Setter

Volume Report FY 2020

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in FY 2020 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume FY 2020 vs. FY 2019

› 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 2021

› Changes in the Level of Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in FY 2021

› 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 2020? 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 31 question survey of the most active global buyers in the secondary market for alternative investments, conducted at the beginning of January 2021. 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 2020. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 100 of the 117 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 95.2% 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 2020 in review

After hitting a record $85.4 billion in 2019, secondary market volume dropped to $61.8 billion in FY 2020. Undoubtedly impacted by the Covid-19 crisis, this represented a 27.7% decrease from the secondary volume recorded in the **Setter Capital Volume Report FY 2019.**

Volume was down across most types of alternative investments. The private equity secondary market (funds and directs) decreased 27.8% year over year, to a total of $56.21 billion. Private equity fund secondaries specifically were down 50.2% ($24.85 billion in FY 2020 from $49.86 billion in FY 2019. Notably, private debt fund secondaries were down 79.7% ($638 million in FY 2020 from $3.14 billion in FY 2019) and energy fund secondaries were down 87.2% ($226 million in FY 2020 from $1.77 billion in FY 2019). Real estate secondaries (funds and directs) were down 25.7% to $2.74 billion. Two bright spots were secondaries of agriculture and timber funds, which saw a 97.3% increase to $330 million in FY 2020, and hedge funds which were up 47.9% to 430 million.

Traditional fund secondaries were down 47.7% from $56.16 billion in FY 2019 to $29.36 billion in FY 2020, while direct secondaries were up 10.8% from $29.25 billion to $32.40 billion (private equity directs were $31.36 billion and real estate directs were $1.04 billion).

While the breadth and number of buyers continued to increase, the most significant activity was driven by the largest buyers in the market. The sixteen largest buyers, defined as those that deployed more than $1 billion in FY 2020, accounted for 67.2% of the market's total volume (vs. 72.0% in FY 2019), while the sixty five mid-sized buyers accounted for 29.8% (vs. 26.1% in FY 2019) and the 36 smallest buyers represented 3.0% (vs. 1.9% in FY 2019).

Although 76.2% of respondents felt buyer competition was similar to FY 2019, 14.3% of respondents felt it was lower, as many buyers pulled back when the Covid-19 crisis broke out. As a means to stay competitive, the use of debt to improve pricing and deal returns continued to be common in the secondary market, however 23.3% of respondents felt that buyers used significantly less leverage in FY 2020 as compared to the prior year.

Agents intermediated 65.7% of deals in FY 2020, versus 70.3% in FY 2019. In terms of dollars, agents intermediated $40.56 billion in deals in FY 2020, which was 32.5% less than they did in FY 2019.

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There were a total of 1376 transactions in FY 2020, with an average size of approximately $44.9 million. The number of transactions was down 13.8% from the 1597 transactions completed in FY 2019 as was the average deal size which was down 16.1%, given the drop in large-scale deals being completed.

Not surprisingly, 60% of buyers felt that more deals fell apart in FY 2020 versus the preceding year. Buyers noted that the two main reasons that deals fell apart were that the seller decided not to sell (55%) and adverse economic issues (34%). In the latter case, buyers noted the use of Material Adverse Change (MAC) clauses, due to the Covid-19 pandemic, as the primary mechanism to call off a deal.

The ranks of sellers declined noticeably as many chose to take a wait-and-see approach in light of the pandemic. Managers of funds across private equity, real estate, hedge and other direct investment funds accounted for 27.3% of all sellers, as they looked to raise money to support their portfolios or to create liquidity for their LPs. Indeed, 56.1% 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 2020 as compared to FY 2019. Pensions were the next most active sellers accounting for 26.7% and funds of funds and secondary funds accounted for 10.4% of the total volume. Looking forward, most buyers expect pensions to be the biggest sellers in FY 2021 (32.5% of total transaction volume).

From a geographical perspective, North American sellers accounted for the largest proportion of volume in FY 2020 selling $38.28 billion (62.0% vs. 55.4% in FY 2019), whereas Western European sellers sold $16.01 billion (25.9% vs. 22.4% in FY 2019) and Asia-Pacific sellers accounted for about $6.15 billion (10.0% vs. 19.8% in FY 2019). Other geographies such as the Middle East accounted for 2.1% of the total volume in FY 2020, down from 2.5% in FY 2019.

With a challenging year behind them, buyers estimated that NAV valuations will increase 5.1% and the pace of distributions will likewise increase 5.5% in FY 2021. These forecasts are more optimistic than those in the **Setter Capital Volume Report FY 2019**, where buyers expected NAV and distributions to increase by 2.6% and 1.9% respectively in the following year.

Looking forward, buyers expect FY 2021 volume to rebound to $89.84 billion, which would be up 45.5% from the $61.76 billion transacted in FY 2020.

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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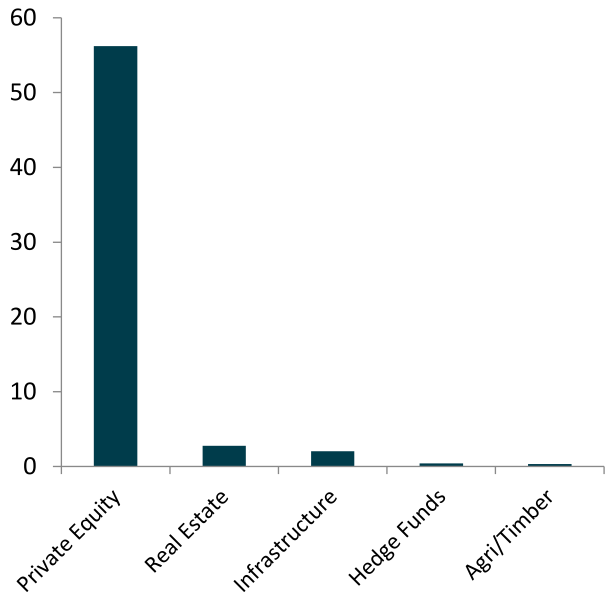
Total volume

Total secondary market volume for FY 2020 was $61.76 billion. This is the volume estimate derived from the 117 secondary buyers surveyed with dedicated secondary efforts and includes 66 secondary funds, 38 funds of funds, 7 hedge funds, 5 investment consultants, and 1 pension. We believe this estimate is reliable as the 100 survey respondents alone reported $58.78 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):$56.21 billion (27.8% decrease YoY)

Real Estate (Directs & Funds): $2.74 billion (25.7% decrease YoY)

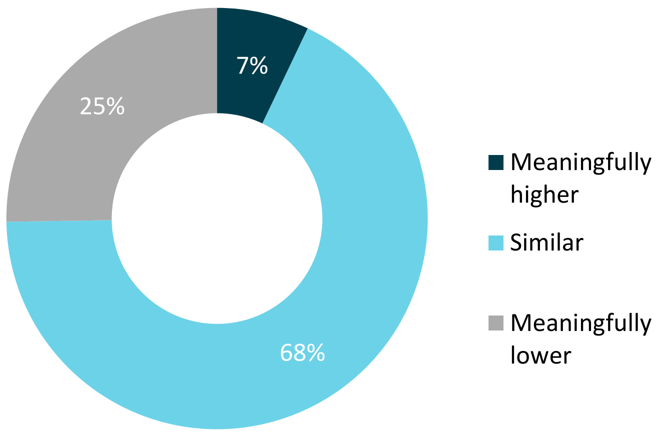
Infrastructure Funds: $2.06 billion (40.4% decrease YoY)

Hedge Funds: $430 million (47.9% increase YoY)

Agriculture/Timber Funds: $330 million (97.3% increase YoY)

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

FY 2020 volume vs. FY 2019 volume

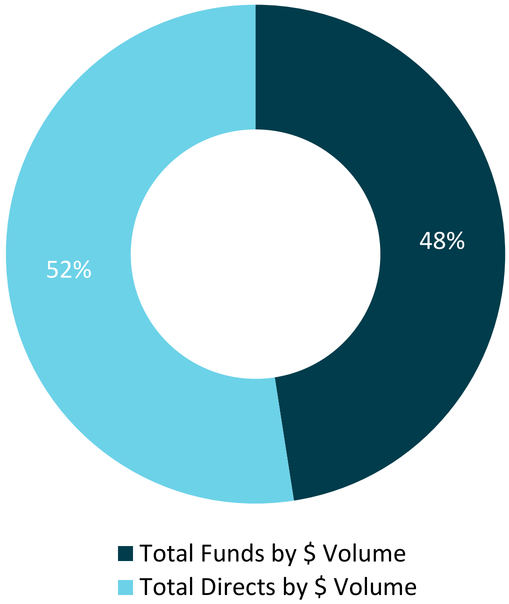


As a result of the Covid-19 pandemic, FY 2020 volume decreased 27.7% compared to FY 2019, which was $85.41 billion.

