First in the secondary market.
The Setter Capital Volume Report analyzes global secondary market activity in FY 2019 and covers the following topics:

› Total Volume of Secondary Deals
› Secondary Volume FY 2019 vs. FY 2018
› 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
› Payment Terms
› Buyers’ Scope of Interest
› Buyers’ Return Targets
› Profile of Sellers
› Percentage of Intermediated Deals
› Predicted Secondary Deal Volume for FY 2020
› Changes in the Level of Competition
› Changes in Debt Levels
› Expected Returns of Secondary Purchases
› Expected Distribution and NAV Changes in FY 2020
› 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 FY 2019? 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 28 question survey of the most active global buyers in the secondary market for alternative investments conducted at the end of Dec 2019. 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 2019. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 100 of the 118 most active and regular buyers in the secondary market agreed to share their confidential results (see partial list of participants on page 25). Given the high response rate and the fact that all ten of the largest buyers participated, the respondents to our survey represented 96.1% of the transaction volume, making it the most reliable and detailed study of the industry’s activities.

Being mindful of response bias, we compared the list of respondents to those who had declined to respond and did not find any obvious or meaningful differences in the known and observed levels of activity between the two groups. We then estimated and charted the total volume, number of transactions, and other reported figures herein by prorating the survey results based on the proportion of small, medium and large buyers that participated.

We hope you find the results interesting and useful. We welcome any questions and would be happy to provide further insights into the results.
FY 2019 in review

After a record $79.67 billion in 2018, secondary market volume hit a notable $85.4 billion in 2019 completed transactions, representing a 7.2% increase from the volume recorded in the Setter Capital Volume Report FY 2018.

Volume was mixed across alternative asset classes. The private equity secondary market (funds and directs) increased 10.8% year over year, to a total of $77.82 billion. Real estate secondaries (funds and directs) were down 36.9% to $3.69 billion, as were hedge fund secondaries which were down 37.1% to $290 million. Traditional fund secondaries were up 9.2% from $51.41 billion in FY 2018 to $56.16 billion in FY 2019, while direct secondaries were up 3.5% from $28.26 billion to $29.25 billion (private equity directs were $27.96 billion and real estate directs were $1.29 billion). Specifically, private equity fund secondaries were up 13.8% ($49.86 billion in FY 2019 from $43.82 billion in FY 2018 driven by the strong market for both LBO funds (up 12.3%) and purchases of Fund of Funds (up 24.7%). Private debt secondaries were up a notable 104.8% ($3.14 billion in FY 2019 from $1.5 billion in FY 2018) and energy fund secondaries were up 4.2% ($1.77 billion in FY 2019 from $1.70 billion in FY 2018).

While the breadth and number of buyers continued to increase, the most significant activity was driven by the largest buyers in the market. The seventeen largest buyers, defined as those that deployed more than $1 billion in FY 2019, accounted for 72.0% of the market’s total volume (vs. 73.7% in FY 2018), driven largely by the number of larger portfolios for sale and the record amounts of capital raised by the big players. 66 mid-sized buyers accounted for roughly 26.1% (vs. 23.9% in FY 2018) and 35 small buyers represented 1.9% (vs. 2.4% in FY 2018). Buyers continued to diversify their secondaries focus with about 16.7% of participants buying other alternative investment types for the first time (infrastructure, real estate, etc.).

Buyer competition for deals continued to be strong as noted by 88.6% of respondents who felt it was similar to FY 2018, while only 5.7% 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 25.6% of respondents felt that buyers had used significantly more leverage in FY 2019 as compared to the prior year and not a single respondent felt buyers used less leverage.

Agents intermediated $60.06 billion in deals in FY 2019, a marked increase of 17.8% over FY 2018. 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 1597 transactions in FY 2019, with an average size of approximately $53.47 million. The number of transactions was up only .1% from the 1595 transactions completed in FY 2018 but the average deal size increased 7.0%, driven in part 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 37.5% 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. Indeed, 58.0% 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 2019 as compared to FY 2018 and 31.0% of respondents felt that a materially higher number of GPs sought staples in FY 2019 as compared to FY 2018. Pensions were the next most active sellers accounting for 22.7%, insurance companies accounted for 8.5%, endowments and charities accounted for 4.6% and sovereign funds accounted for 4.2% of the total volume. Looking forward, most buyers expect pensions and Fund of Funds & Secondary Funds to be the biggest sellers in FY 2020.

