Setter

Volume Report H1 2023

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2023 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume H1 2023 vs. H1 2022

› 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 2023

› Changes in Level of Buyer Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in H2 2023

› 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 many transactions were completed in H1 2023? How much was completed in LBO, venture, real estate, infrastructure, credit, energy, real asset 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 2023. 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 2023. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 91 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). The respondents to our survey represented 89.3% of the total market 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 2023 in review

On the heels of last year's 29.2% YoY drop, the secondary market logged $45.09 billion in H1 2023 volume, down from the $57.84 billion transacted in H1 2022.

Volume was down across most segments of the secondary market. The private equity secondary market (funds and directs[1]) decreased 23.3% year over year, to a total of $41.23 billion. Real estate secondaries (funds and directs) were down 48.4% to $960 million and hedge fund secondaries were likewise down 54.0% to $100 million. Private equity fund secondaries were down 9.4% ($24.65 billion in H1 2023 from $27.21 billion in H1 2022), with notable decreases seen in secondaries of venture funds (down 71.9%), fund of funds/secondary funds (down 67.2%) and energy funds (down 63.2%). On the other hand, significant increases were seen across debt fund (up 94.5% to $2.04 billion) and infrastructure fund secondaries (up 43.1% to $2.76 billion), while LBO fund secondaries were up a modest 5.8% to $20.57 billion.

LP-led fund secondaries decreased 8.0% from $30.58 billion in H1 2022 to $28.14 billion in H1 2023, while direct secondaries decreased 37.8% from $27.26 billion to $16.95 billion (private equity directs were $16.58 billion and real estate directs were $370 million). As a result, fund secondaries went from 52.9% of total volume in H1 2022 to 62.4% in H1 2023.

Despite the breadth and number of buyers continuing to rise, the most significant activity was driven by the 15 largest buyers in the market. The largest buyers (defined as those that deployed more than $600 million in H1) accounted for 62.2% of the market's total volume (vs. 60.1% in H1 2022), while the fifty-three mid-sized buyers accounted for 31.6% (vs. 35.6% in H1 2022) and the sixty-two smallest buyers represented 6.2% (vs. 4.3% in H1 2022). In fact, the top four buyers alone transacted approximately $14.75 billion in volume (32.6% of the total 2022 volume).

68.4% of respondents felt that buyer competition for deals remained the same in H1, while 14.5% felt it was lower. Although the use of debt to improve pricing and deal returns continued to be common in the secondary market, 51.4% of respondents felt the use of leverage was lower than in 2022.

Agents intermediated 75.4% of deals in H1, versus 73.1% in H1 2022. In terms of dollars, agents intermediated $33.98 billion in deals in H1, which was 19.6% less than they did in H1 2022.

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

There were 866 transactions in H1, with an average size of $52.07 million. The number of transactions was down 8.8% from the 949 transactions completed in H1 2022 and the average deal size was lower by 14.5%. Buyers paid 100% cash on closing for only 72.6% of deals in H1 (down from 87.6% in 2022), making use of other payment arrangements, such as deferred payments (up from 6.71% in H1 2022 to 12.89% of all deals in H1 2023), with sellers.

As for deal execution, 17.9% of buyers had a higher proportion of deals fall apart in H1 as compared to the prior six months. This is significantly less than H1 2022, when 33.3% reported more deals falling through. The main reasons noted by buyers included sellers changing their mind and deciding not to sell (72.7%), adverse portfolio or manager issues uncovered in post-LOI diligence (13.6%) and GPs blocking transfers or PTP issues (4.5%).

Pensions were the most active sellers accounting for 36.6% of total volume. General partners (excluding fund of funds and secondary funds), accounted for 25.7% of all sellers, as they tapped the secondary market to create liquidity for their LPs and creative ways to increase AUM. Indeed, 29.5% of survey respondents felt that more GPs coordinated tender offers or attempted to liquidate or restructure older funds in H1 and 44.7% of respondents felt that a higher number of GPs sought staples compared to the prior six months. Looking forward, most buyers expect pensions to be the biggest sellers and to account for 43.7% of anticipated transaction volume in H2 2023.

From a geographical perspective, North American sellers continued to account for the largest proportion of volume, selling $29.46 billion (65.3% vs. 78.3% in H1 2022), whereas Western European sellers sold a higher proportion in H1 (25.3% vs. 12.1% in H1 2022) than the prior year, and Asian-Pacific sellers accounted for $3.3 billion (7.3% vs. 5.5% in H1 2022). Other geographies accounted for 2.1% of the total volume, down from 4.1% in H1 2022.

Buyers estimated that NAV valuations will increase 2.2% and the pace of distributions will likewise increase 2.3% in H2 2023. These forecasts were more optimistic than those of H1 2022, when buyers expected NAVs to decrease by 3.6% and distributions to decrease 3.5% in the coming year.

Looking forward, buyers expect a stronger second half, with FY 2023 volume hitting $109.86 billion, which would be a 3.3% decrease from FY 2022.

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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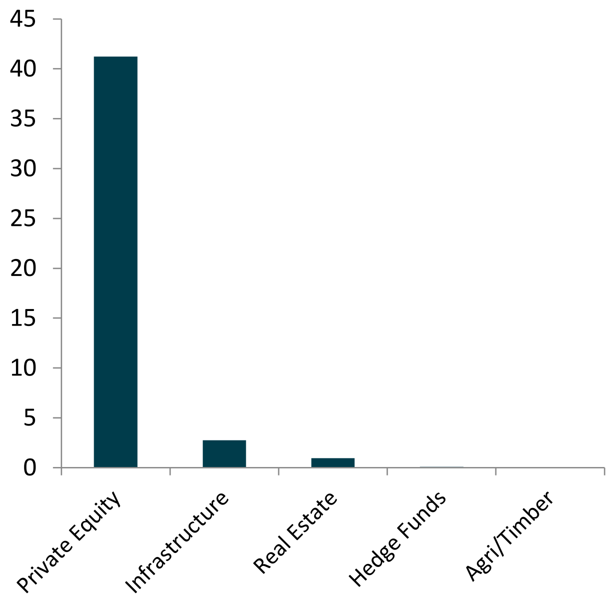
Total volume

Total secondary market volume for H1 2023 was $45.09 billion. This is the volume estimate derived from the 130 secondary buyers surveyed with dedicated secondary efforts and includes 102 secondary funds, 16 funds of funds, five hedge funds, four investment consultants, two family offices and one pension. We believe this estimate is reliable as the 91 survey respondents alone reported $40.28 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): $41.23 billion (23.3% decrease YoY)

Infrastructure Funds: $2.76 billion (43.1% increase YoY)

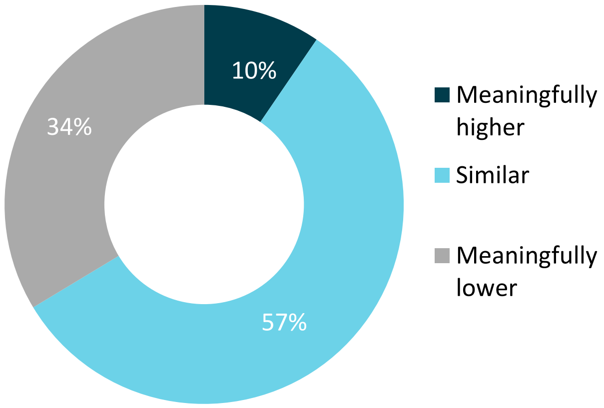
Real Estate (Directs & Funds): $960 million (48.4% decrease YoY)

Hedge Funds: $101 million (54.0% decrease YoY)

Agriculture/Timber Funds: $46 million (38.5% decrease YoY)

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

H1 2023 volume vs. H1 2022 volume

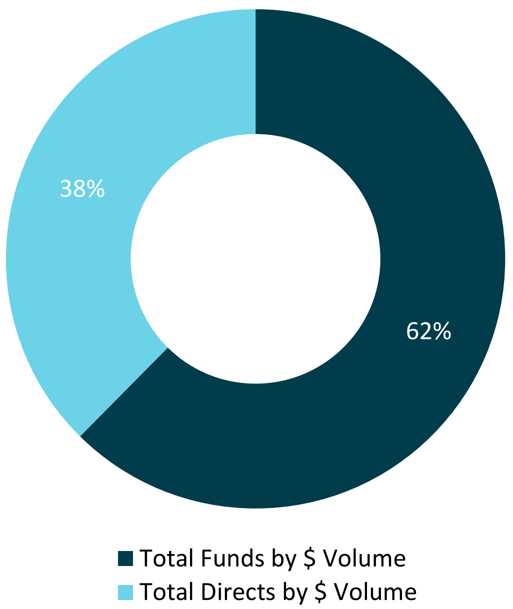


H1 volume decreased 22.2% compared to H1 2022, which was $57.84 billion.