While 67.7% of survey respondents felt their volume was similar, 25.2% felt their volume was lower and only 7.1% felt their volume was higher.

Assets purchased

Funds vs. Directs[1]



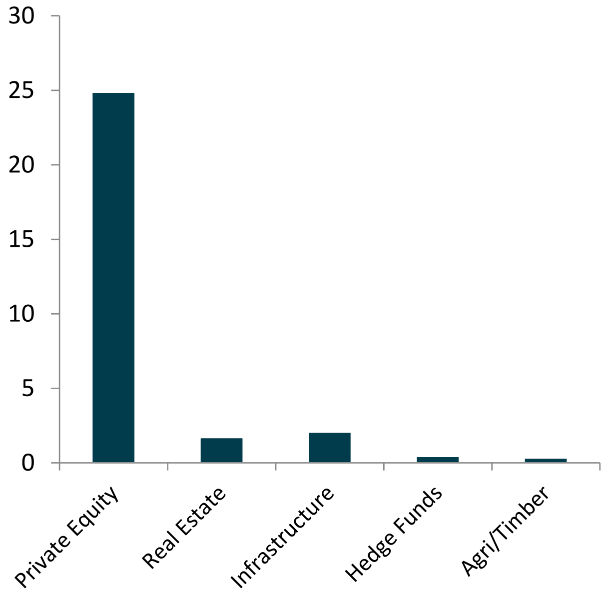
Fund secondaries decreased 47.7 %, from the $56.16 billion recorded in FY 2019 to $29.36 billion in FY 2020. Direct secondaries[1], on the other hand, increased 10.8% from $29.25 billion in FY 2019 to $32.40 billion in FY 2020.

As a proportion of total volume, Direct secondaries went from 34.2% in FY 2019 to 52.5% in FY 2020.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 53.0% funds and 47.0% 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 $24.85 billion (50.2% decrease YoY)

Real estate fund purchases totaled $1.70 billion (29.2% decrease YoY)

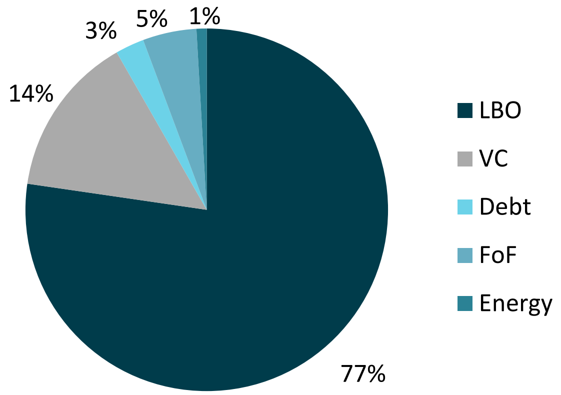
Infrastructure fund purchases totaled $2.06 billion (40.4% decrease YoY)

Hedge fund purchases totaled $430 million (47.9% increase YoY)

Agriculture/Timber fund purchases totaled $330 million (97.3% increase YoY)

Types of funds purchased

Private equity funds



LBO – $19.21 billion
(Down 48.5% YoY from $37.30 billion)

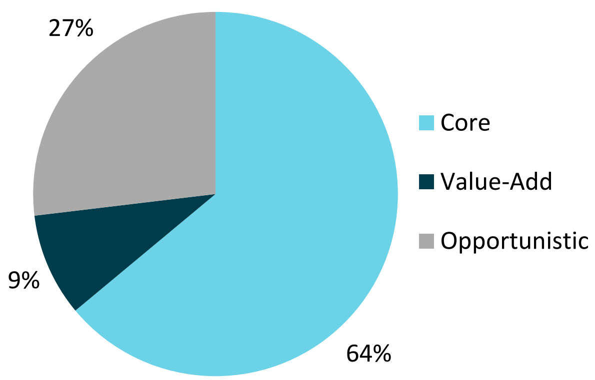
VC – $3.59 billion
(Down 24.4% YoY from $4.75 billion)

Debt – $638 million
(Down 79.7% YoY from $3.14 billion)

Fund of Funds – $1.19 billion
(Down 58.9% YoY from $2.90 billion)

Energy – $226 million
(Down 87.2% YoY from $1.77 billion)

Real estate funds



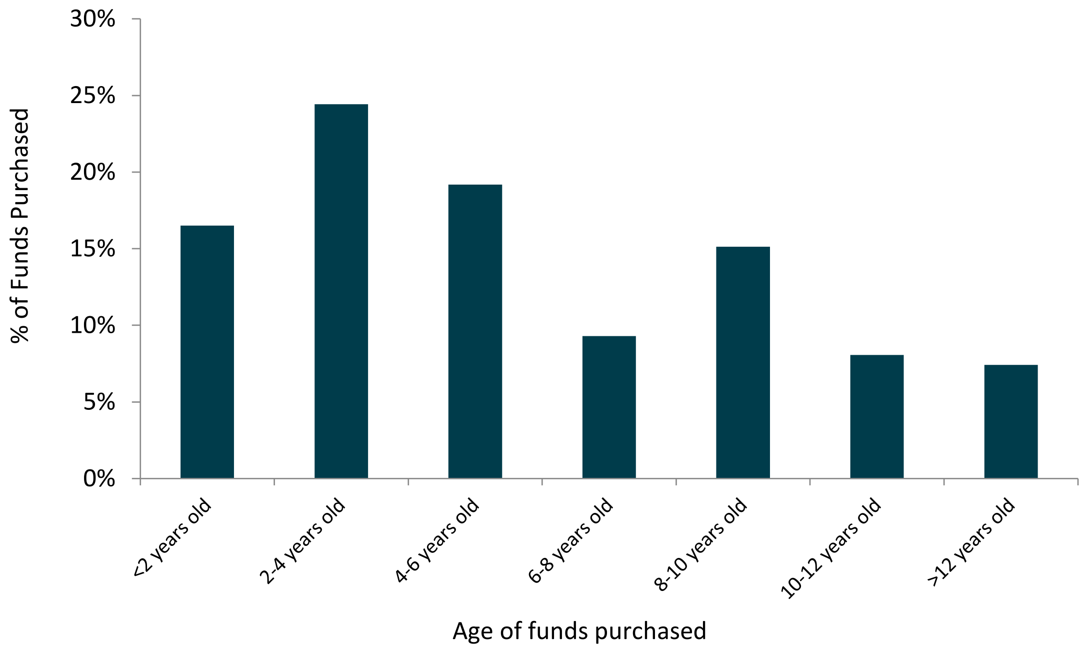
Core – $1.09 billion
(Up 173.7% YoY from $400 million)

Value-Add – $160 million
(Down 81.7% YoY from $850 million)

Opportunistic – $460 million
(Down 60.4% YoY from $1.15 billion)

