Setter

Volume Report H1 2022

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2022 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume H1 2022 vs. H1 2021

› 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 2022

› Changes in the Level of Buyer Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in H2 2022

› 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 and secondary fund LPs often ask us. How much was completed in H1 2022? How much was completed in LBO, venture, real estate, infrastructure and hedge fund secondaries? How many GP-led transactions were completed? 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 end of June 2022. 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 2022. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 95 of the 130 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-five of the largest buyers participated, the respondents to our survey represented 89.6% of the transaction volume, making it the most reliable and exhaustive 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 2022 in review

Despite the challenging public markets and inflationary economy, the secondary market volume logged $57.8 billion in H1 2022 volume, up modestly from the $54.9 billion transacted in H1 2021.

With the exception of energy funds, volume was flat or up across all alternative investments in the secondary market. Private equity secondaries (funds and directs) increased 3.6% year over year, to a total of $53.76 billion. Private equity funds were up 34.8% ($27.21 billion in H1 2022 from $20.18 billion in H1 2021). Increases were seen across LBO fund secondaries (up 33.9% to $19.43 billion in H1 2022 from $14.52 billion in H1 2021), VC fund secondaries (up 33.7% to $3.77 billion in H1 2022 from $2.82 billion in H1 2021), fund of fund secondaries (up 76.5% to $2.81 billion in H1 2022 from $1.59 billion in H1 2021) and most notably, infrastructure fund secondaries were up 112.6% to $1.93 billion in H1 2022 from $910 million in H1 2021. Real estate secondaries (funds and directs) were slightly up 0.2% to $1.85 billion while debt and energy fund secondaries were both down 1.3% to $1.05 billion and 20.0% to 160 million respectively.

Traditional fund secondaries increased 38.9% from $22.01 billion in H1 2021 to $30.58 billion in H1 2022, while direct secondaries decreased 17.1% from $32.91 billion to $27.26 billion (private equity directs were $26.55 billion and real estate directs were $710 million). As a result, fund secondaries went from 40.01% of total volume in H1 2021 to 52.9% in H1 2022.

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-three largest buyers, defined as those that deployed more than $600 million in H1 2022, accounted for 73.9% of the market's total volume (vs. 69.5% in H1 2021), while the fifty-two mid-sized buyers accounted for 21.8% (vs. 25.1% in H1 2021) and the fifty-five smallest buyers only represented 4.3% (vs. 5.4% in H1 2021). In fact, the top four buyers alone transacted on approximately $19 billion in volume.

Although 72.4% of respondents felt that buyer competition for deals remained the same in H1 2022, 26.3% felt it was lower than 2021. As a means to stay competitive, the use of debt to improve pricing and deal returns continued to be common in the secondary market. Most respondents felt the use of leverage hadn't changed, 3.1% of respondents felt it was higher and 12.5% felt it was lower.

Agents intermediated 73.1% of deals in H1 2022, versus 71.0% in H1 2021. In terms of dollars, agents intermediated $42.25 billion in deals in H1 2022, which was 8.4% more than they did in H1 2021.

There were a total of 989 transactions in H1 2022, with an average size of approximately $58.46 million. The number of transactions was down 18.6% from the 1215 transactions completed in H1 2021 while the average deal size which was up 29.4%, given the abundance of large-scale deals.

As for deal execution, 33.3% of buyers had a higher proportion of deals fall apart in H1 2022 versus the prior 6 months. This is significantly more than H1 2021, when only 7.2% reported more deals falling through. Buyers noted that the main reason was that the seller decided not to sell (46.9%). Adverse economic issues & MAC clauses (24.5%) and adverse portfolio or manager issues uncovered in post-LOI diligence (8.2%) were two other notable deal breakers.

Direct investing GPs (i.e., not fund of funds or secondary funds) accounted for 32.8% of all sellers, as they looked to tap the secondary market to create liquidity for their LPs and creative ways to increase AUM. Indeed, 18.6% of survey respondents felt that meaningfully more GPs coordinated tender offers or attempted to liquidate or restructure older funds in H1 2022 as compared to H2 2021. Pensions were the next most active sellers accounting for 32.3% of the total volume, followed by endowments & foundations who accounted for 7.9%. This is no surprise given CALPERS alone completed a $6 billion fund portfolio sale. Looking forward, most buyers expect pensions to be the biggest sellers in H2 2022 (38.0% of total transaction volume).

From a geographical perspective, North American sellers continued to account for the largest proportion of volume in H1 2022 selling $45.27 billion (78.3% vs. 62.3% in H1 2021), whereas Western European sellers sold $7.0 billion (12.1% vs. 29.0% in H1 2021) and Asian-Pacific sellers accounted for about $3.2 billion (5.5% vs. 5.6% in H1 2021). Other geographies accounted for 4.1% of the total volume in H1 2022, up from 3.1% in H1 2021.

Buyers estimated that NAV valuations will decrease 3.6% & the pace of distributions will decrease 3.5% in H2 2022. These forecasts are less optimistic than those in the FY 2021, when buyers expected NAVs to increase by 4.2% and distributions to increase 3.5% respectively in the following year.

Looking forward, buyers expect FY 2022 volume to be $113.58 billion, down 20.8% from the $143.4 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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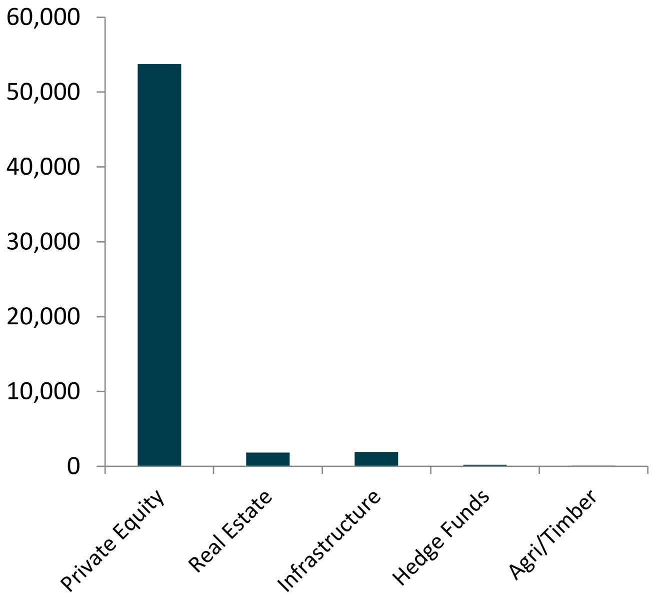
Total volume

Total secondary market volume for H1 2022 was $57.84 billion. This is the volume estimate derived from the 130 secondary buyers surveyed with dedicated secondary efforts and includes 79 secondary funds, 40 funds of funds, 6 hedge funds, 3 investment consultants, 1 family office and 1 pension. We believe this estimate is reliable as the 95 survey respondents alone reported $51.80 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): $53.76 billion (3.6% increase YoY)

Infrastructure Funds: $1.93 billion (112.6% increase YoY)

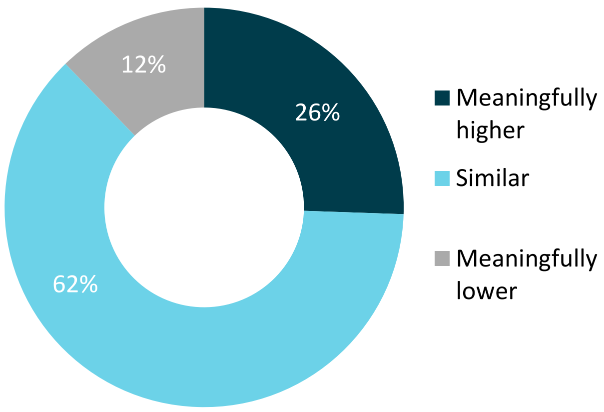
Real Estate (Directs & Funds): $1.85 billion (0.2% increase YoY)

Agriculture/Timber Funds: $76 million (11.4% decrease YoY)

