Setter

Volume Report FY 2021

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in FY 2021 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume FY 2021 vs. FY 2020

› 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 2022

› Changes in the Level of Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in FY 2022

› General Partners' Approach to the Secondary Market

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The survey

As the secondary market continues to grow and evolve, we seek to take a comprehensive and methodical approach to quantifying the market and identifying trends. Using a survey approach, we asked principals directly the same questions that buyers, sellers and secondary fund LPs often ask us. How much was completed in FY 2021? How much was completed in LBO, venture, real estate, infrastructure and hedge fund secondaries? How many GP-led transactions were completed? What are the expected returns and buyer debt levels?

This report summarizes the results of our 31 question survey of the most active global buyers in the secondary market for alternative investments, conducted at the end of December 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 2021. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 102 of the 128 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 twenty-five of the largest buyers participated, the respondents to our survey represented 95.3% of the transaction volume, making it the most reliable and exhaustive study of the industry's activities.

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

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

FY 2021 in review

In the midst of the Covid-19 pandemic, the secondary market hit a record $143.4 billion in FY 2021, up markedly from the $61.8 billion transacted in 2020. Not only was this a 132.2% increase over last year, but it was the first time the secondary market surpassed $100 billion, a threshold it handily beat.

With one exception, volume was up significantly across all alternative investments in the secondary market. Private equity secondaries (funds and directs) increased 137.0% year over year, to a total of $133.22 billion. Private equity funds alone were up 164.6% ($65.75 billion in FY 2021 from $24.85 billion in FY 2020). Salient increases were seen across LBO fund secondaries (up 158.3% to $49.63 billion in FY 2021 from $19.21 billion in FY 2020), VC fund secondaries (up 154.0% to $9.11 billion in FY 2021 from $3.59 billion in FY 2020), fund of fund secondaries (up 249.7% to $4.17 billion in FY 2021 from $1.19 billion in FY 2020) and most notably, debt fund secondaries (up 300.4% to $2.55 billion in FY 2021 from $640 million in FY 2020). Real estate secondaries (funds and directs) were up 66.7% to $4.57 billion and infrastructure fund secondaries were up 139.2% to $4.92 billion.

Traditional fund secondaries increased 150.1% from $29.36 billion in FY 2020 to $73.43 billion in FY 2021, while direct secondaries increased 116.0% from $32.40 billion to $69.98 billion (private equity directs were $67.47 billion and real estate directs were $2.51 billion). As a result, fund secondaries went from 48.8% of total volume in FY 2020 to 52.5% in FY 2021.

While the breadth and number of buyers continued to increase, the most significant activity was driven by the largest buyers in the market. The twenty-five largest buyers, defined as those that deployed more than $1 billion in FY 2021, accounted for 80.9% of the market's total volume (vs. 67.2% in FY 2020), while the seventy-two mid-sized buyers accounted for 18% (vs. 29.8% in FY 2020) and the 31 smallest buyers only represented 1.2% (vs. 3.0% in FY 2020). In fact, the top three buyers alone transacted on approximately $47 billion in volume.

Buyer competition for deals continued to heat up in FY 2021 as noted by 22.4% of respondents (vs. only 1.2% that felt it was lower). As a means to stay competitive, the use of debt to improve pricing and deal returns continued to be common in the secondary market. Although most respondents felt the use of leverage hadn't changed, 13.0% of respondents felt it was higher and only 1.3% felt it was lower.

Agents intermediated 79.6% of deals in FY 2021, versus 65.7% in FY 2020, the highest proportion seen in the market to date. In terms of dollars, agents intermediated $114.18 billion in deals in FY 2021, which was 181.5% more than they did in FY 2020.

There were a total of 2335 transactions in FY 2021, with an average size of approximately $61.4 million. The number of transactions was up 69.6% from the 1376 transactions completed in FY 2020 as was the average deal size which was up 36.9%, given the abundance of large-scale deals.