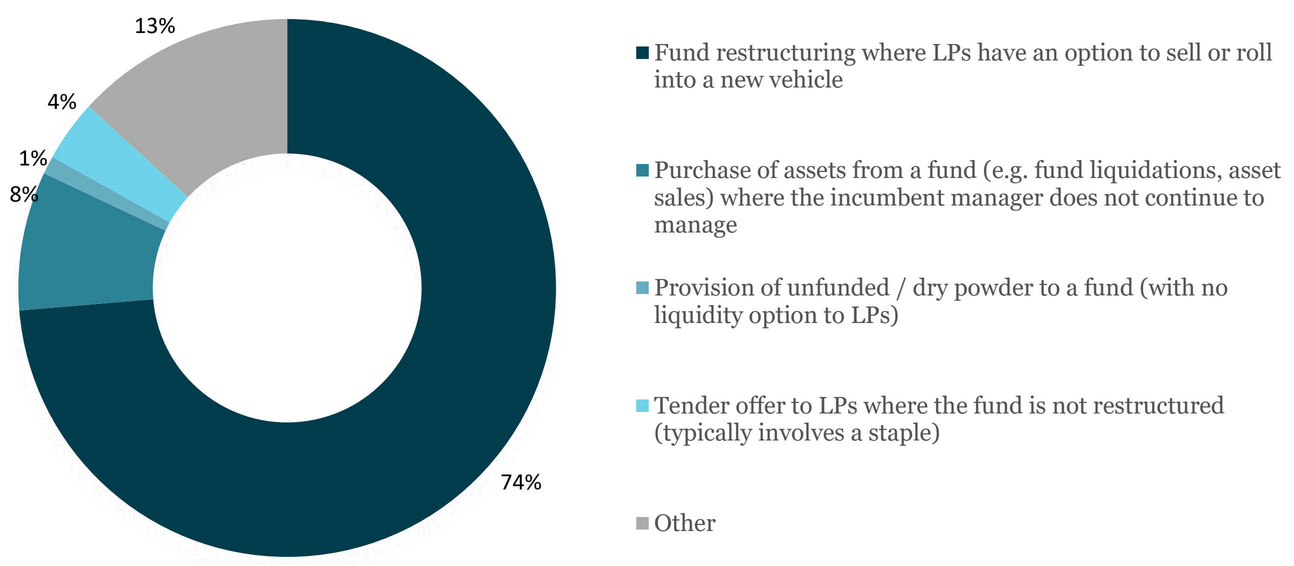
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 5.72 years old.

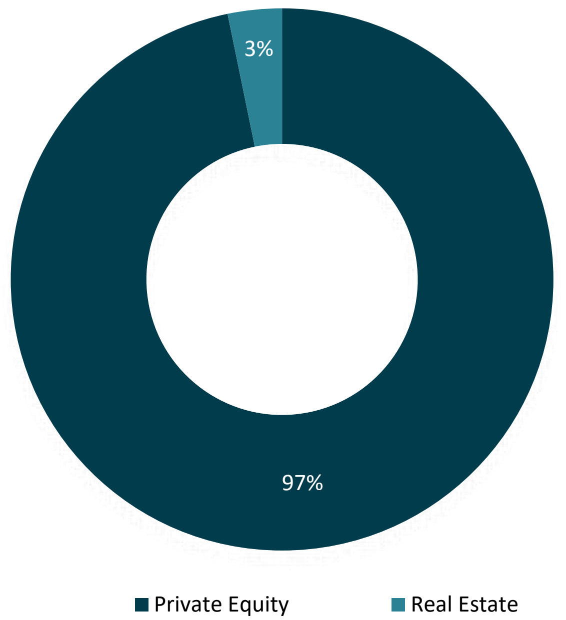


Types of direct secondaries

Types of direct deals completed by buyers

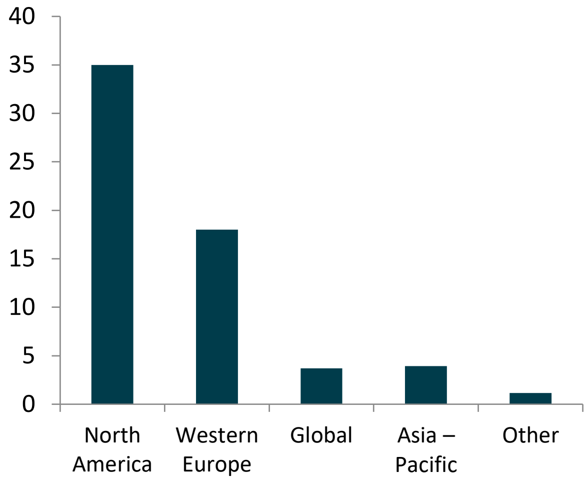


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 96.8% ($31.36 billion) and 3.2% respectively ($1.04 billion) 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 2020:

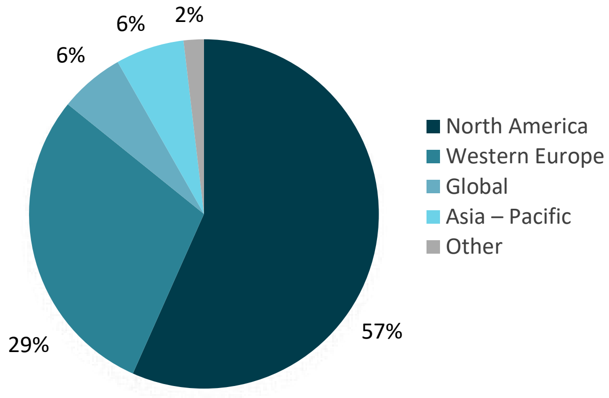
North America – $35.00 billion
(Down 30.2% YoY from $50.14 billion)

Western Europe - $18.00 billion
(Down 28.5% YoY from $25.16 billion)

Global – $3.7 billion
(Up 69.5% YoY from $2.18 billion)

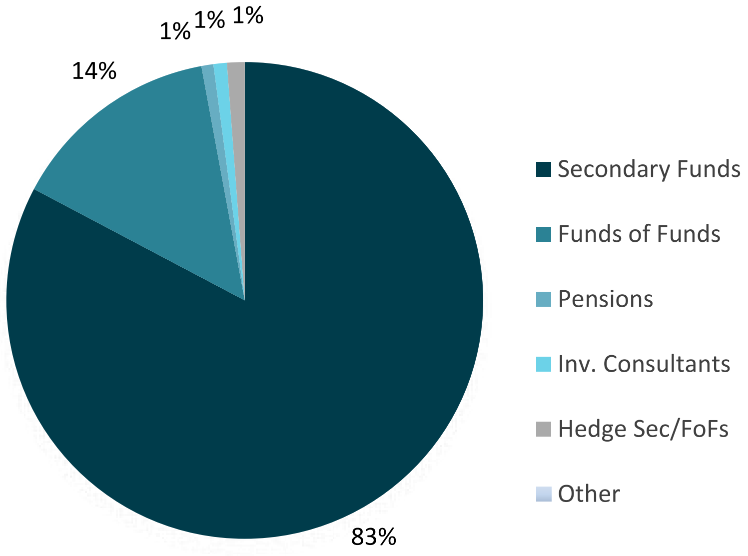
Asia-Pacific – $3.92 billion
(Down 35.8% YoY from $6.10 billion)

In terms of percentage, North American focused funds and directs accounted for 56.7% of total volume, Western European funds and directs accounted for 29.1% and Asia-focused funds and directs accounted for 6.3% of sales.



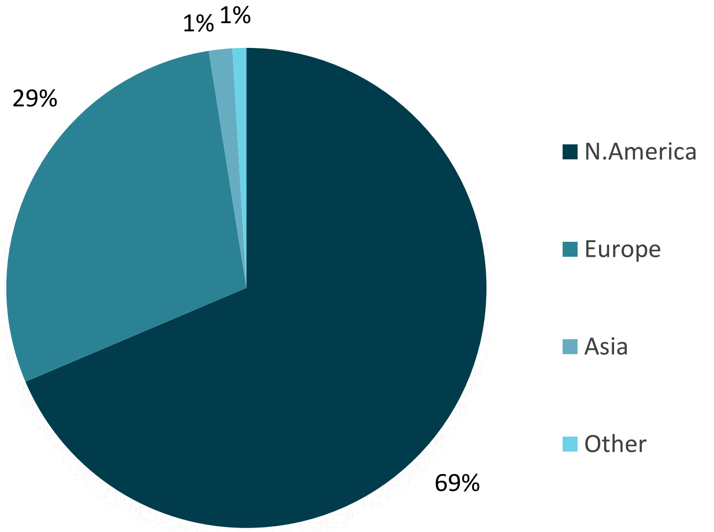
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in FY 2020, accounting for 82.7% ($51.10 billion) of total purchases while funds of funds accounted for 14.3% ($8.86 billion).