Indeed, 33.6% of survey respondents felt their volume was lower in H1, 56.8% felt their volume was similar and 9.5% of the respondents reported their volume was higher than H1.

Assets purchased

Funds vs. directs[1]

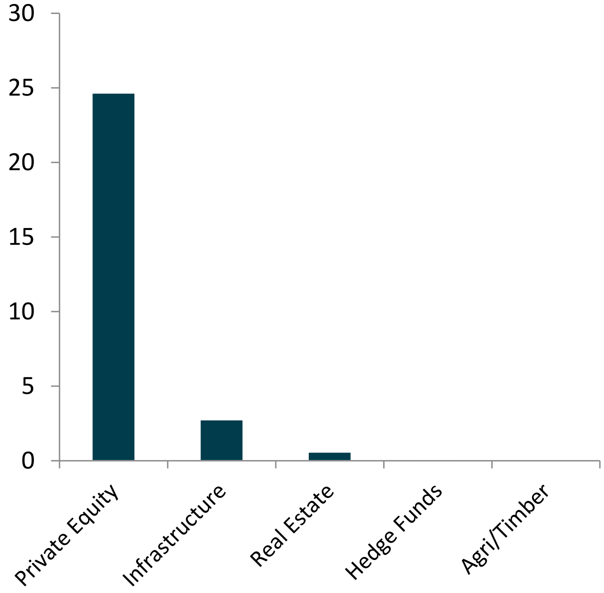


Fund secondaries decreased 8%, from the $30.58 billion recorded in H1 2022 to $28.14 billion in H1 2023. Direct secondaries, likewise, decreased 37.8% from $27.26 billion in H1 2022 to $16.95 billion in H1 2023.

As a proportion of total volume, direct secondaries went from 47.1% in H1 2022 to 37.6% in H1 2023.

Survey respondents estimated that the split between fund and direct secondaries in three years would be 54.8% funds and 45.2% directs.

Breakdown of fund secondaries



Private equity fund purchases totaled $24.65 billion (9.4% decrease YoY)

Infrastructure fund purchases totaled $2.76 billion (43.1% increase YoY)

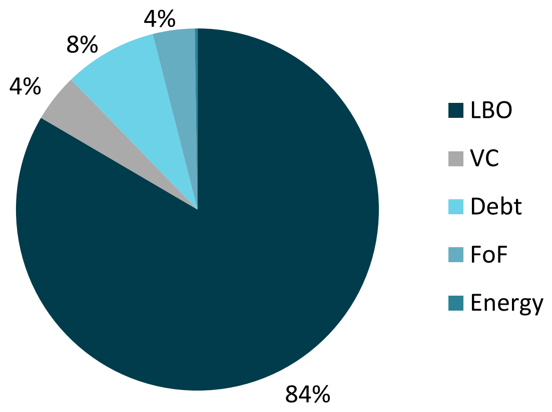
Real estate fund purchases totaled $590 million (48.4% decrease YoY)

Hedge fund purchases totaled $100 million (54.0% decrease YoY)

Agriculture/Timber fund purchases totaled $50 million (38.5% decrease YoY)

Types of funds purchased

Private equity funds



LBO – $20.57 billion
(Up 5.8% YoY from $19.43 billion)

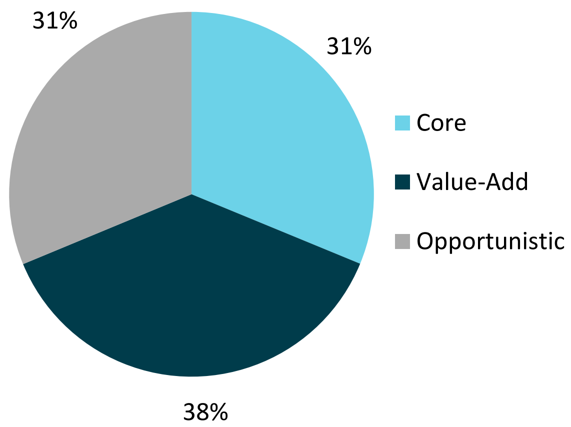
VC – $1.06 billion
(Down 71.9% YoY from $3.77 billion)

Debt – $2.04 billion
(Up 94.5% YoY from $1.05 billion)

Fund of Funds – $919 million
(Down 67.2% YoY from $2.81 billion)

Energy – $58 million
(Down 63.2% YoY from $160 million)

Real estate funds



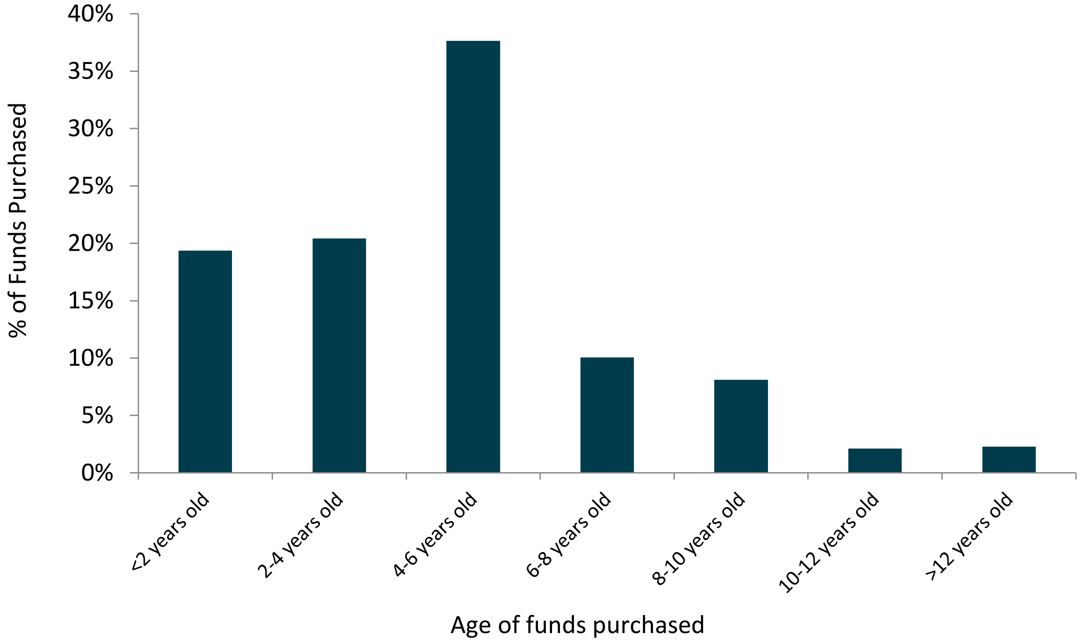
Core – $184 million
(Down 7.5% YoY from $200 million)

Value-Add – $221 million
(Down 56.8% YoY from $510 million)

Opportunistic – $184 million
(Down 57.3% YoY from $430 million)

