Setter

Volume Report
FY 2018

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in FY 2018 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume FY 2018 vs. FY 2017

› Breakdown of Volume between Funds and Directs

› Breakdown of Volume by Type of Assets Purchased

› Breakdown of Volume by Geography of Assets Purchased

› Profile of Buyers

› Number of Deals and Average Deal Size

› Buyers' Scope of Interest

› Buyers' Return Targets

› Profile of Sellers

› Percentage of Intermediated Deals

› Predicted Secondary Deal Volume for FY 2019

› Changes in the Level of Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in FY 2019

› General Partners' Approach to the Secondary Market

Setter

The survey

As the secondary market continues to grow and evolve, we seek to take a comprehensive and methodical approach to quantifying the market and identifying trends. Using a survey approach, we asked principals directly the same questions that buyers, sellers, agents and secondary fund LPs often ask us. How much was completed in FY 2018? 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 27 question survey of the most active global buyers in the secondary market for alternative investment funds conducted at the end of December 2018. 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 FY 2018. Please note the '$' sign denotes USD throughout this report.

We were pleased by the high response rate as 99 of the 121 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 ten of the largest buyers participated, the respondents to our survey represented 95.7% 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.

FY 2018 in review

After recording a record $60.7 billion in 2017, secondary market volume hit a staggering $79.7 billion in 2018 completed transactions, representing a 31.2% increase from the volume recorded in the **Setter Capital Volume Report FY 2017.**

Volume was up across most alternative asset classes. The private equity secondary market (funds and directs) increased 36.2% year over year, to a total of $70.2 billion. Real estate secondaries (funds and directs) were down 8.3% to $5.8 billion, as were hedge fund secondaries which were down 38.3% to $460 million. Private equity fund secondaries were up 25.7% ($43.8 billion in FY 2018 from $34.8 billion in FY 2017), driven by the strong market for both LBO funds (up 20.7%) and purchases of fund of funds and secondary funds (up 89.8%). Private debt secondaries were down 15.5% ($1.5 billion in FY 2018 from $1.8 billion in FY 2017) and energy fund secondaries were up 38.2% ($1.7 billion in FY 2018 from $1.23 billion in FY 2017).

Traditional fund secondaries were up 20.4% from $42.7 billion in FY 2017 to $51.4 billion in FY 2018, while ‘direct secondaries increased significantly, up 56.7% from $18.0 billion to $28.2 billion (private equity directs were $26.4 billion and real estate directs were $1.85 billion). Indeed, 62% of the survey respondents felt that meaningfully more GPs coordinated tender offers to their LPs or attempted to liquidate or restructure older funds in FY 2018 as compared to FY 2017 and 37.3% of respondents felt that a materially higher number of GPs sought staples in FY 2018 as compared to FY 2017.

While the breadth and number of buyers continued to increase, the most significant activity was driven by the large buyers in the market. The seventeen largest buyers, defined as those that deployed more than $1 billion in FY 2018, accounted for 73.7% of the market’s total volume (vs. 70.8% in FY 2017), driven largely by the increase in larger portfolios for sale and the record amounts of capital raised by the big players. 62 mid-sized buyers accounted for roughly 23.9% (vs.26.1% in FY 2017) and 42 small buyers represented 2.4% (vs.3.1% in FY 2017). Buyers continued to diversify their secondary focus with about 27% of participants buying other alternative investment types for the first time (infrastructure, real estate, etc.).

Buyer competition for deals continued to heat up in FY 2018 as noted by 12.5% of respondents who felt it was significantly higher than last year (vs. only 6.3 of respondents that felt it was lower) As a means to stay competitive, the use of debt to improve pricing and deal returns became even more prevalent as 29.2% of respondents felt that buyers had used significantly more leverage in FY 2018 as compared to the prior year and not a single respondent felt buyers used less leverage.

Agents intermediated $51 billion in deals in FY 2018, an increase of 38% over FY 2017. We expect the level of intermediation to rise in response to the entrance of new agents and as sellers struggle to stay on top of the ever-growing buyer universe.

There were a total of 1595 transactions in FY 2018, with an average size of approximately $49.95 million. The number of transactions was up 15.7% from the 1378 transactions completed in FY 2017 and the average deal size increased 13.0%, driven by the large number of $500 million plus transactions that hit the market.

The ranks of sellers continued to grow as more institutions looked to actively manage their private market portfolios. Managers of funds across LBO, VC, hedge funds, fund of funds and secondary funds accounted for 32.5% of all sellers, as they continued to use the market to drive liquidity in their funds or liquidity to their LPs through coordinated tender offers. Pensions were the next most active sellers, accounting for 29.4% of FY 2018 volume, up from 21.2% in FY 2017, while endowments and charities accounted for 5.0% and sovereigns accounted for 4.6% of volume. Looking forward, most buyers expect pensions to be the biggest sellers again in FY 2019 (35.9% of total transaction volume).

From a geographical perspective, North American sellers accounted for the largest proportion of volume in FY 2018 selling $47.6 billion (59.7% vs. 51.7% in FY 2017), whereas Western European sellers sold $21.1 billion (26.5% vs. 28.9% in FY 2017) and Asia-Pacific sellers accounted for about $8.4 billion (10.5% vs. 6.1% in FY 2017). Interestingly, other geographies such as the Middle East accounted for 3.2% of the total volume in FY 2018, down significantly from 13.3% in FY 2017.

Buyers, on average, estimate NAV valuations will increase .3% in FY 2019, while the pace of distributions will decrease 1.2%. These forecasts are less optimistic than those in the **Setter Capital Volume Report FY 2017**, where buyers expected distributions to increase by 1.21% and NAV valuations to increase by 3.15% in the following half year.

Looking forward, buyers expect FY 2019 volume to be $72.8 billion, which would be down 8.6% from the $79.7 billion transacted in FY 2018. Buyers are a little less optimistic about the growth in the market than they were at the end of 2017, when they expected volume to be down 3.10% in the coming year.

More Insight.

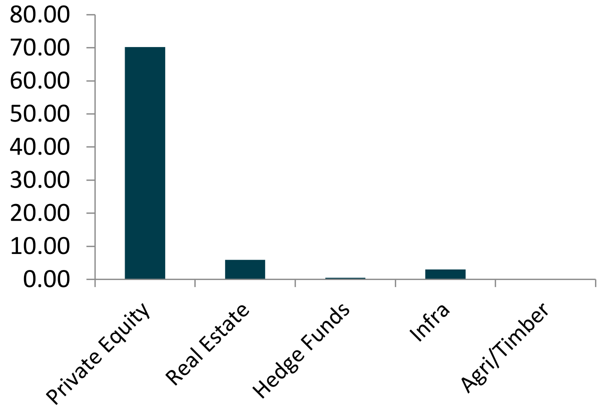
In the secondary market, knowledge is power.
By providing granular custom portfolio analysis and industry-leading market research, we empower our clients to make the most informed decisions.

