Setter

Volume Report H1 2021

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2021 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume H1 2021 vs. H1 2020

› Breakdown of Volume between Funds and Directs

› Breakdown of Volume by Type of Assets Purchased

› Breakdown of Volume by Geography of Assets Purchased

› Maturity of Funds Purchased

› Profile of Buyers

› Number of Deals and Average Deal Size

› Payment Terms

› Execution Risk

› Buyers' Scope of Interest

› Buyers' Return Targets

› Profile of Sellers

› Percentage of Intermediated Deals

› Predicted Secondary Deal Volume for FY 2021

› Changes in the Level of Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in H2 2021

› General Partners' Approach to the Secondary Market

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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 2021? 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 31 question survey of the most active global buyers in the secondary market for alternative investments, conducted at the beginning of July 2021. 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 2021. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 94 of the 131 most active and regular buyers in the secondary market agreed to share their confidential results (see partial list of participants on page 27). Given the high response rate, and the fact that all twenty of the largest buyers participated, the respondents to our survey represented 91.1% 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 2021 in review

After slumping 27.7% in 2020 due to the Covid-19 crisis, the secondary market rebounded to a record $54.9 billion in the first half of 2021. When comparing to the first half of 2020, this represents a 171.7% increase from the secondary volume recorded in the **Setter Capital Volume Report H1 2020.**

Volume was up significantly across most alternative investments. The private equity secondary market (funds and directs) increased 198% year over year, to a total of $51.92 billion. Private equity fund secondaries were up 100.2% ($20.18 billion in H1 2021 from $10.08 billion in H1 2020). Quadruple increases were seen across VC fund secondaries (up 322.0% to $2.82 billion in H1 2021 from $670 million in H1 2020), fund of fund secondaries (up 342.2% to $1.59 billion in H1 2021 from $380 million in H1 2020) and energy fund secondaries (up 321.8% to $196 million in H1 2021 from $46 million in H1 2020). Real estate secondaries (funds and directs) were up 107.4% to $1.85 billion and private debt fund secondaries were up 177.3% ($1.06 billion in H1 2021 from $380 million in H1 2020). Bucking these positive trends, infrastructure fund secondaries were $910 million, down from $1.44 billion in H1 2020 and agriculture and timber secondaries were $85 million, down from $274 million in H1 2020.

Traditional fund secondaries increased 75.0% from $12.58 billion in H1 2020 to $22.01 billion in H1 2021, while direct secondaries quadrupled 330.9% from $7.64 billion to $32.91 billion (private equity directs were $31.73 billion and real estate directs were $1.17 billion). As a result, direct secondaries went from 37.8% of total volume in H1 2020 to 59.9% in H1 2021, which is the first time they have made up the majority of total transaction volume.

While the breadth and number of buyers continued to increase, the most significant activity was driven by the largest buyers in the market. The twenty largest buyers, defined as those that deployed more than $600 million in H1 2021, accounted for 69.5% of the market’s total volume (vs. 50.0% in H1 2020), while the fifty one mid-sized buyers accounted for 25.1% (vs. 38.1% in H1 2020) and the 60 smallest buyers represented 5.4% (vs. 11.9% in H1 2020).

Buyer competition for deals continued to heat up in H1 as noted by 37% of respondents (vs. only 2.7% that felt it was lower). As a means to stay competitive, the use of debt to improve pricing and deal returns continued to be common in the secondary market. Although most respondents felt the use of leverage hadn’t changed, 14.7% of respondents felt it was higher and only 2.9% felt it was lower.

Agents intermediated 71.0% of deals in H1 2021, versus 70.4% in H1 2020. In terms of dollars, agents intermediated $38.99 billion in deals in H1 2021, which was 174.1% more than they did in H1 2020.

There were a total of 1215 transactions in H1 2021, with an average size of approximately $45.18 million. The number of transactions was up 123.6% from the 543 transactions completed in H1 2020 as was the average deal size which was up 21.5%, given the abundance of large-scale deals.

As to deal execution, only 7% of buyers had more deals fall apart in H1 2021 versus H2 2020. This is down significantly from Q1 2020, when 60% reported more deals falling through. Buyers noted that the main reason that deals fell apart was that the seller decided not to sell (77%). A small number (8%) cited GP's not allowing transfer as another reason deals were called off.

Other Fund GPs (i.e. non-fund of funds or secondary funds) accounted for 40.8% of all sellers, as they looked to tap the secondary market to create liquidity for their LPs. 50.7% of the survey respondents felt that GPs coordinated tender offers to their LPs or attempted to liquidate or restructure older funds in H1 2021 is similar to the prior 6 months. Sovereign funds were the next most active sellers accounting for 11.6% and Pensions accounted for 11.3% of the total volume. Looking forward, most buyers expect pensions to be the biggest sellers in FY 2021 (41.6% of total transaction volume).

From a geographical perspective, North American sellers accounted for the largest proportion of volume in H1 2021 selling $34.19 billion (62.3% vs. 59.6% in H1 2020), whereas Western European sellers sold $15.9 billion (29.0% vs. 23.3% in H1 2020) and Asia-Pacific sellers accounted for about $3.07 billion (5.6% vs. 11.2% in H1 2020). Other geographies such as the Middle East accounted for 3.1% of the total volume in H1 2021, down from 5.9% in H1 2020.

With a challenging year behind them, buyers estimated that NAV valuations will increase 4.2% and the pace of distributions will likewise increase 3.5% in FY 2021. These forecasts are more optimistic than those in the **Setter Capital Volume Report H1 2020**, where buyers expected NAV to increase by .1% and distributions to decrease.6% respectively in the following year.

Looking forward, buyers expect FY 2021 volume to continue to rebound to $110.40 billion, which would be up 78.6% from the $61.8 billion transacted in FY 2021.

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.

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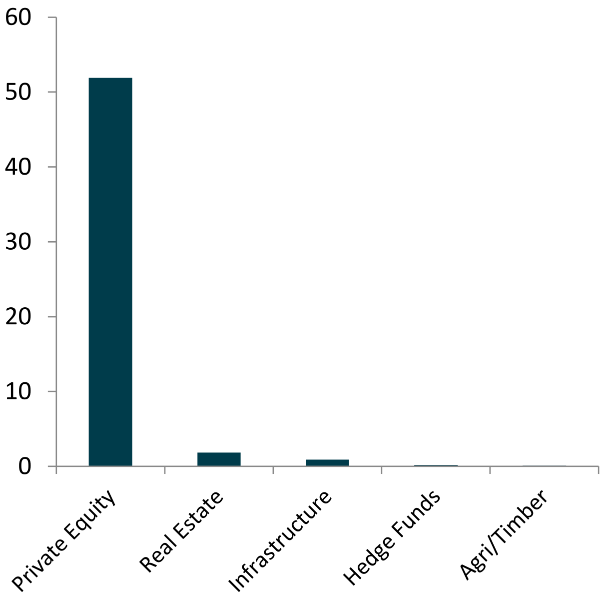
Total volume

Total secondary market volume for H1 2021 was $54.91 billion. This is the volume estimate derived from the 131 secondary buyers surveyed with dedicated secondary efforts and includes 78 secondary funds, 39 funds of funds, 8 hedge funds, 4 investment consultants, 1 family office and 1 pension. We believe this estimate is reliable as the 94 survey respondents alone reported $50.03 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): $51.92 billion (198% increase YoY)

Real Estate (Directs & Funds): $1.85 billion (107.4% increase YoY)

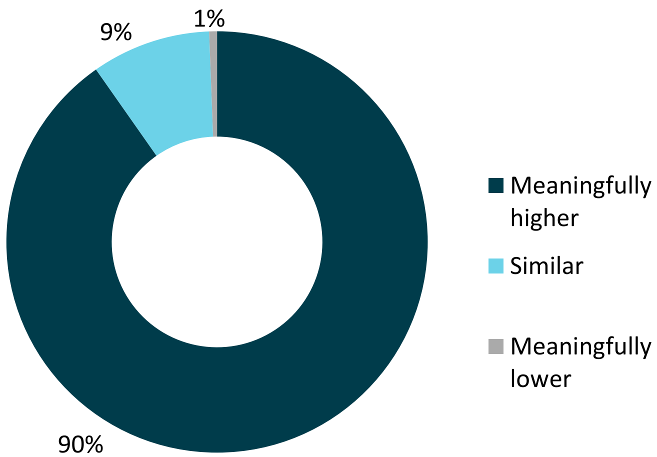
Infrastructure Funds: $910 million (38.5% decrease YoY)