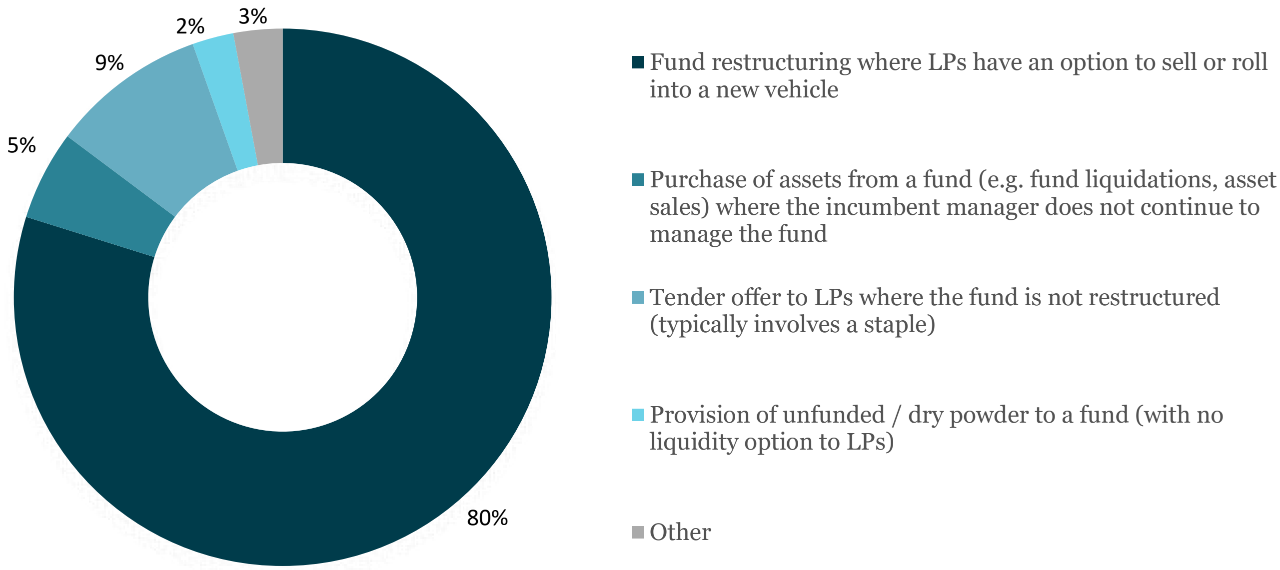
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 4.65 years old which is slightly younger than the average in H1 2022 (5.11 years old).

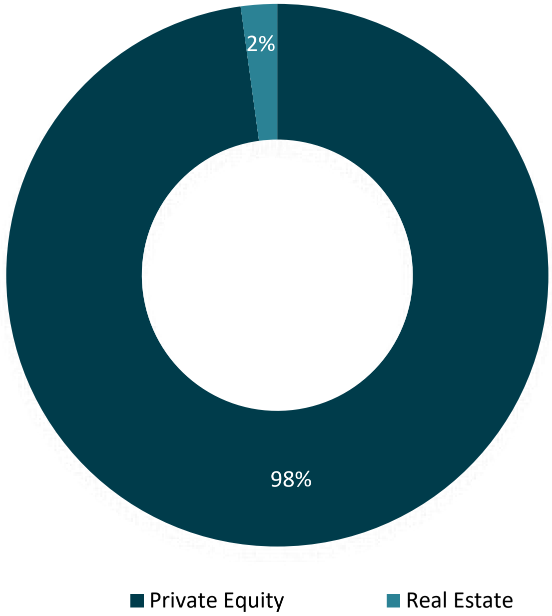


Types of direct secondaries

Types of direct deals completed by buyers

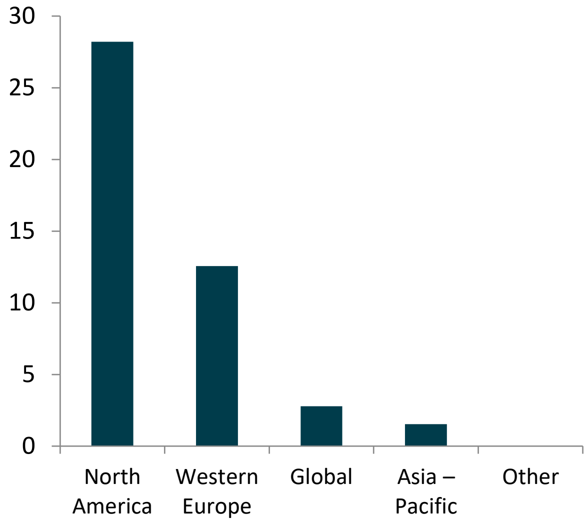


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 97.8% ($16.58 billion) and 2.2%, respectively, ($370 million) of the total directs volume.

Geography of assets purchased



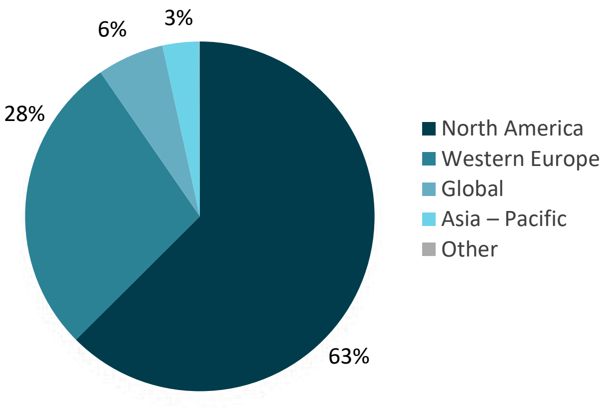
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2023:

North America – $28.20 billion
(Down 26.2% YoY from $38.20 billion)

Western Europe - $12.55 billion
(Up 13.0% YoY from $11.11 billion)

Global – $2.79 billion
(Down 49.0% YoY from $5.46 billion)

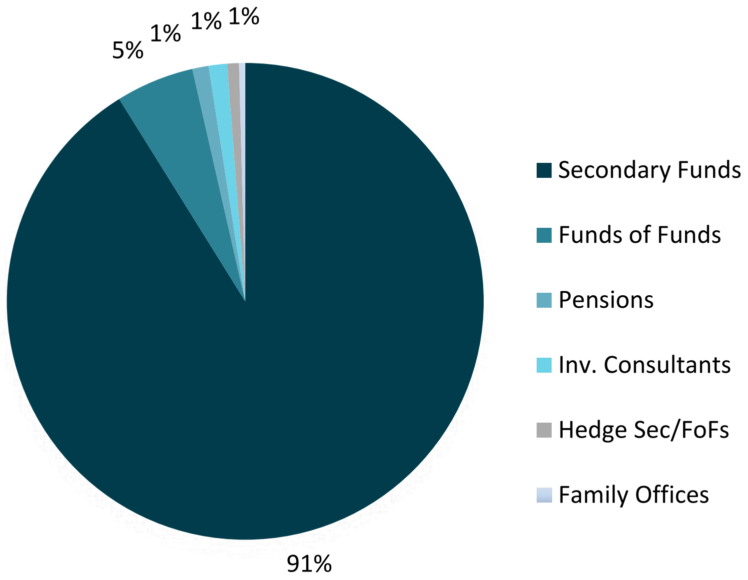
Asia-Pacific – $1.53 billion
(Down 36.5% YoY from $2.4 billion)



In terms of percentage, North American-focused funds and directs accounted for 62.5% of total volume, Western European-focused assets accounted for 27.8%, global-focused assets accounted for 6.2% of and Asia-Pacific-focused assets accounted for 3.4% of sales.

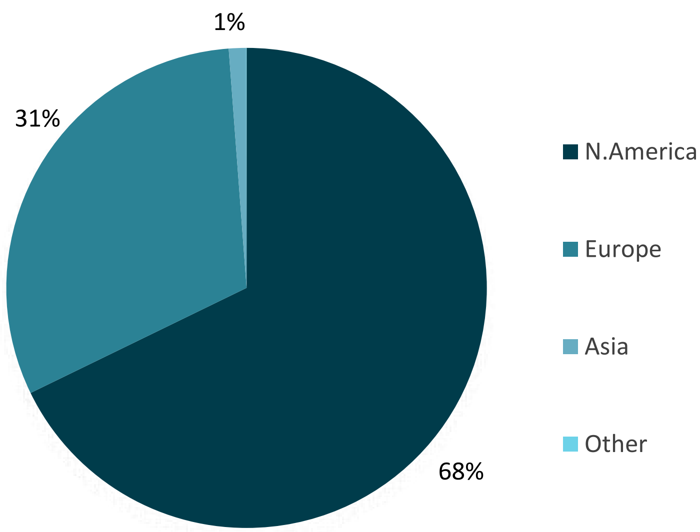
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in H1 2023, accounting for 91.1% ($41.24 billion) of total purchases while funds of funds accounted for 5.3% ($2.40 billion).