Hedge Funds: $220 million (42.3% increase YoY)

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

H1 2022 volume vs. H1 2021 volume

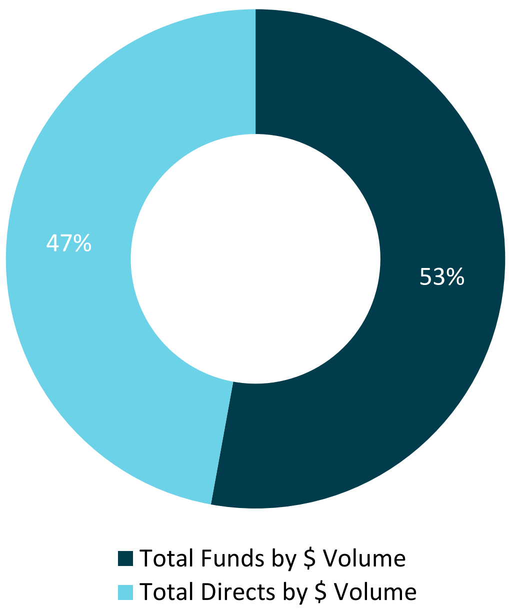


H1 2022 volume slightly increased 5.3% compared to H1 2021, which was $54.93 billion.

Indeed, 62.2% of survey respondents felt their volume was similar in H1 2022, 25.5% felt their volume was higher and 12.2% of the respondents felt their volume was lower than H1 2021.

Assets purchased

Funds vs. directs[1]



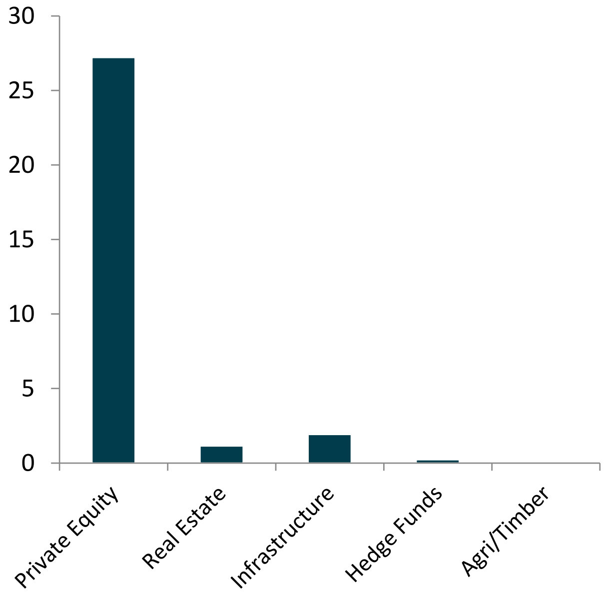
Fund secondaries increased 38.9%, from the $22.01 billion recorded in H1 2021 to $30.58 billion in H1 2022. Direct secondaries[1], however, decreased 17.1% from $32.91 billion in H1 2021 to $27.26 billion in H1 2022.

As a proportion of total volume, direct secondaries went from 59.9% in H1 2021 to 47.1% in H1 2022

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 49.5% funds and 50.5% 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 $27.21 billion (34.8% increase YoY)

Infrastructure fund purchases totaled $1.93 billion (112.6% increase YoY)

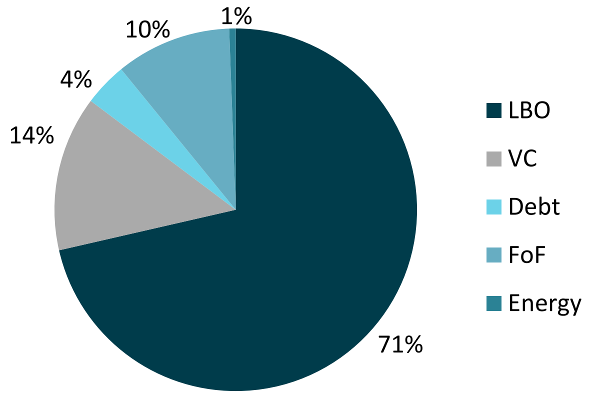
Real estate fund purchases totaled $1.14 billion (68.5% increase YoY)

Hedge fund purchases totaled $220 million (42.3% increase YoY)

Agriculture/Timber fund purchases totaled $76 million (11.4% decrease YoY)

Types of funds purchased

Private equity funds



LBO – $19.43 billion
(Up 33.9% YoY from $14.52 billion)

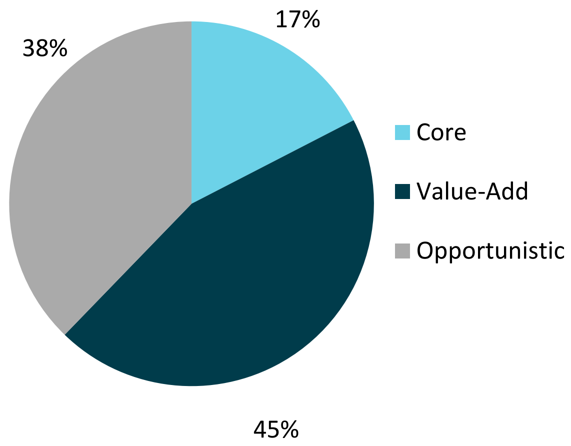
VC – $3.77 billion
(Up 33.7% YoY from $2.82 billion)

Debt – $1.05 billion
(Down 1.3% YoY from $1.06 billion)

Fund of Funds – $2.81 billion
(Up 76.5% YoY from $1.59 billion)

Energy – $157 million
(Down 20.0% YoY from $196 million)

Real estate funds



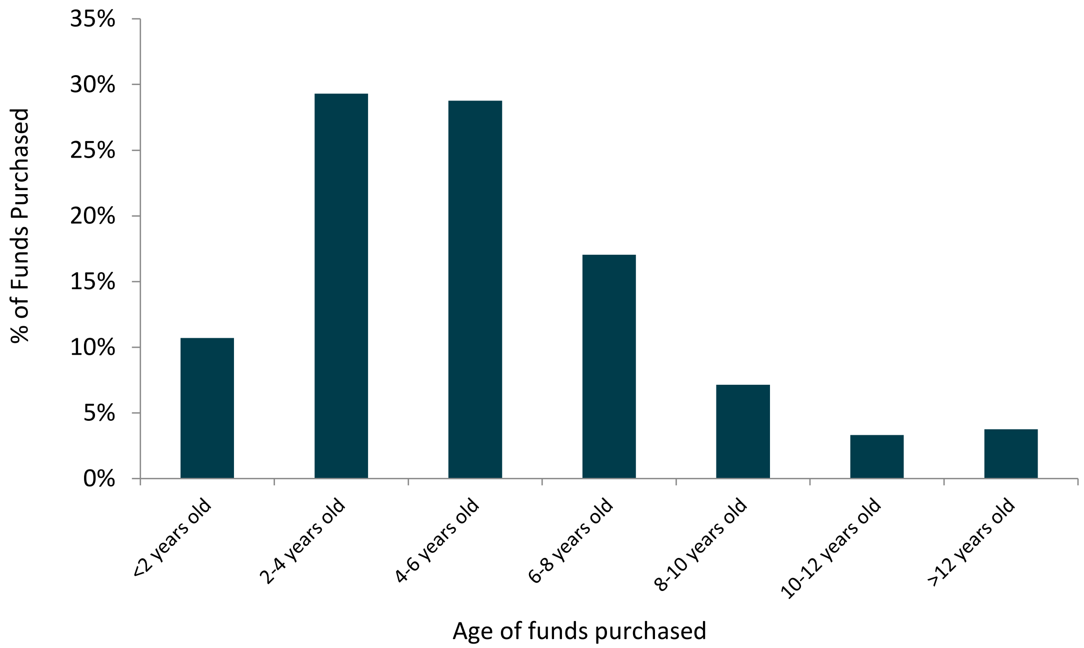
Core – $199 million
(Up 31.1% YoY from $152 million)