As for deal execution, 9% of buyers had a higher proportion of deals fall apart in FY 2021 versus FY 2020. This is slightly more than H1 2021, when 7% reported more deals falling through. Buyers noted that the main reason was that the seller decided not to sell (57%). Adverse portfolio or manager issues uncovered in post-LOI diligence (13%) and disagreement over PSA terms (11%) were two other notable deal breakers.

Other Fund GPs (that are not fund of funds or secondary funds) accounted for 38.3% of all sellers, as they looked to tap the secondary market to create liquidity for their LPs and creative ways to increase AUM. Indeed, 65.9% of survey respondents felt that meaningfully more GPs coordinated tender offers or attempted to liquidate or restructure older funds in FY 2021 as compared to FY 2020. Pensions were the next most active sellers accounting for 22.2% of the total volume, followed by funds of funds and secondary funds, who accounted for 8.0%. Looking forward, most buyers expect GPs (that are not fund of funds or secondary funds) to be the biggest sellers again in FY 2022 (34.1% of total transaction volume).

From a geographical perspective, North American sellers continued to account for the largest proportion of volume in FY 2021 selling $103.63 billion (72.3% vs. 62.0% in FY 2020), whereas Western European sellers sold $30.97 billion (21.6% vs. 25.9% in FY 2020) and Asia-Pacific sellers accounted for about $8.21 billion (5.7% vs. 10.0% in FY 2020). Other geographies such as the Middle East accounted for 0.4% of the total volume in FY 2021, down from 2.1% in FY 2020.

Buyers estimated that NAV valuations will increase 3.4% while the pace of distributions will increase only 0.4% in FY 2022. These forecasts are less optimistic than those in the **FY 2020**, when buyers expected NAVs to increase by 5.1% and distributions to increase 5.5% respectively in the following year.

Looking forward, buyers expect FY 2022 volume to be $149.28 billion, up 4.1% from the $143.41 billion transacted in FY 2021.

More Insight.

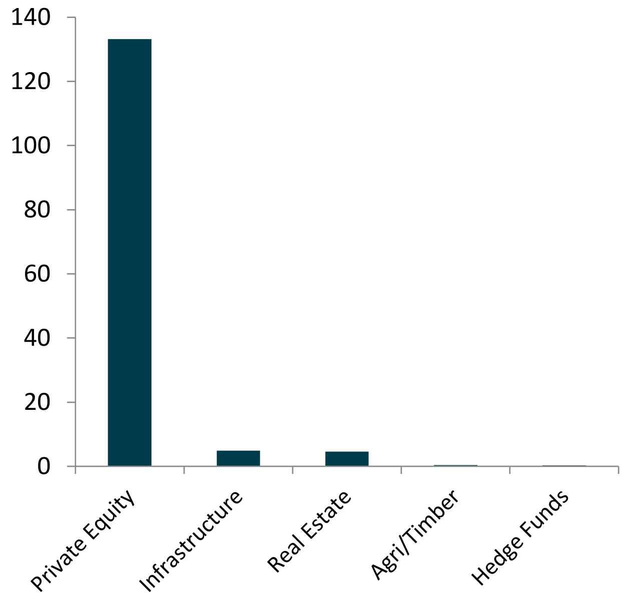
In the secondary market, knowledge is power.
By providing granular custom portfolio analysis and industry-leading market research, we empower our clients to make the most informed decisions.

Setter

Total volume

Total secondary market volume for FY 2021 was $143.41 billion. This is the volume estimate derived from the 128 secondary buyers surveyed with dedicated secondary efforts and includes 78 secondary funds, 38 funds of funds, 6 hedge funds, 4 investment consultants, 1 family office and 1 pension. We believe this estimate is reliable as the 102 survey respondents alone reported $136.74 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): $133.22 billion (137.0% increase YoY)

Infrastructure Funds: $4.92 billion (139.2% increase YoY)