Location of buyers[1]



North American buyers transacted the most (68.6% of total volume) in FY 2020, up as a percentage from 63.3% total volume in FY 2019.

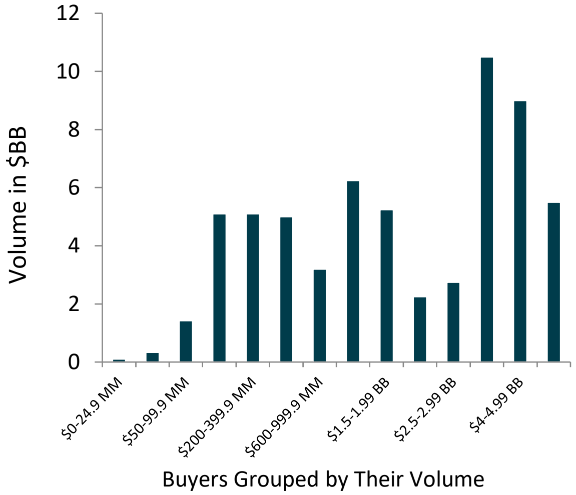
European buyers accounted for 28.9% of total volume in FY 2020, which was lower than FY 2019 (35.1%).

[1]Location is based on head office location.

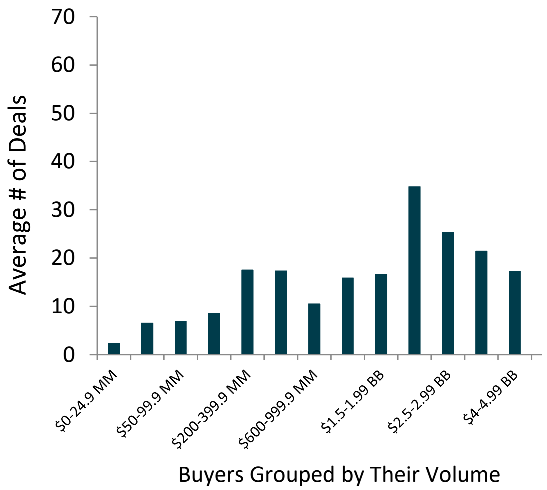
Activity levels of small, medium and large buyers

Applying the survey respondents' dollar volume and transaction numbers, 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



16 large buyers (defined as those that deployed $1 billion or more in FY 2020) purchased $41.5 billion, representing approximately 67.19% of total volume across 380 transactions with an average deal size of $109.14 million. This was a decrease from FY 2019, where large buyers accounted for 72.0%.

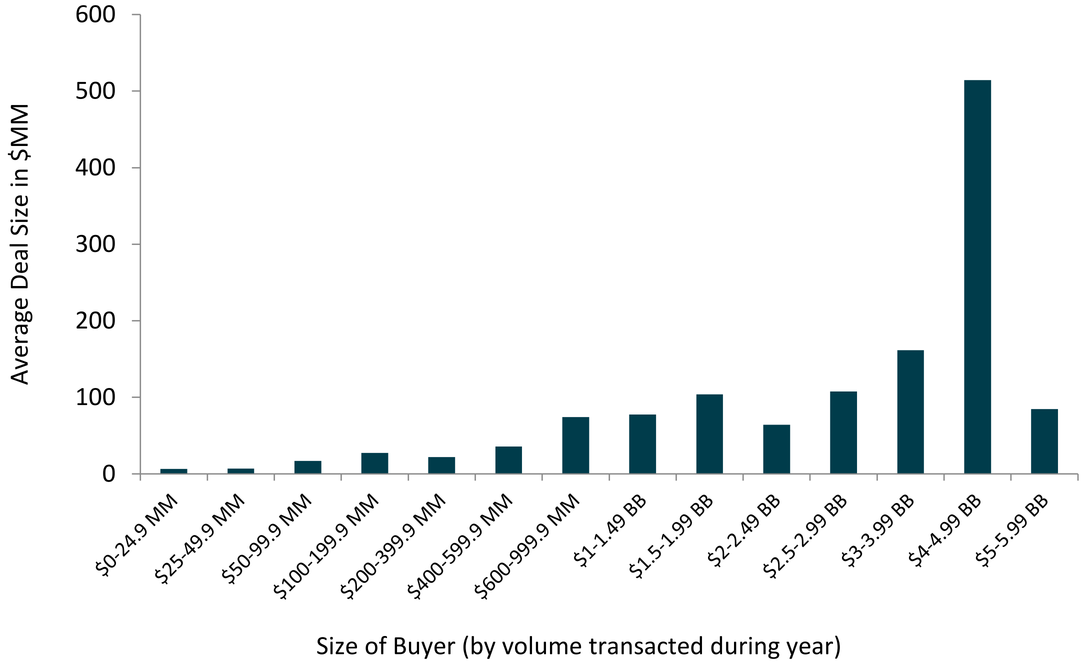
65 medium-sized buyers (defined as those that deployed $100 million to $1 billion in FY 2020) purchased $18.4 billion, representing approximately 29.8% of total volume across 774 transactions with an average deal size of $18.4 million. This was a moderate increase from FY 2019, where they accounted for 26.1%.

36 small buyers (defined as those that deployed less than $100 million in FY 2020) purchased $1.86 billion, representing approximately 3.0% of total volume across 222 transactions with an average deal size of $8.39 million. This was an increase from FY 2019, where they accounted for 1.9%.

Number of deals and average deal size

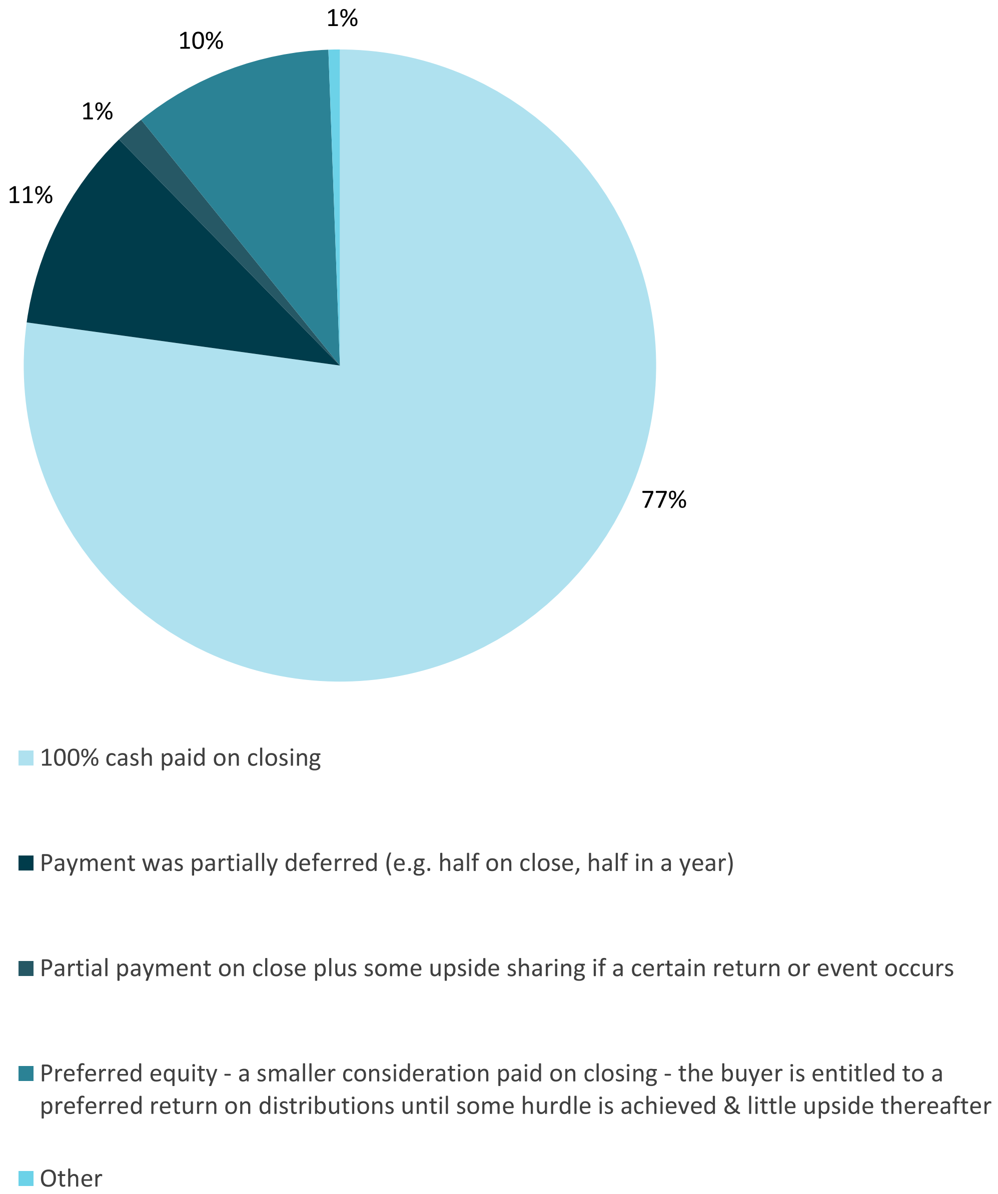
Buyers completed 1376 transactions in FY 2020 across the entire secondary market for alternative assets, with an average size of approximately $44.88 million. The number of transactions decreased 13.8% from 1597 transactions in FY 2019, while the average deal size also decreased 16.1% from $53.47 million in FY 2019.

