

# Setter Capital Volume Report

Secondary Market FY 2015

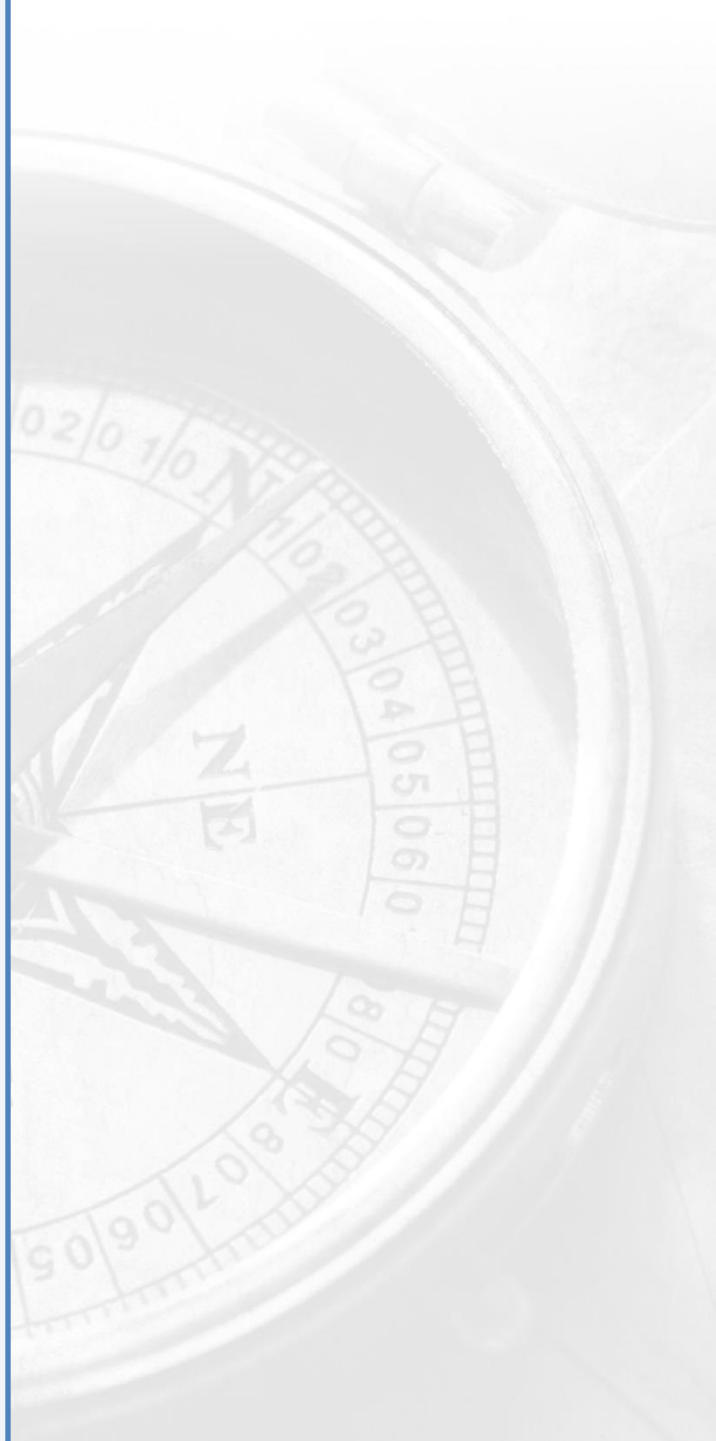


# Setter Capital Volume Report FY 2015

## Highlights

The Setter Capital Volume Report analyzes the global secondary market across the following topics:

- Total Volume of Secondary Deals
- Secondary Volume 2015 vs. 2014
- 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
- Profile of Sellers
- Percentage of Intermediated Deals
- Predicted Secondary Deal Volume for 2016
- Changes in the Level of Competition
- Changes in Debt Levels
- Expected Returns of Secondary Purchases
- Expected Distribution and NAV Changes in 2016
- General Partners' Approach to the Secondary Market



## 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 2015? How much was completed in LBO, venture, real estate, infrastructure and hedge fund secondaries? What are the expected returns and debt levels?

This report summarizes the results of our survey of the most active buyers in the secondary market for alternative investment funds conducted early January 2016. Volume is defined as total exposure (NAV + unfunded in USD) purchased by the respondents and participants included only deals where a binding agreement (e.g. P&S) was entered into during 2015.

We were pleased by the high response rate – of the 117 most active and regular buyers in the secondary market, 85 agreed to share their confidential results (see [partial list of participants](#)). Given the high response rate and the fact that twelve of the thirteen largest buyers participated, the respondents to our survey represented 85.9% 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 meaningful or obvious 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.

## 2015 in Review

After two years of breakneck growth, the secondary market plateaued with the total volume of completed transactions increasing slightly to \$49.6 billion USD in 2015, from \$49.3 billion recorded in the [Setter Capital Volume Report FY 2014](#).

Although the market was slightly up, the experience across different sectors was far from uniform. Private equity secondaries decreased 0.5% year over year, reaching a total of \$37.7 billion, whereas infrastructure secondaries were down 15.6%. Hedge fund secondaries experienced the largest drop (down 66.7%) as side pocket supply continued to evaporate. Energy fund secondaries were also down 51.4% year over year (from \$1.7 billion in 2014 to \$826 million in 2015) as falling energy prices caused the bid-ask spread to widen. Real estate secondaries were a bright spot though, growing 34.7% to \$9.2 billion, as incumbent and new buyers increased activity levels.

The total volume of 'direct secondaries' in 2015 was \$10.2 billion (private equity directs were \$9.2 billion and real estate directs were \$1.0 billion), driven largely by managers actively liquidating or restructuring older funds. Although overall directs volume was down 7.3%, supply appears to have increased, as respondents felt that more managers attempted to liquidate or restructure older funds in 2015 as compared to 2014. Managers also increasingly turned to the secondary market to explore stapled transactions, as roughly 33% of respondents felt that a materially higher number had sought staples in 2015 as compared to 2014. On a combined basis, managers of funds across buyout, VC, hedge, fund of funds and secondary funds accounted for roughly 21% of total sale volume, as they used the secondary market to create liquidity.

It should be noted that volume, which is measured in US dollars, may have in fact been higher than our survey suggests. The Euro, which was down roughly 12% year over year, made all European fund/asset purchases (roughly 32.6% of total volume) appear optically lower.

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 \$1 billion in 2015, accounted for 62% of the market's total volume (up from their 59.8% share in 2014), while fifty-seven mid-sized buyers accounted for roughly 34% (vs. 34.9% in 2014) and forty-seven small buyers represented roughly 4% (vs. 5.3% in 2014). Buyers continued to diversify their secondary focus with about 17% of participants buying other alternative investment types for the first time (infrastructure, real estate, etc.).