From a geographical perspective, North American sellers accounted for the largest proportion of volume in FY 2019 selling $47.29 billion (55.4% vs. 59.7% in FY 2018), whereas Western European sellers sold $19.11 billion (22.4% vs. 26.5% in FY 2018) and Asia-Pacific sellers accounted for about $16.87 billion (19.8% vs. 10.5% in FY 2018). Other geographies such as the Middle East accounted for 2.5% of the total volume in FY 2019, down from 3.2% in FY 2018.

Buyers estimated that NAV valuations will increase 2.6% and the pace of distributions will increase 1.9% in FY 2020. These forecasts are more optimistic than those in the Setter Capital Volume Report FY 2018, where buyers expected distributions to marginally increase by .35% and NAV valuations to decrease by 1.24% in the following half year.

Looking forward, buyers expect FY 2020 volume to be $89.12 billion, up 4.3% from the $85.41 billion transacted in FY 2019, making for another record 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.
Total volume

Total secondary market volume for FY 2019 was $85.41 billion. This is the volume estimate derived from the 118 secondary buyers surveyed with dedicated secondary efforts and includes 65 secondary funds, 40 funds of funds, 8 hedge funds, 4 investment consultants, and 1 pension. We believe this estimate is reliable as the 100 survey respondents alone reported $82.10 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

<table>
<thead>
<tr>
<th>Types of Assets Purchased</th>
<th>FY 2019 Volume</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity (Directs &amp; Funds)</td>
<td>$77.82 billion</td>
<td>10.8% increase</td>
</tr>
<tr>
<td>Real Estate (Directs &amp; Funds)</td>
<td>$3.69 billion</td>
<td>36.9% decrease</td>
</tr>
<tr>
<td>Infrastructure Funds</td>
<td>$3.45 billion</td>
<td>14.7% increase</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>$290 million</td>
<td>37.1% decrease</td>
</tr>
<tr>
<td>Agriculture/Timber Funds</td>
<td>$170 million</td>
<td>29.5% increase</td>
</tr>
</tbody>
</table>

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

FY 2019 volume vs. FY 2018 volume

FY 2019 volume increased 7.2% compared to FY 2018, which was $79.7 billion. Not surprisingly, 35.8% of survey respondents felt their volume was significantly higher while only 4.8% felt their volume was significantly lower.
In FY 2019, $56.16 billion of funds (65.8 % of total volume) and $29.25 billion of directs (34.2 %) were purchased.

Fund secondaries increased 9.2 % in FY 2019, from $51.41 billion recorded in FY 2018. Direct secondaries1 increased from $28.26 billion in FY 2018 to $29.25 billion in FY 2019, which represents a 3.5% increase from last year.

As a proportion of total volume, Directs went from 35.5% in FY 2018 to 34.2% in FY 2019.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 58.5% funds and 41.5% 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 $49.86 billion (13.8% increase YoY)
- Real estate fund purchases totaled $2.40 billion (40.0% decrease YoY)
- Infrastructure fund purchases totaled $3.45 billion (14.7% increase YoY)
- Hedge fund purchases totaled $290 million (37.1% decrease YoY)
- Agriculture/Timber fund purchases totaled $170 million (29.5% increase YoY)
Types of funds purchased

**Private equity funds**

- **LBO** – $37.30 billion (Up 12.3% YoY from $33.20 billion)
- **VC** – $4.75 billion (Down 6.2% YoY from $5.06 billion)
- **Debt** – $3.14 billion (Up 104.8% YoY from $1.53 billion)
- **Fund of Funds** – $2.90 billion (Up 24.7% YoY from $2.33 billion)
- **Energy** – $1.77 billion (Up 4.2% YoY from $1.70 billion)

**Real estate funds**

- **Core** – $400 million (Down 20.1% YoY from $500 million)
- **Value-Add** – $850 million (Down 31.1% YoY from $1.23 billion)
- **Opportunistic** – $1.15 billion (Down 49.2% YoY from $2.27 billion)
Types of direct secondaries

Types of direct deals completed by buyers

- Fund restructuring where LPs have an option to sell or roll into a new vehicle
- Purchase of assets from a fund (e.g. fund liquidations, asset sales) where the incumbent manager does not continue to manage
- Provision of unfunded / dry powder to a fund (with no liquidity option to LPs)
- Tender offer to LPs where the fund is not restructured (typically involves a staple)
- Other

Private equity directs vs. real estate directs

Private equity directs and real estate directs accounted for 95.6% and 4.4% 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 2019:

**North America** – $50.14 billion
(Up 12.4% YoY from $44.61 billion)

**Western Europe** – $25.16 billion
(Up 17.5% YoY from $21.41 billion)

**Global** – $2.18 billion
(Down 67.9% YoY from $6.80 billion)

**Asia-Pacific** – $6.10 billion
(Up 8.1% YoY from $5.65 billion)

In terms of percentage, North America focused funds and directs accounted for 58.7% of total volume, Western European funds and directs accounted for 29.5% and Asia-focused funds and directs accounted for 7.1% of sales.
Profiles of buyers

**Type of buyers**

Secondary funds were again the most active buyers in FY 2019, accounting for 86.8% ($74.10 billion) of total purchases while funds of funds accounted for 10.3% ($8.80 billion).

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

**Location of buyers**

North American buyers transacted the most (63.3% of total volume) in FY 2019, slightly down as a percentage from 65.0% total volume in FY 2018.

European buyers accounted for 35.1% of total volume in FY 2019, which was slightly higher than FY 2018 (33.3%).

¹Location 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:

17 large buyers (defined as those that deployed $1 billion or more in FY 2019) purchased $61.50 billion, representing approximately 72.0% of total volume across 445 transactions with an average deal size of $138.18 million. This was a decrease from FY 2018, where large buyers accounted for 73.7%.

66 medium sized buyers (defined as those that deployed $100 million to $1 billion in FY 2019) purchased $22.25 billion, representing approximately 26.1% of total volume across 886 transactions with an average deal size of $25.12 million. This was an increase from FY 2018, where they accounted for 23.9%.

35 small buyers (defined as those that deployed less than $100 million in FY 2019) purchased $1.66 billion, representing approximately 1.9% of total volume across 267 transactions with an average deal size of $6.23 million. This was a decrease from FY 2018, where they accounted for 2.4%.
Buyers completed 1597 transactions in FY 2019 across the entire secondary market for alternative assets, with an average size of approximately $53.47 million. The number of transactions marginally increased 0.1% from 1595 transactions in FY 2018, while the average deal size increased 7.0% from $49.95 million in FY 2018.

**Average deal size by size of buyer**

![Average Deal Size by Size of Buyer](chart.png)
Payment Terms

Although for 74% of their deals, buyers paid 100% cash on closing, 26% of deals involved other payment terms or structuring as outlined below.

- 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 2019

16.7% of participants broadened their secondaries focus in FY 2019 to include buying other alternative investment types (e.g. infrastructure, real estate, direct secondaries, etc.).

Buyers that intend to broaden their focus in FY 2020

25.3% of participants plan to broaden their secondaries focus in FY 2020 include buying other alternative investment types.
Leverage and returns

Level of debt used by buyers in FY 2019 vs. FY 2018

25.6% of respondents believed the level of debt used by buyers had increased significantly in FY 2019. 74.4% felt it was the same and no respondents felt it was less.

Expected multiple for secondary deals completed in FY 2019

Respondents predicted that the average gross multiple for secondary deals completed in FY 2019 would be 1.44x, which was exactly the same from the 1.44x multiple buyers expected from deals completed in FY 2018.
Buyers’ return targets

Targeted IRRs on secondary purchases

When underwriting new purchases, buyers estimated their peers’ average targeted IRR to be 14.8% for LBO funds, 19.5% for VC funds, 19.0% for PE directs, 14.0% for real estate funds and 12.1% for infrastructure funds.

Targeted multiples on secondary purchases

On average, buyers estimated their peers’ targeted multiples to be 1.44x for LBO funds, 1.70x for VC funds, 1.76x for PE directs, 1.42x for real estate funds and 1.44x for infrastructure funds.
Seller profiles

Type of sellers in FY 2019

GPs (that are not fund of funds or secondary funds) and Pensions, were the most active sellers in FY 2019 making up 24.5% and 22.7% of the FY 2019 volume, respectively. Most buyers expect Pensions to be the biggest sellers again in FY 2020 (38.6% of total transaction volume).