Value-Add – $512 million
(Up 218.2% YoY from $161 million)

Opportunistic – $431 million
(Up 18.1% YoY from $365 million)

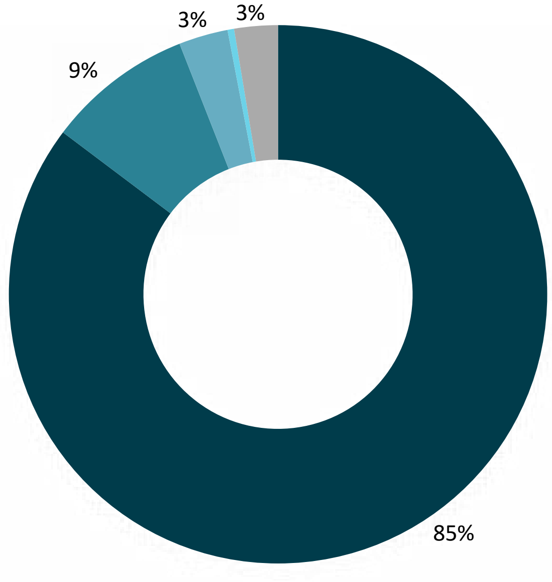
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 5.11 years old which is slightly newer than the average in H1 2021 (5.78 years old).

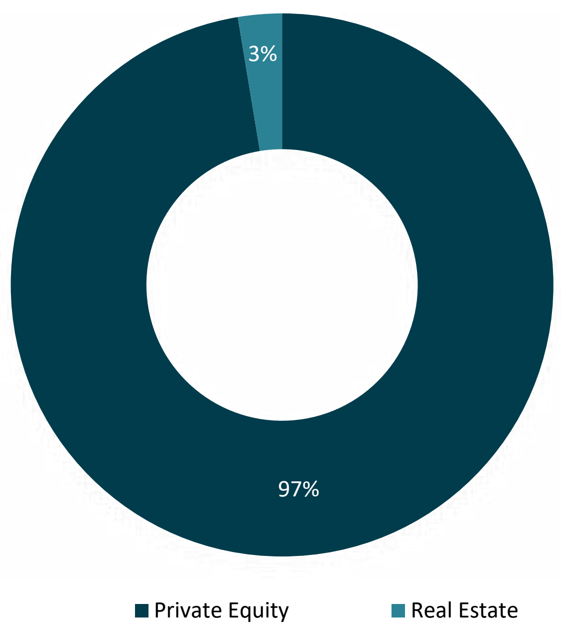


Types of direct secondaries

Types of direct deals completed by buyers

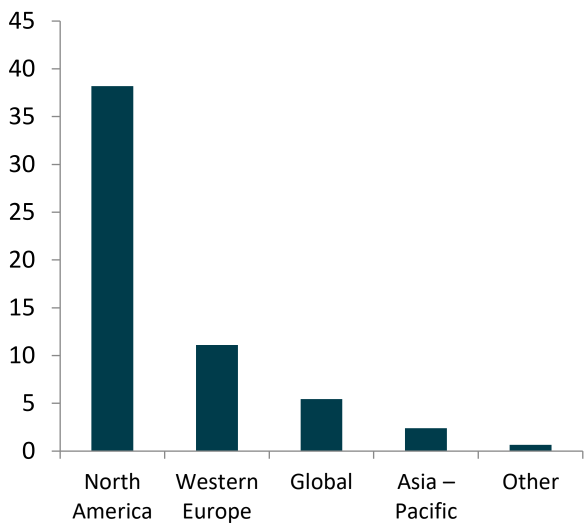


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 97.4% ($26.55 billion) and 2.6% respectively ($710 million) of the total directs volume.

Geography of assets purchased



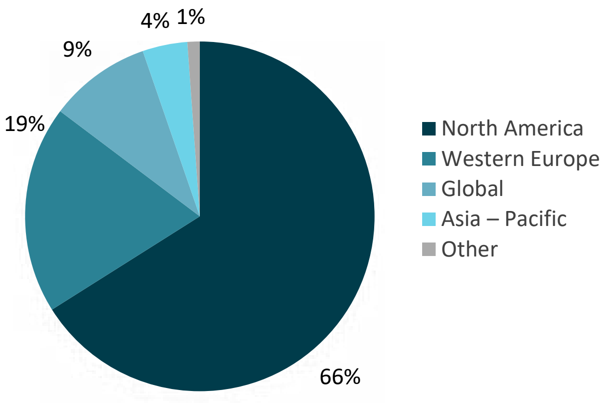
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2022:

North America – $38.20 billion
(Marginally Up 0.4% YoY from $38.0 billion)

Western Europe - $11.11 billion
(Up 3.8% YoY from $10.71 billion)

Global – $5.46 billion
(Up 105.7% YoY from $2.65 billion)

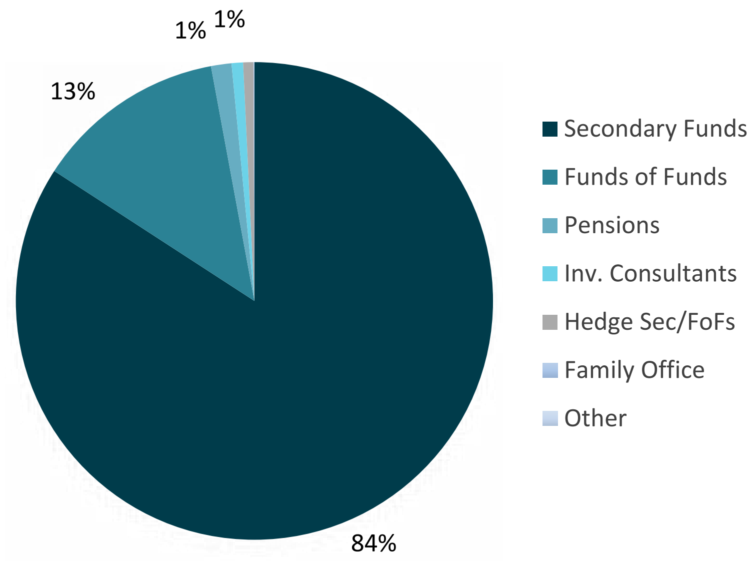
Asia-Pacific – $2.40 billion
(Down 23.9% YoY from $3.16 billion)



In terms of percentage, North American focused funds and directs accounted for 66.1% of total volume, Western European funds and directs accounted for 19.2% and Asia-Pacific focused funds and directs accounted for 4.2% of sales.

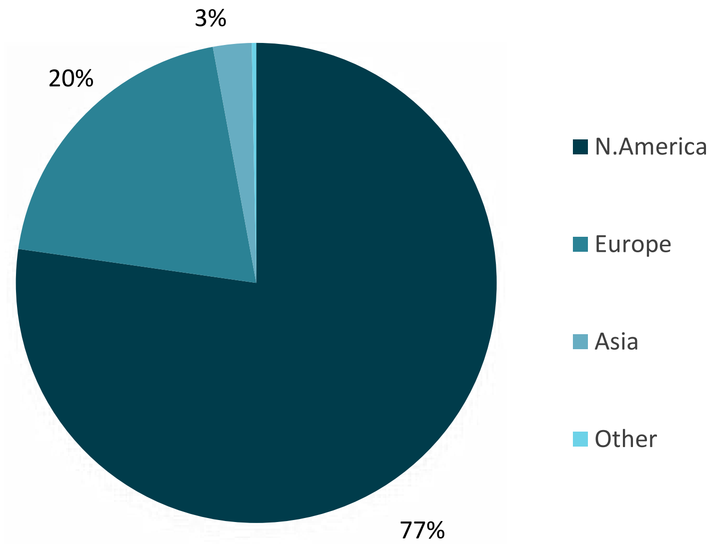
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in H1 2022, accounting for 84.2% ($48.68 billion) of total purchases while funds of funds accounted for 12.9% ($7.48 billion).

Location of buyers[1]



North American buyers transacted the most (77.3% of total volume) in H1 2022, up as a percentage from 67.5% total volume in H1 2021.