Buyer competition for deals continued to heat up in 2015 as noted by 99% of respondents who felt it was either similar or higher than last year. As a means to stay competitive, the use of debt to improve pricing and deal returns became more prevalent. 44% of respondents felt that buyers had used significantly more leverage in 2015 as compared to the prior year.

Increasing buyer competition may in part be explained by the increasing level of intermediation in the market - approximately 63.2% (\$31.4 billion) of total secondary volume involved an intermediary in 2015 as compared to a 56.9% in 2014 – an increase of 6.3% year over year. We expect the level of intermediation to continue 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 1,127 transactions in 2015, with an average size of approximately \$44.0 million. Although, the number of transactions was down 11.3% from the 1,270 transactions completed in 2014, the average deal size increased 16.7% year over year, reflecting the fact that more multi-hundred million-dollar and billion dollar + transactions were completed in 2015.

The marked increase in large deals, the dominance of secondary funds (79.1% of total volume) and the increased market share of large buyers all demonstrate that 2015 was a strong year for the large entrenched secondary players. Transaction volume completed by large buyers hit \$30.8 billion, a 4.4% increase in volume year over year.

The ranks of opportunistic sellers continued to grow, given investors' increasing familiarity and comfort with secondary sales along with the disappearance of the stigma associated with selling. Pensions (33.8%) and banks (18.0%) were the most active sellers in 2015, and most buyers expect pensions to be the most active sellers in 2016.

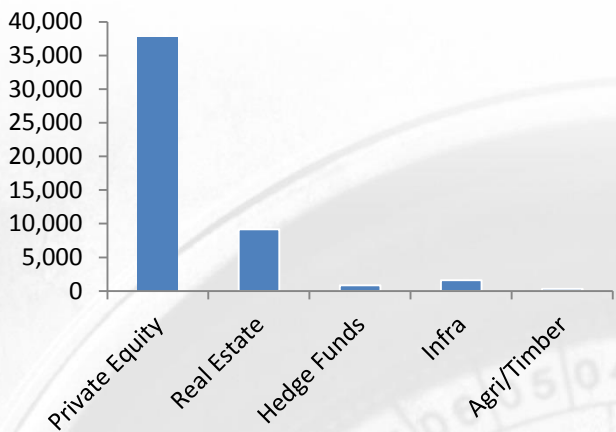
Pricing, which is largely determined by buyers' forecasts of NAV changes and distribution flows, should not change much in 2016 as the survey respondents predicted that the pace of distributions would be 2.48% lower and NAVs would appreciate a modest 0.53% in 2016 as compared to 2015. These forecasts are less optimistic than those in the [Setter Capital Volume Report H1 2015](#), where buyers expected the pace of distributions to be 0.38% higher and NAV valuations to appreciate 1.65%.

Looking forward, buyers expect full year 2016 volume to be \$50.7 billion, which would be a 2.2% increase to full year 2015 volume. This is much lower than what buyers expected in 2014 ([Setter Capital Volume Report FY 2014](#)), where they expected the growth rate to be 14.5% in the coming year.

## Total Volume

**Total secondary market volume for 2015 was \$49.6 billion.** This is the volume estimate of the 117 secondary buyers with dedicated secondary efforts and includes 63 secondary funds, 39 funds of funds, 8 hedge funds, 5 investment consultants, and 2 pensions. We believe this estimate is reliable as the 85 survey respondents alone reported \$42.7 billion in 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 recently built teams dedicated to secondary purchases.

## Type of Assets Purchased



**Private Equity** (Directs<sup>1</sup> & Funds): \$37.7 billion  
(0.5% decrease YoY)

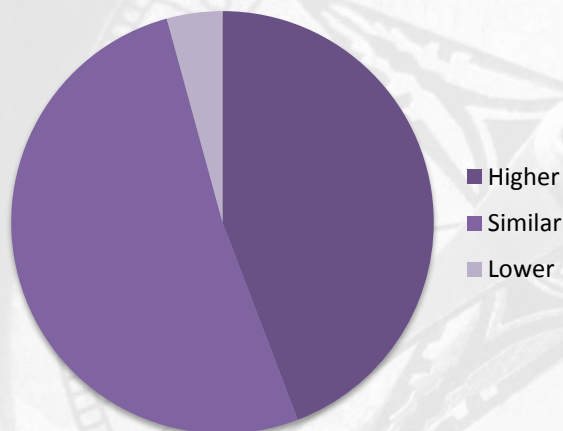
**Real Estate** (Directs & Funds): \$9.2 billion  
(34.7% increase YoY)

**Hedge Funds:** \$835 million  
(66.7% decrease YoY)

**Infrastructure Funds:** \$1.6 billion  
(15.6% decrease YoY)

**Agri/Timber Funds:** \$313 million  
(56.7% increase YoY)

## 2015 Volume vs. 2014 Volume



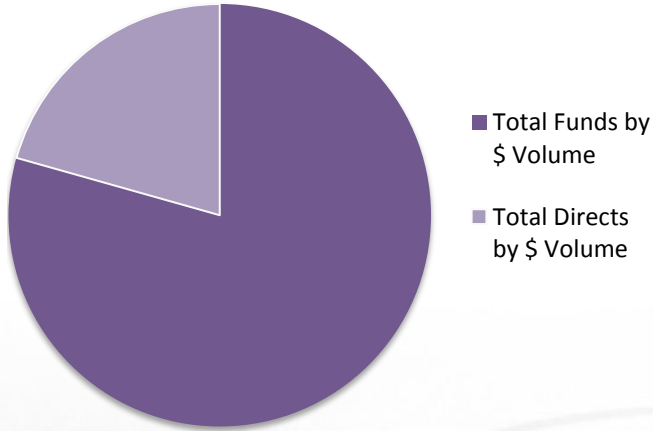
2015 volume increased 0.6% compared to 2014, which was roughly \$49.3 billion.

52% of survey respondents felt volume was significantly higher and 44% said it was similar to 2014, while 4% felt it was significantly lower, showing buyers' had mixed success in 2015.

<sup>1</sup> Directs include fund recapitalizations and restructurings, fund liquidations, and purchase of single minority stakes and co-investments.

