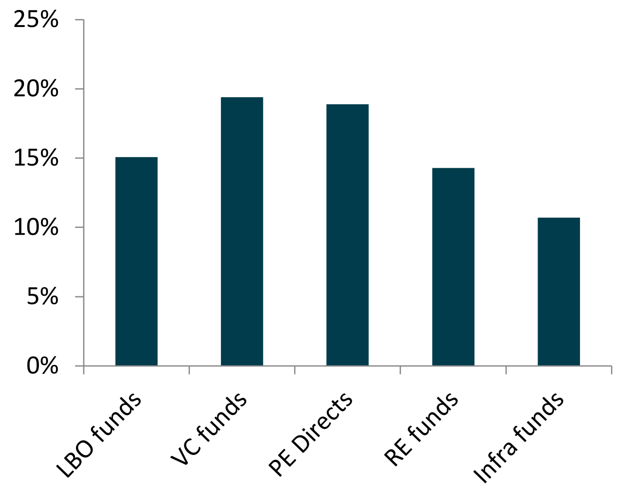
Expected multiple for secondary deals completed in H1 2019



Respondents predicted that the average gross multiple for secondary deals completed in H1 2019 would be 1.42x, which was slightly higher from the 1.40x multiple buyers expected from deals completed in H1 2018.

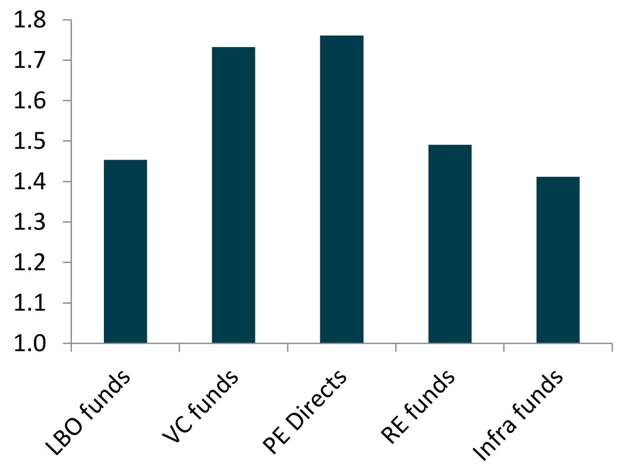
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, the 97 survey respondents estimated their peers' average targeted IRR to be 15.1% for LBO funds, 19.4% for VC funds, 18.9% for PE directs, 14.3% for real estate funds and 10.7% for infrastructure funds.

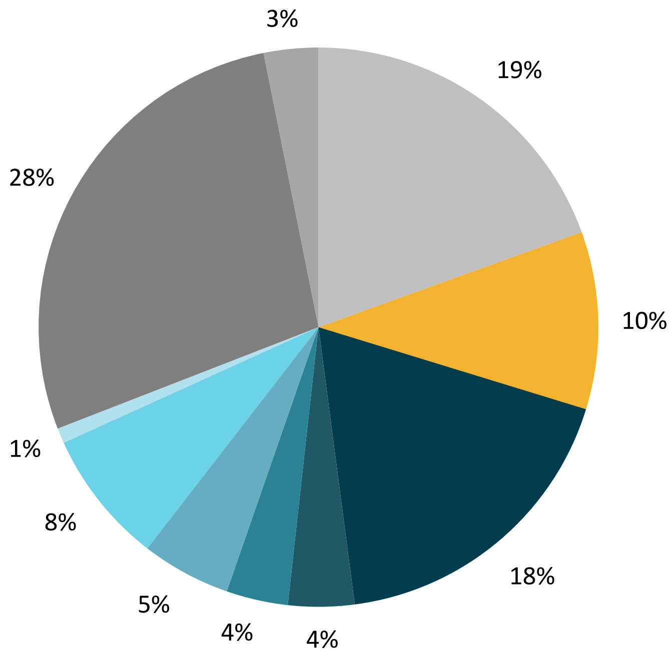
Targeted multiples on secondary purchases



On average, the 97 buyers estimated their peers' targeted multiples to be 1.45x for LBO funds, 1.73x for VC funds, 1.76x for PE directs, 1.49x for real estate funds and 1.41x for infrastructure funds.