Average deal size by size of buyer



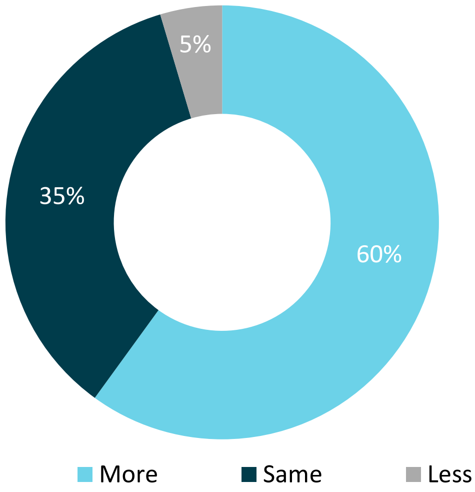
Payment terms

Although for 77.18% of their deals, buyers paid 100% cash on closing, 22.82% of deals involved other payment terms or structuring as outlined below.



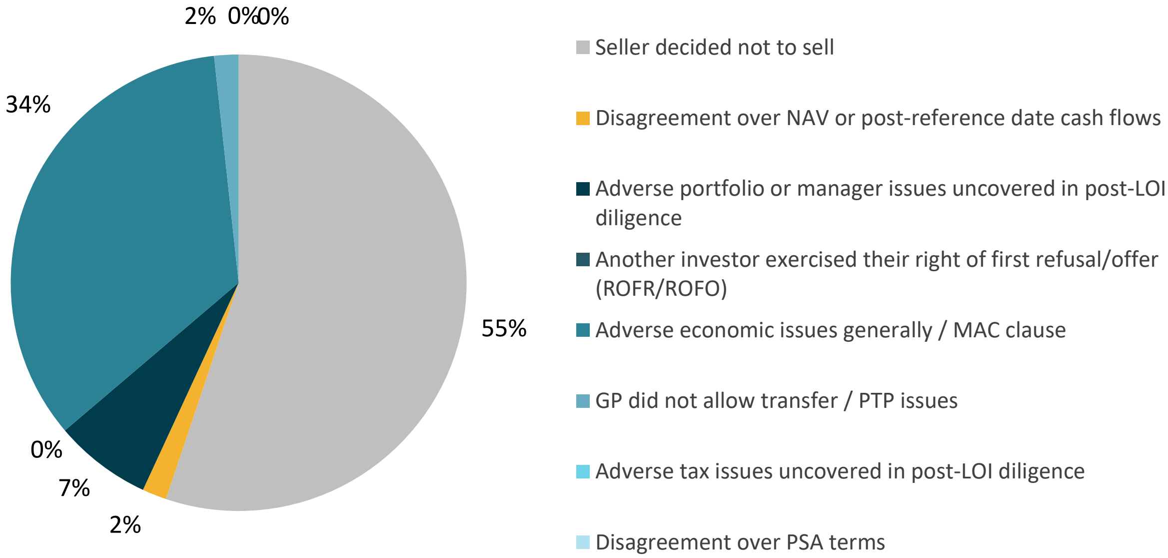
Execution risk

Percentage of deals that fell apart in FY 2020 versus H2 2019



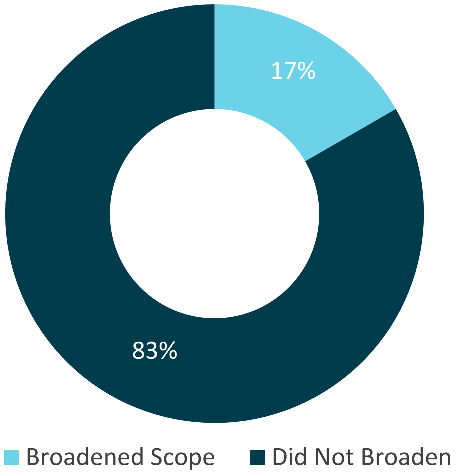
60% of respondents had a higher proportion of their deals fall through in FY 2020, versus the prior 6 month period.

As illustrated below, the two main reasons that deals fell apart were that the seller decided not to sell (55%) and adverse economic issues (34%). In the latter case, buyers noted the use of Material Adverse Change (MAC) clauses primarily due to Covid-19 pandemic, as the primary mechanism to call off a deal.



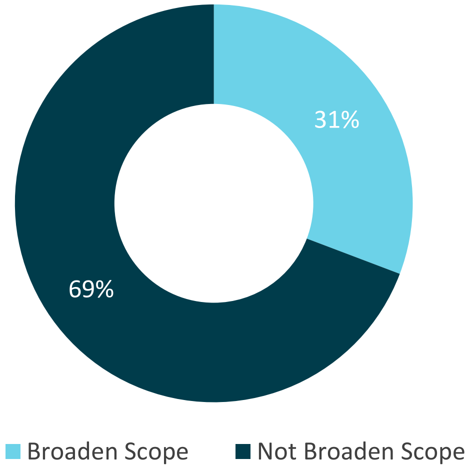
Buyers' scope of interest

Buyers that broadened their focus in FY 2020



16.7% of participants broadened their secondaries focus in FY 2020 to include buying other alternative investment types (e.g. infrastructure, real estate, direct secondaries, etc.).

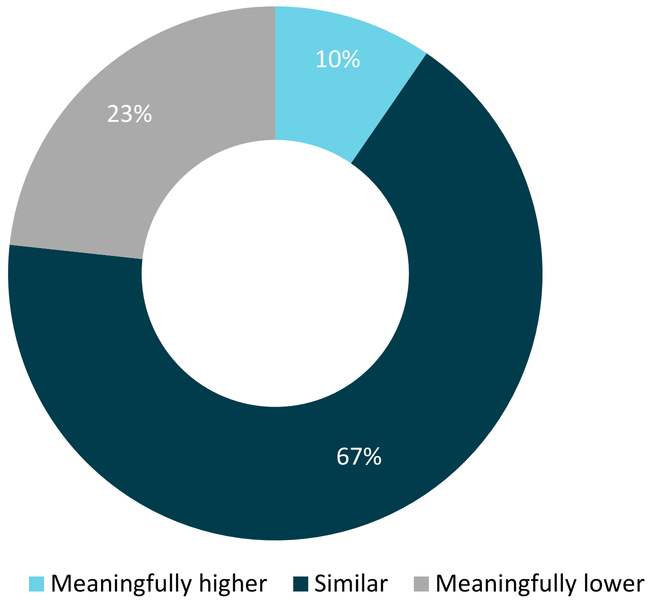
Buyers that intend to broaden their focus in FY 2021



30.8% of participants plan to broaden their secondaries focus in FY 2021 include buying other alternative investment types.