Hedge Funds: $150 million (2.1% increase YoY)

Agriculture/Timber Funds: $85 million (68.9% decrease YoY)

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

H1 2021 volume vs. H1 2020 volume

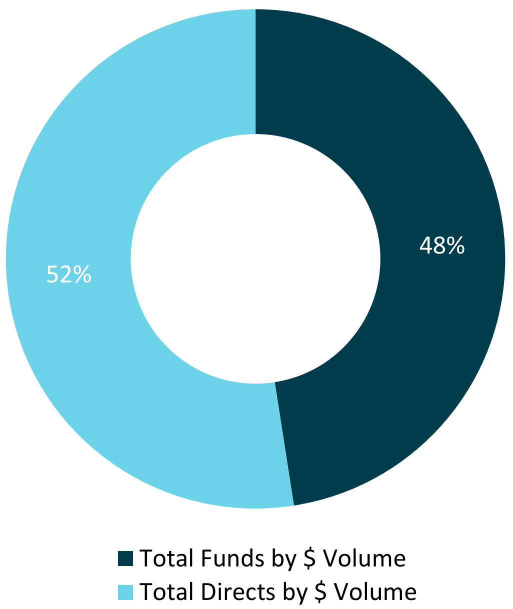


H1 2021 volume increased 171.7% compared to H1 2020, which was $20.21 billion.

Indeed, 90.3% of survey respondents felt their volume was higher in H1 2021, 9.1% felt their volume was similar and only .6% felt their volume was lower than H1 2020.

Assets purchased

Funds vs. Directs[1]



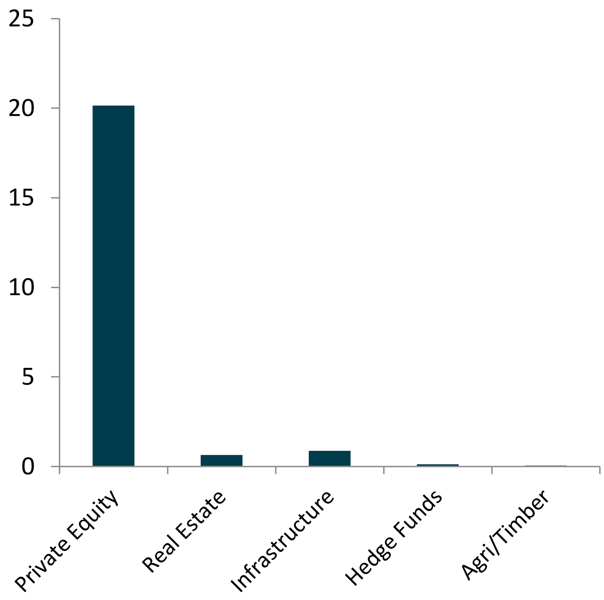
Fund secondaries increased 75.0%, from the $12.58 billion recorded in H1 2020 to $22.01 billion in H1 2021. Direct secondaries[1], on the other hand, increased 330.9% from $7.64 billion in H1 2020 to $32.91 billion in H1 2021.

As a proportion of total volume, Direct secondaries went from 37.8% in H1 2020 to 59.9% in H1 2021, which is the first time they have been the majority.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 47.0% funds and 53.0% 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 $20.18 billion (100.2% increase YoY)

Real estate fund purchases totaled $680 million (13.1% increase YoY)

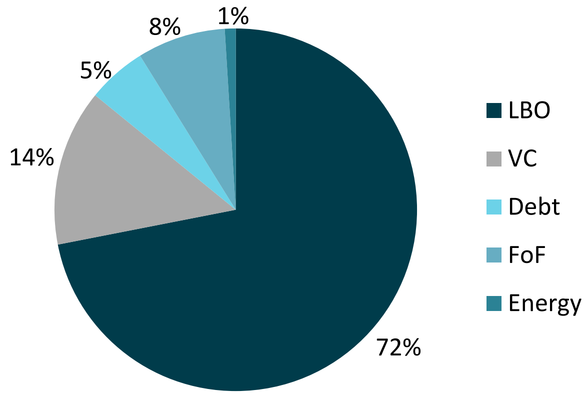
Infrastructure fund purchases totaled $910 million (38.5% decrease YoY)

Hedge fund purchases totaled $150 million (2.1% increase YoY)

Agriculture/Timber fund purchases totaled $85 million (68.9% decrease YoY)

Types of funds purchased

Private equity funds



LBO – $14.5 billion
(Up 68.4% YoY from $8.62 billion)

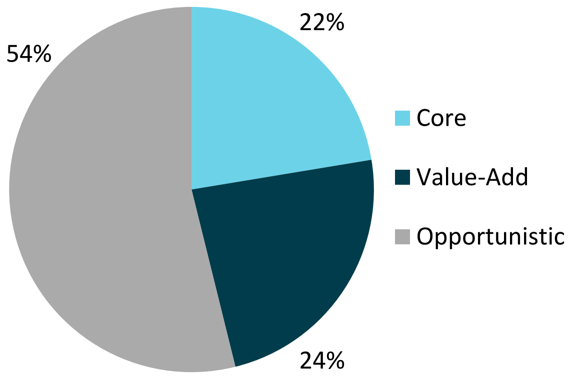
VC – $2.8 billion
(Up 322% YoY from $670 million)

Debt – $1.1 billion
(Up 177.3% YoY from $380 million)

Fund of Funds – $1.6 billion
(Up 342.2% YoY from $360 million)

Energy – $196 million
(Up 321.8% YoY from $46 million)

Real estate funds



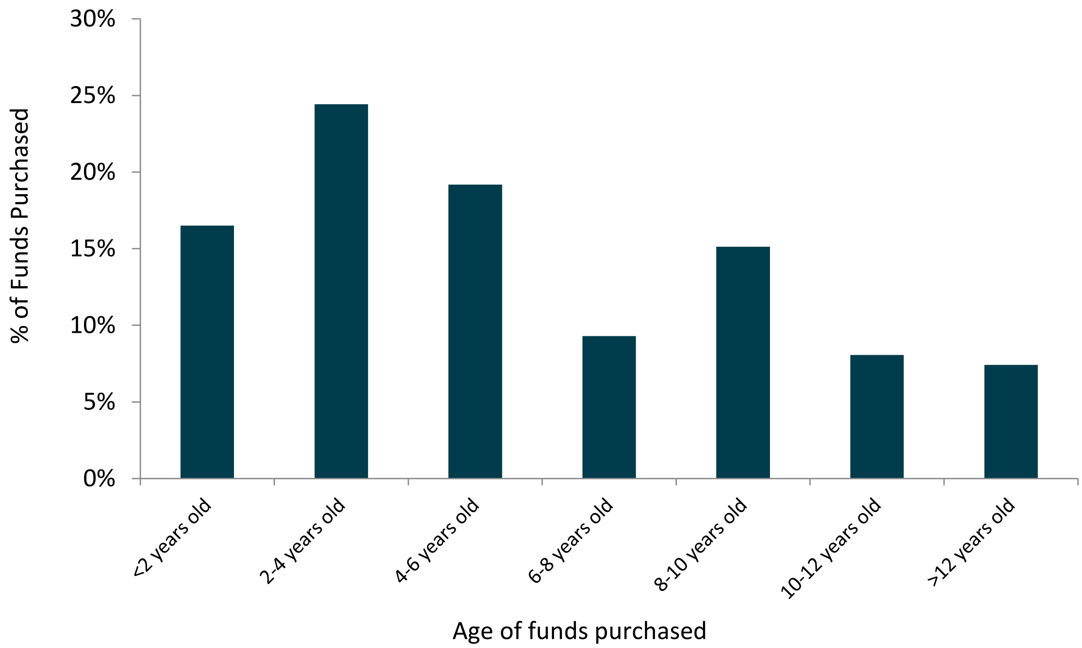
Core – $152 million
(Up 1.9% YoY from $150 million)