Seller profiles

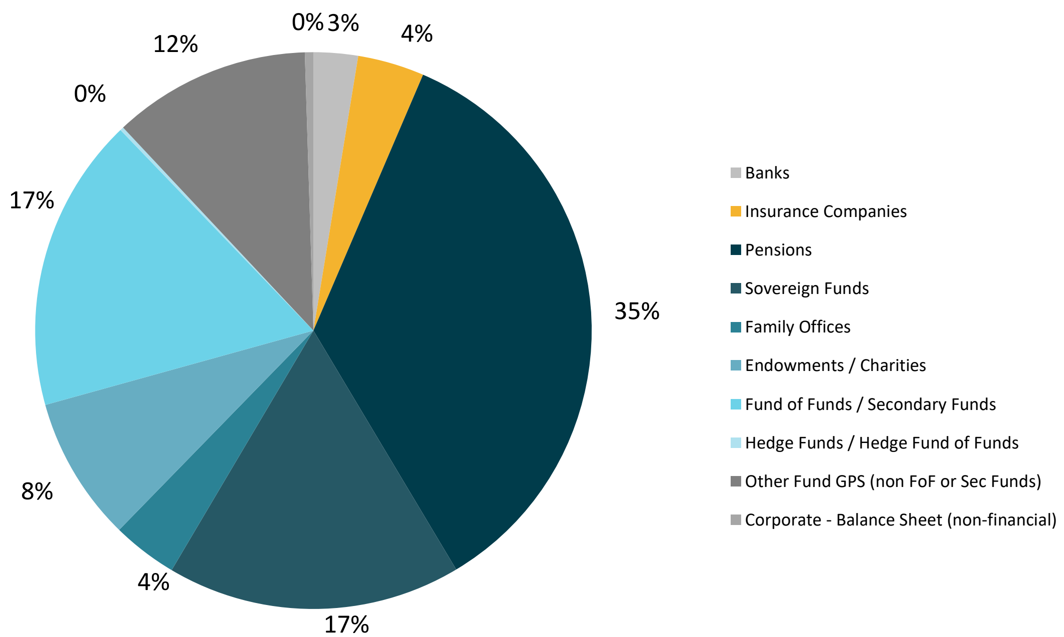
Type of sellers in H1 2019



GPs (that are not fund of funds or secondary funds) and Banks, were the most active sellers in H1 2019 making up 27.8% and 19.5% of the H1 2019 volume, respectively. Most buyers expect Pensions to be the biggest sellers again in H2 2019 (35.0% of total transaction volume).

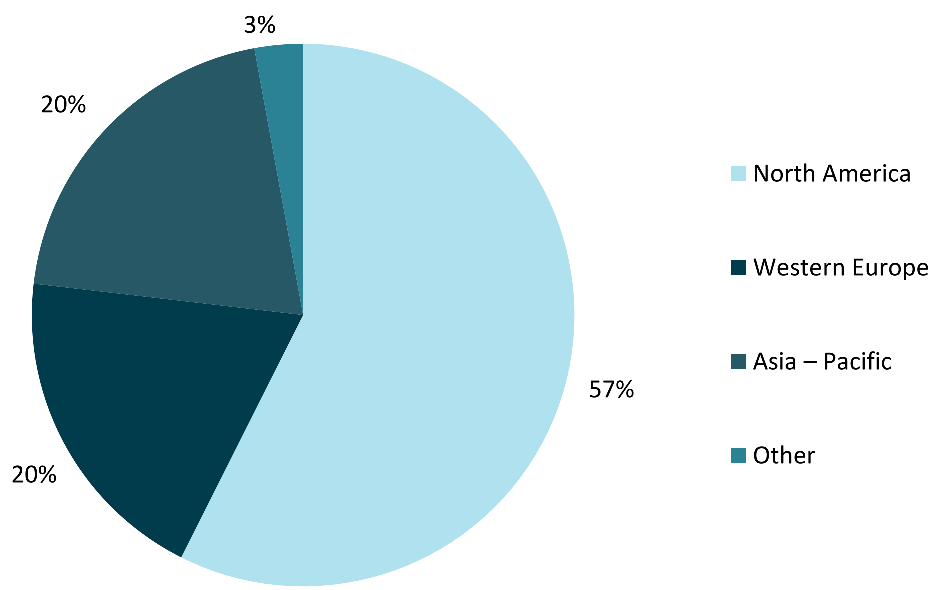
Please note that the increase of Banks as a percent of sellers was largely influenced by Norinchukin Bank's $5 billion sale of funds to Ardian in H1 2019.