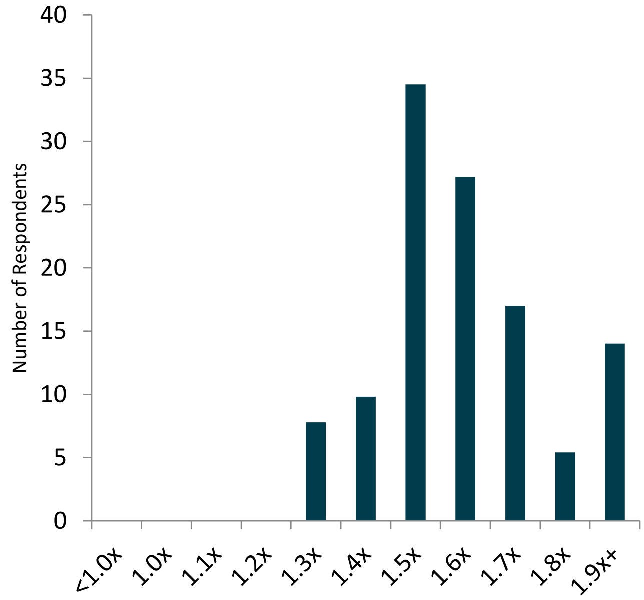
Leverage and returns

Level of debt used by buyers in FY 2020 vs. FY 2019



23.3% of respondents believed the level of debt used by buyers had decreased significantly in FY 2020. 67.1% felt it was the same and 9.6% felt it was more.

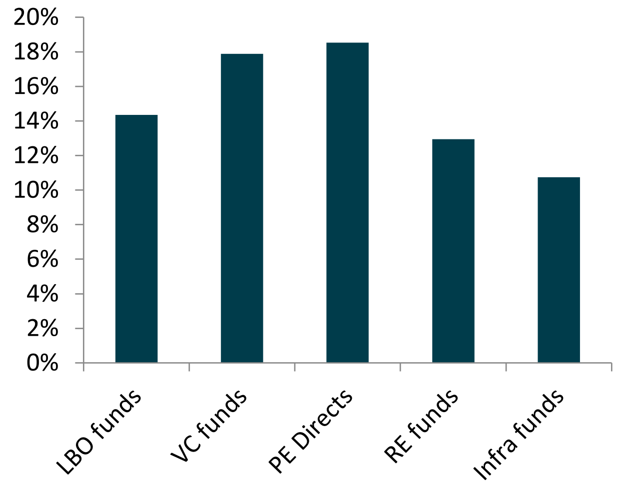
Expected multiple for secondary deals completed in FY 2020



Interestingly, respondents predicted that the average gross multiple for secondary deals completed in FY 2020 would be 1.58x, which was meaningfully higher than the 1.44x multiple buyers expected from deals completed in FY 2019.

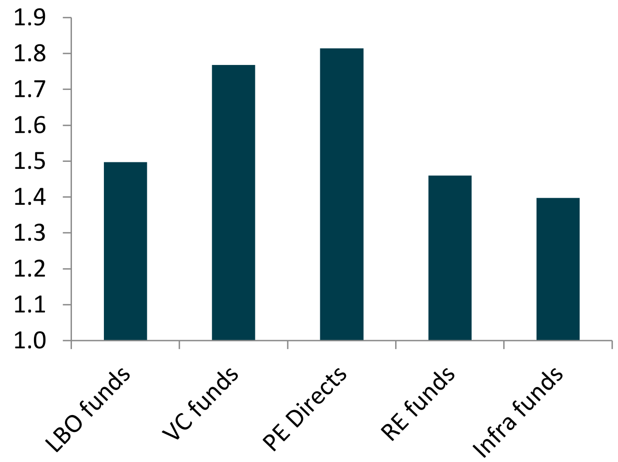
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers estimated their peers' average targeted IRR to be 14.3% for LBO funds, 17.9% for VC funds, 18.5% for private equity directs, 12.9% for real estate funds and 10.7% for infrastructure funds.

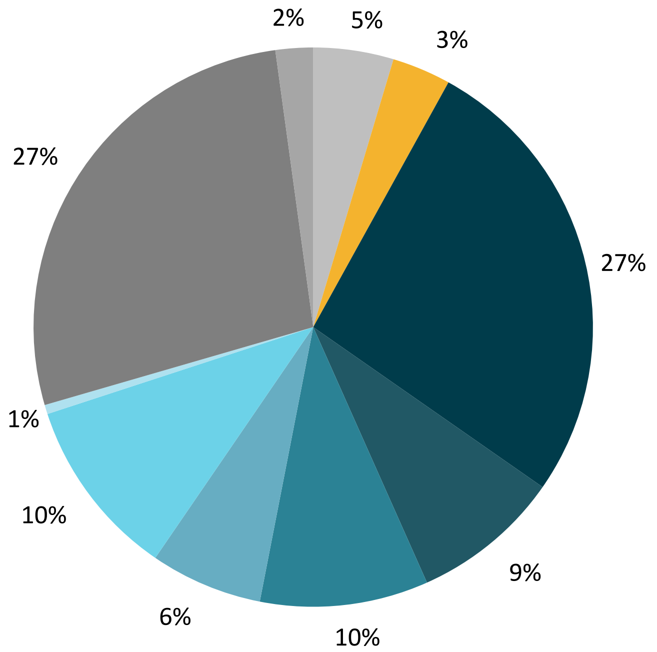
Targeted multiples on secondary purchases



On average, buyers estimated their peers' targeted multiples to be 1.50x for LBO funds, 1.77x for VC funds, 1.81x for private equity directs, 1.46x for real estate funds and 1.40x for infrastructure funds.