Setter

Total volume

Total secondary market volume for FY 2018 was $79.7 billion. This is the volume estimate derived from the 121 secondary buyers surveyed with dedicated secondary efforts and includes 65 secondary funds, 41 funds of funds, 10 hedge funds, 4 investment consultants, and 1 pension. We believe this estimate is reliable as the 99 survey respondents alone reported $76.3 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): $70.23 billion (36.2% increase YoY)

Real Estate (Directs & Funds): $5.85 billion (8.3% decrease YoY)

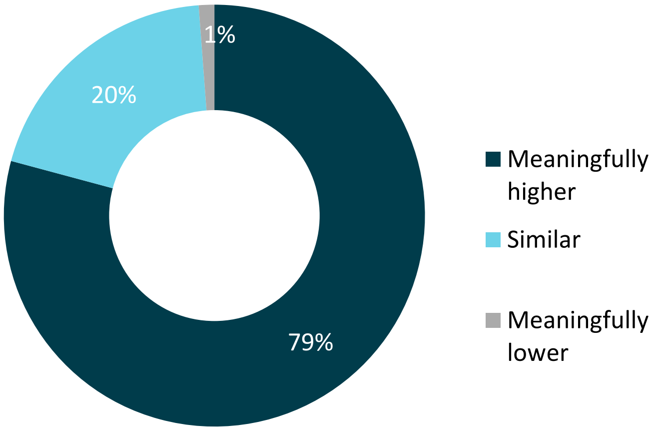
Hedge Funds: $460 million (38.3% decrease YoY)

Infrastructure Funds: $3.0 billion (68.3% increase YoY)

Agri/Timber Funds: $130 million (51.9% decrease YoY)

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

FY 2018 volume vs. FY 2017 volume

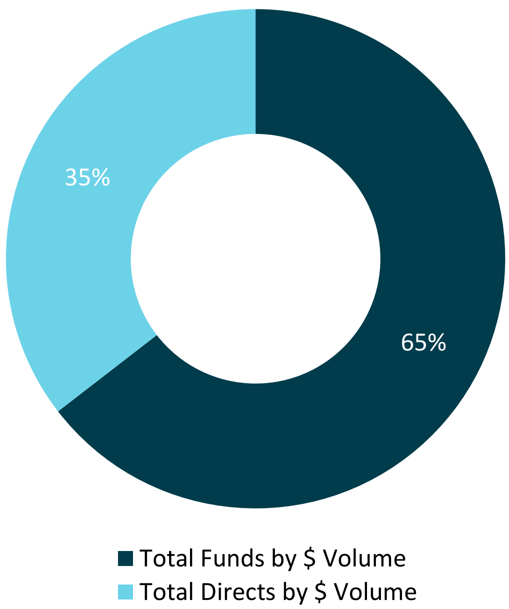


FY 2018 volume increased 31.2% compared to FY 2017, which was $60.7 billion.

79.2% of survey respondents felt their volume was significantly higher while only 1.2% felt their volume was significantly lower.

Assets purchased

Funds vs. Directs[1]



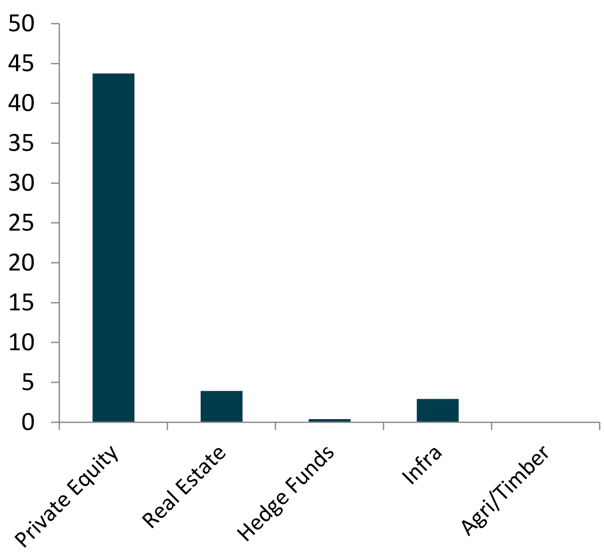
In FY 2018, $51.4 billion of funds (64.5 %) and $28.26 billion of directs (35.5 %) were purchased.

Fund secondaries increased 20.4 % in FY 2018, from $42.7 billion recorded in FY 2017. Direct Secondaries[1] increased from $18.0 billion in FY 2017 to $28.2 billion in FY 2018, which represents a 56.7% increase from last year.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 63.8% funds and 36.2% 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 $43.8 billion (25.7% increase YoY)

Real estate fund purchases totaled $4.0 billion (20.8% decrease YoY)

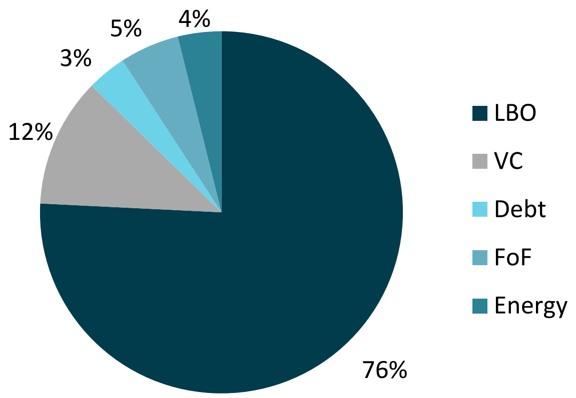
Hedge fund purchases totaled $460 million (38.3% decrease YoY)

Infrastructure fund purchases totaled $3.0 billion (68.3% increase YoY)

Agri/Timber fund purchases totaled $130 million (51.9% decrease YoY)

Types of funds purchased

Private Equity Funds



LBO – $33.2 billion
(Up 20.7% YoY from $27.5 billion)

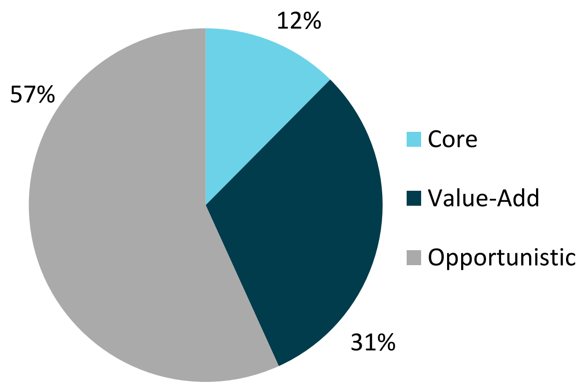
VC – $5.1 billion
(Up 64.3% YoY from $3.1 billion)

Debt – $1.5 billion
(Down 15.5% YoY from $1.8 billion)

Fund of Funds – $2.3 billion
(Up 89.8% YoY from $1.23 billion)

Energy – $1.7 billion
(Up 38.2% YoY from $1.2 billion)