Location of buyers[1]



North American buyers transacted the most (67.8% of total volume) in H1 2023, down as a percentage from 77.3% total volume in H1 2022.

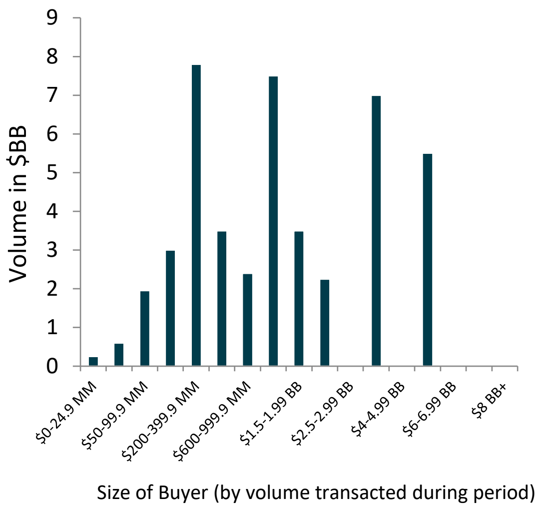
European buyers accounted for 31.0% of total volume in H1 2023, which was up from H1 2022 (19.8%).

[1]Location is based on head office location.

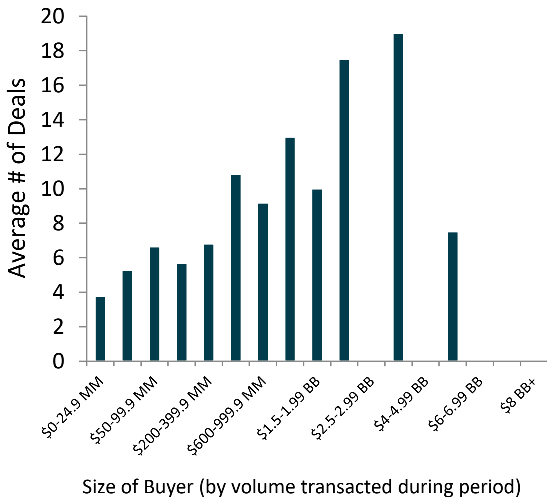
Activity levels of small, medium and large buyers

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



15 large buyers (defined as those that deployed $600 million or more in H1 2023) purchased $28.15 billion, representing approximately 62.2% of total volume across 189 transactions with an average deal size of $149.34 million. This was an increase from H1 2022, where large buyers accounted for 60.1%.

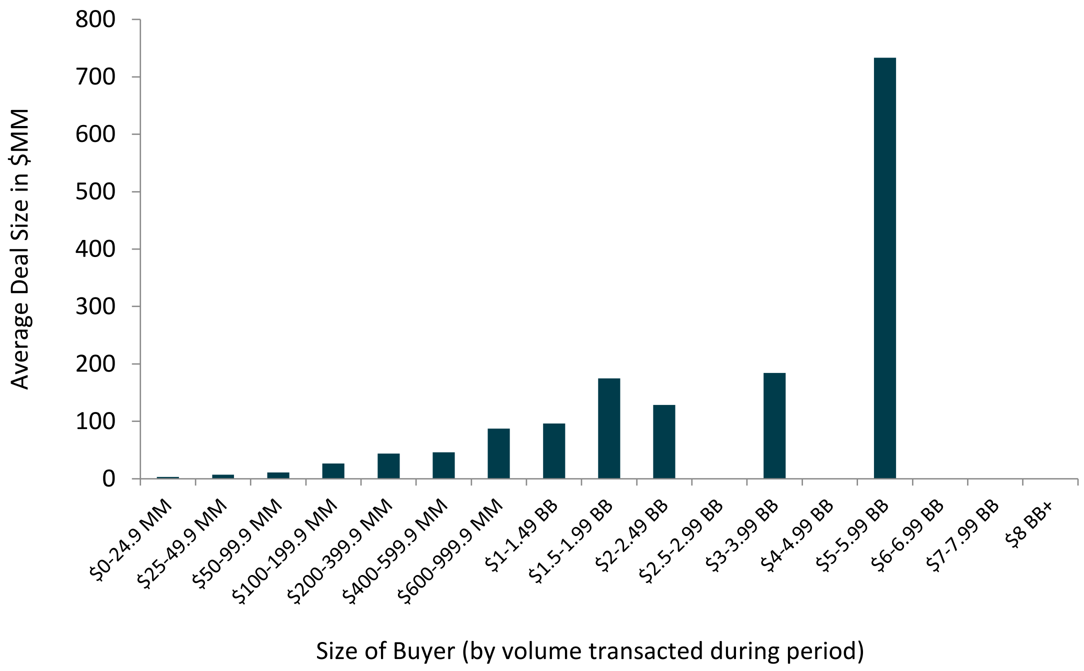
53 medium-sized buyers (defined as those that deployed $100 million to $600 million in H1 2023) purchased $14.30 billion, representing approximately 31.6% of total volume across 356 transactions with an average deal size of $40.12 million. This was a decrease from H1 2022, where they accounted for 35.6%.

62 small buyers (defined as those that deployed less than $100 million in H1 2023) purchased $2.80 billion, representing approximately 6.2% of total volume across 321 transactions with an average deal size of $8.72 million. This was an increase from H1 2022, where they accounted for 4.3%.

Number of deals and average deal size

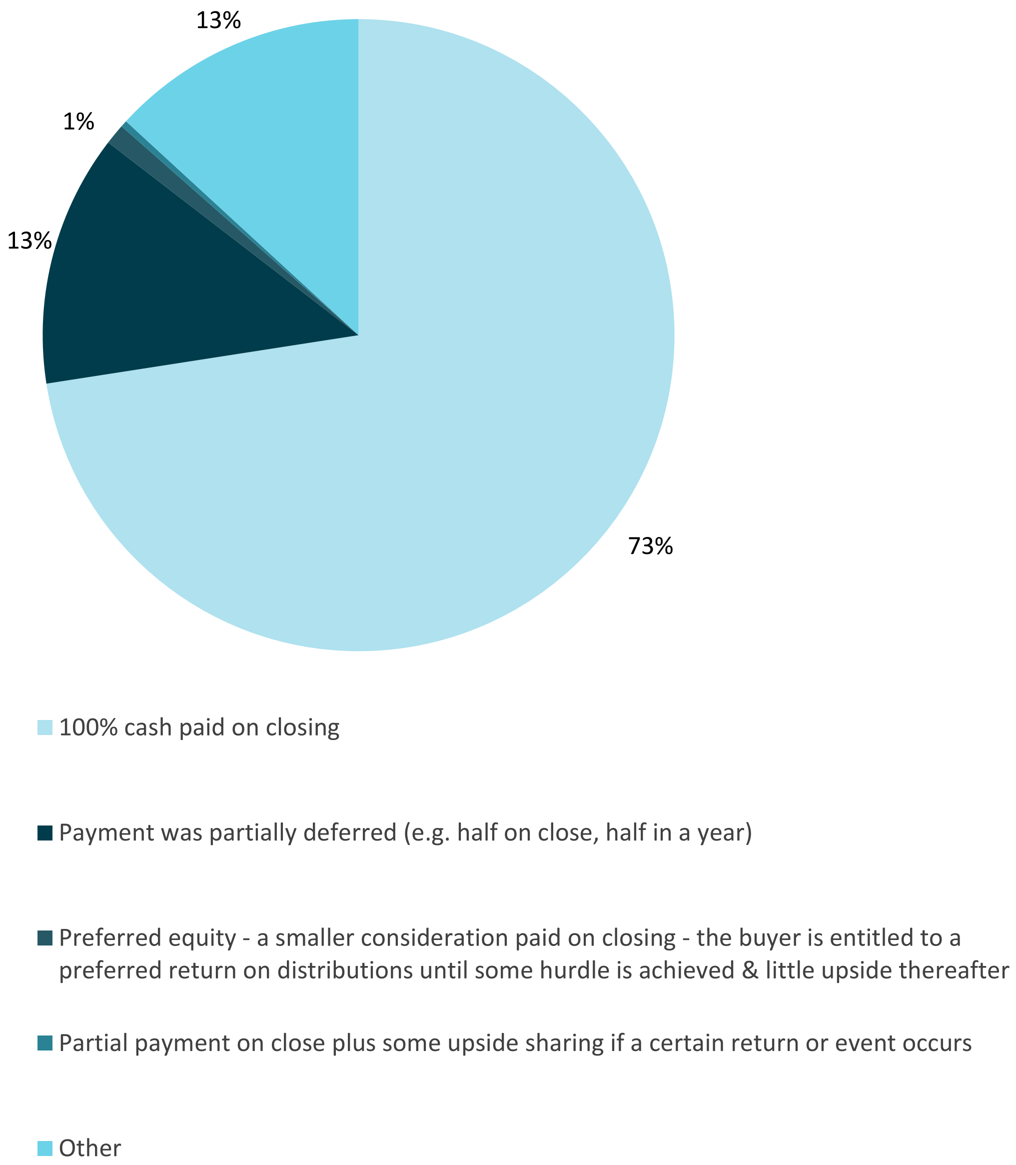
Buyers completed 866 transactions in H1 2023 across the entire secondary market for alternative assets, with an average size of approximately $52.07 million. The number of transactions decreased 8.8% from 949 transactions in H1 2022, while the average deal size likewise decreased 14.5% from $60.93 million in H1 2022.