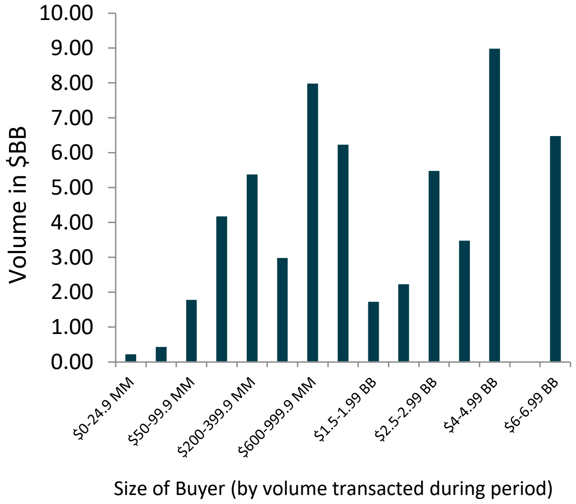
European buyers accounted for 19.8% of total volume in H1 2022, which was down from H1 2021 (31.1%).

[1]Location is based on head office location.

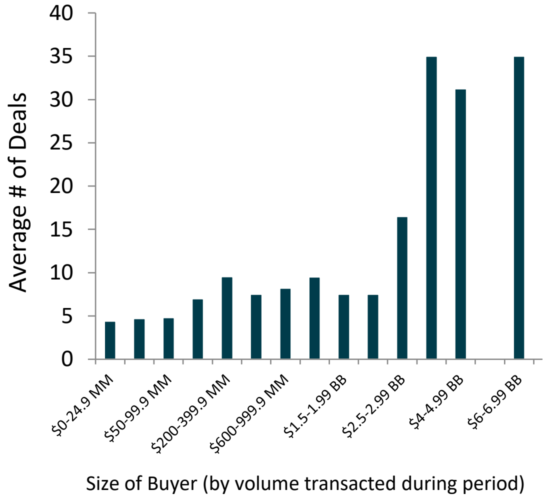
Activity levels of small, medium and large buyers

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



23 large buyers (defined as those that deployed $600 million or more in H1 2022) purchased $42.75 billion, representing approximately 73.9% of total volume across 302 transactions with an average deal size of $141.33 million. This was an increase from H1 2021, where large buyers accounted for 69.5%.

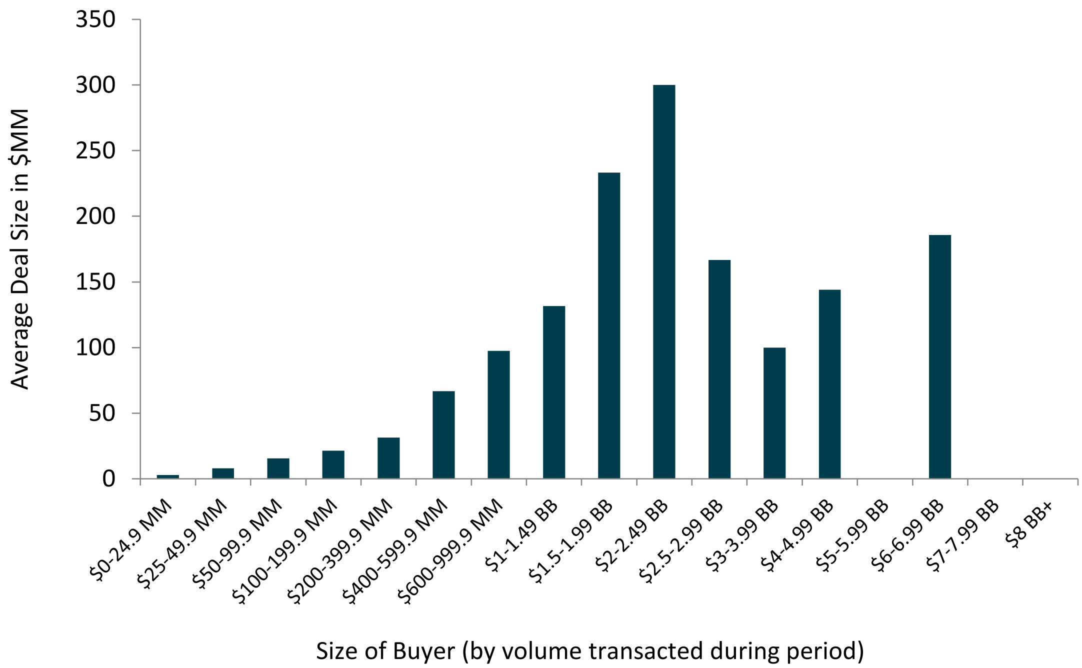
52 medium-sized buyers (defined as those that deployed $100 million to $600 million in H1 2022) purchased $12.60 billion, representing approximately 21.8% of total volume across 413 transactions with an average deal size of $30.53 million. This was a decrease from H1 2021, where they accounted for 25.1%.

55 small buyers (defined as those that deployed less than $100 million in H1 2022) purchased $2.49 billion, representing approximately 4.3% of total volume across 274 transactions with an average deal size of $9.08 million. This was a decrease from H1 2021, where they accounted for 5.4%.

Number of deals and average deal size

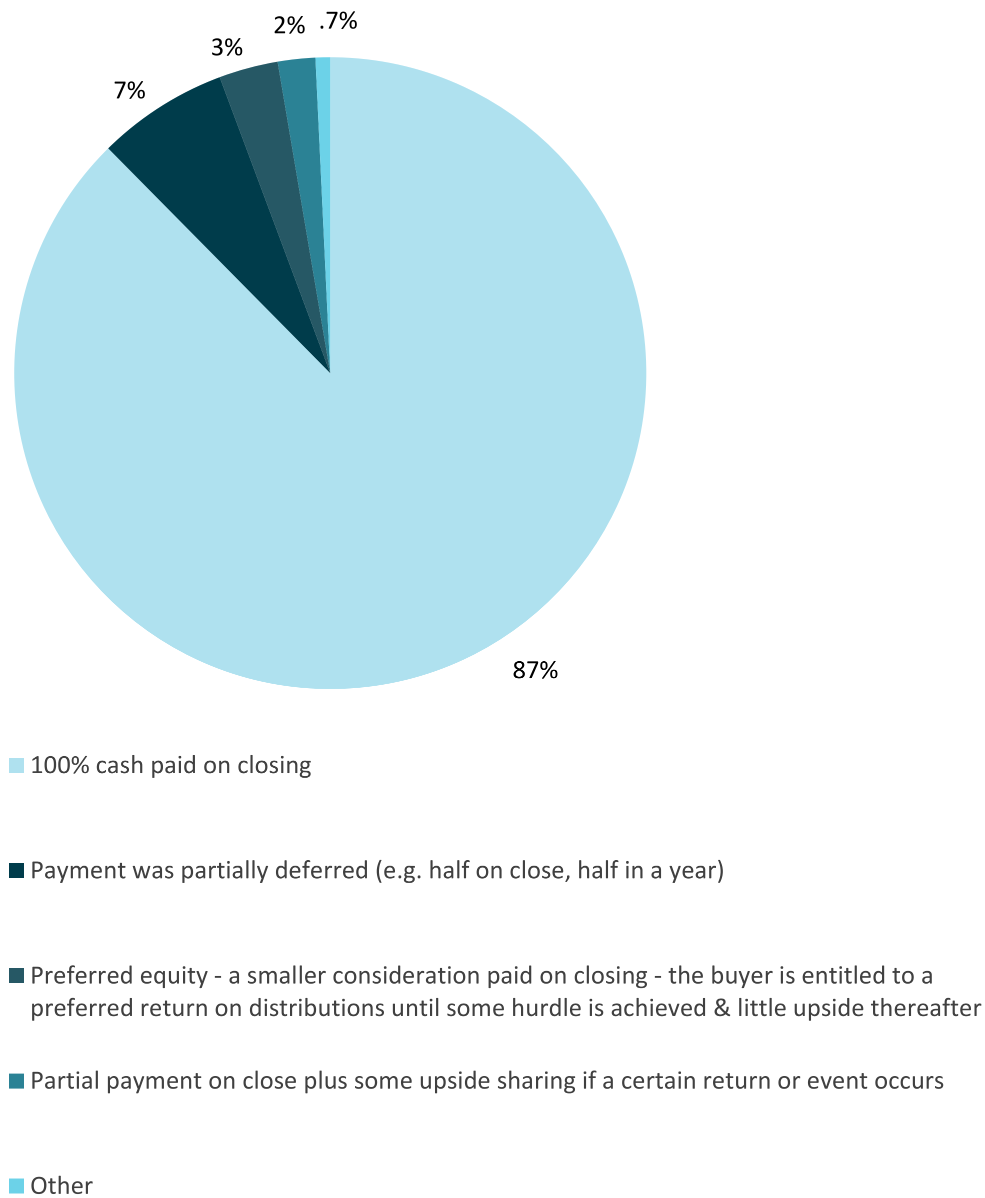
Buyers completed 989 transactions in H1 2022 across the entire secondary market for alternative assets, with an average size of approximately $58.46 million. The number of transactions decreased 18.6% from 1215 transactions in H1 2021, while on the other hand the average deal size increased 29.4% from $45.18 million in H1 2021.