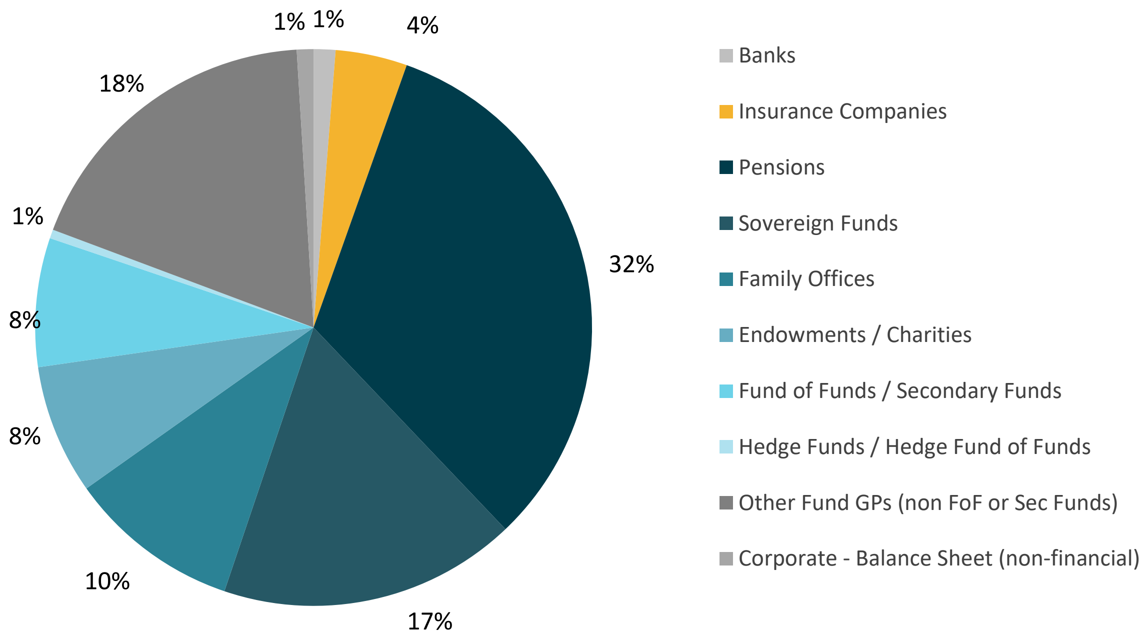
Seller profiles

Types of sellers in FY 2020



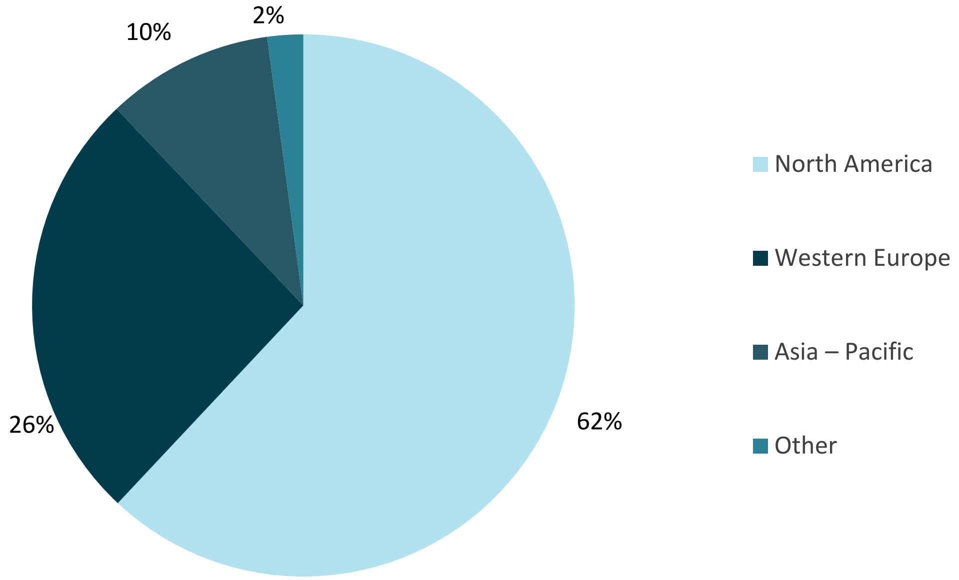
GPs (that are not fund of funds or secondary funds) and Pensions, were the most active sellers in FY 2020 making up 27.3% and 26.7% of the FY 2020 volume, respectively. Most buyers expect Pensions to be the biggest sellers in FY 2021 (32.5% of total transaction volume).

Expected sellers in FY 2021

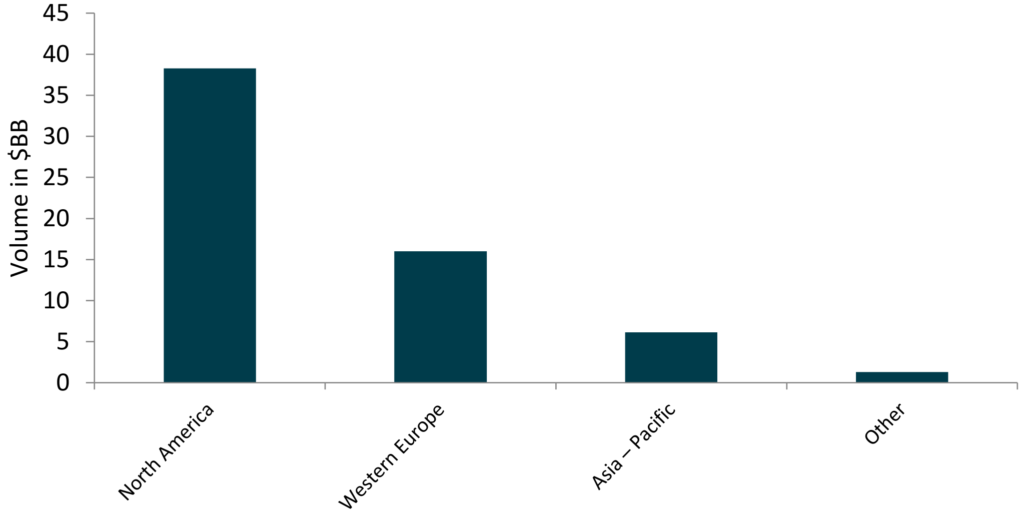


Seller location

Geography of sellers

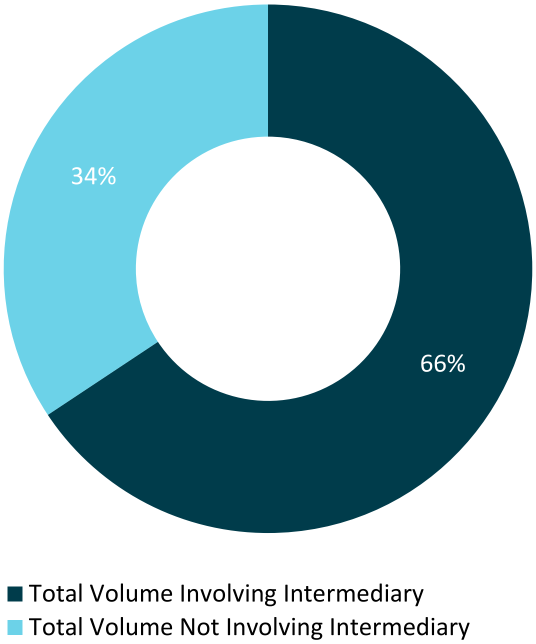


In terms of the location of sellers, North America accounted for the majority of volume in FY 2020. North American sellers sold $38.28 billion (62.0% vs. 55.4% FY 2019), whereas Asia-Pacific sellers sold $6.15 billion (10.0% vs. 19.8% in FY 2019). Western European sellers accounted for 25.9% of the total volume up from 22.4% in FY 2019. Other geographies, such as the Middle East accounted for 2.1% of the total volume in FY 2020, slightly down from 2.5% in FY 2019.



Intermediation and level of competition

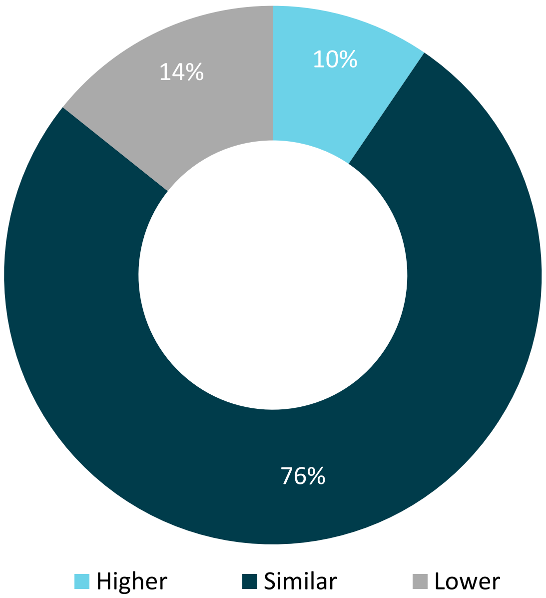
Volume of intermediated transactions



Approximately $40.56 billion (65.7%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was notably lower than FY 2019 where it was $60.06 billion (70.3% of total).

In terms of volume, agents intermediated $19.5 billion less in deals as compared to FY 2019, representing a decrease of 32.5%.

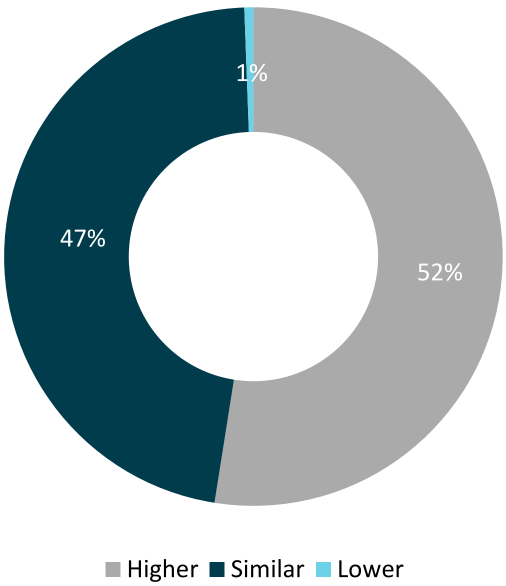
Buyer competition for deals in FY 2020 vs. FY 2019



76.2% of respondents felt buyer competition in FY 2020 was similar to FY 2019, while only 9.5% felt buyer competition was significantly higher. On the other hand, 14.3% of survey respondents felt buyer competition was lower in FY 2020.