Value-Add – $161 million
(Up 38.4% YoY from $120 million)

Opportunistic – $365 million
(Up 9.2% YoY from $330 million)

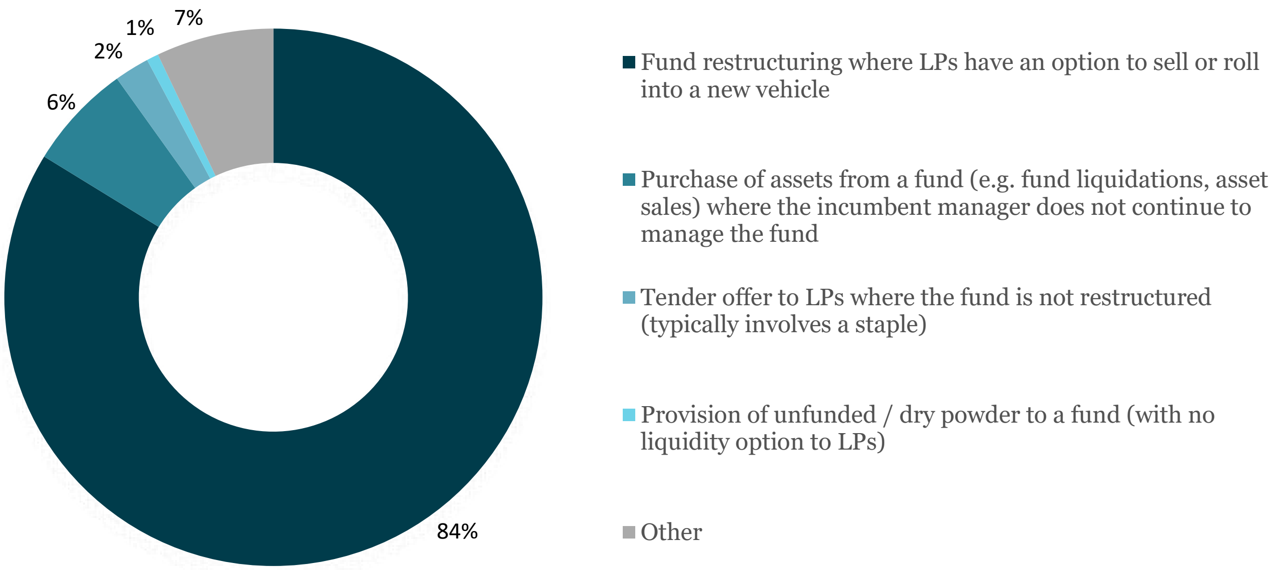
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 5.78 years old which is older than the average in H1 2020 (5.52 years old).

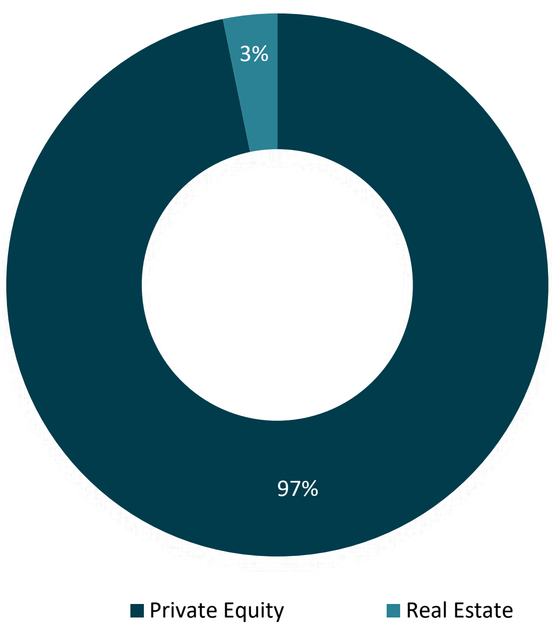


Types of direct secondaries

Types of direct deals completed by buyers

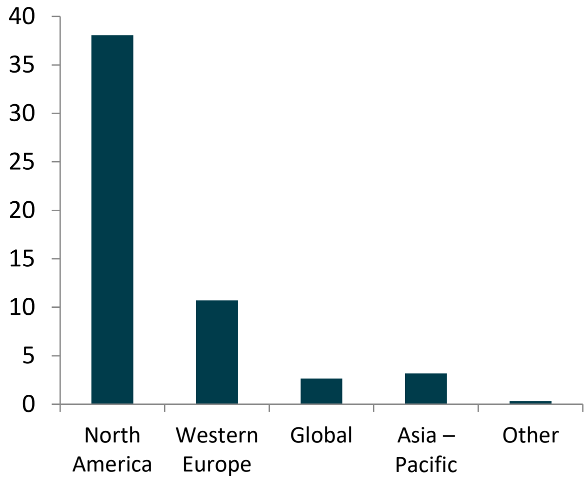


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 96.4% ($31.73 billion) and 3.6% respectively ($1.17 billion) of the total directs volume.

Geography of assets purchased



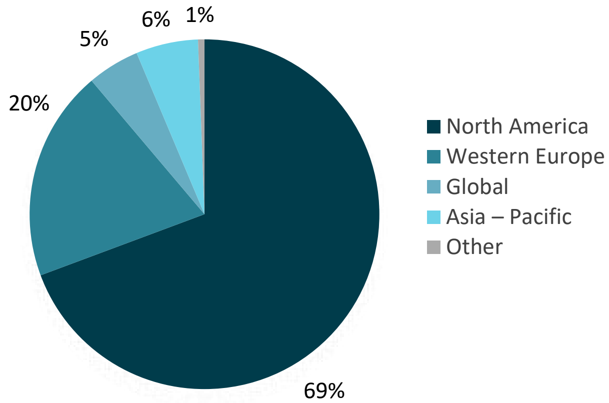
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2021:

North America – $38.07 billion
(Up 224.0% YoY from $11.75 billion)

Western Europe - $10.71 billion
(Up 72.8% YoY from $6.20 billion)

Global – $2.65 billion
(Up 470.9% YoY from $460 million)

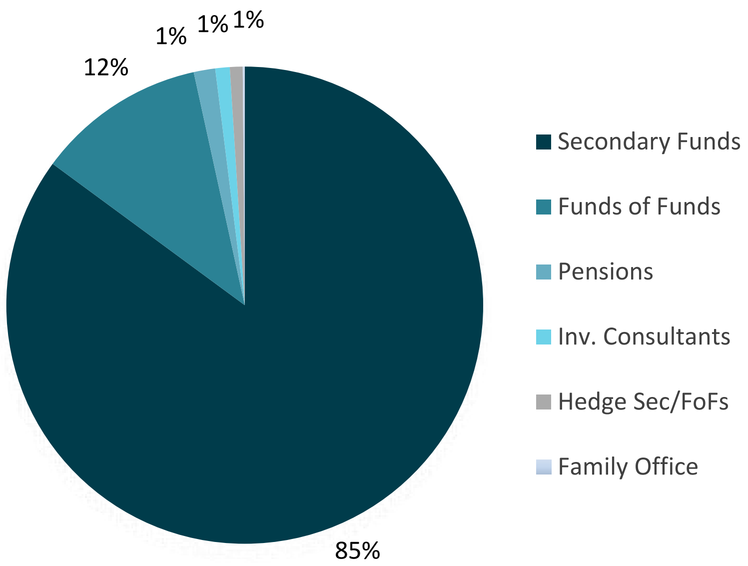
Asia-Pacific – $3.16 billion
(Up 226.5% YoY from $970 million)



In terms of percentage, North American focused funds and directs accounted for 69.3% of total volume, Western European funds and directs accounted for 19.5% and Asia-focused funds and directs accounted for 5.7% of sales.