# Assets Purchased

## Funds vs. Directs

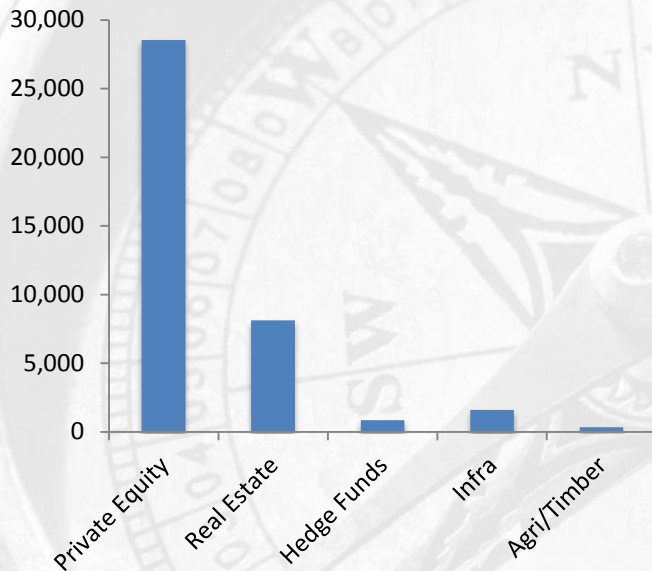


In 2015, \$39.4 billion of funds (79.4%) and \$10.2 billion of directs (20.6%) were purchased.

Secondaries of direct investments decreased moderately from \$11 billion in 2014 to \$10.2 billion in 2015, which represents a 7.3% decrease. This category includes the volume transacted in GP restructurings and purchases of single minority stakes and co-investments. Private equity directs and real estate directs accounted for 90% and 10% respectively of the total directs volume.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 73% funds and 27% directs.

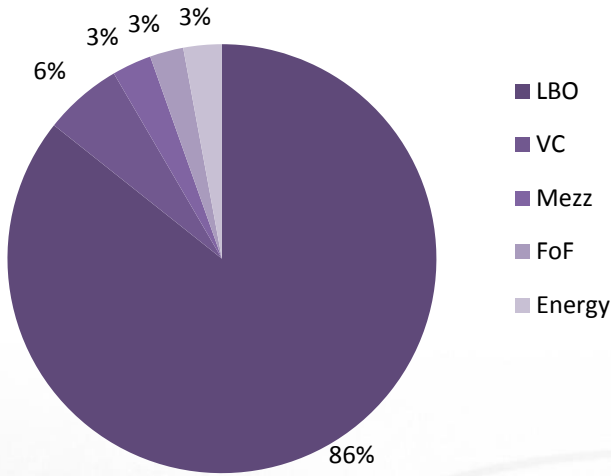
## Breakdown of Fund Secondaries



- Private equity fund purchases totaled \$28.5 billion (~72.5% of total fund sales)
- Real estate fund purchases totaled \$8.1 billion (~20.6% of total fund sales)
- Hedge fund purchases totaled \$835 million (~2.1% of total fund sales)
- Infrastructure fund purchases totaled \$1.6 billion (~4.0% of total fund sales)
- Agri/Timber fund purchases totaled \$313 million (~0.8% of total fund sales)

# Types of Funds Purchased

## Private Equity Funds



**LBO** – \$24.4 billion  
(Up 9.9% YoY from \$22.2 billion)

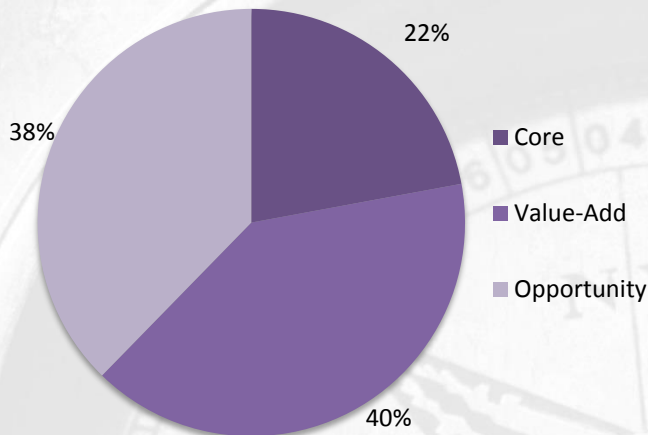
**VC** – \$1.7 billion  
(Up 30.8% YoY from \$1.3 billion)