Expected sellers in FY 2020

- Banks
- Insurance Companies
- Pensions
- Sovereign Funds
- Family Offices
- Endowments / Charities
- Fund of Funds / Secondary Funds
- Hedge Funds / Hedge Fund of Funds
- Other Fund GPS (non FoF or Sec Funds)
- Corporate - Balance Sheet (non-financial)
In terms of the location of sellers, North American accounted for the majority of volume in FY 2019. North American sellers sold $47.29 billion (55.4% vs. 59.7% FY 2018), whereas Asia-Pacific sellers sold $16.87 billion (19.8% vs. 10.5% in FY 2018). Western European sellers accounted for 22.4% of the total volume down from 26.5% in FY 2018. Other geographies, such as the Middle East accounted for 2.5% of the total volume in FY 2019, down from 3.2% in FY 2018.
Intermediation and level of competition

Volume of intermediated transactions

Approximately 70.3% ($60.06 billion) of total secondary volume involved an intermediary, on either the buy or sell-side, which was significantly higher than FY 2018 where it was 64.0% ($50.99 billion).

In terms of volume, agents intermediated $9.07 billion more in deals, a marked increase of 17.8% over FY 2018.

Buyer competition for deals in FY 2019 vs. FY 2018

88.6% of respondents felt buyer competition in FY 2019 was similar to FY 2018, while 5.7% felt buyer competition was significantly higher. Similarly, 5.7% of survey respondents felt buyer competition was lower in FY 2019.
Projected volume for FY 2020

How FY 2020 volume will compare to FY 2019

8.4% of respondents felt that their FY 2020 volume will be meaningfully higher than FY 2019, 7.8% felt it would be meaningfully lower, while 83.8% of the respondents felt that it will be similar.

Predicted volume for FY 2020

Respondents predicted total volume for FY 2020 to be $89.13 billion, which would represent a 4.35% increase from the $85.41 billion transacted in FY 2019.

Assuming proportions do not change in FY 2020, this suggests private equity volume will be $81.20 billion in FY 2020, real estate will be $3.85 billion, hedge funds will be $300 million, infrastructure will be $3.60 billion and agriculture & timber will be $170 million.
Expected distribution and NAV changes in FY 2020

Distribution pace in FY 2020 vs. FY 2019

Respondents expect the pace of distributions in FY 2020 to be higher than FY 2019 as the average response suggests an expected increase of 1.9%.

Respondents are more optimistic than they were in FY 2018, when they expected the pace of distributions to be down 1.24%.

Change in NAV in FY 2020 vs. FY 2019

On average, respondents expect NAV valuations to increase by 2.6% in FY 2020 compared to FY 2019. This is significantly higher to FY 2018 when respondents expected NAVs to only slightly increase by .35% in the upcoming year.
General partners’ approach to the secondary market

Liquidations and restructurings in FY 2019 vs. FY 2018

58.0% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in FY 2019 compared to FY 2018.

Staples sought by GPs in FY 2019 vs. FY 2018

31.0% of respondents felt that meaningfully more GPs sought staples in FY 2019 as compared to FY 2018.

GP restrictiveness on transfers in FY 2019 vs. FY 2018

Most respondents felt that GPs restrictiveness on transfers did not change in FY 2019 compared to FY 2018.
Select respondents

50 South Capital
Aberdeen Standard Investments
Access Capital
Adams Street Partners
AlpInvest
Altamar Capital
Ant Capital Partners
Arcano Capital
ARCIS Capital
Argentum
Bex Capital
Blackrock Private Equity Advisors
Capital Dynamics
Central Park Group
Cipio Partners
Coller Capital
Commonfund Capital
Corbin Capital Partners
Canada Pension Plan Investment Board
Deutsche Bank
Euro Private Equity
FlowStone Partners
Fort Washington
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Grosvenor Capital Management
Hamilton Lane
HarbourVest
Headlands Capital
Hollyport Capital
HQ Capital
Intermediate Capital Group
Idinvest
Industry Ventures
Israel Secondary Fund
Jasper Ridge
Kline Hill Partners
Knightsbridge
Landmark Partners

LGT Capital Partners
Mercer Investment Management
Mercury Partners
Metropolitan Realty
Montana Capital Partners
Morgan Stanley Investment Management
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Optimize Capital Partners
Pantheon
Partners Group
Pathway Capital
Pictet Alternative Advisors SA
PineBridge Investments
Pomona Capital
Portfolio Advisors
Private Advisors
RCP Advisors
ROC Partners
Schroder Adveq
Spectra Investments
Stafford Capital
StepStone Group
Strategic Partners
Sturbridge Capital
Sweetwater
Top Tier Capital Partners
TR Capital
Tyrus Capital
UBS Asset Management
Unigestion
Vintage Ventures
W Capital Partners
Warana Capital
Whitehorse Liquidity Partners
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 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.

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