Average deal size by size of buyer



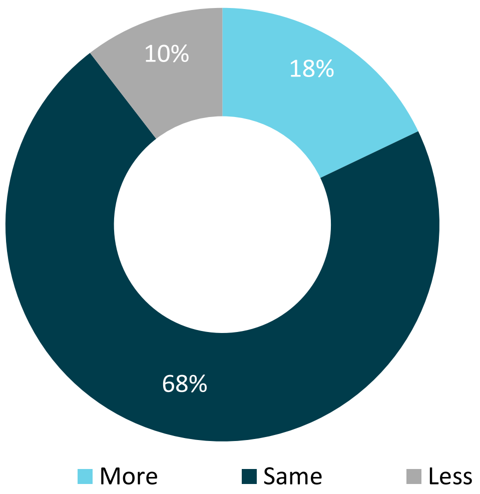
Payment terms

For 72.55% 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 from H1 2022, when buyers paid 100% cash on closing for 87.6% of their deals. For 12.89% of their deals, buyers paid a portion of the consideration in cash up front with the rest of the consideration being deferred. This payment structure was more common in 2023 than in 2022 (only 6.71% of deals), as buyers used deferrals to improve their prices and bridge the bid-ask spread.



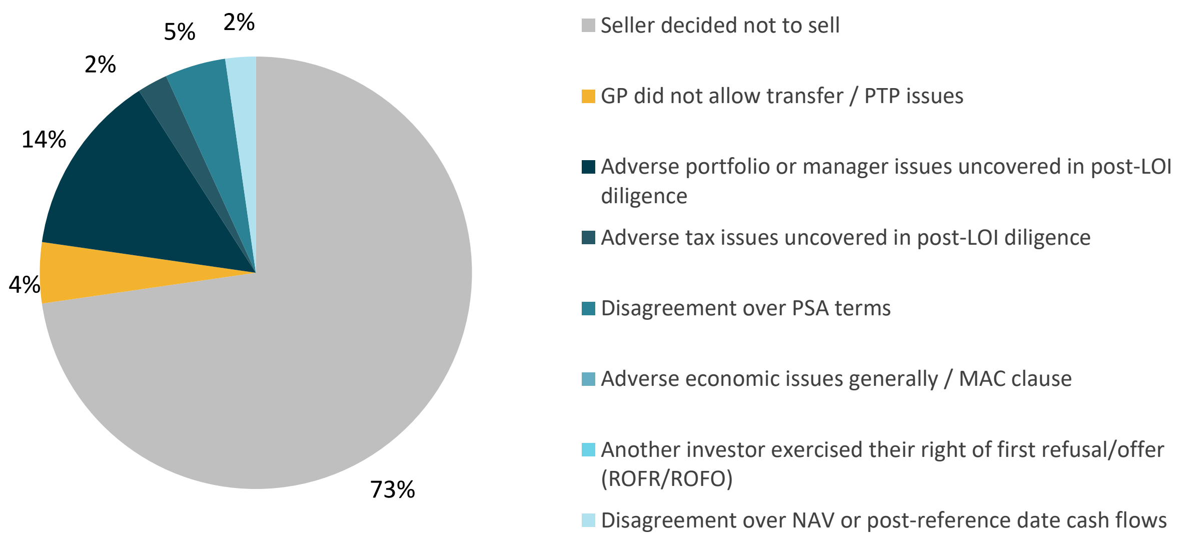
Execution risk

Percentage of deals that fell apart in H1 2023 compared to the prior six months



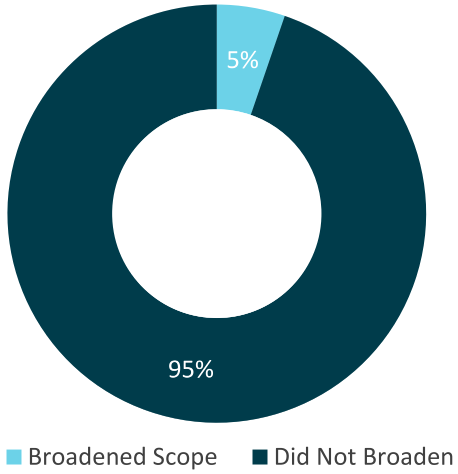
17.9% of respondents had a higher proportion of deals fall through in H1 2023, compared to the prior six months. This is significantly lower than H1 2022, when 33.3% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was that the seller simply decided not to sell (72.7%). Other reasons included adverse portfolio or manager issues uncovered in post-LOI diligence (13.6%) and GP did not allow transfer / PTP issues (4.5%).



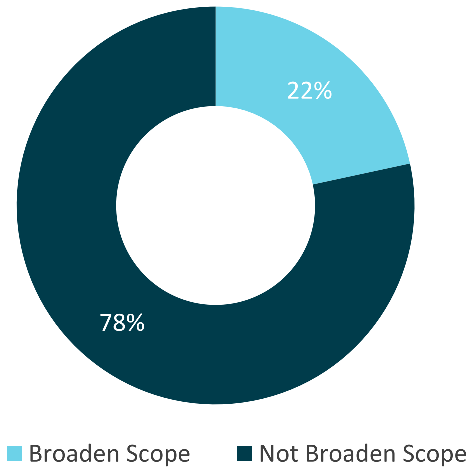
Buyers’ scope of interest

Buyers broadening their focus in H1 2023



5.3% of participants broadened their secondaries focus in H1 2023 to include buying other alternative investment types (direct secondaries, infrastructure, private debt, etc.).

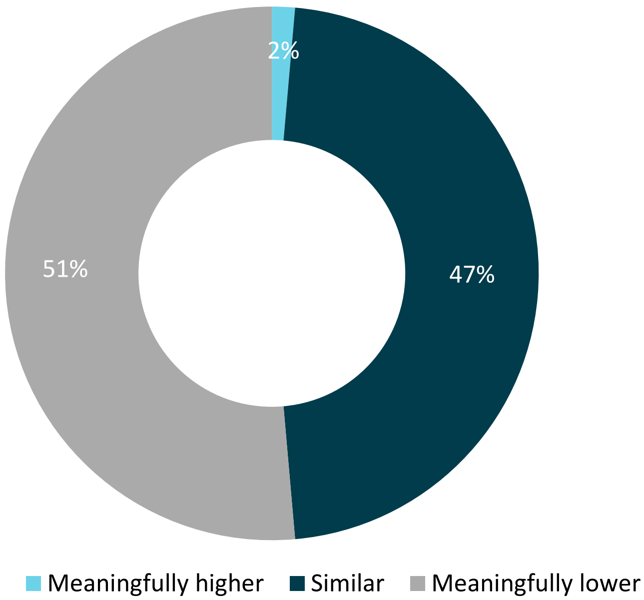
Buyers that intend to broaden their focus in H2 2023



21.6% of participants plan to broaden their secondaries focus in H2 2023 to include buying other alternative investment types.