Real Estate Funds



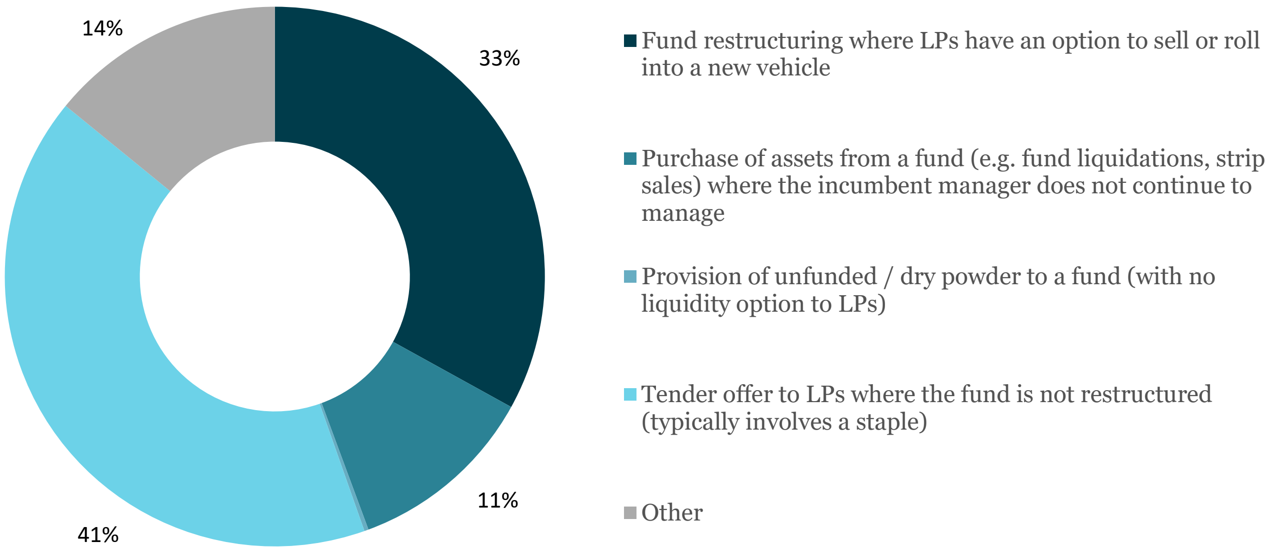
Core – $500 million
(Down 21.7% YoY from $640 million)

Value-Add – $ 1.2 billion
(Down 41.5% YoY from $2.1 billion)

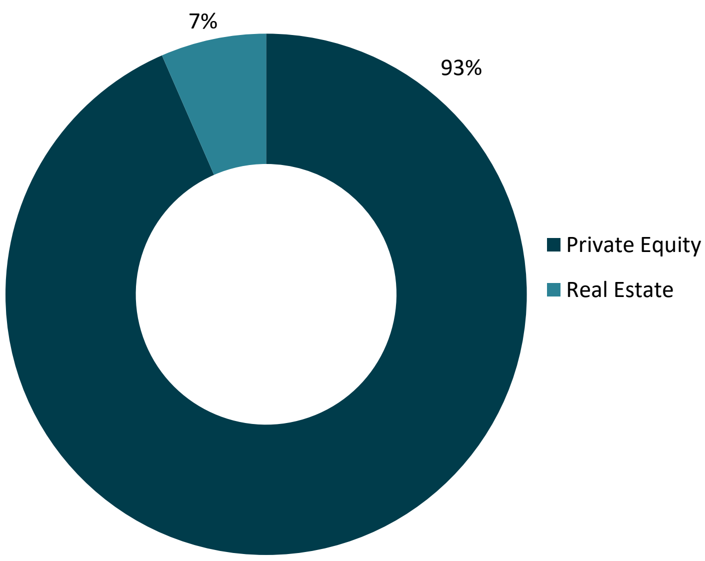
Opportunistic – $2.3 billion
(Down 1.5% YoY from $2.3 billion)

Types of direct secondaries

Types of direct deals completed by buyers

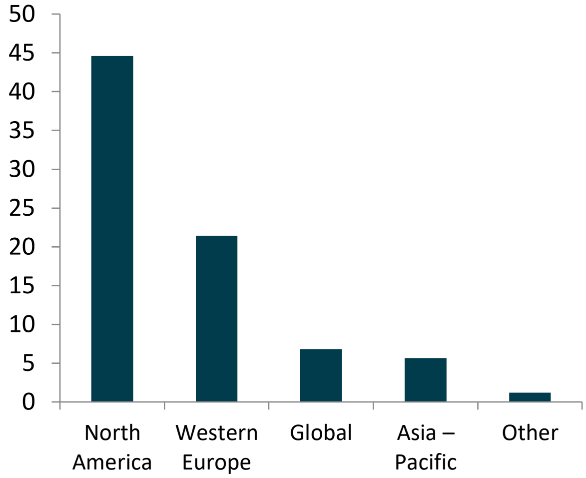


Private equity versus real estate directs



Private equity directs and real estate directs accounted for 93.5% and 6.5% respectively of the total directs volume.

Geography of assets purchased



North American and Western European focused funds/directs accounted for the vast majority of assets purchased in FY 2018:

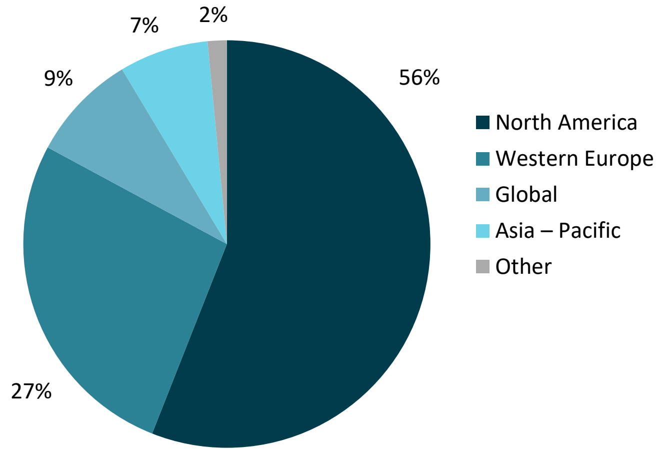
North America – $ 44.6 billion
(Up 50.6% YoY from $29.6 billion)

Western Europe - $21.4 billion
(Up 34.3% YoY from $15.9 billion)

Global – $6.8 billion
(Up 17.1% YoY from $5.8 billion)

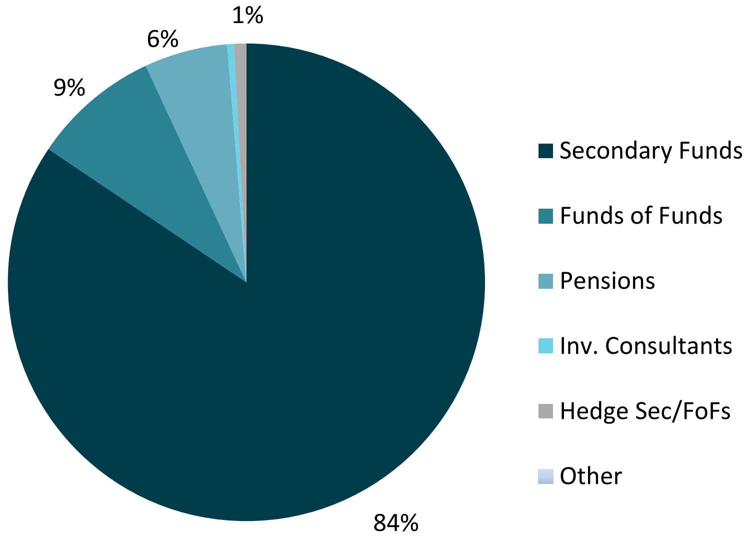
Asia-Pacific – $5.7 billion
(Down 11.6% YoY from $6.4 billion)

In terms of percentage, North America focused funds and directs accounted for 56% of total volume, Western European funds and directs accounted for 27 % and Asia-focused funds and directs accounted for 7% of sales.