**Mezzanine** – \$850 million  
(Up 41.7% YoY from \$600 million)

**Fund of Funds** – \$722 million  
(Down 27.8% YoY from \$1.0 billion)

**Energy** – \$826 million  
(Down 51.4% YoY from \$1.7 billion)

## Real Estate Funds

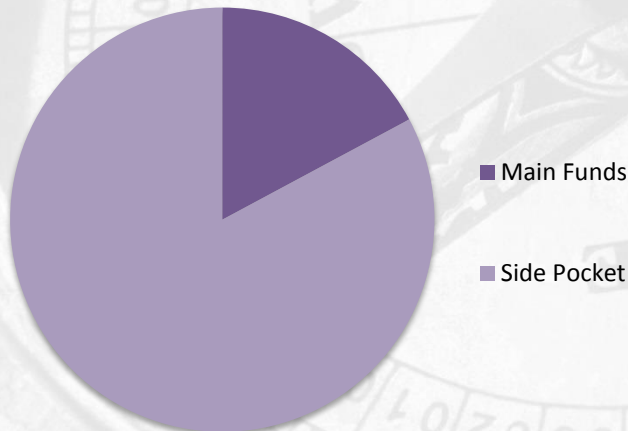


**Core** – \$1.8 billion  
(Down 31% YoY from \$2.6 billion)

**Value-Add** – \$3.3 billion  
(Up 37.5% YoY from \$2.4 billion)

**Opportunity** – \$3.1 billion  
(Up 72.2% YoY from \$1.8 billion)

## Hedge Funds Purchased

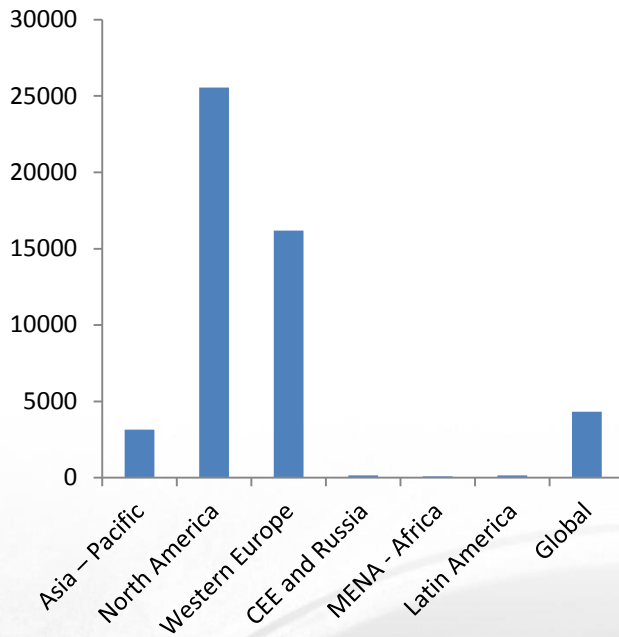


**Side Pockets** – \$692 million  
(Down 65.4% YoY from \$2.0 billion)

**Main Funds** – \$143 million  
(Down 71.4% YoY from \$500 million)



## Geography of Assets Purchased



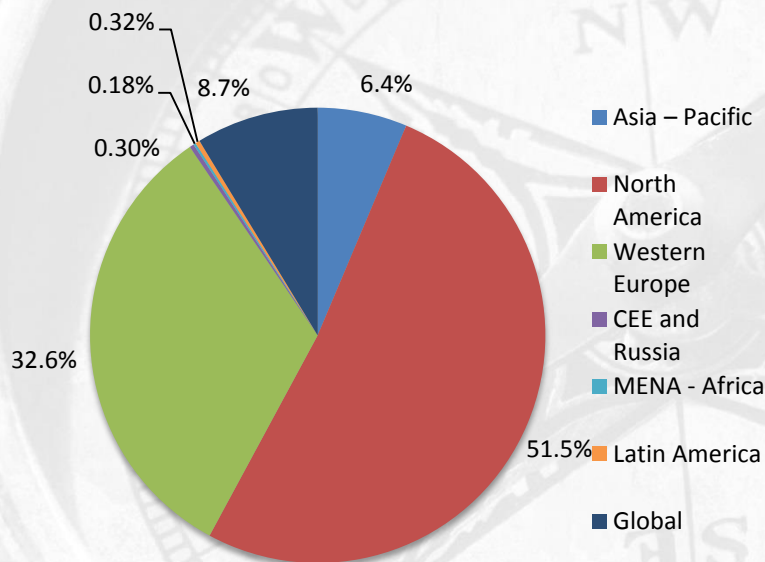
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in 2015:

**North America** – \$25.6 billion  
(up 8.5% from \$23.6 billion)

**Western Europe** - \$16.2 billion  
(down 11.5% from \$18.3 billion\*)

**Global** – \$4.3 billion  
(up 231% from \$1.3 billion)

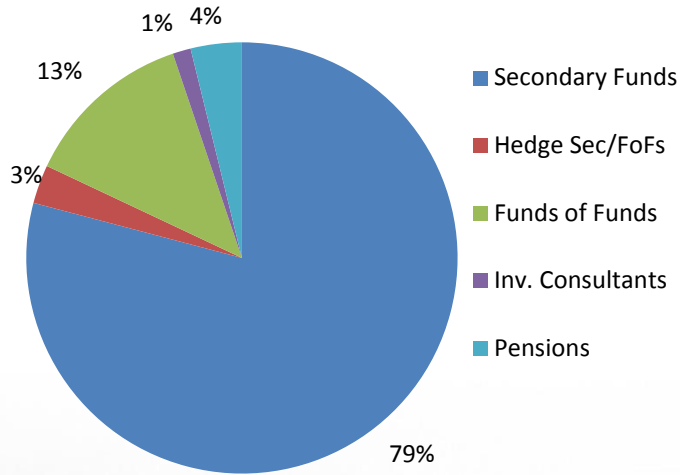
\* Please note: The decrease in Western European focused secondaries, which is measured in US dollars, was largely caused by the depreciation in the Euro, which was down 12% YoY.



In terms of percentage, North American focused funds and direct investments accounted for 51.5% of total volume, Western European assets accounted for 32.6% and global focused funds/directs accounted for 8.7% of sales.

## Profile of Buyers

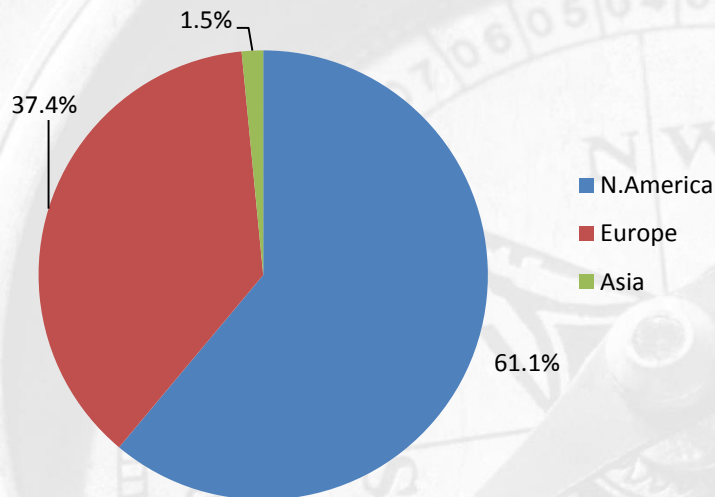
### Type of Buyers



Secondary funds were the most active buyers in 2015, accounting for 79.1% (\$39.3 billion) of total purchases, while funds of funds accounted for 12.8% (\$6.4 billion), and pensions accounted for 3.8% (\$1.9 billion).

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

### Locations of Buyers<sup>2</sup>



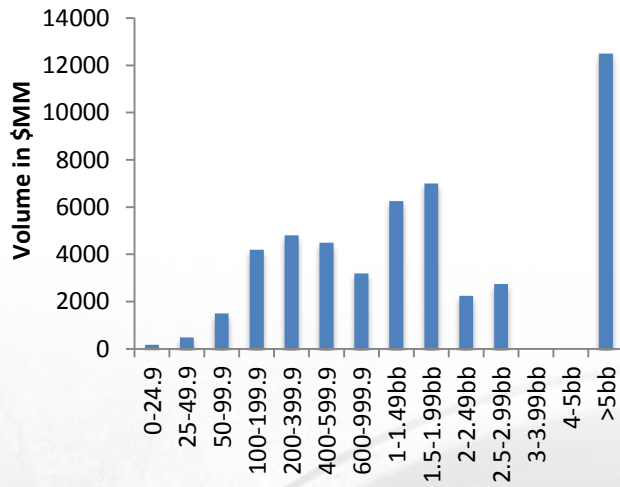
North American buyers transacted the most (61.1% of total volume) in 2015, up from 49.2% of total volume in 2014.

European buyers accounted for 37.4% of total volume in 2015, which was significantly lower than 2014 (50.3%), possibly due to the depreciation of the Euro.

<sup>2</sup> Location is based on head office location.