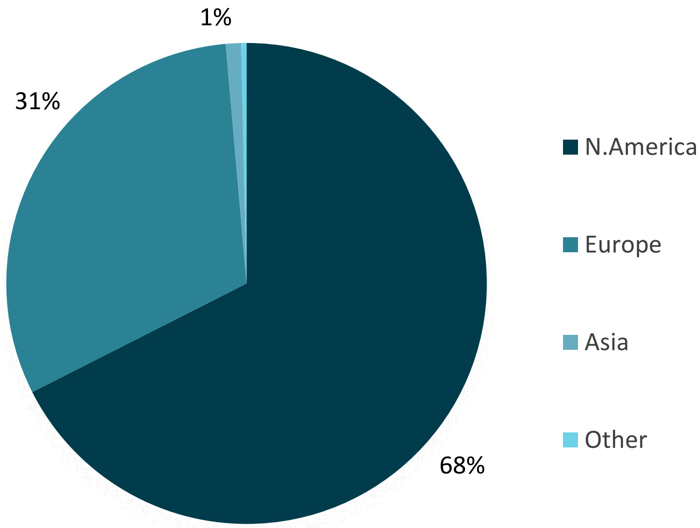
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in H1 2021, accounting for 85.1% ($46.73 billion) of total purchases while funds of funds accounted for 11.5% ($6.3 billion).

Location of buyers[1]



North American buyers transacted the most (67.5% of total volume) in H1 2021, up as a percentage from 63.3% total volume in H1 2020.

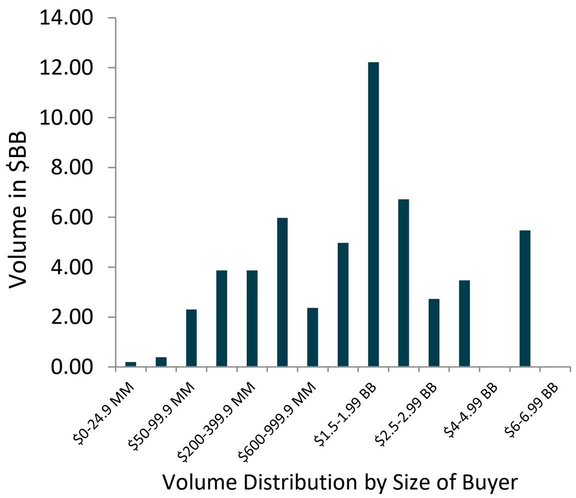
European buyers accounted for 31.1% of total volume in H1 2021, which was on par with H1 2020 (32.0%).

[1]Location is based on head office location.

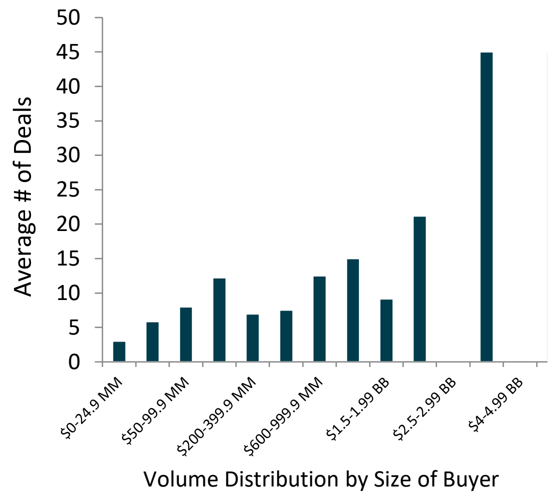
Activity levels of small, medium and large buyers

Applying the survey respondents' dollar volume and transaction numbers, whilst 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



20 large buyers (defined as those that deployed $600 million or more in H1 2021) purchased $38.15 billion, representing approximately 69.5% of total volume across 347 transactions with an average deal size of $109.97 million. This was an increase from H1 2020, where large buyers accounted for 50.0%.

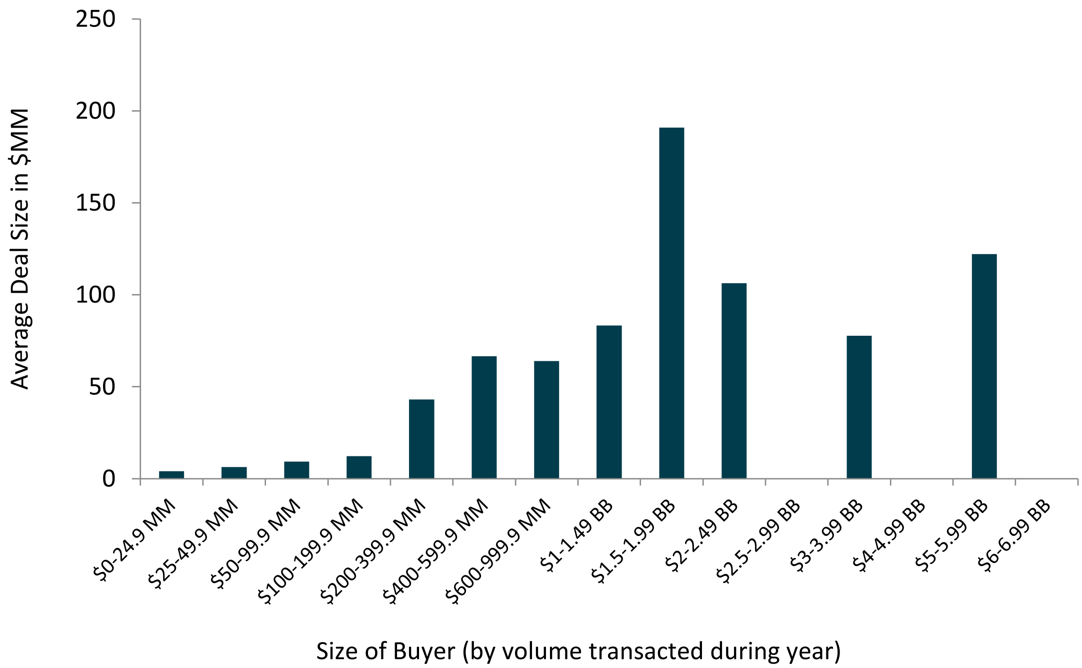
51 medium-sized buyers (defined as those that deployed $100 million to $600 million in H1 2021) purchased $13.8 billion, representing approximately 25.1% of total volume across 504 transactions with an average deal size of $27.37 million. This was a decrease from H1 2020, where they accounted for 38.1%.

60 small buyers (defined as those that deployed less than $100 million in H1 2021) purchased $2.96 billion, representing approximately 5.4% of total volume across 364 transactions with an average deal size of $8.13 million. This was a decrease from H1 2020, where they accounted for 11.9%.

Number of deals and average deal size

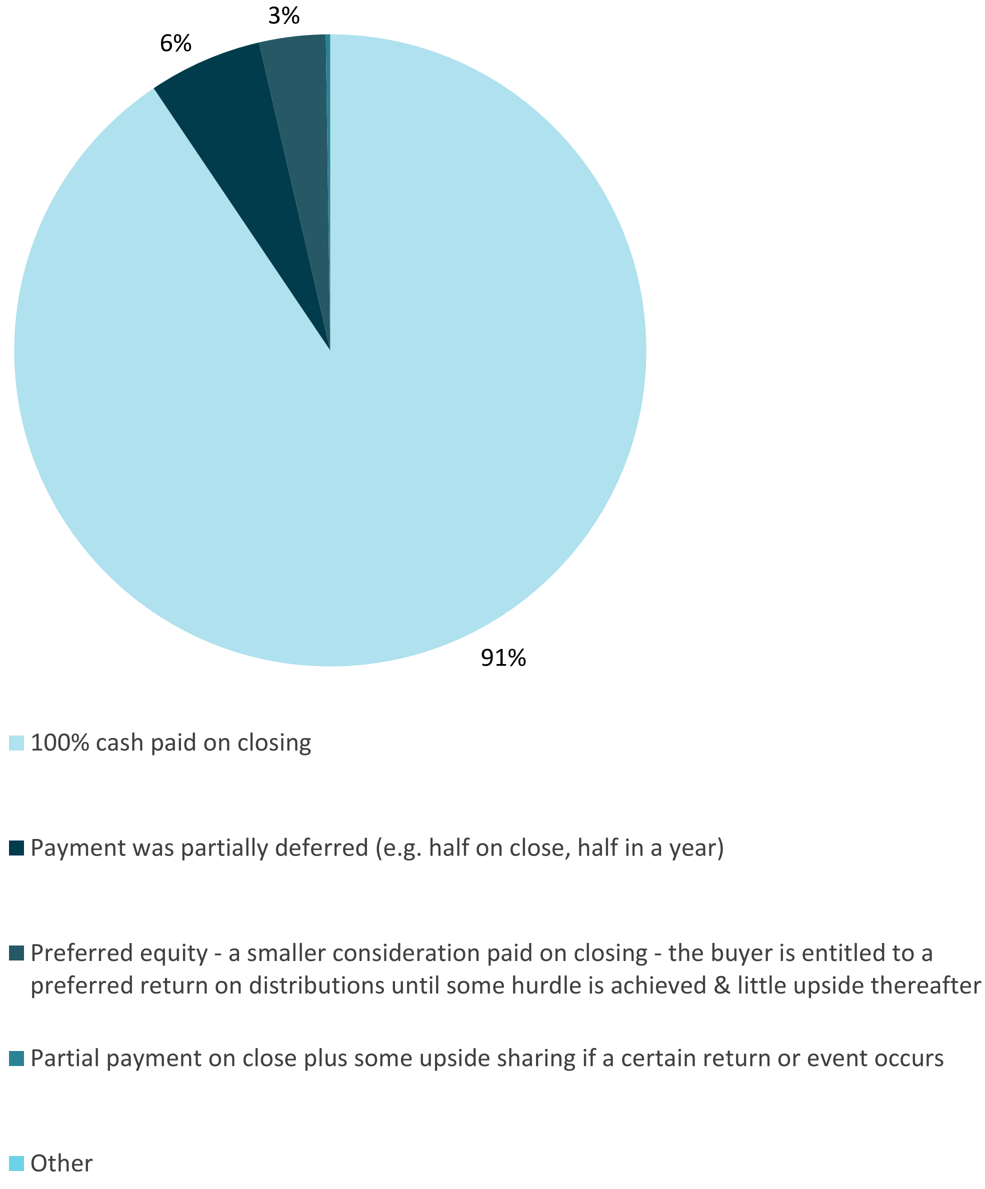
Buyers completed 1215 transactions in H1 2021 across the entire secondary market for alternative assets, with an average size of approximately $45.18 million. The number of transactions increased 123.6% from 543 transactions in H1 2020, while the average deal size also increased 21.5% from $37.19 million in H1 2020.