Profiles of buyers

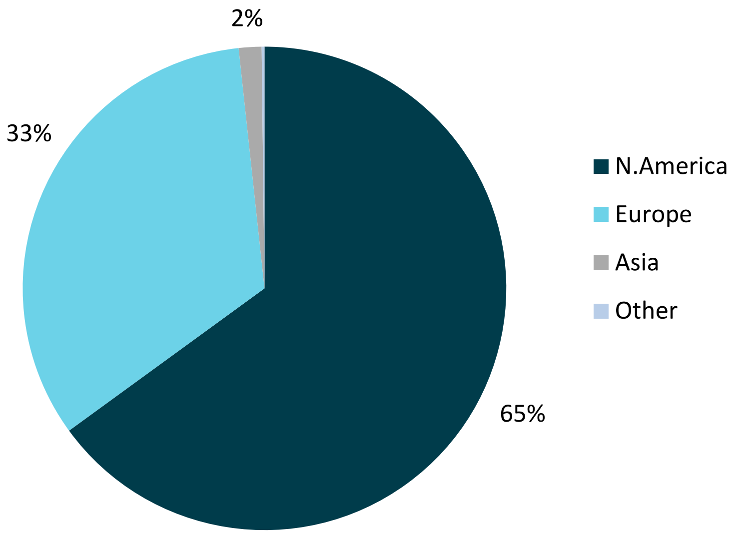
Type of buyers



Secondary funds were the most active buyers in FY 2018, accounting for 84.4% ($67.2 billion) of total purchases while funds of funds accounted for 8.6% ($6.8 billion).

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

Location of buyers[1]



North American buyers transacted the most (65% of total volume) in FY 2018, slightly down from 65.5% total volume in FY 2017.

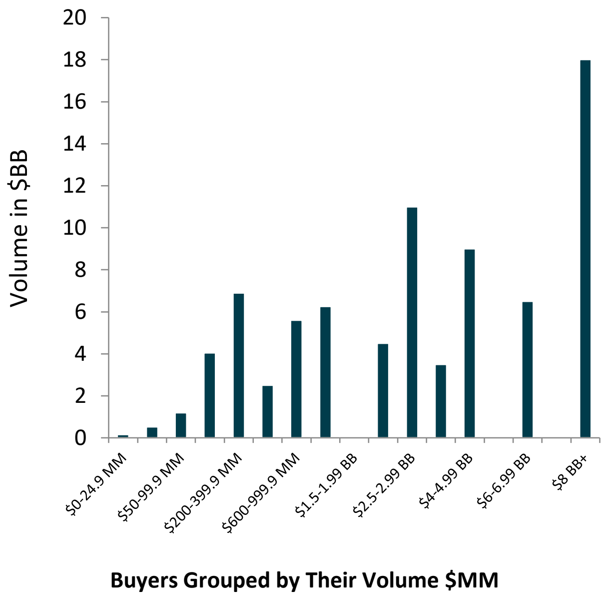
European buyers accounted for 33.3% of total volume in FY 2018, which was slightly lower than FY 2017 (33.8%).

[1] Location is based on head office location.

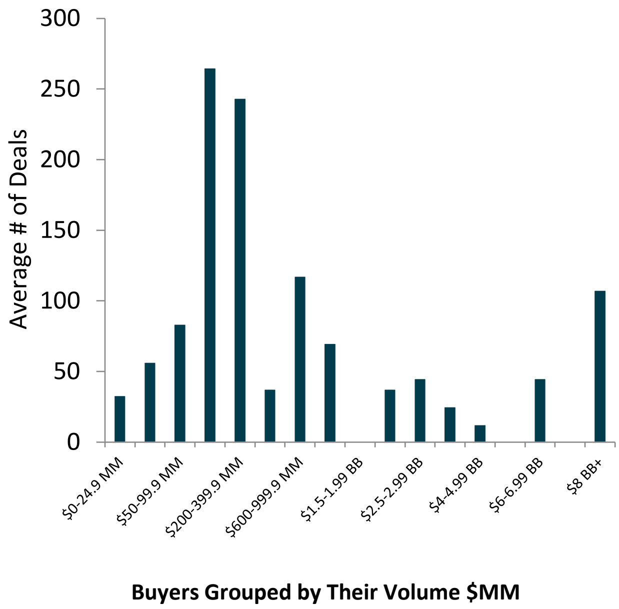
Activity levels of small, medium and large buyers

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



17 large buyers (defined as those that deployed $1 billion or more in FY 2018) purchased $58.8 billion, representing approximately 73.7% of total volume across 380 transactions with an average deal size of $154.7 million. This was an increase from FY 2017, where large buyers accounted for 70.8%.

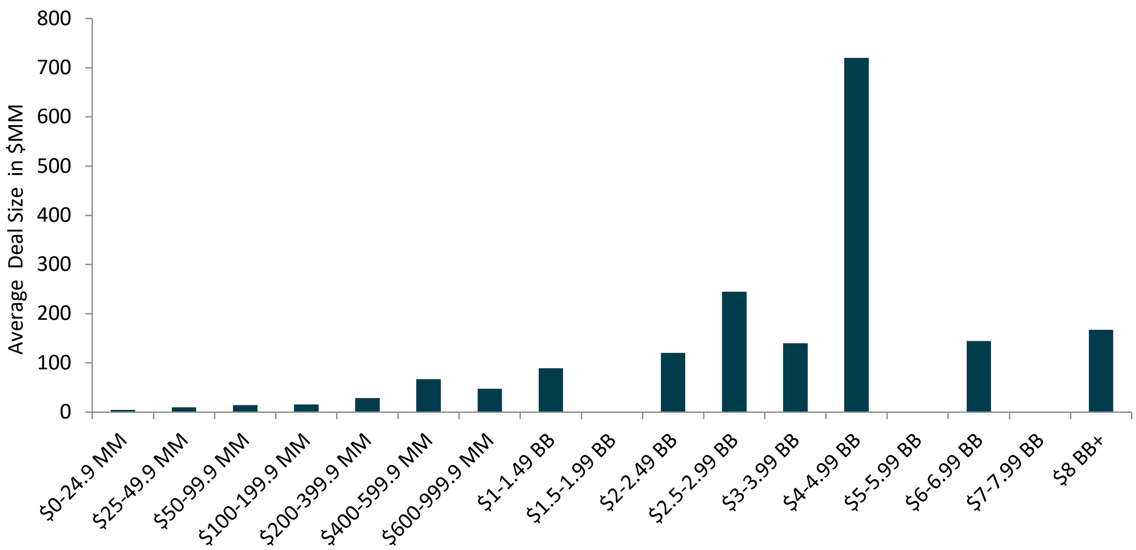
62 medium sized buyers (defined as those that deployed $100 million to $1 billion in FY 2018) purchased $19.0 billion, representing approximately 23.9% of total volume across 903 transactions with an average deal size of $21.1 million. This was a decrease from FY 2017, where they accounted for 26.1%.