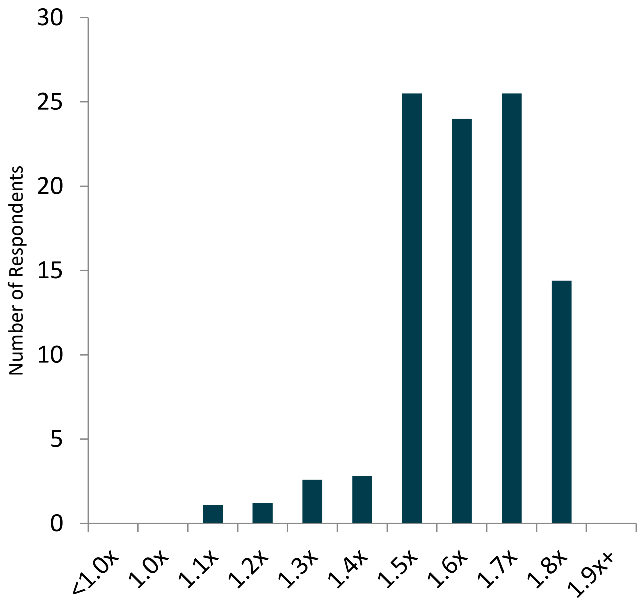
Leverage and returns

Level of debt used by buyers in H1 2023 compared to the prior six months



47.2% of respondents believed the level of debt used by buyers was the same, only 1.4% felt it was more and 51.4% felt it had decreased in H1 2023. This is quite different from 2022, when only 12.5% of buyers felt the level of debt used was lower.

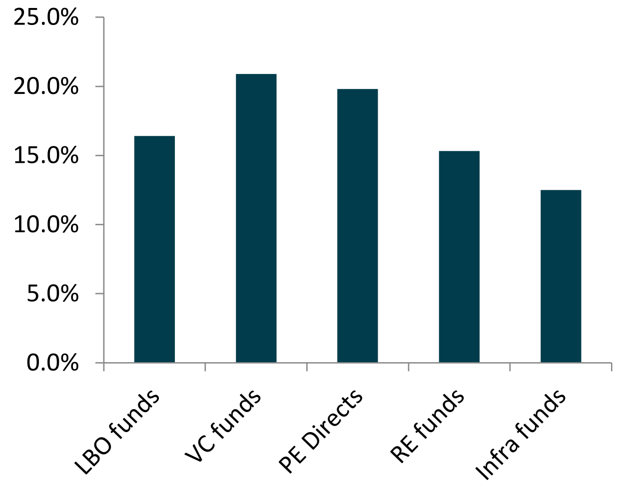
Expected multiple for secondary deals completed in H1 2023



Respondents predicted that the average gross multiple for secondary deals completed in H1 2023 will be 1.59x, higher than the 1.52x buyers expected from deals completed in H1 2022.

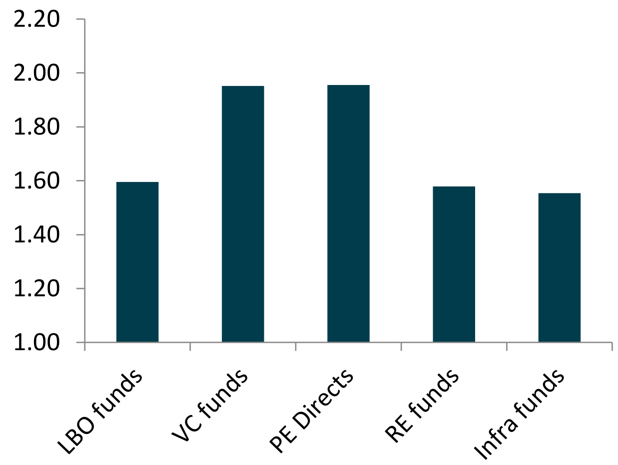
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers' average targeted IRR was 16.4% for LBO funds, 20.9% for VC funds, 19.8% for private equity directs, 15.3% for real estate funds and 12.5% for infrastructure funds.

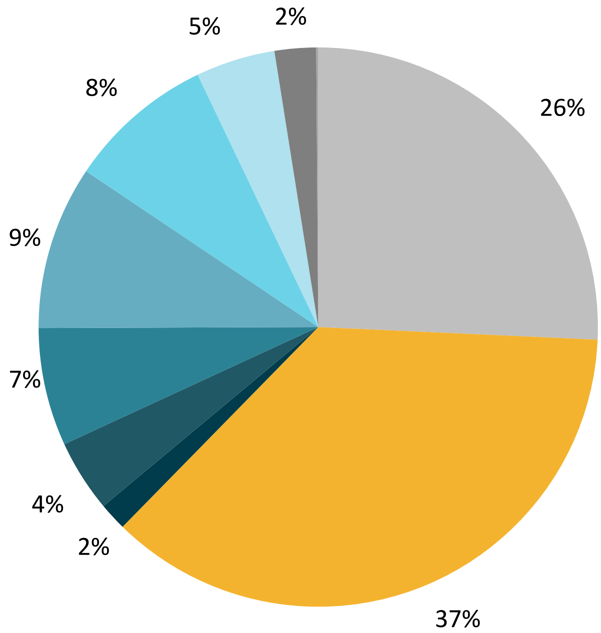
Targeted multiples on secondary purchases



On average, buyers' average targeted multiple was 1.60x for LBO funds, 1.95x for VC funds, 1.96x for private equity directs, 1.58x for real estate funds and 1.55x for infrastructure funds.