Average deal size by size of buyer



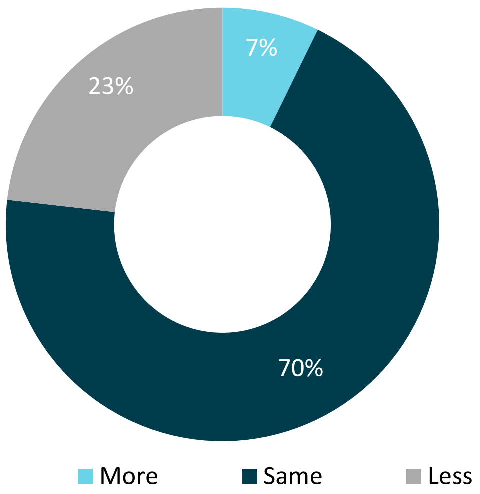
Payment terms

For 90.6% of their deals, buyers paid 100% cash on closing, while the balance of deals involved other payment terms or structuring as outlined below. This is up significantly from H1 2020, when buyers paid 100% cash on closing for only 69.7% of their deals.



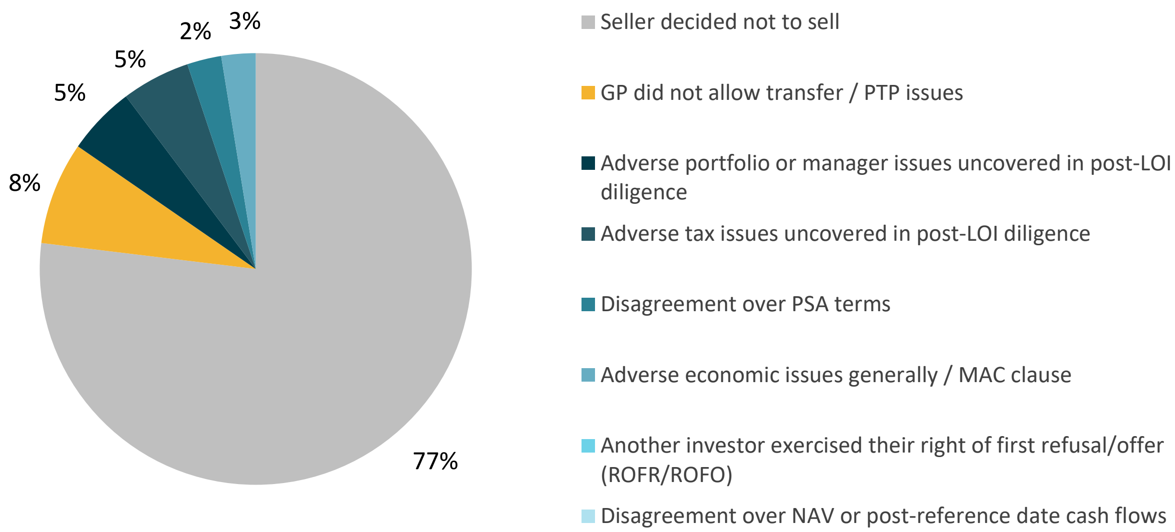
Execution risk

Percentage of deals that fell apart in H1 2021 vs. H2 2020



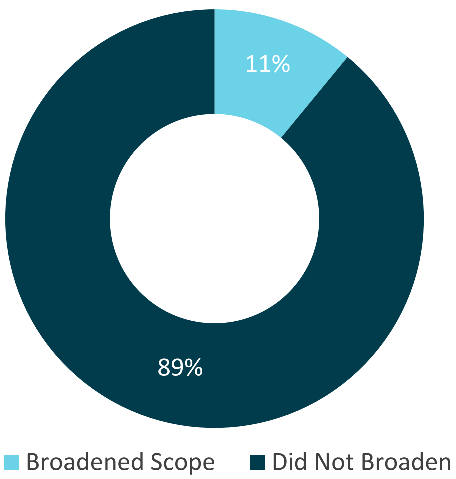
Only 7% of respondents had a higher proportion of their deals fall through in H1 2021, versus the prior 6 month period. This is down significantly from Q1 2020, when 60% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was simply that the seller decided not to sell (77%). A small number (8%) cited GP did not allow transfer / PTP issues as another reason the deal was called off.



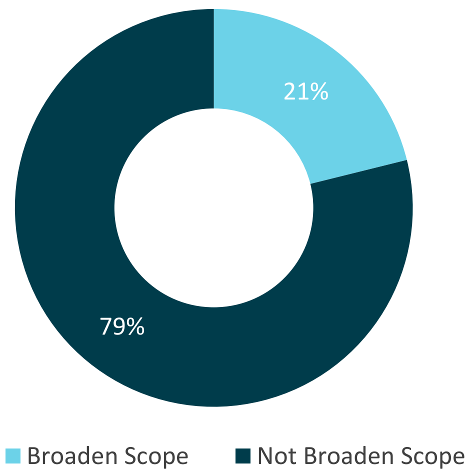
Buyers’ scope of interest

Buyers that broadened their focus in H1 2021



11.0% of participants broadened their secondaries focus in H1 2021 to include buying other alternative investment types (e.g. direct secondaries, infrastructure, real estate, etc.).

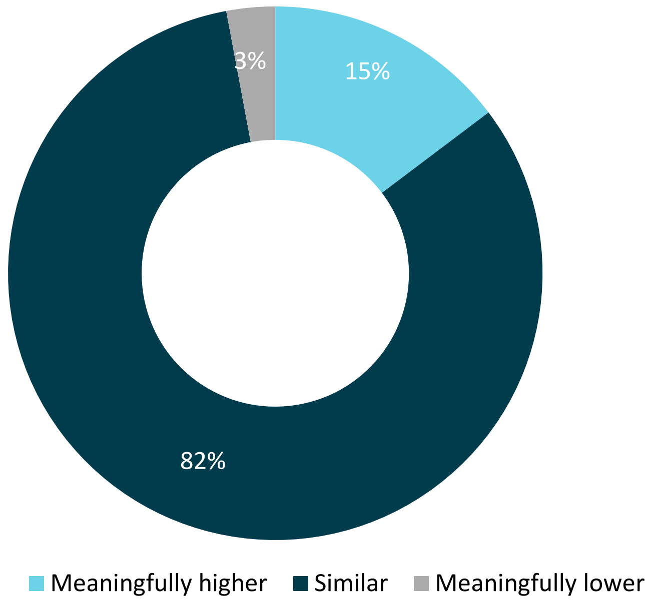
Buyers that intend to broaden their focus in H2 2021



21.1% of participants plan to broaden their secondaries focus in FY 2021 include buying other alternative investment types.