Expected sellers in H2 2019

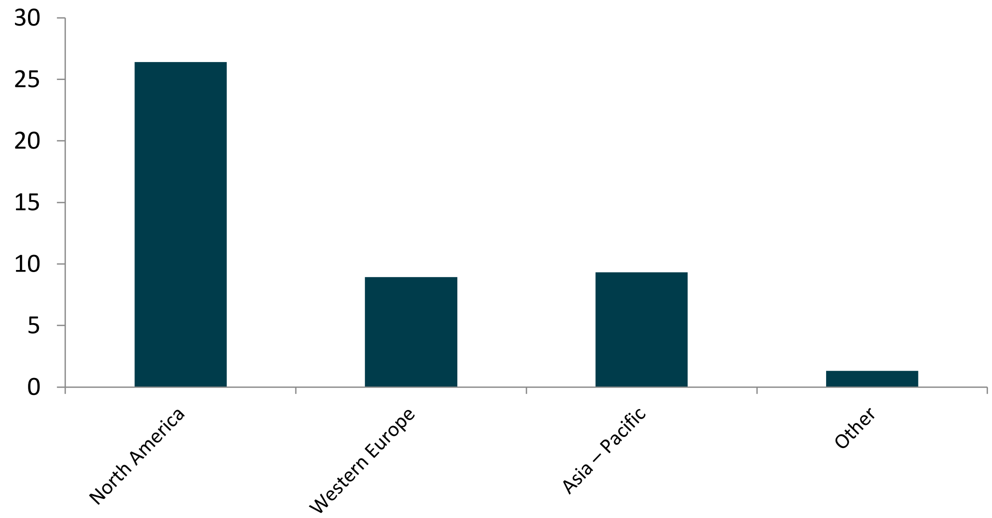


Seller location

Geography of sellers

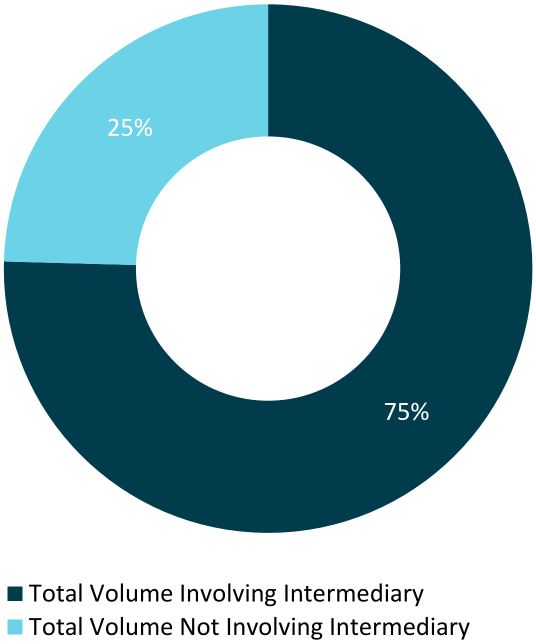


In terms of the location of sellers, North American and Asia-Pacific sellers accounted for the vast majority of volume in H1 2019. North American sellers sold $26.42 billion (57.4% vs. 60.9% H1 2018), whereas Asia-Pacific sellers sold $9.33 billion (20.3% vs. 7.8% in H1 2018). Western European sellers accounted for 19.4% of the total volume down from 29.0% in H1 2018. Other geographies, such as the Middle East accounted for 2.9% of the total volume in H1 2019, slightly up from 2.4% in H1 2018. Please note that the increase of Asia-Pacific institutions as a percent of sellers was largely influenced by Norinchukin Bank's $5 billion sale of funds to Ardian in H1 2019.