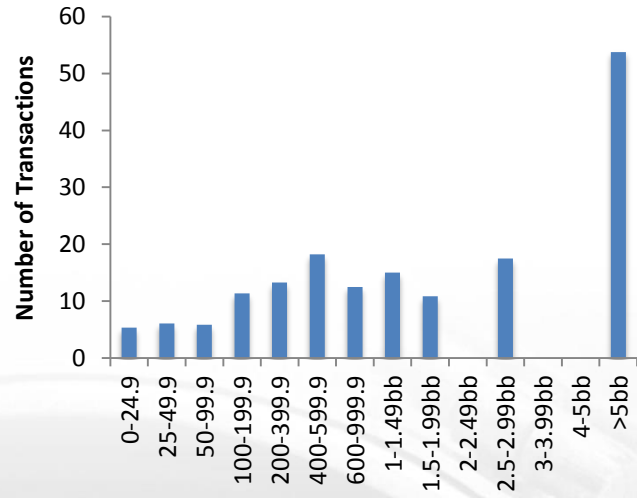
## Activity Levels of Small, Medium and Large Buyers

**Volume Distribution by Size of Buyer**



**Buyers Grouped by Their Volume \$MM**

**Average Number of Transactions by Size of Buyer**



**Buyers Grouped by Their Volume \$MM**

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:

13 large buyers (defined as those that deployed \$1 billion or more in 2015) purchased \$30.7 billion, representing approximately 62.0% of total volume across 283 transactions with an average deal size of \$108.5 million. This was a slight increase from 2014, where large buyers accounted for 59.8%.

57 medium sized buyers (defined as those that deployed \$100 to \$999.9 million in 2015) purchased \$16.7 billion, representing approximately 33.6% of total volume across 655 transactions with an average deal size of \$25.5 million. This was a slight decrease from 2014, where they accounted for 34.9%.

47 small buyers (defined as those that deployed less than \$100 million in 2015) purchased \$2.2 billion, representing approximately 4.4% of total volume across 189 transactions with an average deal size of \$11.4 million. This was a slight decrease from 2014, where they accounted for 5.3% of total volume.

## Number of Deals and Average Deal Size

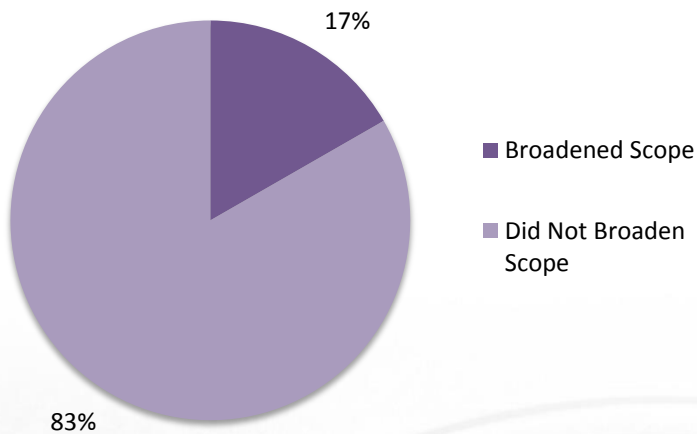
Respondents completed approximately 925 secondary deals in 2015, from which we extrapolated an estimate of 1,127 transactions across the entire secondary market for alternative assets, with an average size of approximately \$44.01 million. The number of transactions decreased 11.3% from 1,270 transactions in 2014 and the average deal size increased 16.7% from \$37.7million in 2014, reflecting the fact that more multi-hundred million and billion dollar deals were completed in 2015.

### Average Number of Transactions by Size of Buyer



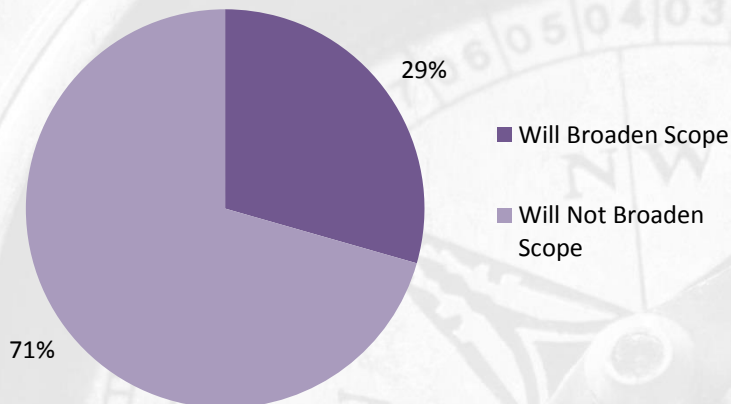
## Buyers' Scope of Interest

### Buyers That Broadened Their Focus in 2015



Approximately 16.7% of participants broadened their secondary focus in 2015 to include buying other alternative investment types (e.g. infrastructure, real estate, portfolios of directs, etc.).

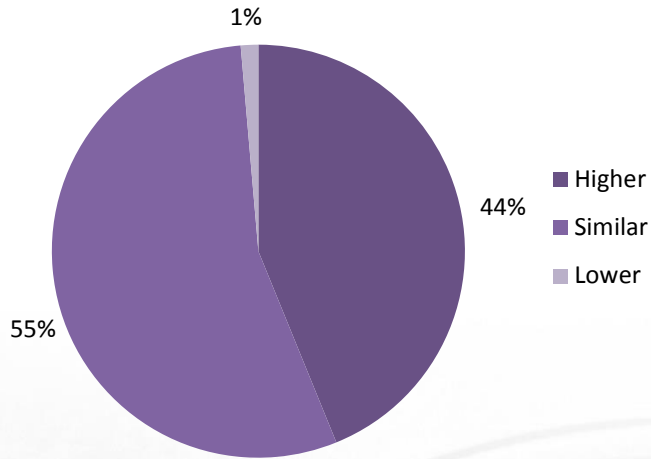
### Buyers That Intend to Broaden Their Focus in 2016



Approximately 29.4% of the participants plan to broaden their secondary focus in 2016 to include buying other alternative investment types. This percentage represents an 8.7% decrease from buyer's expectations in 2014. This may represent a levelling off of buyers diversifying their secondary strategies.

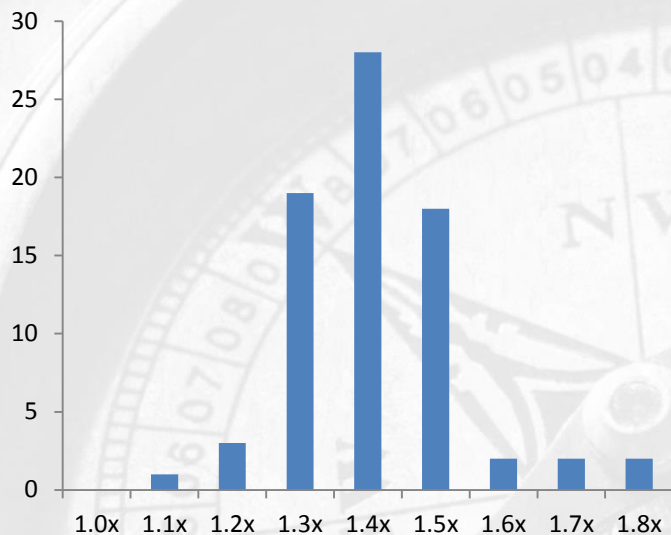
## Debt and Returns

### Level of Debt Used by Buyers in 2015 vs. 2014



55% of respondents believed the level of debt used by buyers had increased significantly in 2015. The balance felt it was the same and only 1% felt it was less.