Average deal size by size of buyer



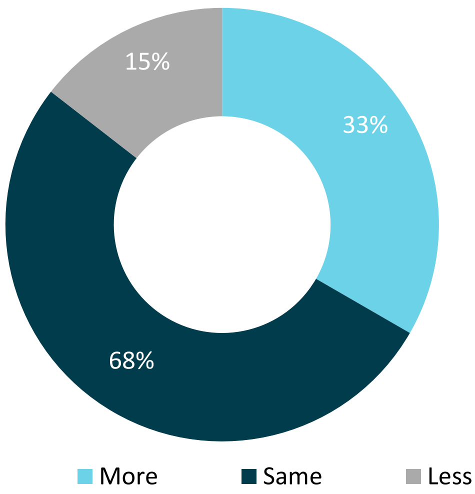
Payment terms

For 87.6% 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 down slightly from H1 2021, when buyers paid 100% cash on closing for 90.6% of their deals.



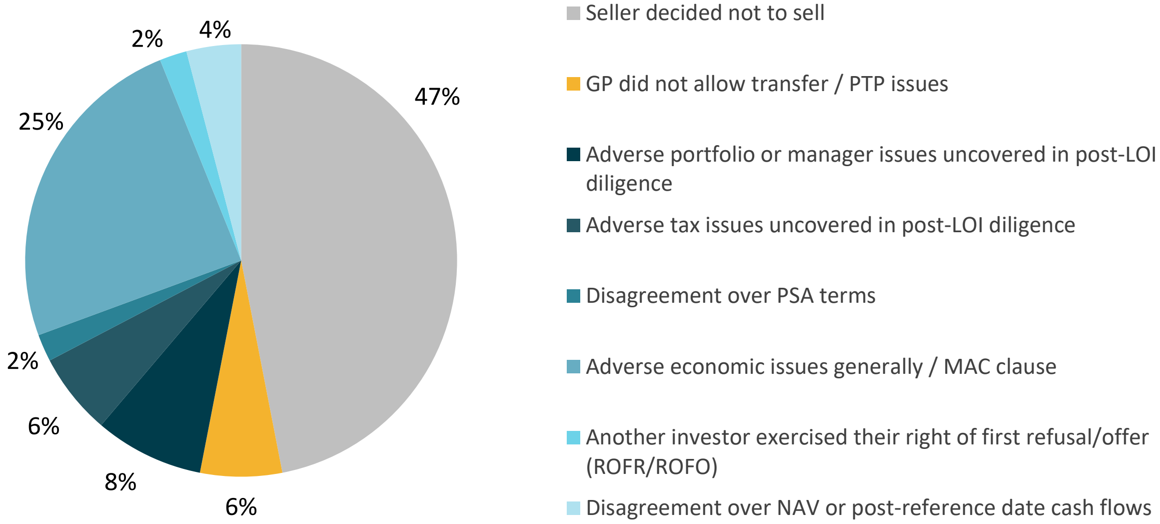
Execution risk

Percentage of deals that fell apart in H1 2022 vs. the prior 6 months



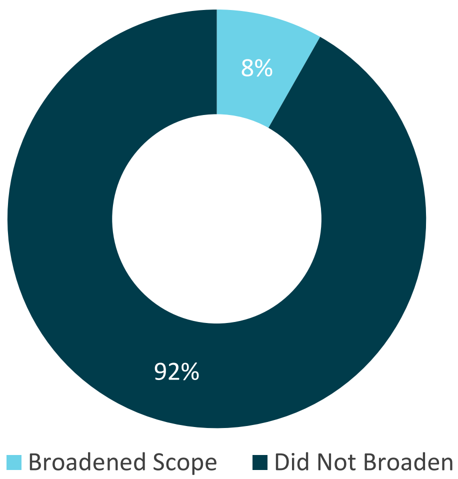
33.3% of respondents had a higher proportion of their deals fall through in H1 2022, versus the prior 6 months. This is significantly higher from H1 2021, when only 7.2% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was that the seller simply decided not to sell (46.9%). Other reasons included adverse economic issues generally / MAC clause (24.5%) and adverse portfolio or manager issues uncovered in post-LOI diligence (8.2%).



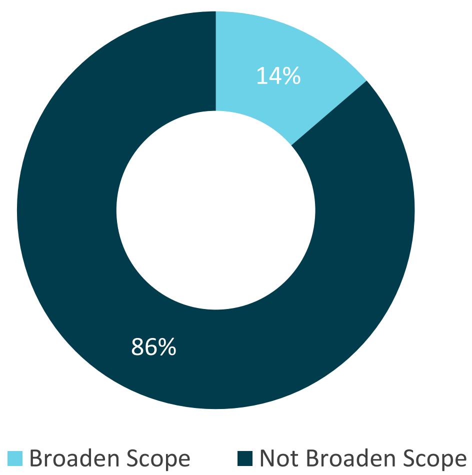
Buyers' scope of interest

Buyers that broadened their focus in H1 2022



8.2% of participants broadened their secondaries focus in H1 2022 to include buying other alternative investment types (direct secondaries, infrastructure, private debt, etc.).

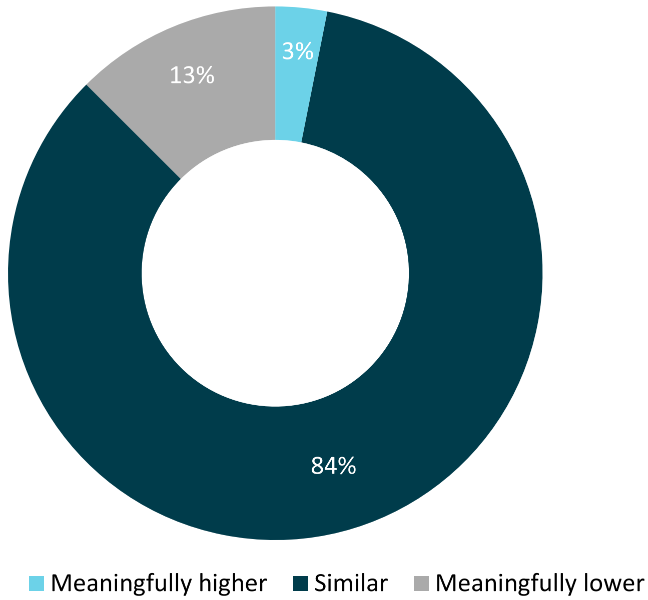
Buyers that intend to broaden their focus in H2 2022



13.7% of participants plan to broaden their secondaries focus in H2 2022 include buying other alternative investment types.