Intermediation and level of competition

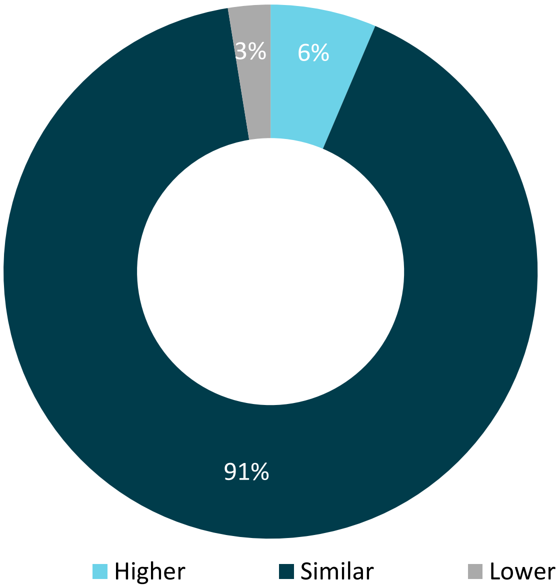
Volume of intermediated transactions



Approximately 75.4 % ($34.71 billion) of total secondary volume involved an intermediary, on either the buy or sell-side, which was significantly higher than H1 2018 where it was 64.6%.

In terms of volume, agents intermediated $11 billion more in deals, a staggering increase of 46.4% over H1 2018.

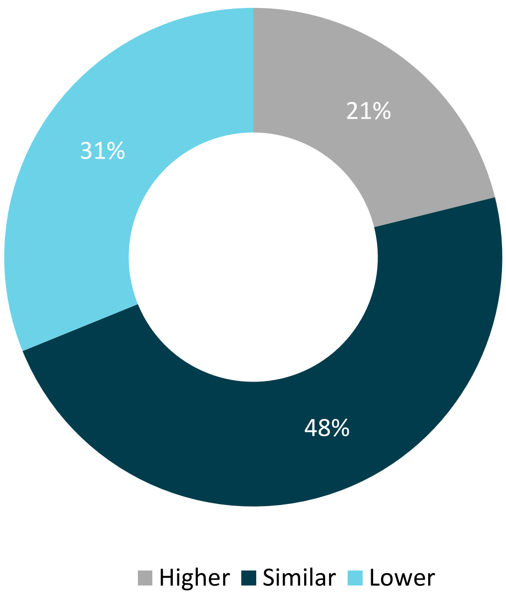
Buyer competition for deals in H1 2019 vs. H1 2018



91.0% of respondents felt buyer competition in H1 2019 was similar to H1 2018, while 6.4% felt buyer competition was significantly higher. Only 2.6% of survey respondents felt buyer competition was lower in H1 2019.