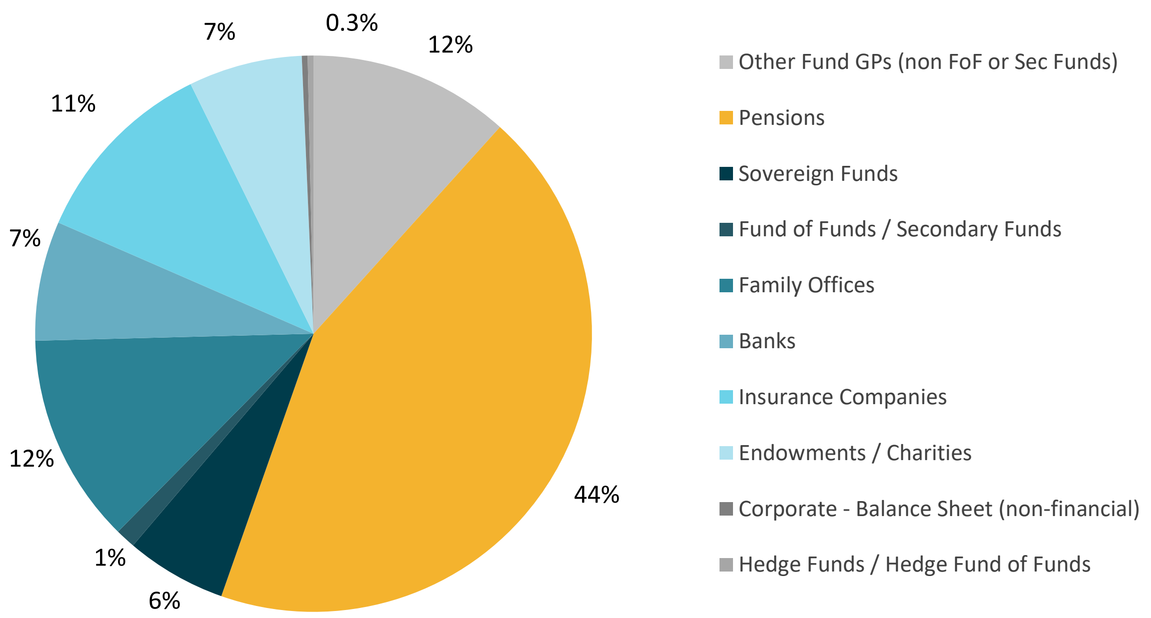
Seller profiles

Types of sellers in H1 2023

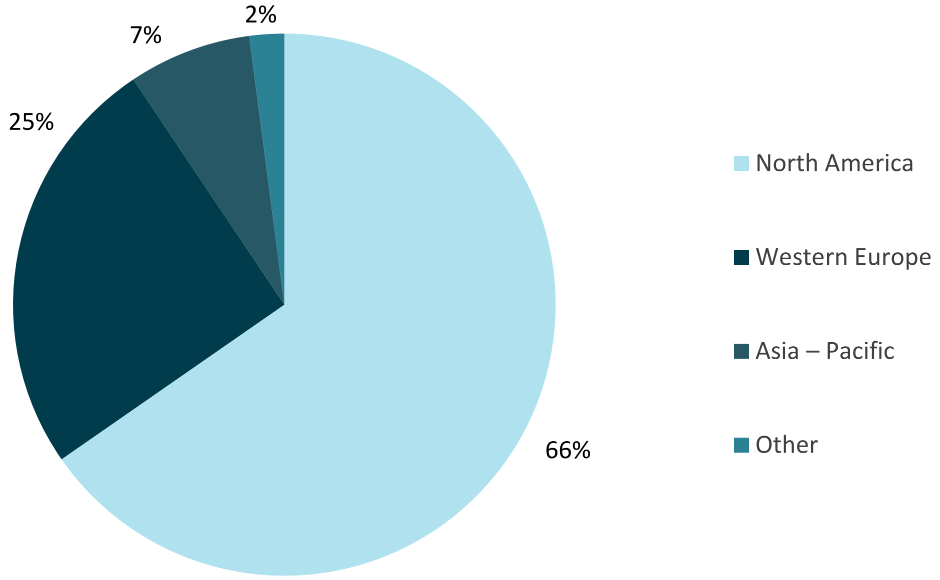


Pensions and direct investing GPs (i.e. not fund of funds or secondary funds) were the most active sellers in H1 2023 making up 36.6% and 25.7% of the H1 2023 volume, respectively. Most buyers expect pensions to be the biggest sellers in H2 2023 (43.7% of total transaction volume).

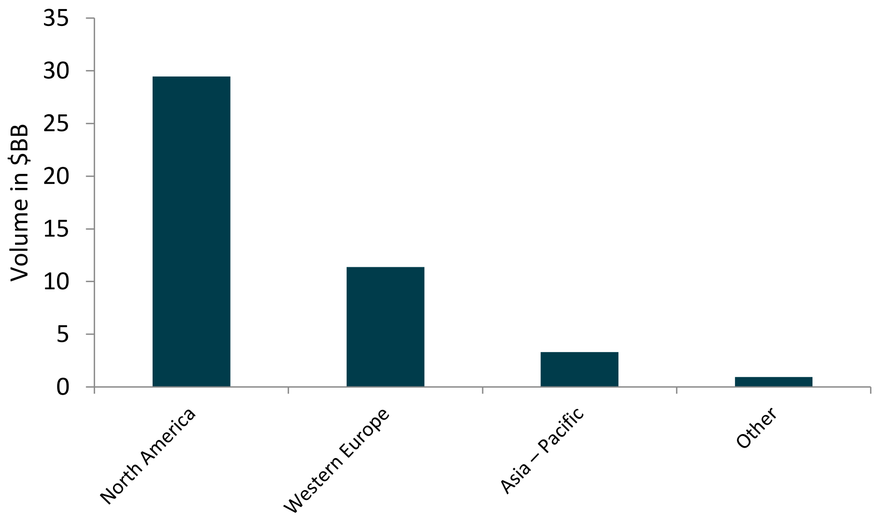
Expected sellers in H2 2023



Seller location

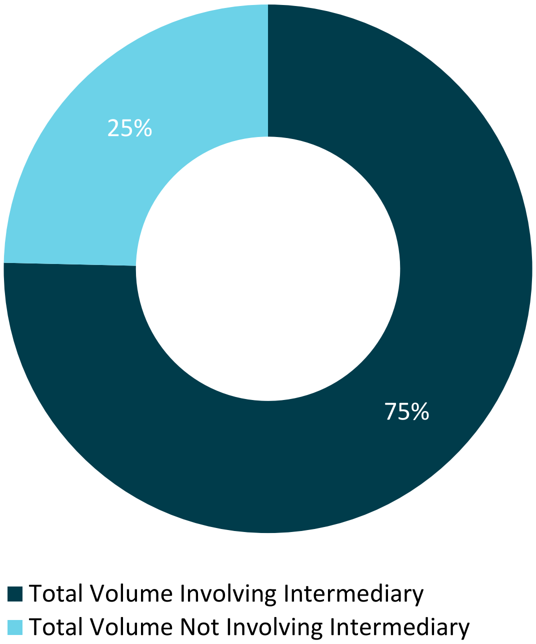


In terms of the location of sellers, North America accounted for the majority of volume in H1 2023. North American sellers sold $29.46 billion (65.3% vs. 78.3% in H1 2022), whereas Asia-Pacific sellers sold $3.3 billion (7.3% vs. 5.5% in H1 2022). Western European sellers accounted for 25.3% of the total volume up from 12.1% in H1 2022. Other geographies, such as the Middle East accounted for 2.1% of the total volume in H1 2023, down from 4.1% in H1 2022.



Intermediation and level of competition

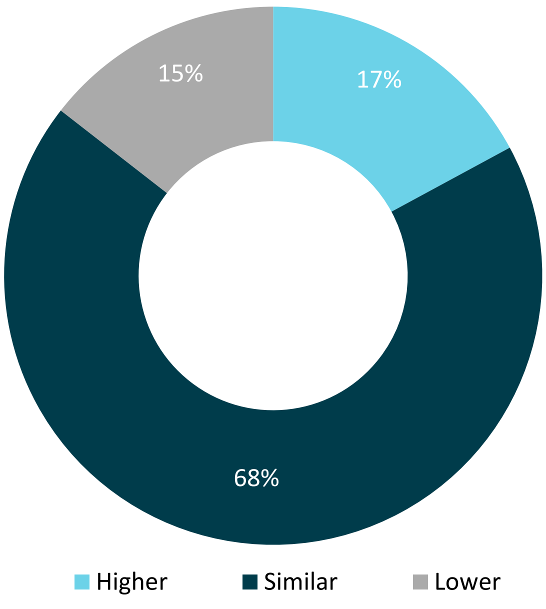
Volume of intermediated transactions



Approximately $33.98 billion (75.4%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was higher than H1 2022 where it was $42.25 billion (73.1% of total).

In terms of volume, agents intermediated $8.27 billion less in deals as compared to H1 2022, representing a decrease of 19.6%.

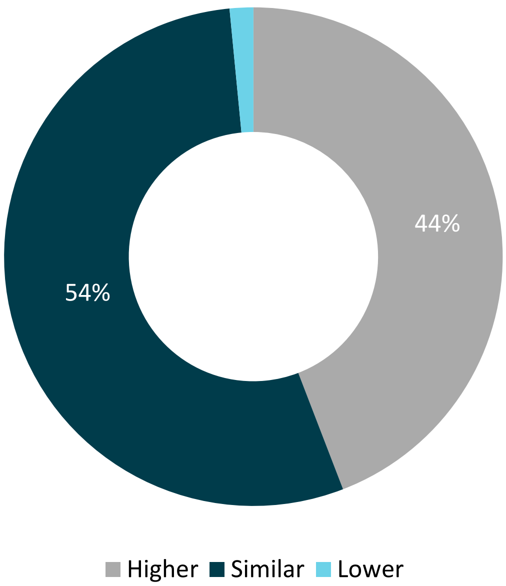
Buyer competition for deals in H1 2023 compared to the prior six months



68.4% of respondents felt buyer competition in H1 2023 was similar to H1 2022, while only 17.1% felt buyer competition was significantly higher. 14.5 % of survey respondents felt buyer competition was lower in H1 2023.