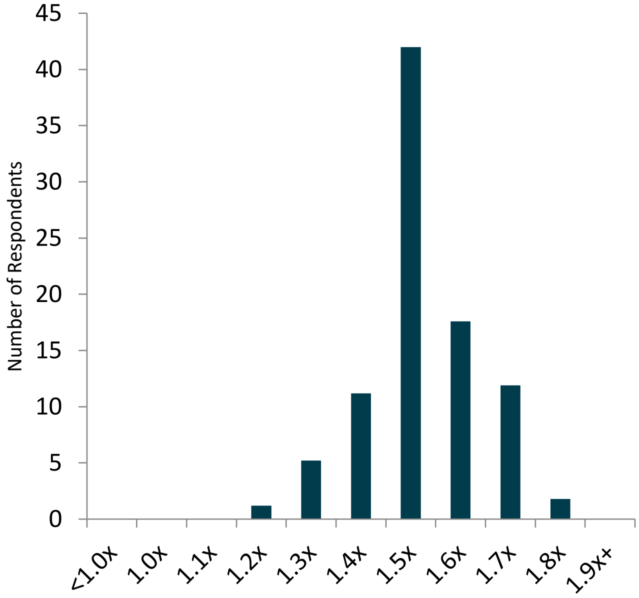
Leverage and returns

Level of debt used by buyers in H1 2022 vs. the prior 6 month



84.4% of respondents believed the level of debt used by buyers was the same, only 3.1% felt it was more and 12.5% felt it had decreased significantly in H1 2022.

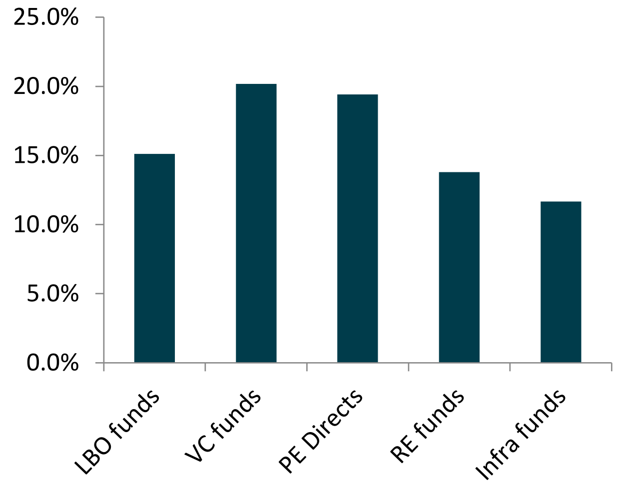
Expected multiple for secondary deals completed in H1 2022



Respondents predicted that the average gross multiple for secondary deals completed in H1 2022 would be 1.52x, exactly the same with what buyers expected from deals completed in H1 2021.

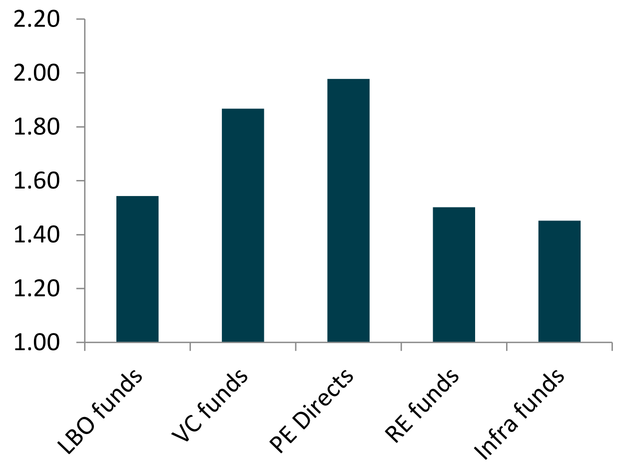
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers average targeted IRR was 15.1% for LBO funds, 20.2% for VC funds, 19.4% for private equity directs, 13.8% for real estate funds and 11.7% for infrastructure funds.

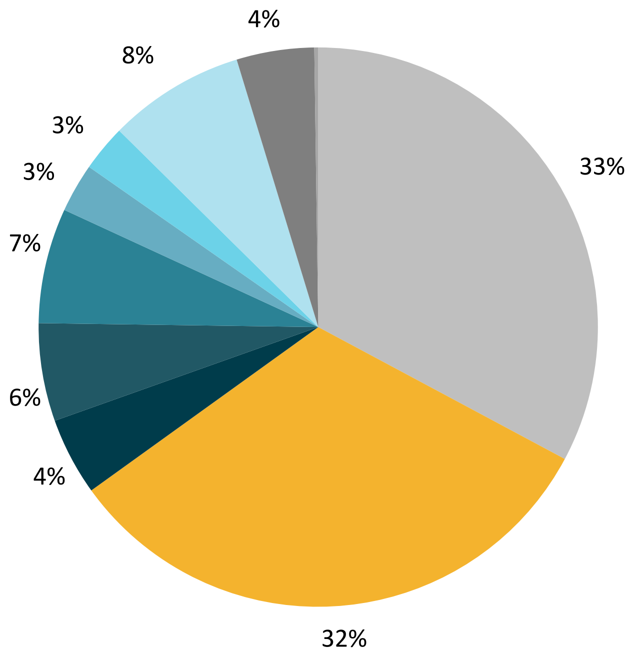
Targeted multiples on secondary purchases



On average, buyers average targeted multiple was 1.54x for LBO funds, 1.87x for VC funds, 1.98x for private equity directs, 1.50x for real estate funds and 1.45x for infrastructure funds.