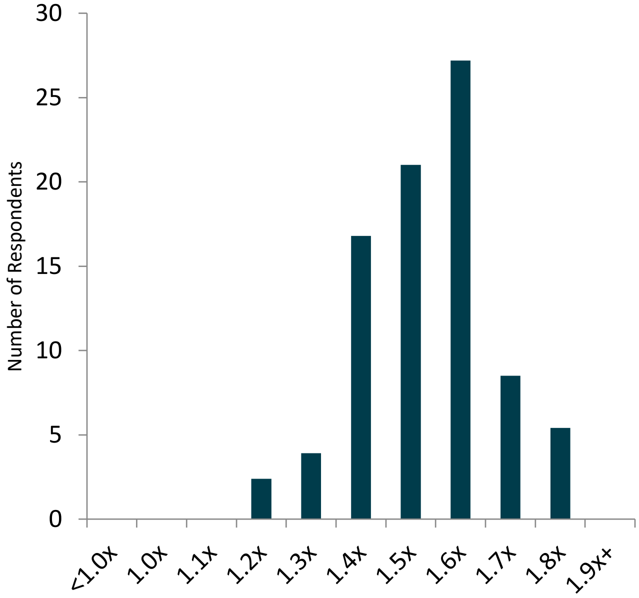
Leverage and returns

Level of debt used by buyers in H1 2021 vs. H2 2020



82.4% of respondents believed the level of debt used by buyers was the same, 14.7% felt it was more and only 2.9% felt it had decreased significantly in H1 2021.

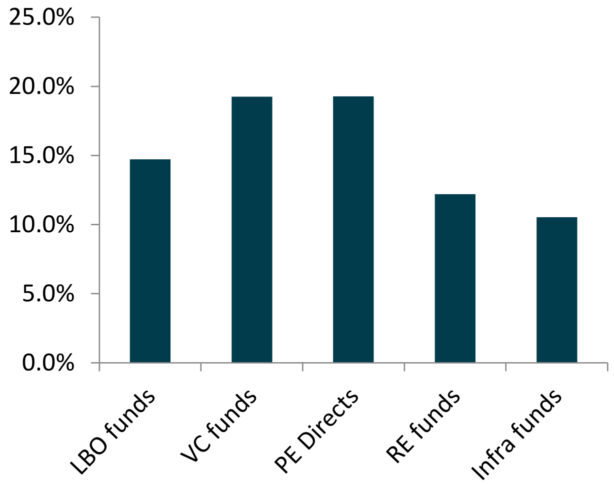
Expected multiple for secondary deals completed in H1 2021



Respondents predicted that the average gross multiple for secondary deals completed in H1 2021 would be 1.52x, which was higher than the 1.49x buyers expected from deals completed in H1 2020.

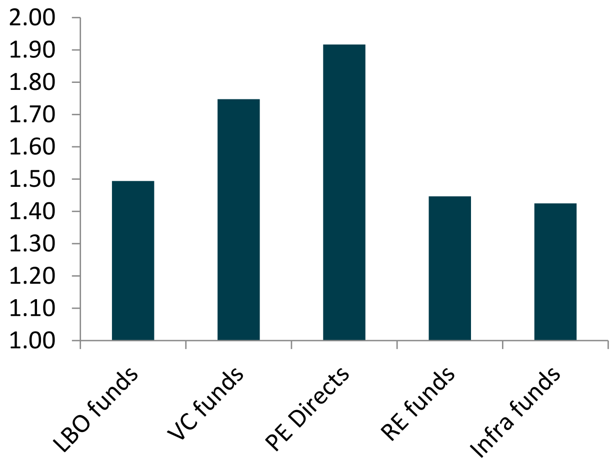
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers estimated their peers' average targeted IRR to be 14.7% for LBO funds, 19.3% for VC funds, 19.3% for private equity directs, 12.2% for real estate funds and 10.5% for infrastructure funds.

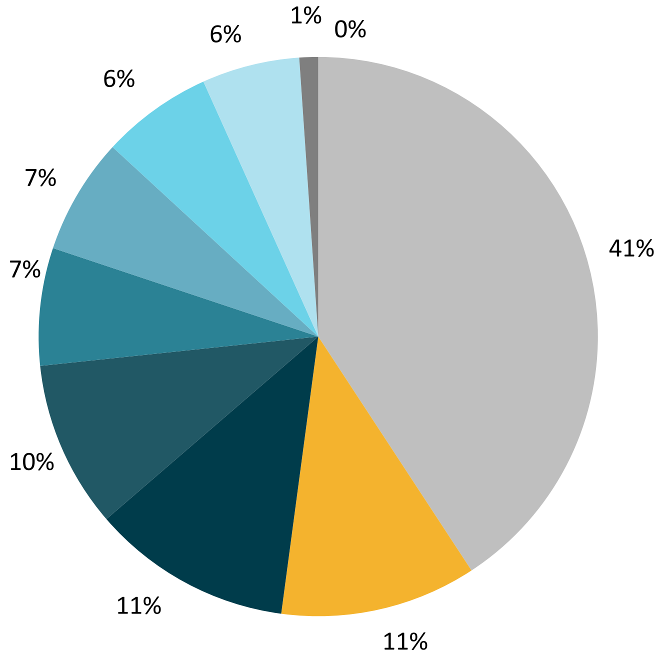
Targeted multiples on secondary purchases



On average, buyers estimated their peers' targeted multiples to be 1.49x for LBO funds, 1.75x for VC funds, 1.92x for private equity directs, 1.45x for real estate funds and 1.43x for infrastructure funds.