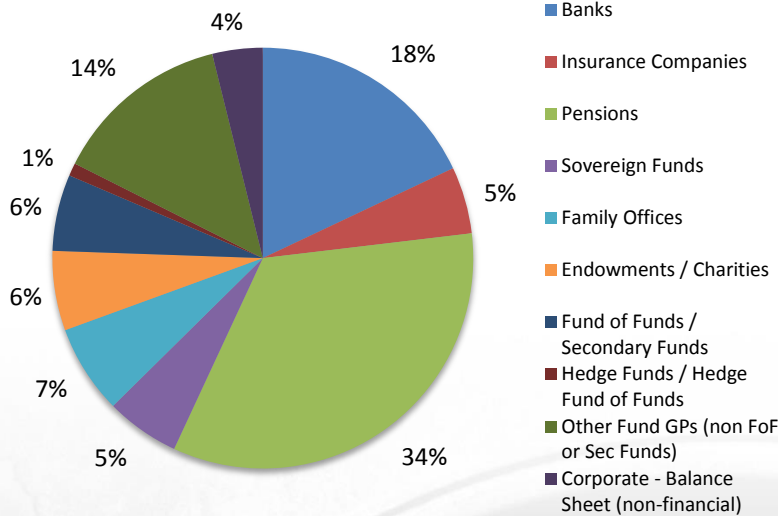
### Expected Multiple for Secondary Deals Completed in 2015



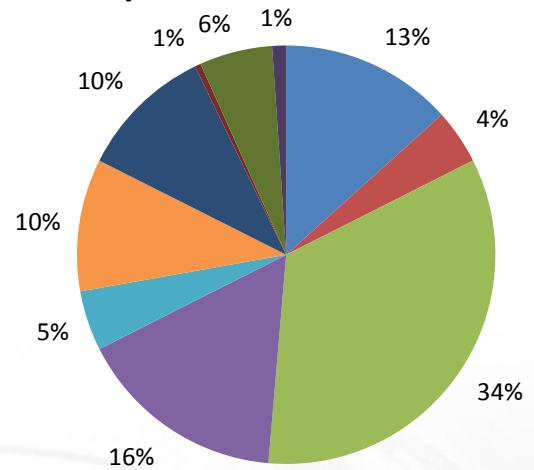
Respondents predicted that the average gross multiple for secondary deals completed in 2015 would be 1.41x, which was slightly down from the 1.43x buyers expected in H1 2015.

## Seller Profiles

### Type of Sellers in 2015

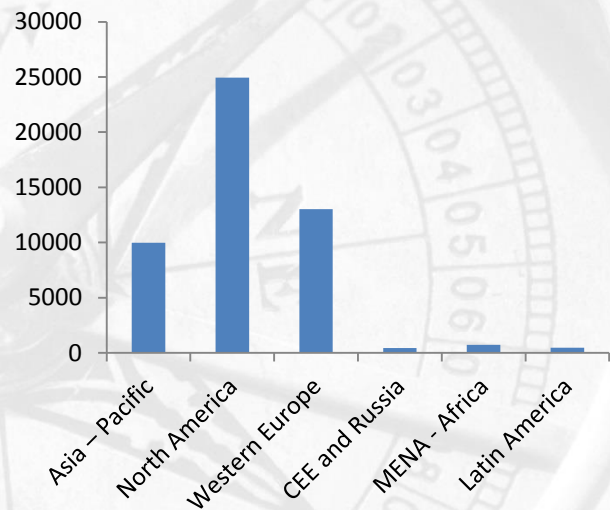
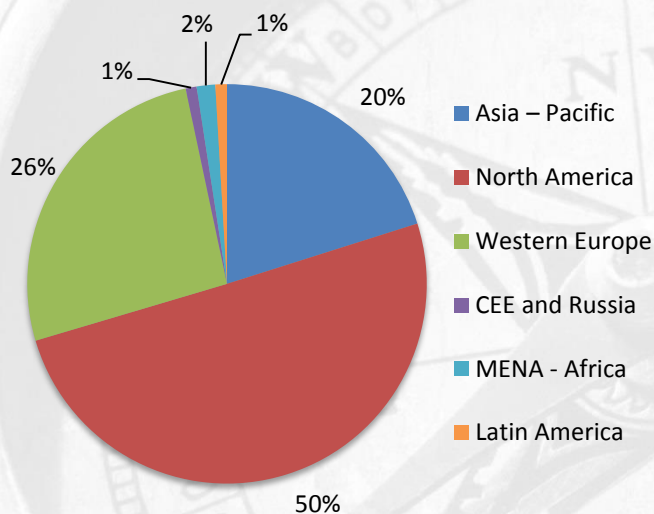


### Expected Sellers in 2016



Pensions and banks were the most active sellers in 2015 making up 33.8% and 18.0% of volume respectively. Most buyers expect pensions to be the biggest sellers again in 2016, with the remaining volume coming somewhat evenly from sovereign funds, banks, funds of funds, secondary funds, endowments and foundations.

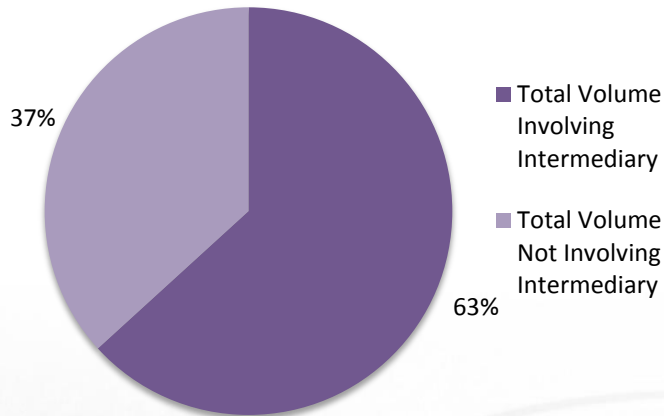
## Geography of Sellers



In terms of the location of sellers, North American and Western European sellers accounted for the vast majority of volume in 2015. North American sellers sold \$24.9 billion (50.3% vs. 45.2% in 2014), whereas Western European sellers sold \$14.0 billion (26.3% vs. 28.8% in 2014). Asia-Pacific sellers accounted for 20.1% of the total volume up from 13.3% in 2014.