42 small buyers (defined as those that deployed less than $100 million in FY 2018) purchased $1.9 billion, representing approximately 2.4% of total volume across 313 transactions with an average deal size of $6 million. This was a decrease from FY 2017, where they accounted for 3.1%.

Number of deals and average size deal

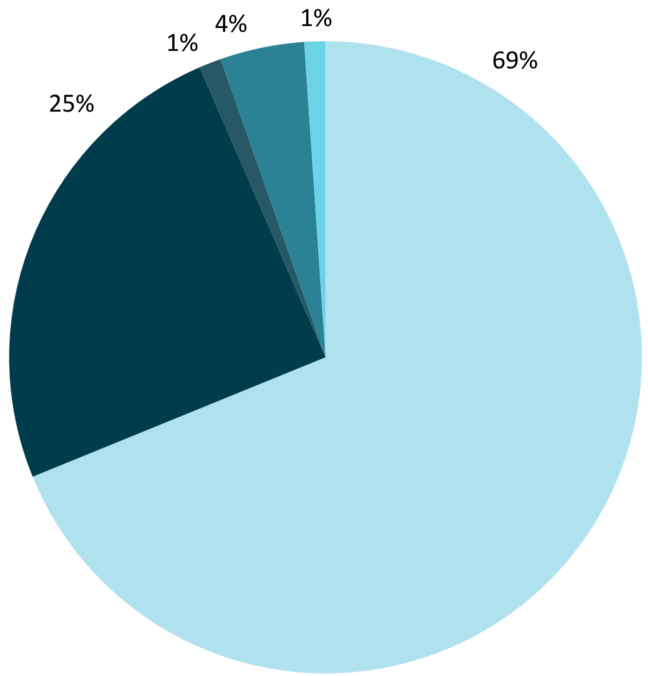
Buyers completed 1595 transactions in FY 2018 across the entire secondary market for alternative assets, with an average size of approximately $49.9 million. The number of transactions increased 15.7% from 1378 transactions in FY 2017, as did the average deal size, up 13.3% from $44.1 million in FY 2017.

Average deal size by size of buyer



Payment Terms

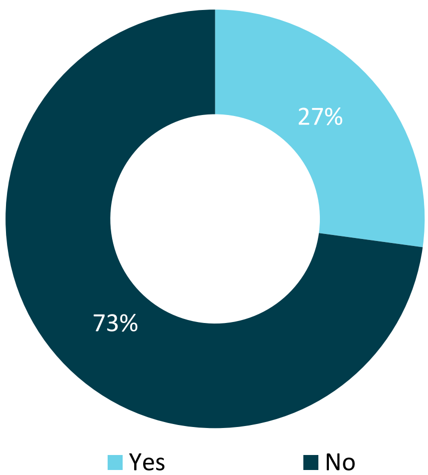
Although buyers paid 100% cash on closing for 69% of their deals, 29% of deals involved other payment terms or structuring.



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

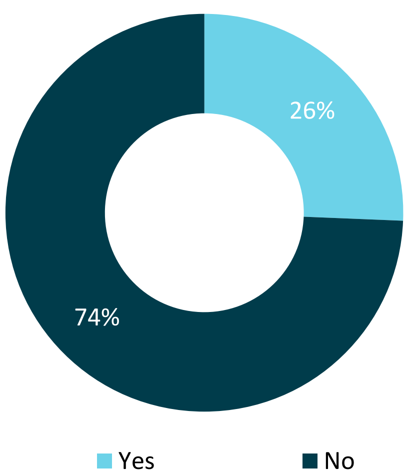
Buyers' scope of interest

Buyers that broadened their focus in FY 2018



27.2% of participants broadened their secondary focus in FY 2018 to include buying other alternative investment types (e.g. infrastructure, real estate, direct secondaries, etc.).

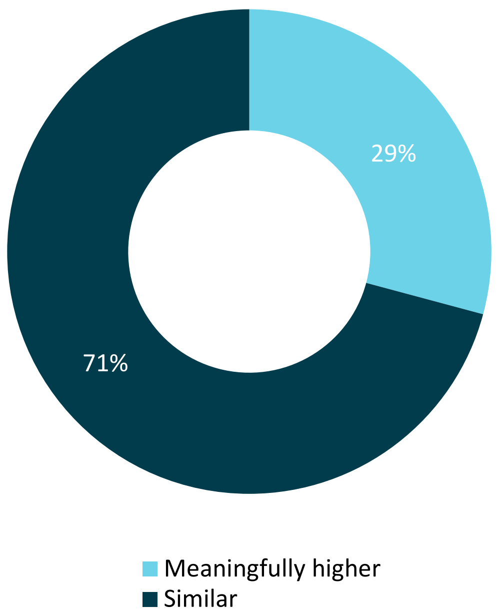
Buyers that intend to broaden their focus in FY 2019



25.6% of participants plan to broaden their secondary focus in FY 2019 include buying other alternative investment types.

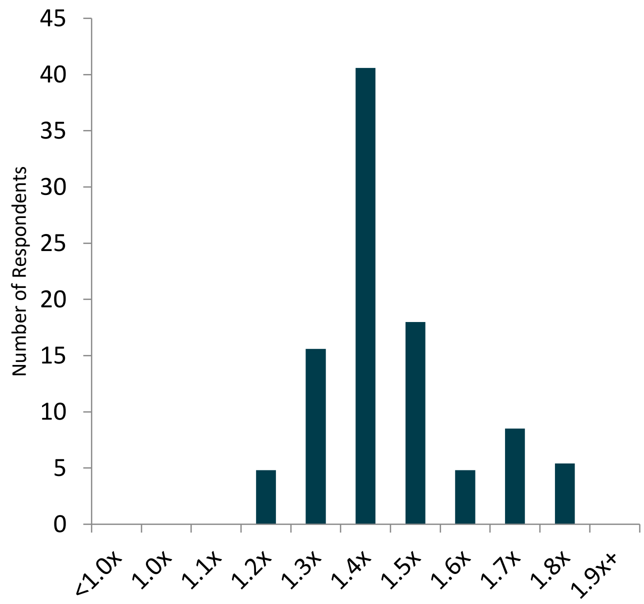
Leverage and returns

Level of debt used by buyers in FY 2018 vs. FY 2017



29.2% of respondents believed the level of debt used by buyers had increased significantly in FY 2018. 70.8% felt it was the same and no respondents felt it was less.