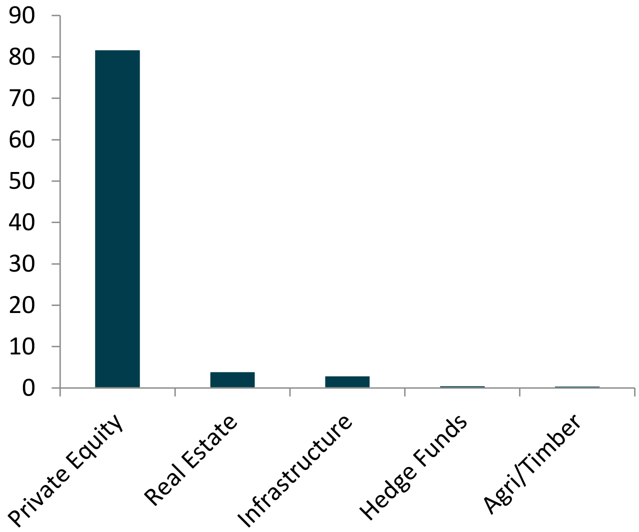
Projected volume for FY 2021

How FY 2021 volume will compare to FY 2020



52.5% of respondents felt that their FY 2021 volume will be meaningfully higher than FY 2020, 0.6% felt it would be meaningfully lower, while 46.9% of the respondents felt that it will be similar.

Predicted volume for FY 2021

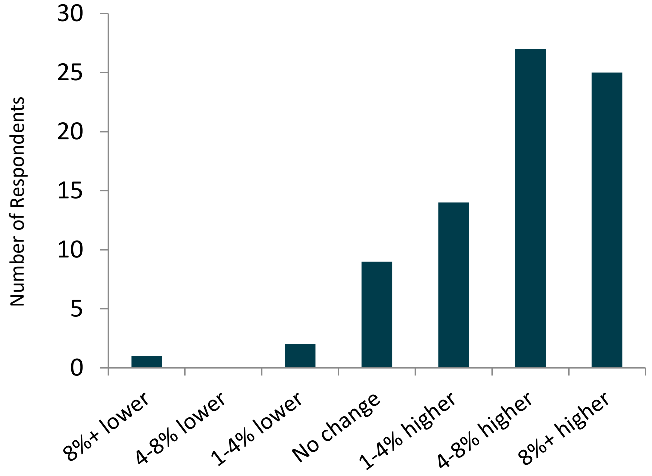


Respondents predicted total volume for FY 2021 to be $89.84 billion, which would represent a 45.46% increase from the $61.76 billion transacted in FY 2020.

Assuming proportions do not change in FY 2021, this suggests private equity volume will be $81.32 billion in FY 2021, real estate will be $3.99 billion, infrastructure will be $3.44 billion, hedge funds will be $620 million, and agriculture & timber will be $480 million.

Expected distribution and NAV changes in FY 2021

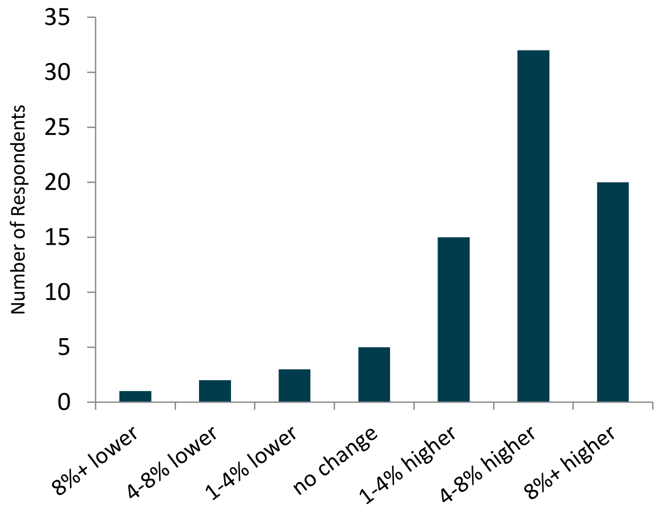
Distribution pace in FY 2021 vs. FY 2020



Respondents expect the pace of distributions in FY 2021 to be higher than FY 2020 as the average response suggests an expected increase of 5.5%.

Respondents are more optimistic than they were in FY 2019, when they expected the pace of distributions to be up 1.9%.

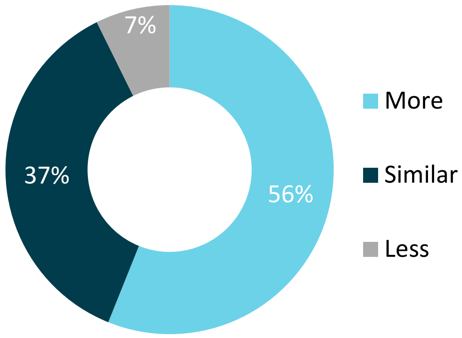
Change in NAV in FY 2021 vs. FY 2020



On average, respondents expect NAV valuations to increase significantly by 5.1% in FY 2021 compared to FY 2020. This is noticeably higher than FY 2019 when respondents expected NAVs to increase by 2.6% in the upcoming year.

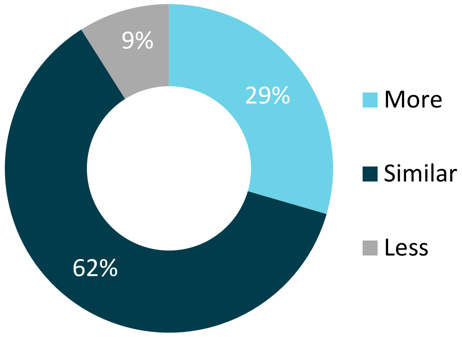
General partners’ approach to the secondary market

Liquidations and restructurings in FY 2020 vs. FY 2019



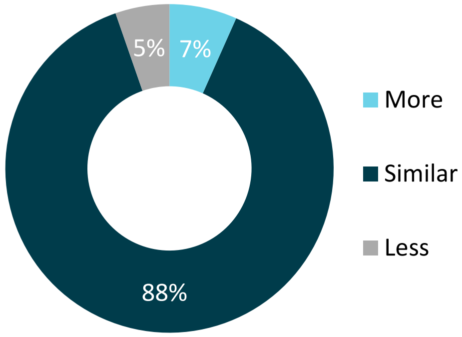
56.1% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in FY 2020 compared to FY 2019.

Staples sought by GPs in FY 2020 vs. FY 2019



61.5% of respondents felt that a similar number of GPs sought staples in FY 2020 as compared to FY 2019.

GPs’ restrictiveness on transfers in FY 2020 vs. FY 2019



Most respondents felt that GPs’ restrictiveness on transfers did not change in FY 2020 compared to FY 2019.

Select respondents

50 South Capital
Aberdeen Standard Investments
Access Capital
Adams Street Partners
Alpinvest Partners
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
Flexstone Partners
FlowStone Partners
Fort Washington
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Greenspring Associates
Grosvenor Capital Management
Hamilton Lane
HarbourVest Partners
Headlands Capital
Hollyport Capital
HQ Capital
Intermediate Capital Group
Idinvest Partners
Industry Ventures
Israel Secondary Fund
Jasper Ridge
Jeneration Capital
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
Mantra Investment
Mercury Partners
Montana Capital Partners
Morgan Stanley
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Oddo BHF Private Equity
Pantheon Ventures
Partners Group
Pathway Capital
Pictet Alternative Advisors
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 Capital
Top Tier Capital Partners
TR Capital
UBS Asset Management
Unigestion Ltd.
Vintage Ventures
W Capital
Warana Capital
Whitehorse Liquidity Partners
Willowridge Partners

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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.

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

settercapital.com