## Intermediation and Level of Competition

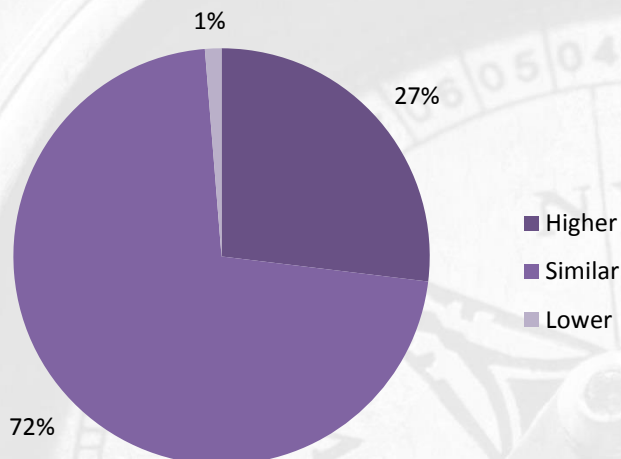
### Volume Intermediated



Approximately 63% (\$31.4 billion) of total secondary volume involved an intermediary, on either the buy or sell-side, as compared to 56.9% in 2014.

In terms of volume, agents intermediated \$3.3 billion more in deals, an increase of 11.7% over 2014.

### Buyer Competition for Deals in 2015 vs. 2014

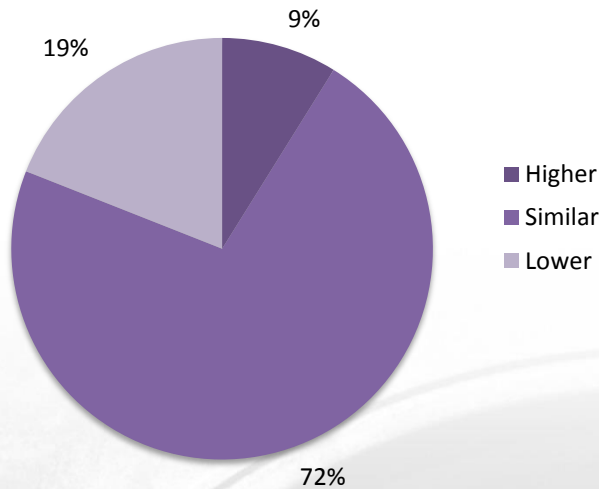


26.9% of respondents felt buyer competition in 2015 was significantly higher than 2014, while 71.8% felt it was similar. Only 1.3% felt buyer competition was lower in 2015.



# Projected Volume for 2016

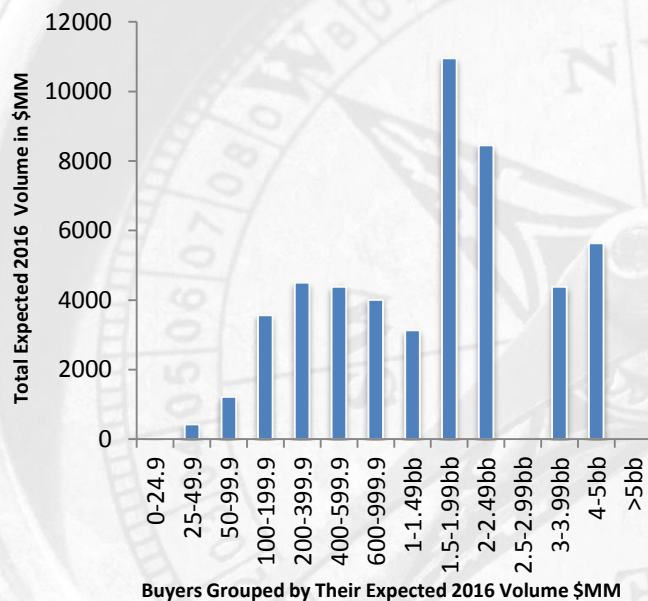
## How 2016 Volume Will Compare to 2015



72% of respondents felt that 2016 volume will be similar to that of 2015, 9% of respondents felt that it will be significantly higher and 19% felt that it will be significantly lower.

By contrast, buyers were more optimistic in 2014, with 14% of respondents predicting the next year's volume would be higher and only 8% expected it to be lower.

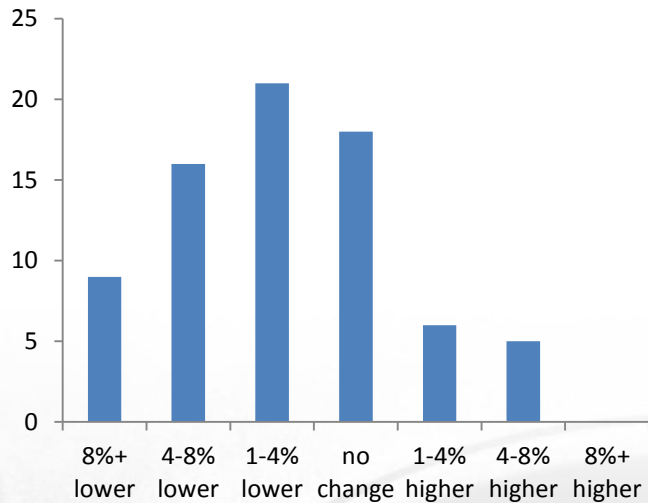
## Predicted Volume for 2016



Respondents predicted total volume for 2016 to be \$50.7 billion, which would represent a 2.2% increase over the \$49.6 billion transacted in 2015. Assuming proportions do not change in 2016, this suggests private equity volume will be \$38.5 billion in 2016, real estate will be \$9.4 billion, hedge funds will be \$0.9 billion, infrastructure will be \$1.6 billion and agriculture & timber will be \$0.3 billion.

## Expected Distribution and NAV Changes in 2016

### Distribution Pace in 2016 vs. 2015

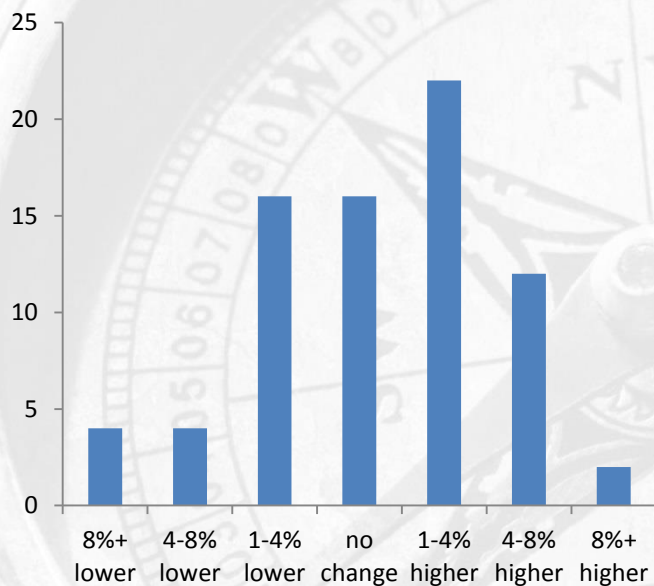


Most respondents expect the pace of distributions in 2016 to be lower than 2015.