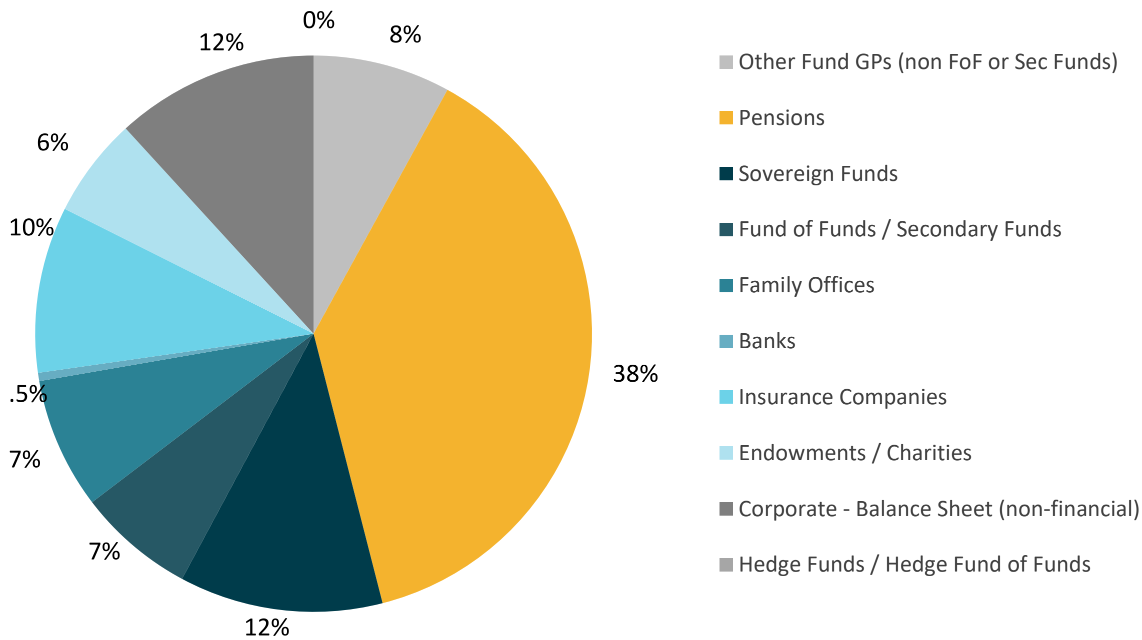
Seller profiles

Types of sellers in H1 2022



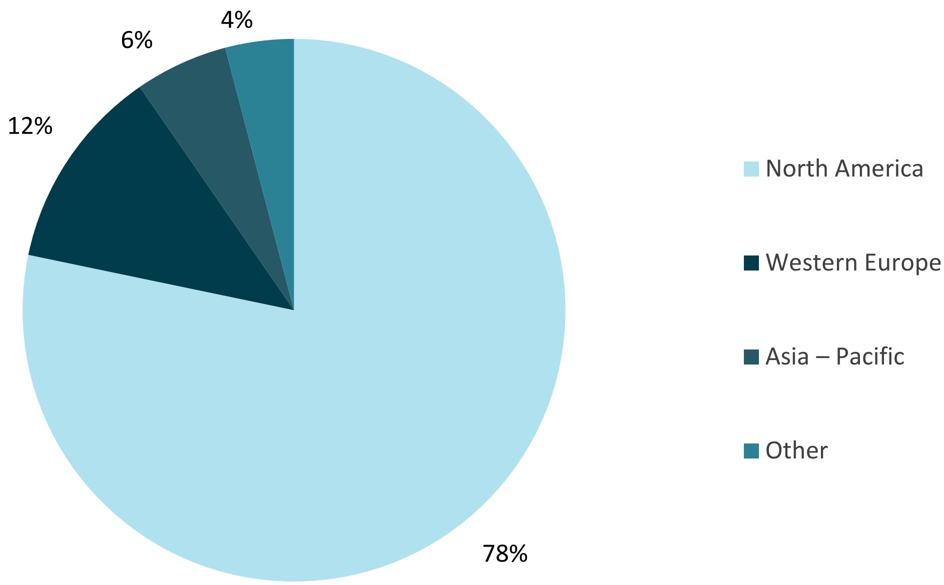
Direct investing GPs (i.e. not fund of funds or secondary funds) and pensions were the most active sellers in H1 2022 making up 32.8% and 32.3% of the H1 2022 volume, respectively. Most buyers expect pensions to be the biggest sellers in H2 2022 (38.0% of total transaction volume).

Expected sellers in H2 2022

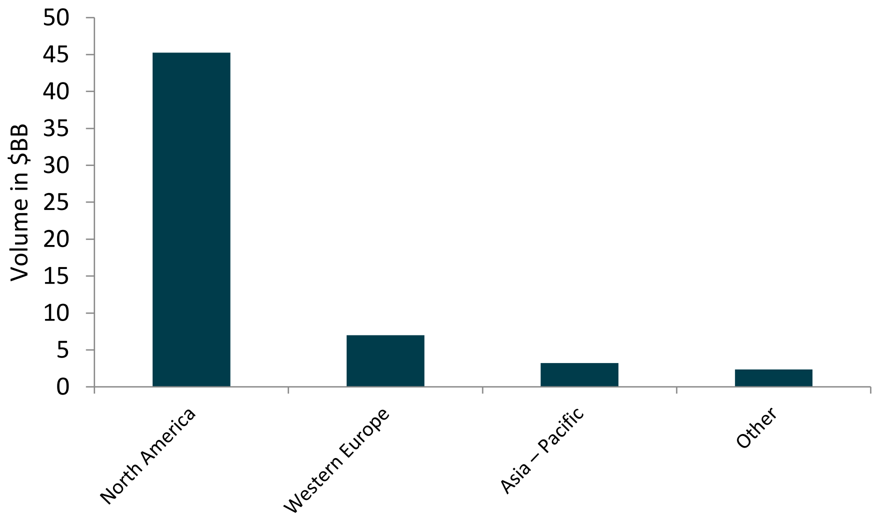


Seller location

Geography of sellers

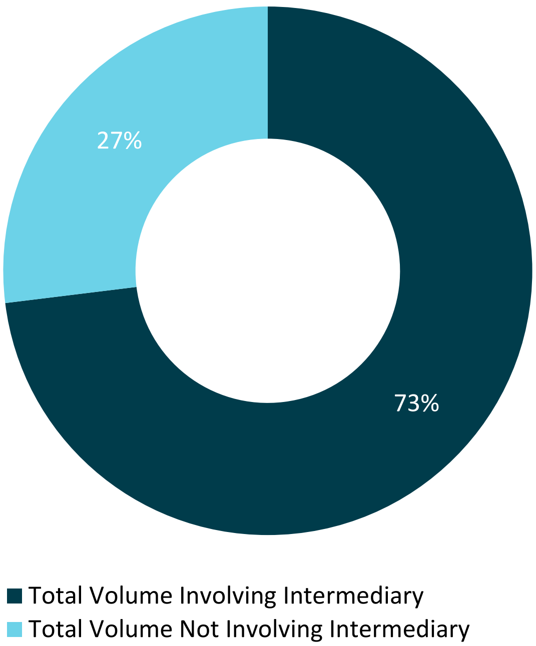


In terms of the location of sellers, North America accounted for the majority of volume in H1 2022. North American sellers sold $45.27 billion (78.3% vs. 62.3% in H1 2021), whereas Asia-Pacific sellers sold $3.20 billion (5.5% vs. 5.6% in H1 2021). Western European sellers accounted for 12.1% of the total volume significantly down from 29.0% in H1 2021. Other geographies, such as the Middle East accounted for 4.1% of the total volume in H1 2022, up from 3.1% in H1 2021.



Intermediation and level of competition

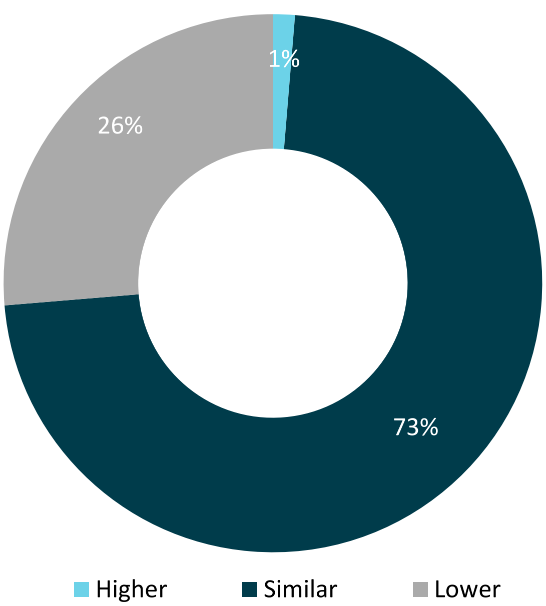
Volume of intermediated transactions



Approximately $42.25 billion (73.1%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was higher than H1 2021 where it was $38.99 billion (71.0% of total).

In terms of volume, agents intermediated $3.26 billion more in deals as compared to H1 2021, representing an increase of 8.4%.

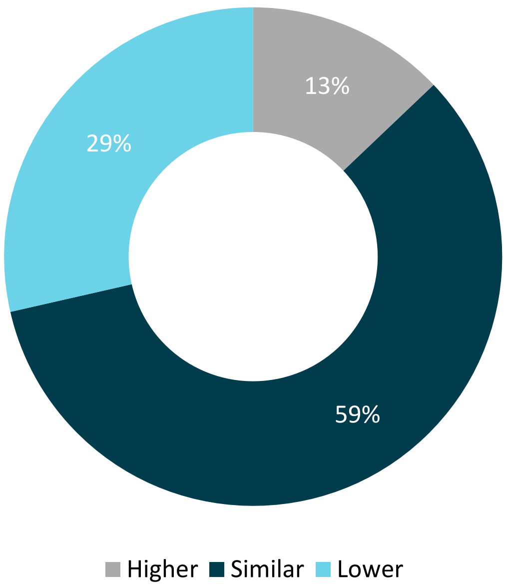
Buyer competition for deals in H1 2022 vs. the prior 6 months



72.4% of respondents felt buyer competition in H1 2022 was similar to the prior 6 months, while only 1.3% felt buyer competition was significantly higher. 26.3 % of survey respondents felt buyer competition was lower in the prior 6 months.