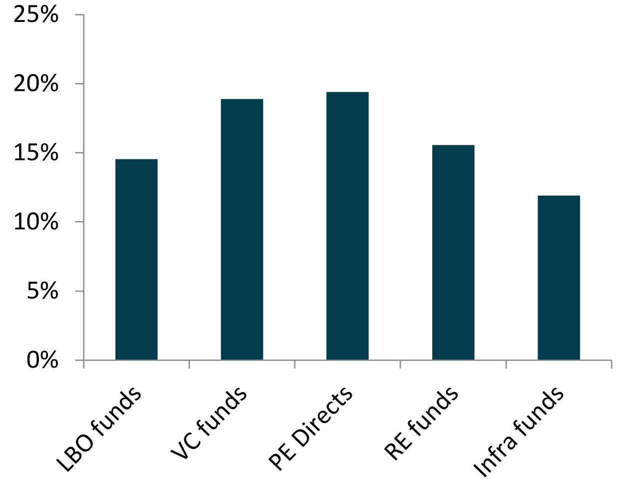
Expected multiple for secondary deals completed in FY 2018



Respondents predicted that the average gross multiple for secondary deals completed in FY 2018 would be 1.44x, which was slightly higher from the 1.41x multiple buyers expected from deals completed in FY 2017.

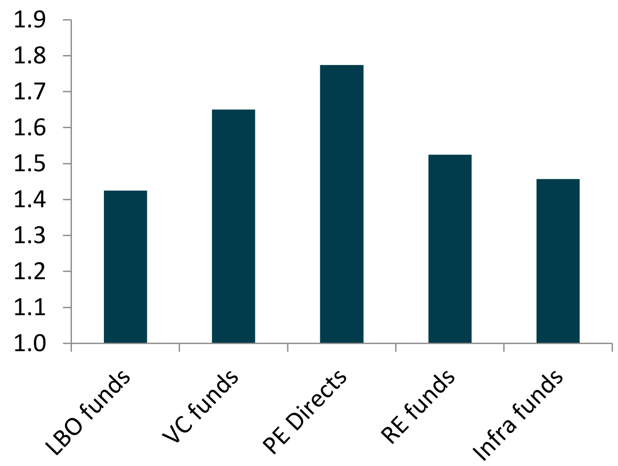
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, the 99 survey respondents estimated their peers' average targeted IRR to be 14.5% for LBO funds, 18.9% for VC funds, 19.4% for PE directs, 15.6% for real estate funds and 11.9% for infrastructure funds.

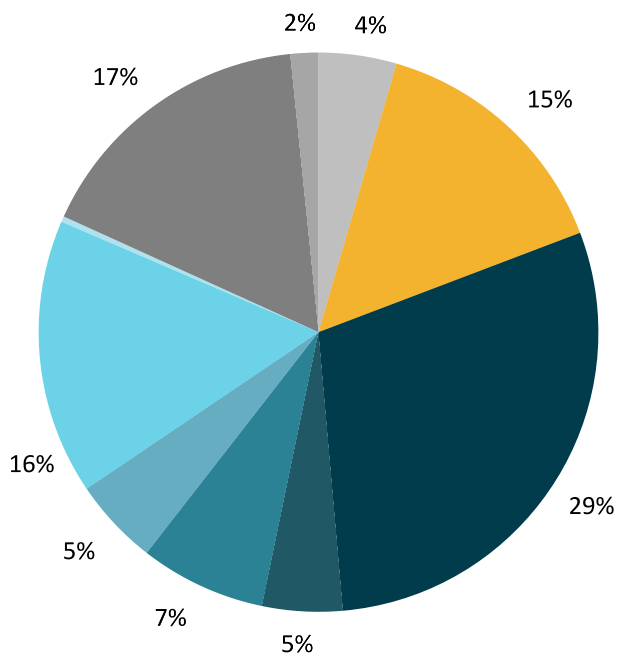
Targeted multiples on secondary purchases



On average, the 99 buyers estimated their peers' targeted multiples to be 1.42x for LBO funds, 1.65x for VC funds, 1.77x for PE directs, 1.53x for real estate funds and 1.46x for infrastructure funds.

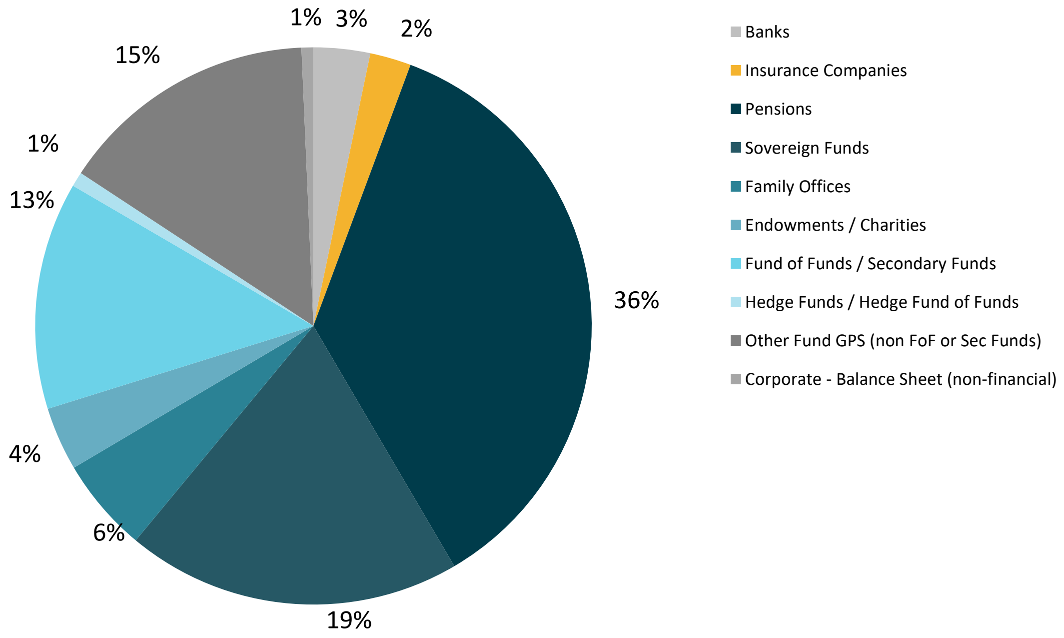
Seller profiles

Type of sellers in FY 2018



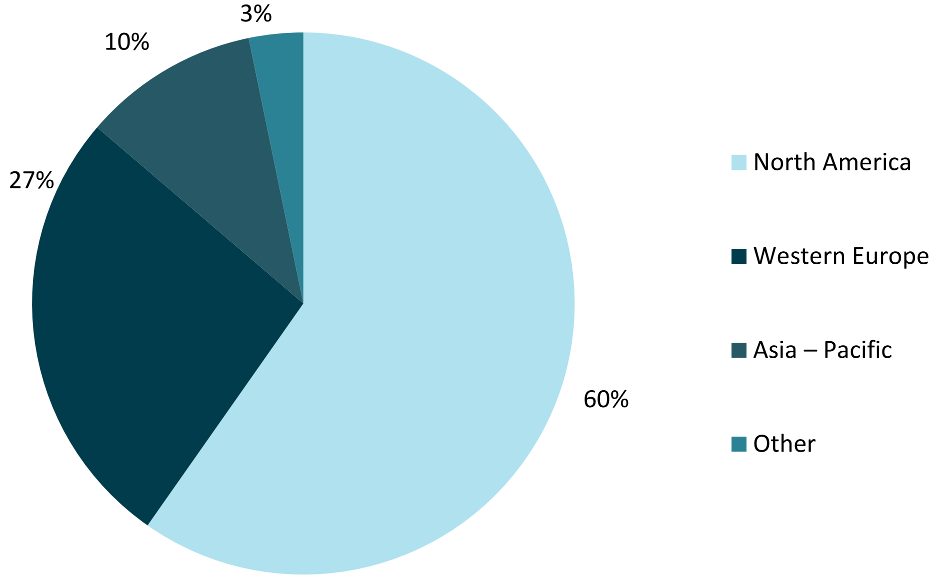
Pension funds and GPs (that are not fund of funds or secondary funds), were the most active sellers in FY 2018 making up 29.4% and 16.6% of the FY 2018 volume, respectively. Most buyers expect Pensions to be the biggest sellers again in FY 2019 (35.9% of total transaction volume).