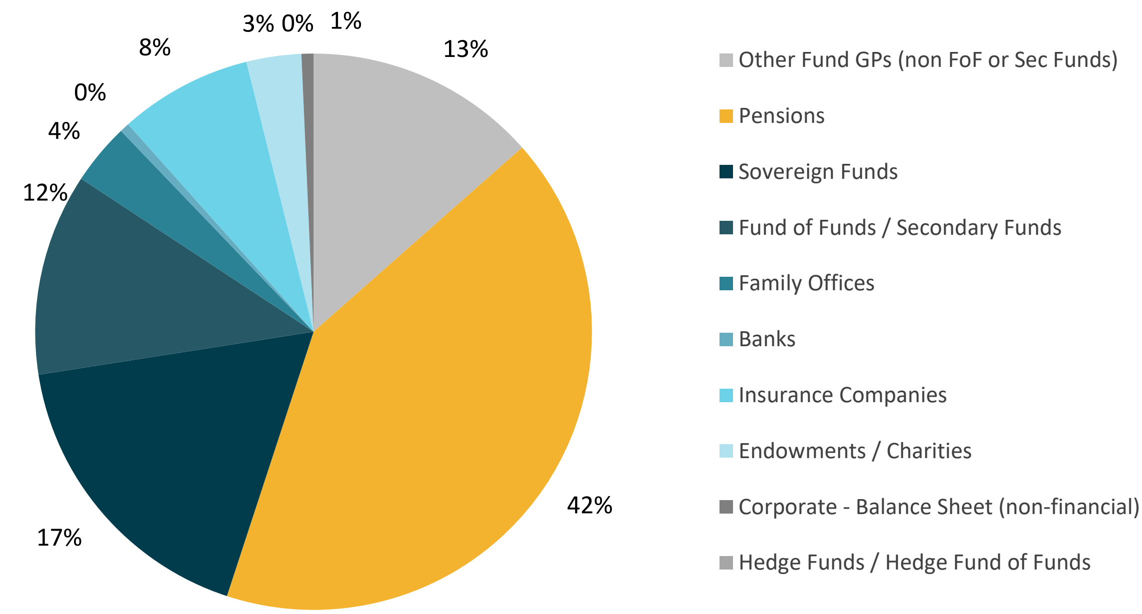
Seller profiles

Types of sellers in H1 2021



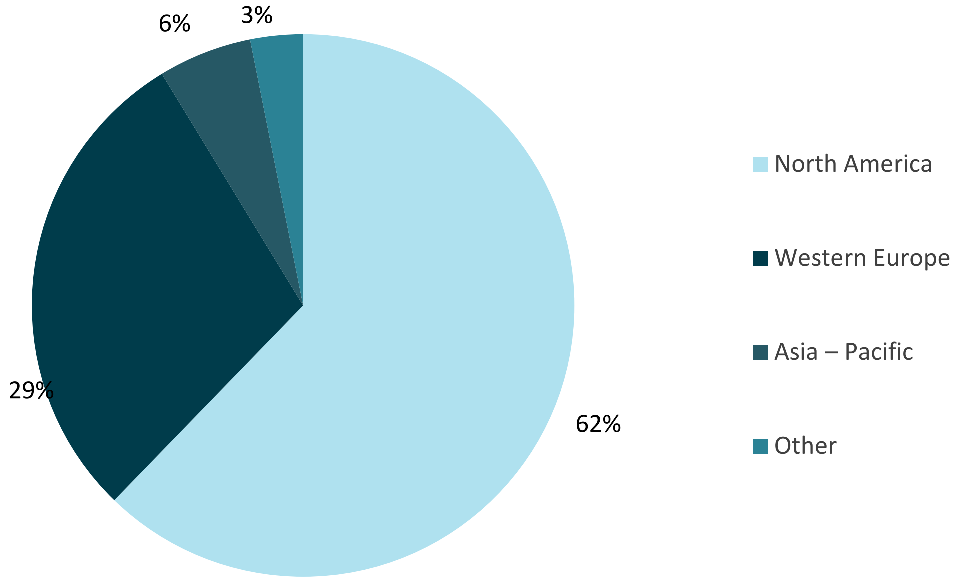
GPs (that are not fund of funds or secondary funds) and sovereign funds were the most active sellers in H1 2021 making up 40.8% and 11.6% of the H1 2021 volume, respectively. Most buyers expect pensions to be the biggest sellers in FY 2021 (41.6% of total transaction volume).

Expected sellers in FY 2021

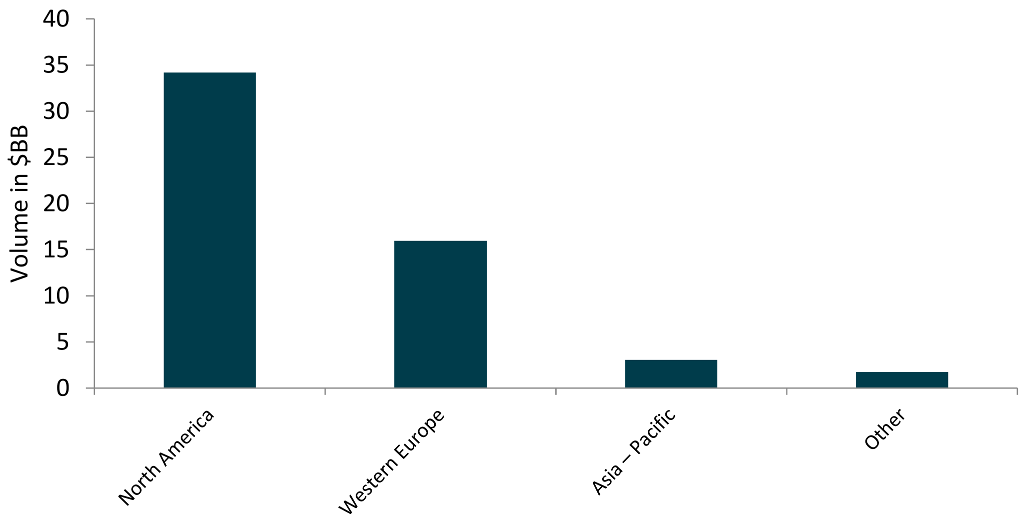


Seller location

Geography of sellers

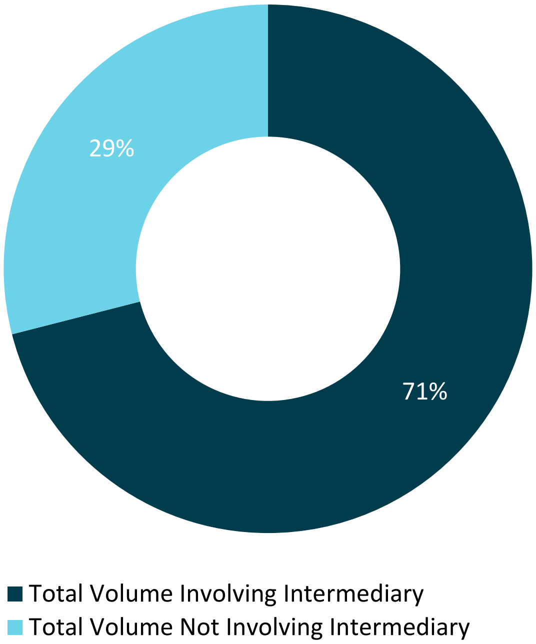


In terms of the location of sellers, North America accounted for the majority of volume in H1 2021. North American sellers sold $34.19 billion (62.3% vs. 59.6% H1 2020), whereas Asia-Pacific sellers sold $3.07 billion (5.6% vs. 11.2% in H1 2020). Western European sellers accounted for 29.0% of the total volume up from 23.3% in H1 2020. Other geographies, such as the Middle East accounted for 3.1% of the total volume in H1 2021, down from 5.9% in H1 2020.



Intermediation and level of competition

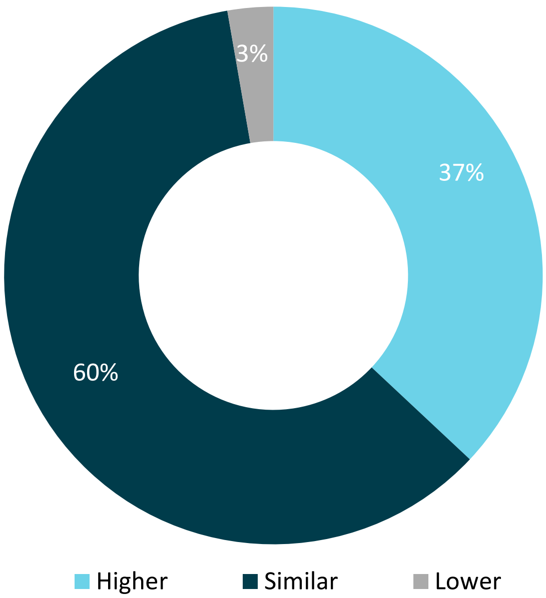
Volume of intermediated transactions



Approximately $38.99 billion (71.0%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was significantly higher than H1 2020 where it was $14.23 billion (70.4% of total).

In terms of volume, agents intermediated $24.77 billion more in deals as compared to H1 2020, representing an increase of 174.1%.

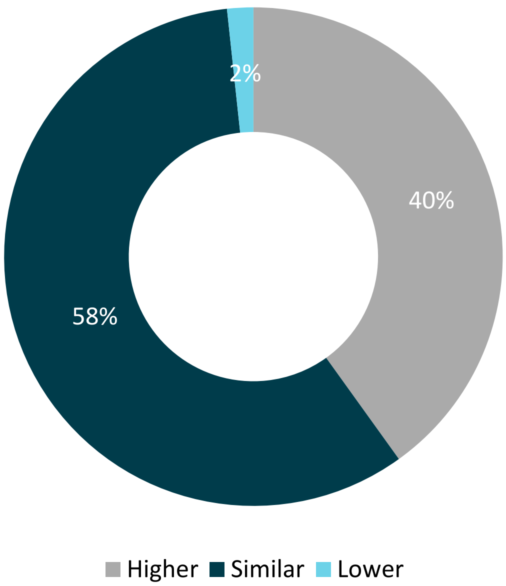
Buyer competition for deals in H1 2021 vs. H2 2020



60.3% of respondents felt buyer competition in H1 2021 was similar to the prior 6 months, while 37.0% felt buyer competition was significantly higher. Only 2.7% of survey respondents felt buyer competition was lower in H1 2021.