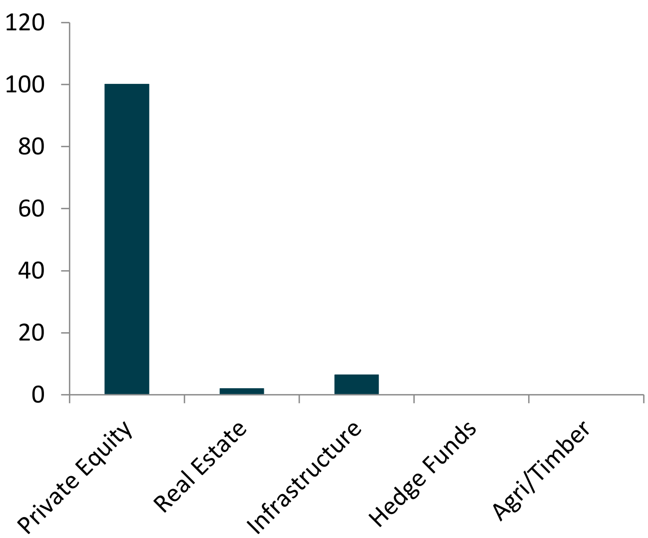
Projected volume for FY 2023

How H2 2023 volume will compare to H1 2023



A stronger H2 is expected as 44.1% of respondents felt that their H2 2023 volume will be meaningfully higher than H1 2023 and 54.3% felt that it will be similar.

Predicted volume for FY 2023

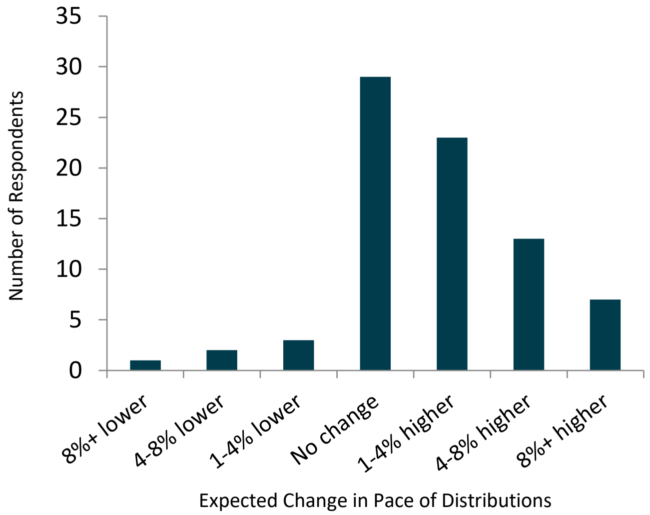


Respondents predicted the total volume for FY 2023 will be $109.86 billion, which would represent a 3.3% decrease from the $113.58 billion transacted in FY 2022.

Assuming proportions do not change in H2 2023, this suggests private equity volume will be $100.45 billion in FY 2023, real estate will be $2.33 billion, infrastructure will be $6.72 billion and agriculture & timber will be $110 million.

Expected distribution and NAV changes in FY 2023

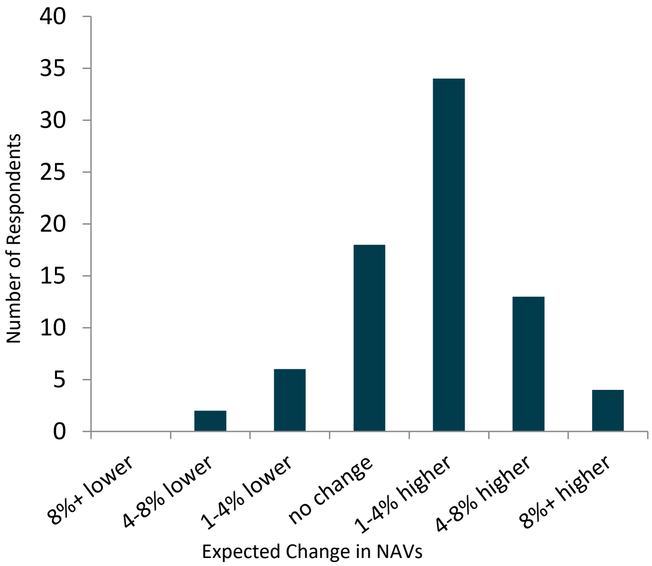
Distribution pace in H2 2023 vs. H1 2023



Respondents expect the pace of distributions in H2 2023 to be higher than H1 2023 as the average response suggests an expected increase of 2.3%.

Respondents are more optimistic than they were in H1 2022, when they expected the pace of distribution to be down 3.5%.

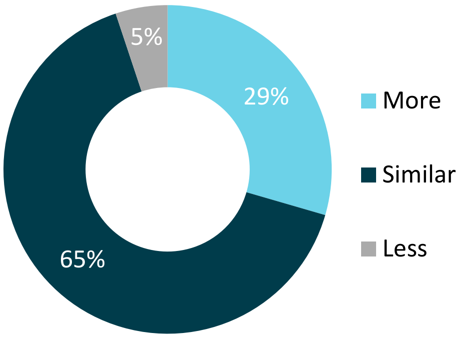
Change in NAV in H2 2023 vs. H1 2023



On average, respondents expect NAV valuations to increase by 2.2% in H2 2023 compared to H1 2023. This is much higher than H1 2022 when respondents expected NAVs to decrease by 3.6% in the next six months.

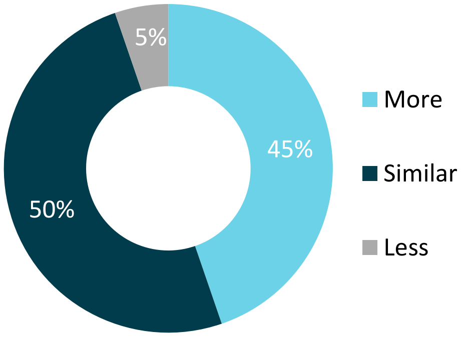
General partners' approach to the secondary market

Liquidations and restructurings in H1 2023 compared to the prior six months



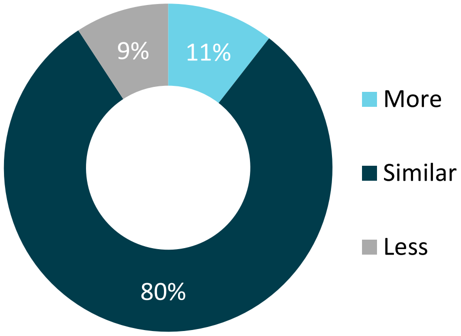
29.5% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in H1 2023 compared to H1 2022.

Staples sought by GPs in H1 2023 compared to the prior 6 months



44.7% of respondents felt that meaningfully more GPs sought staples in H1 2023 as compared to H1 2022.

GPs' restrictiveness on transfers in H1 2023 compared to the prior six months



The majority of the respondents felt that GPs' restrictiveness on transfers did not change in H1 2023 compared to H1 2022.

Select respondents

50 South Capital
Aberdeen Standard Investments
Adams Street Partners
Alpinvest Partners
AltamarCAM Capital
Apogem Capital
Arcano Capital
Bee Alternatives Limited
Bex Capital
Blackrock Private Equity Advisors
Capital Dynamics
Coller Capital
Commonfund Capital
Corbin Capital Partners
CPPIB
Eurazeo
Felicitas Global Partners
Flexstone Partners
FlowStone Partners
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
Jasper Ridge
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
Oddo BHF Private Equity
Macquarie Asset Management
MAM Alliance Partners
Mercury Partners
Metropolitan Realty
Montana Capital Partners
Morgan Stanley
Multiplicity Partners AG
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Overbay Capital Partners
Pantheon Ventures
Partners Group
Pathway Capital
PineBridge Investments
Pomona Capital
Portfolio Advisors
RCP Advisors
Roc Partners
Schroder Adveq
Stafford Capital
StepStone Group
Strategic Partners
Sturbridge Capital
Sweetwater Capital
Tikehau Capital Advisors
Top Tier Capital Partners
TR Capital
UBS Asset Management
Unigestion
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.

SecondaryLink.com™ A professional network where over 5000 institutional LPs and GPs connect on primary due diligence and the secondary market.

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