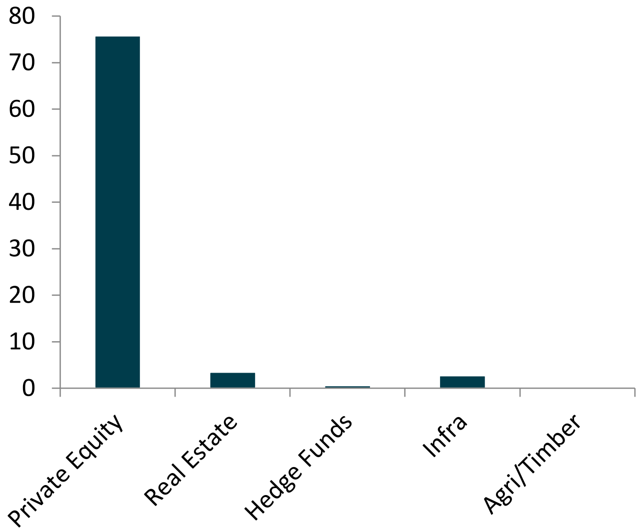
Projected volume for FY 2019

How H2 2019 volume will compare to H1 2019



21.1% of respondents felt that their H2 2019 volume will be meaningfully higher than H1 2019, while 31.1% of respondents felt that it will be meaningfully lower and 47.7% felt that it will be similar.

Predicted volume for FY 2019

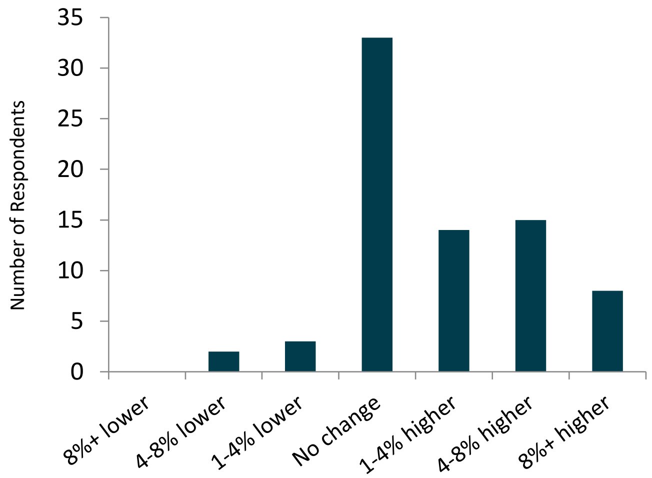


Respondents predicted total volume for FY 2019 to be $82.8 billion, which would represent a 3.9% increase from the $79.7 billion transacted in FY 2018.

Assuming proportions do not change in FY 2019, this suggests private equity volume will be $75.79 billion in FY 2019, real estate will be $3.44 billion, hedge funds will be $600 million, infrastructure will be $2.71 billion and agriculture & timber will be $290 million.

Expected distribution and NAV changes in FY 2019

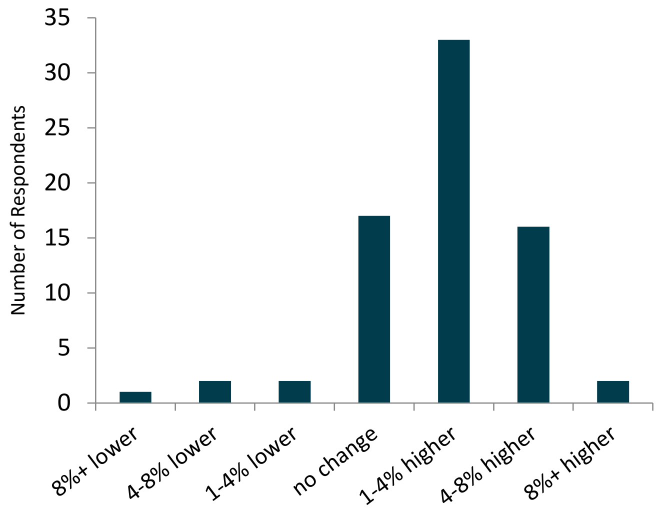
Distribution Pace in H2 2019 vs. H1 2019



Respondents expect the pace of distributions in H2 2019 to be higher than H1 2019 as the average response suggests an expected increase of 2.5%.

Respondents are more optimistic than they were in H1 2018, when they expected the pace of distributions to be up 2.0%.