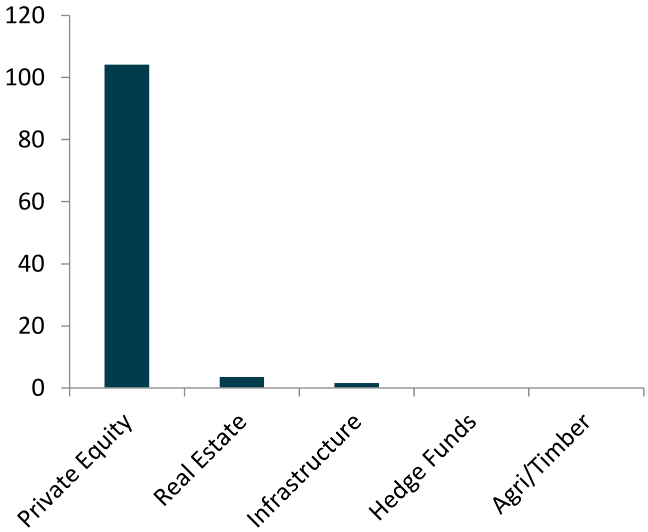
Projected volume for FY 2021

How H2 2021 volume will compare to H1 2021



40.1% of respondents felt that their H2 2021 volume will be meaningfully higher than H1 2021, 1.7% felt it would be meaningfully lower, while 58.2% of the respondents felt that it will be similar.

Predicted volume for FY 2021

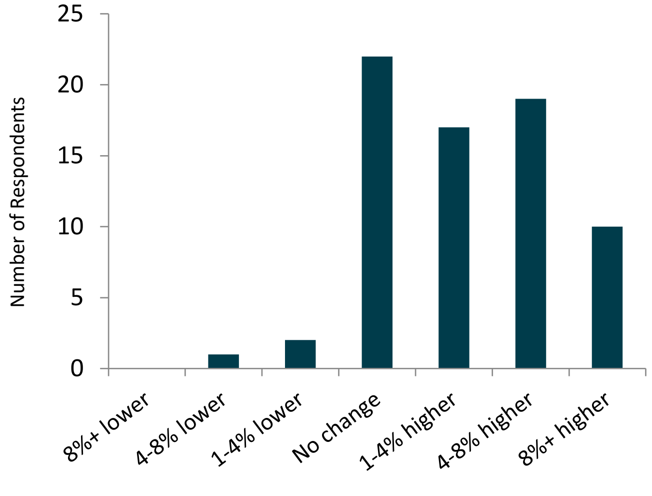


Respondents predicted total volume for FY 2021 to be $110.4 billion, which would represent a 78.6% increase from the $61.8 billion transacted in FY 2020.

Assuming proportions do not change in FY 2021, this suggests private equity volume will be $104.37 billion in FY 2021, real estate will be $3.72 billion, infrastructure will be $1.82 billion, hedge funds will be $310 million, and agriculture & timber will be $170 million.

Expected distribution and NAV changes in FY 2021

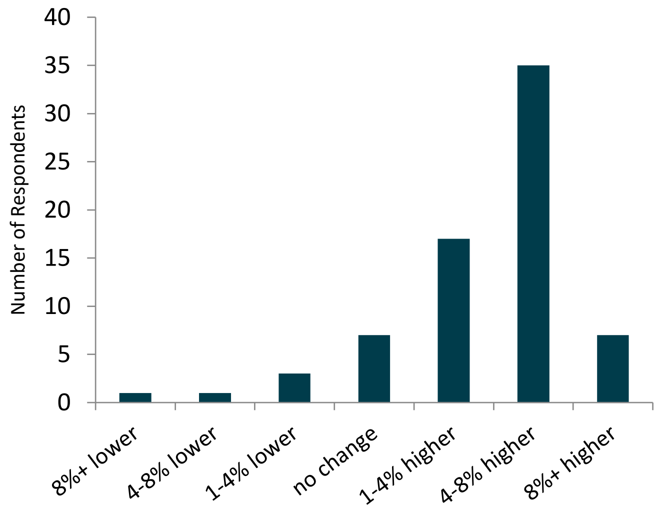
Distribution pace in H2 2021 vs. H1 2021



Respondents expect the pace of distributions in H2 2021 to be higher than H1 2021 as the average response suggests an expected increase of 3.5%.

Respondents are more optimistic than they were in FY 2020, when they expected the pace of distributions to be down .6%.

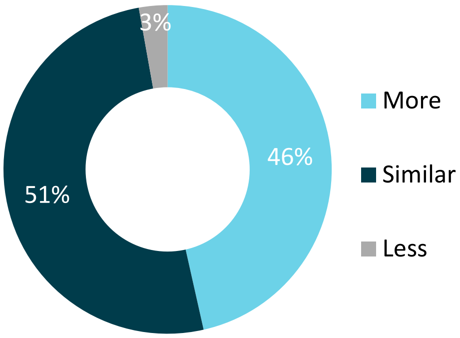
Change in NAV in H2 2021 vs. H1 2021



On average, respondents expect NAV valuations to increase by 4.2% in H2 2021 compared to H1 2021. This is noticeably higher than FY 2020 when respondents expected NAVs to increase by .1% in the upcoming year.

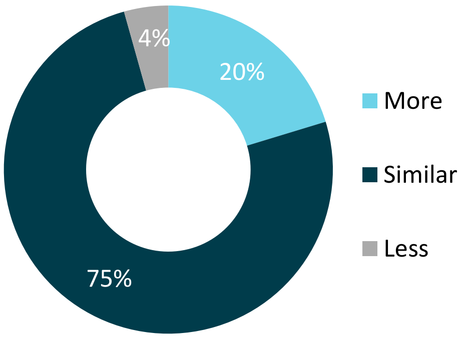
General partners' approach to the secondary market

Liquidations and restructurings in H1 2021 vs. H2 2020



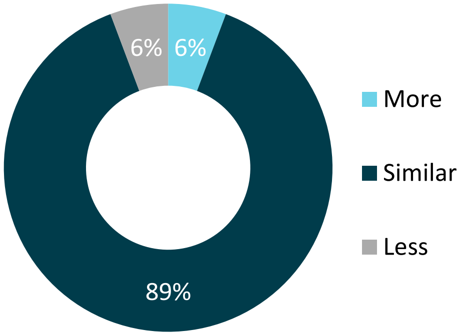
46.5% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in H1 2021 compared to the prior 6 months.

Staples sought by GPs in H1 2021 vs. H2 2020



75.4% of respondents felt that a similar number of GPs sought staples in H1 2021 as compared to the prior 6 months.

GPs' restrictiveness on transfers in H1 2021 vs. H2 2020



The majority of the respondents felt that GPs' restrictiveness on transfers did not change in H1 2021 compared to the prior 6 months.

Select respondents

50 South Capital
Aberdeen Standard Investments
Access Capital
Adams Street Partners
Alpinvest Partners
Altamar Capital
Arcano Capital
Argentum
Argosy Strategic Partners
Bee Alternatives Limited
Bex Capital
Blackrock Private Equity Advisors
CPPIB
Capital Dynamics
Central Park Group
Cipio Partners
Coller Capital
Commonfund Capital
Corbin Capital Partners
Felicitas Investors
FlowStone Partners
Fort Washington
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Greenspring Associates
Grosvenor Capital Management
Hamilton Lane
HarbourVest Partners
Headlands Capital
Helaba Invest
Hollyport Capital
HQ Capital
ICG - Secondary Fund
Industry Ventures
Jasper Ridge
Jeneration Capital
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
Mantra Investment
Mercury Partners
Metropolitan Realty
Montana Capital Partners
Morgan Stanley
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Oddo BHF Private Equity
Pantheon Ventures
Partners Group
Pathway Capital
Pictet Alternative Advisors
PineBridge Investments
Pomona Capital
Portfolio Advisors
Private Advisors
RCP Advisors
Roc Partners
Schroder Adveq
Spectra Investments
Stafford Capital
StepStone Group
Strategic Partners
Sturbridge Capital
Sweetwater Capital
Top Tier Capital Partners
TR Capital
Tyrus Capital
UBS Asset Management
Unigestion Ltd.
Velocis
Vintage Ventures
W Capital
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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