Expected sellers in FY 2019

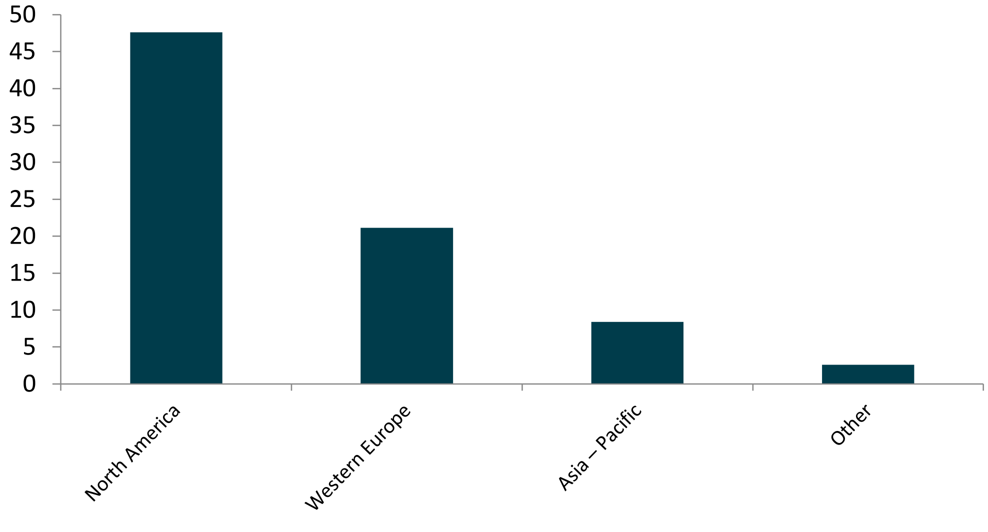


Seller location

Geography of sellers

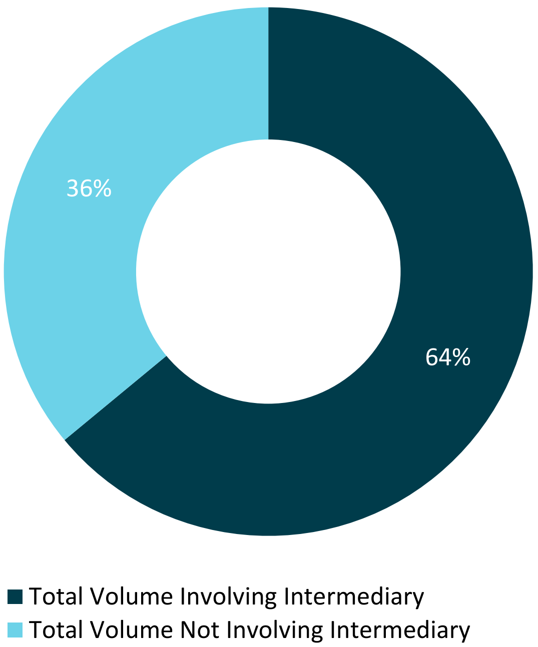


In terms of the location of sellers, North American and Western European sellers accounted for the vast majority of volume in FY 2018. North American sellers sold $47.6 billion (59.7% vs. 51.7% FY 2017), whereas Western European sellers sold $21.1 billion (26.5% vs. 28.9% in FY 2017). Asia-Pacific sellers accounted for 10.5% of the total volume up from 6.1% in FY 2017. Other geographies, such as the Middle East accounted for 3.2% of the total volume in FY 2018, down significantly from 13.3% in FY 2017.



Intermediation and level of competition

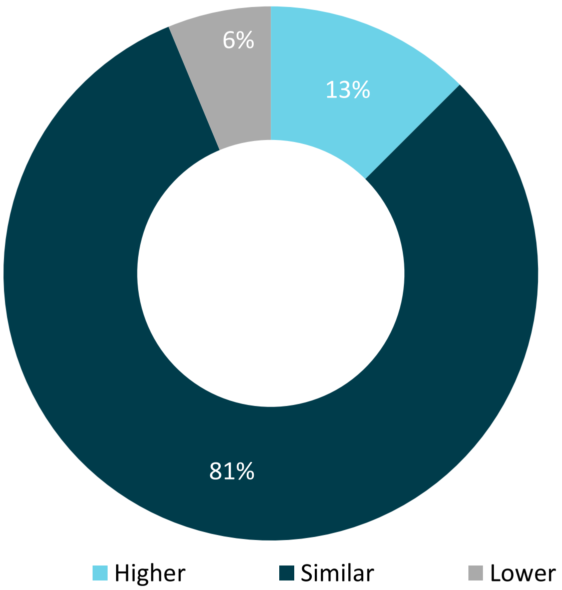
Volume of intermediated transactions



Approximately 64.0 % ($51.0 billion) of total secondary volume involved an intermediary, on either the buy or sell-side, as compared to 60.9% in FY 2017.

In terms of volume, agents intermediated $14 billion more in deals, an increase of 37.9% over FY 2017.

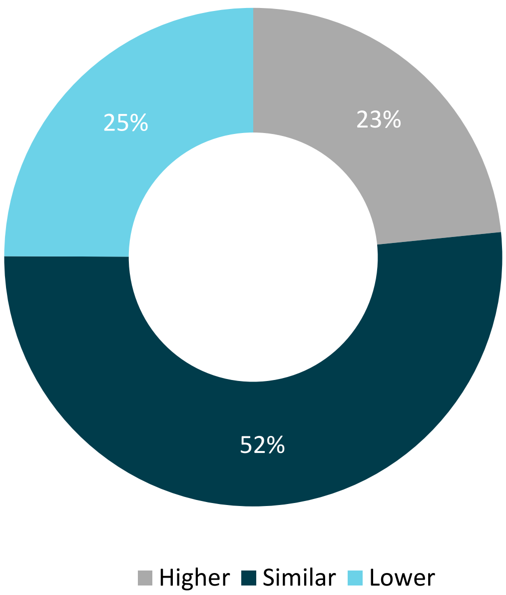
Buyer competition for deals in FY 2018 vs. FY 2017



81.3% of respondents felt buyer competition in FY 2018 was similar to FY 2017, while 12.5% felt buyer competition was significantly higher. 6.3% of survey respondents felt buyer competition was lower in FY 2018.