On average respondents expected the pace of distributions to be 2.43% lower in 2016.

Respondents were more pessimistic than they were in H1 2015, as they expected the pace of distributions to be 0.38% higher.

### Change in NAV in 2016 vs. 2015

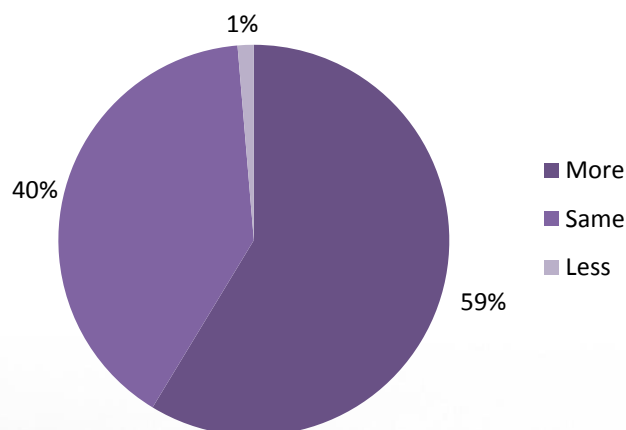


Most respondents expect NAV valuations to be roughly the same as compared to 2015.

On average, respondents expected NAVs to appreciate 0.53% in 2016.

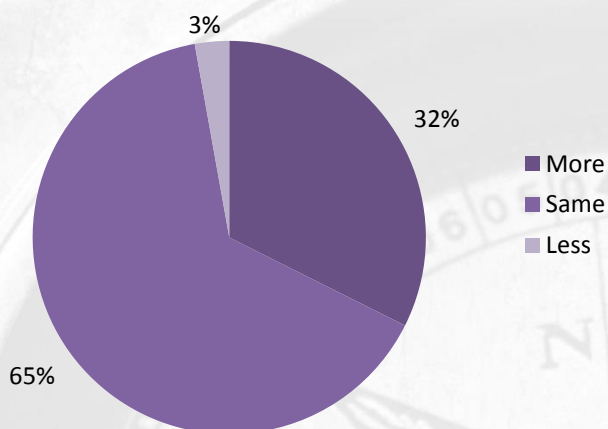
## General Partners' Approach to the Secondary Market

### Liquidations and Restructurings in 2015 vs. 2014



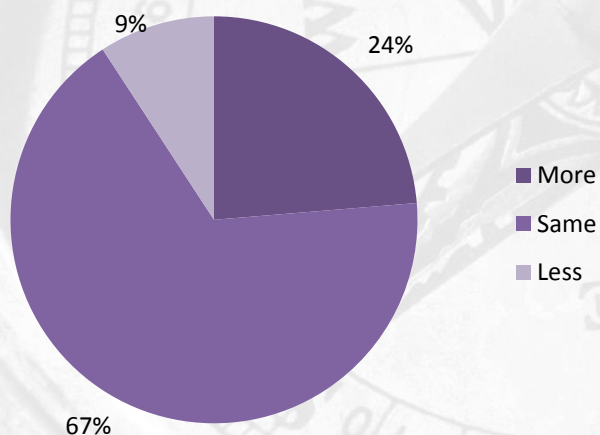
59% of respondents felt that more GPs attempted to liquidate or restructure older funds in 2015 compared to 2014.

### Staples Sought by GPs in 2015 vs. 2014



32.4% of respondents felt that a materially higher number of GPs sought staples in 2015 compared to 2014.

### GP Restrictiveness on Transfers in 2015 vs. 2014



Most respondents felt that GPs restrictiveness on transfers didn't change in 2015 compared to 2014.

## Select Respondents



Abbott Capital Management  
Adams Street Partners  
Adveq  
AGC Equity Partners  
Akina Partners  
Alpha Associates  
Alpinvest  
Arcano Group  
Argentum  
BEX Capital  
Canada Pension Plan Investment Board  
Capital Dynamics  
Cipio Partners  
Coller Capital  
Commonfund Capital  
Corbin Capital Partners  
Dorchester Capital Advisors  
Fondinvest  
Golding Capital Partners  
Greenspring Associates  
Hamilton Lane Advisors  
HarbourVest Partners  
Headlands Capital  
Hollyport Capital  
HQ Capital  
ICG Strategic Secondaries  
Idinvest Partners  
International Woodland Company (IWC)  
LGT Capital Partners  
Lothian Pension Fund  
Mercury Partners  
Neuberger Berman  
NewGlobe Capital  
North Sky Capital  
Northern Trust Corporation  
Northleaf Capital  
NorthStar Realty Finance  
Pantheon  
Partners Group  
Permal  
PineBridge Investments  
Pomona Capital  
Portfolio Advisors  
Private Advisors  
Private Equity Investors - PEI Funds  
RCP Advisors  
ROC Partners  
Siguler Guff Advisors  
SL Capital Partners  
Sobera Capital  
Stafford Capital Partners  
Stepstone  
Strategic Partners Fund Solutions  
Sturbridge Capital  
Top Tier Capital Partners  
Townsend Group  
TR Capital  
Tyrus Capital  
Unigestion  
Vintage Ventures  
W Capital Group  
Willowridge Partners

## About Setter

Established in 2006, Setter Capital is a leading independent advisory firm specializing in providing liquidity solutions for fund managers and institutional investors in the secondary market for alternative investments. We serve a diverse institutional client base including some of the world's largest pensions, endowments, investment consultants and fund managers. To date, Setter Capital has completed over 400 transactions, representing more than \$20 billion in liquidity across venture capital, private equity, infrastructure, real estate, real asset, and hedge fund investments.

Setter Capital's mission is to make the secondary market more transparent and efficient for all market participants. To this end, Setter provides the market with complimentary secondary market research and analytical tools such as:

### [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 4000 institutional LPs and GPs connect on primary due diligence and the secondary market.

## Setter Capital Inc.

77 Bloor Street West - Ste 1220

Toronto, Ontario

Canada - M5S 1M2

Phone: +1 (416) 964 9555

Fax: +1 (416) 964 0699

[www.settercapital.com](http://www.settercapital.com)