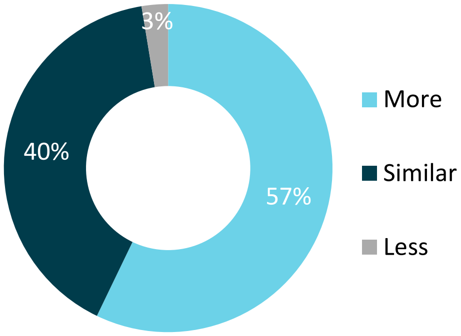
Change in NAV in H2 2019 vs. H1 2019



On average, respondents expect NAV valuations to increase by 2.3% in H2 2019 compared to H1 2019. This is similar to H1 2018 when respondents expected NAVs to also increase by 2.3% in the upcoming year.

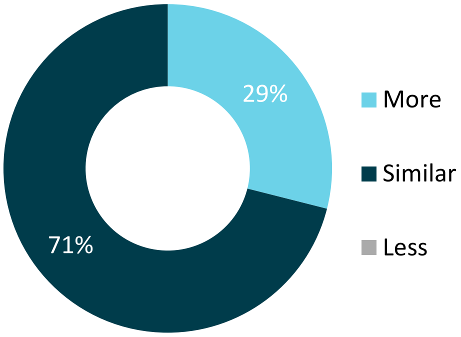
General partners' approach to the secondary market

Liquidations and restructurings in H1 2019 vs. H1 2018



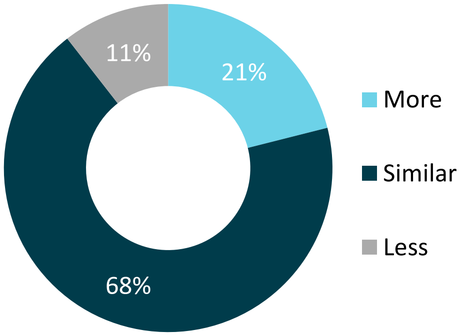
57.1% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in H1 2019 compared to H1 2018.

Staples sought by GPs in H1 2019 vs. H1 2018



28.9% of respondents felt that meaningfully more GPs sought staples in H1 2019 as compared to H1 2018.

GP restrictiveness on transfers in H1 2019 vs. H1 2018



Most respondents felt that GPs restrictiveness on transfers did not change in H1 2019 compared to H1 2018.

Select respondents

50 South Capital
Aberdeen Standard Investments
Access Capital
Adams Street Partners
Alpinvest
Altamar Capital
Ant Capital Partners
Arcano Capital
ARCIS Capital
Argentum
Bex Capital
Blackrock Private Equity Advisors
Canada Pension Plan
Capital Dynamics
Central Park Group
Cipio Partners
Coller Capital
Commonfund Capital
Corbin Capital Partners
Deutsche Bank
Euro Private Equity
Fort Washington
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Grosvenor Capital Management
Hamilton Lane
HarbourVest
Headlands Capital
Headway Capital
Hollyport Capital
Idinvest
Industry Ventures
Israel Secondary Fund
Jasper Ridge
Kline Hill Partners
Knightsbridge
Landmark Partners
LGT Capital Partners
Mantra Investments
Mercury Partners
Metropolitan Realty
Montana Capital Partners
Morgan Stanley Investment Management
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Pantheon
Partners Group
Pictet Alternative Advisors SA
PineBridge Investments
Pomona Capital
Portfolio Advisors
Private Advisors
RCP Advisors
ROC Partners
Schroder Adveq
Sobera Capital
Spectra Investments
Stafford Capital
StepStone
Strategic Partners
Sturbridge Capital
Sweetwater
Top Tier Capital Partners
TR Capital
Tyrus Capital
UBS Asset Management
Unigestion
Vintage Ventures
W Capital Partners
Warana Capital
Whitehorse Liquidity Partners
Willowridge Partners

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The Setter Liquidity Rating™ A unique rating system that allows buyers, sellers and creditors to assess the relative liquidity of over 7000 different fund families.

The Setter Volume Report™ and the Setter Price Report™
Two semi-annual reports that provide the most comprehensive and accurate assessments of the secondary market. Data is based on pricing of over 2000 funds and a survey of over two thirds of the most active secondary buyers globally.

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