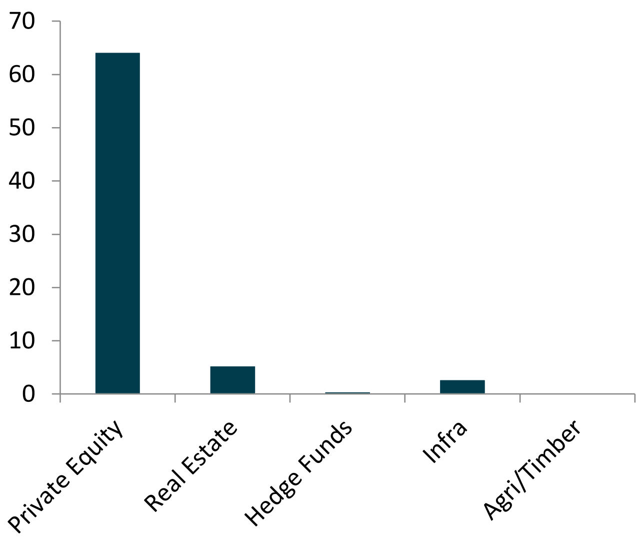
Projected volume for FY 2019

How FY 2019 volume will compare to FY 2018



23.4% of respondents felt that their FY 2019 volume will be meaningfully higher than FY 2018, while 24.9% of respondents felt that it will be meaningfully lower and 51.7% felt that it will be similar.

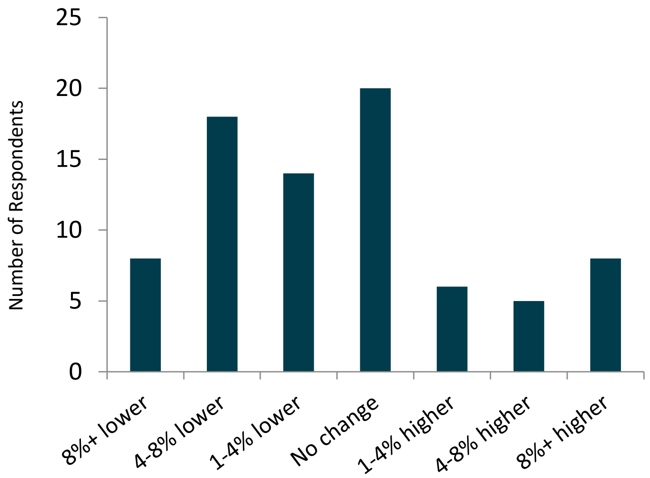
Predicted volume for FY 2019



Respondents predicted total volume for FY 2019 to be \$72.8 billion, which would represent an 8.63% decrease from the \$79.7 billion transacted in FY 2018. Assuming proportions do not change in FY 2019, this suggests private equity volume will be \$64.17 billion in FY 2019, real estate will be \$5.35 billion, hedge funds will be \$420 million, infrastructure will be \$2.7 billion and agriculture & timber will be \$120 million.

Expected distribution and NAV changes in FY 2019

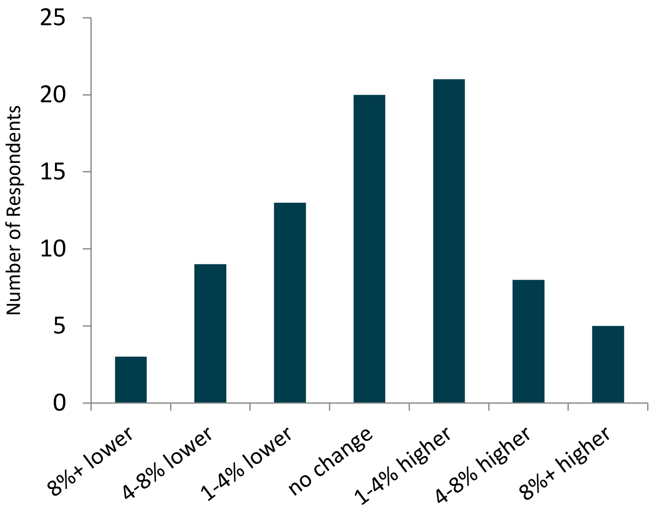
Distribution Pace in FY 2019 vs. FY 2018



Respondents expect the pace of distributions in FY 2019 to be lower than FY 2018 as the average response suggests an expected decrease of 1.2%.

Respondents are more pessimistic than they were in FY 2017, when they expected the pace of distributions to be up 1.21%.

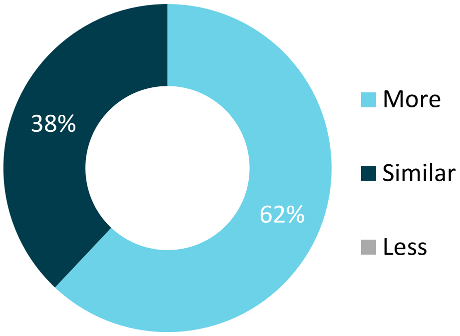
Change in NAV in FY 2019 vs. FY 2018



On average, respondents expect NAV valuations to increase by .3% in FY 2019 compared to FY 2018. Respondents were more pessimistic than FY 2017 when they expected NAVs to increase by 1.15% in the upcoming year.

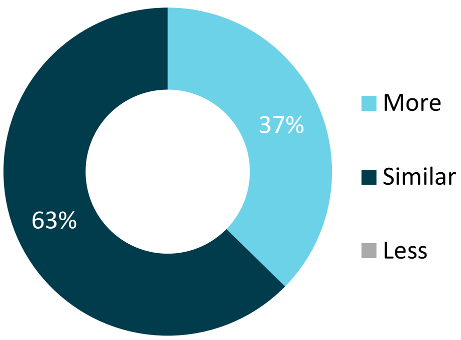
General partners' approach to the secondary market

Liquidations and restructurings in FY 2018 vs. FY 2017



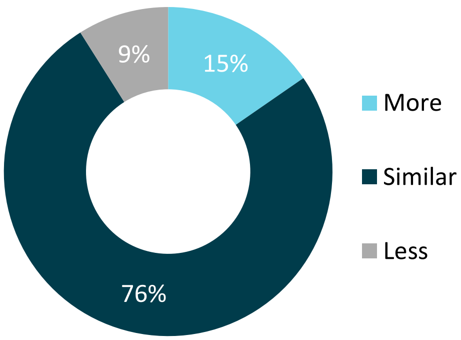
62.0% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in FY 2018 compared to FY 2017.

Staples sought by GPs in FY 2018 vs. FY 2017



37.3% of respondents felt that meaningfully more GPs sought staples in FY 2018 as compared to FY 2017.

GP restrictiveness on transfers in FY 2018 vs. FY 2017



Most respondents felt that GPs restrictiveness on transfers did not change in FY 2018 compared to FY 2017.

Select respondents

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

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 500 transactions, representing more than $30 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 5000 institutional LPs and GPs connect on primary due diligence and the secondary market.

Setter Capital Inc.
2 Bloor Street West, Ste 1700
Toronto, ON Canada M4W 3E2
+1 416 964 9555 Phone

settercapital.com