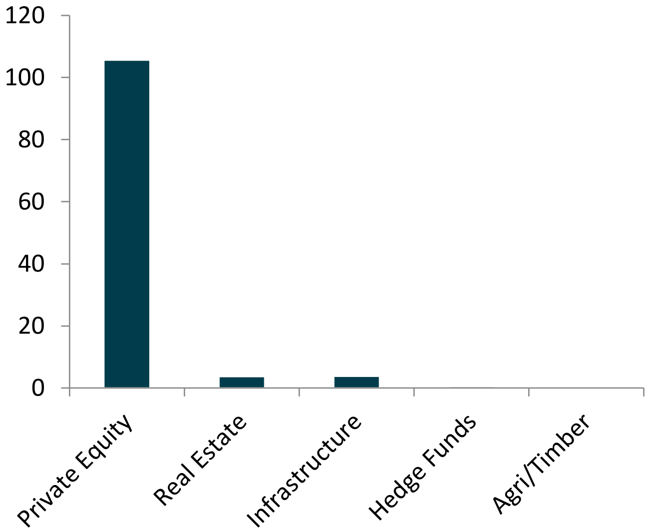
Projected volume for FY 2022

How H2 2022 volume will compare to H1 2022



12.9% of respondents felt that their H2 2022 volume will be meaningfully higher than H1 2022, 28.6% felt it would be meaningfully lower, while 58.5% of the respondents felt that it will be similar.

Predicted volume for FY 2022

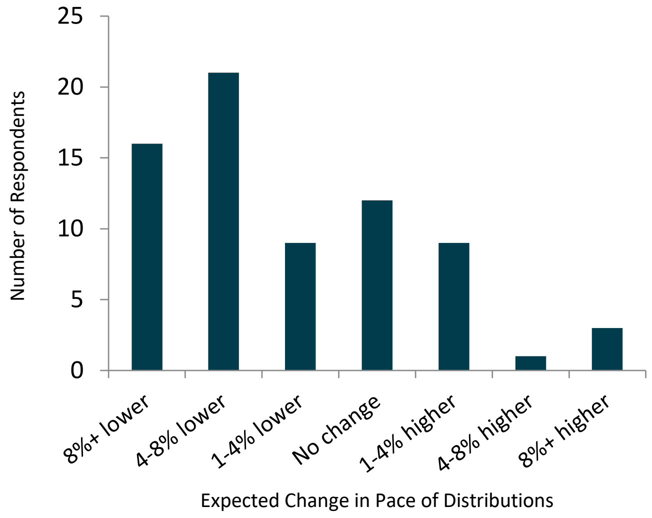


Respondents predicted total volume for FY 2022 will be $113.58 billion, which would represent a 20.8% decrease from the $143.40 billion transacted in FY 2021.

Assuming proportions do not change in H2 2022, this suggests private equity volume will be $105.57 billion in FY 2022, real estate will be $3.64 billion, infrastructure will be $3.78 billion and agriculture & timber will be $150 million.

Expected distribution and NAV changes in FY 2022

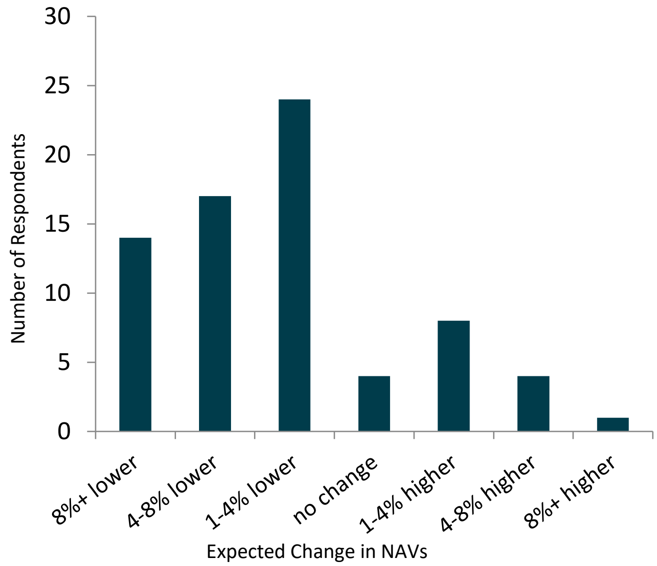
Distribution pace in H2 2022 vs. H1 2022



Respondents expect the pace of distributions in H2 2022 to be lower than H1 2022 as the average response suggests an expected decrease of 3.5%.

This is lower than FY 2021 when respondents had expected the pace of distributions to rise by 3.5% in H2 2021.

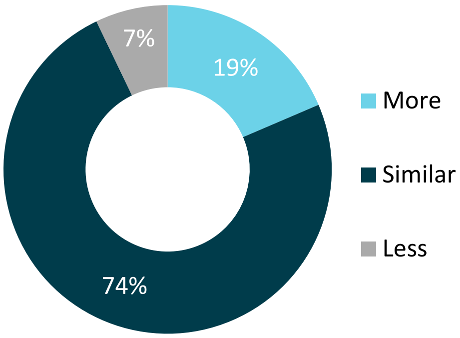
Change in NAV in H2 2022 vs. H1 2022



On average, respondents expect NAV valuations to decrease by 3.6% in H2 2022 compared to H1 2022. This is lower than FY 2021 when respondents expected NAVs to increase by 4.2% in the upcoming year.

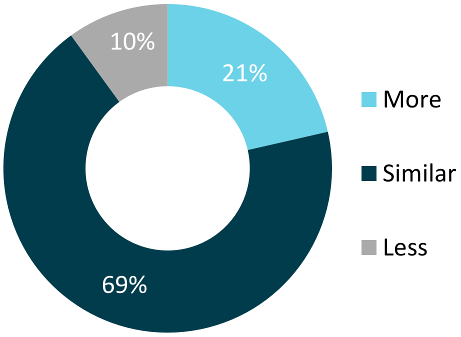
General partners' approach to the secondary market

Liquidations and restructurings in H1 2022 vs. the prior 6 months



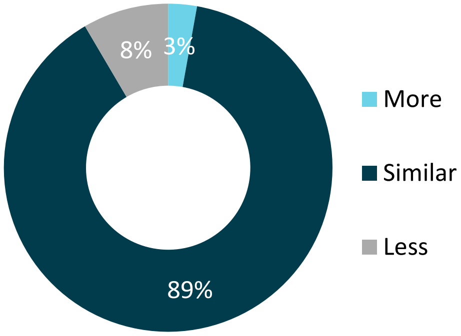
18.6% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in H1 2022 compared to the prior 6 months.

Staples sought by GPs in H1 2022 vs. the prior 6 months



68.6% of respondents felt that a similar number of GPs sought staples in H1 2022 as compared to the prior 6 months.

GPs' restrictiveness on transfers in H1 2022 vs. the prior 6 months



The majority of the respondents felt that GPs' restrictiveness on transfers did not change in H1 2022 compared to the prior 6 months.

Select respondents

50 South Capital
Aberdeen Standard Investments
Adams Street Partners
Alpinvest Partners
Altamar Capital
Arcano Capital
Argentum
Bee Alternatives Limited
Bex Capital
Blackrock Private Equity Advisors
Capital Dynamics
Coller Capital
Commonfund Capital
CPPIB
Felicitas Global Partners
Flexstone Partners
FlowStone Partners
Fort Washington
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Grosvenor Capital Management
Hamilton Lane
HarbourVest Partners
Headlands Capital
Hollyport Capital
HQ Capital
ICG - Secondary Fund
Industry Ventures
Israel Secondary Fund
Jasper Ridge
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
MAM Alliance Partners
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
PineBridge Investments
Pomona Capital
Portfolio Advisors
RCP Advisors
Roc Partners
Schroder Adveq
StepStone Group
Strategic Partners
Sturbridge Capital
Sweetwater Capital
Tikehau Capital Advisors
Top Tier Capital Partners
TR Capital
Tyrus Capital
UBS Asset Management
Unigestion
Vintage Ventures
W Capital
Warana Capital
Whitehorse Liquidity Partners
Willowridge Partners

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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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