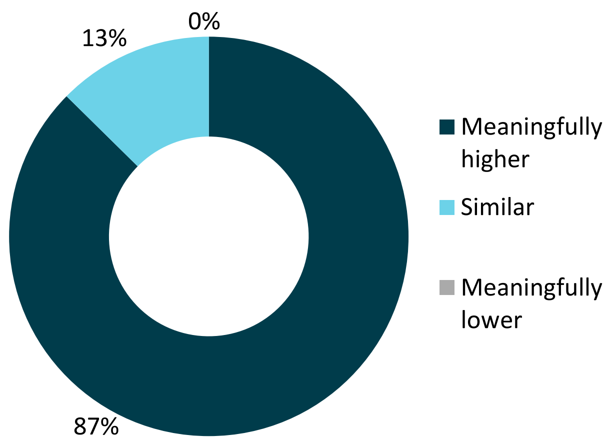
Real Estate (Directs & Funds): $4.57 billion (66.7% increase YoY)

Agriculture/Timber Funds: $380 million (15.0% increase YoY)

Hedge Funds: $330 million (23.3% decrease YoY)

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

FY 2021 volume vs. FY 2020 volume

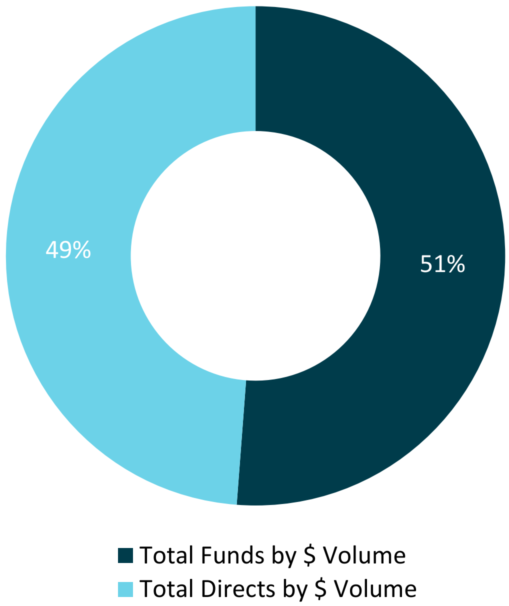


FY 2021 volume increased 132.2% compared to FY 2020, which was $61.76 billion.

Indeed, 87.4% of survey respondents felt their volume was higher in FY 2021, 12.6% felt their volume was similar and notably none of the respondents felt their volume was lower than FY 2020.

Assets purchased

Funds vs. Directs[1]



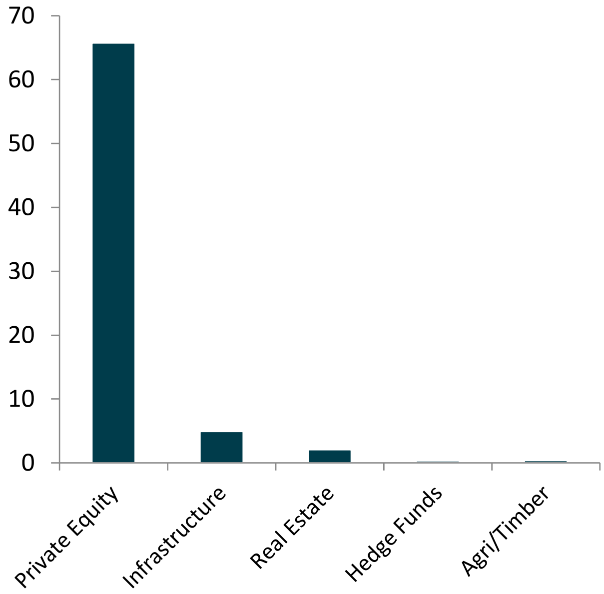
Fund secondaries increased 150.1%, from the $29.36 billion recorded in FY 2020 to $73.43 billion in FY 2021. Direct secondaries[1], likewise, increased 116.0% from $32.4 billion in FY 2020 to $69.98 billion in FY 2021.

As a proportion of total volume, direct secondaries went from 52.50% in FY 2020 to 48.8% in FY 2021

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 48.1% funds and 51.9% 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 $65.75 billion (164.6% increase YoY)

Infrastructure fund purchases totaled $4.92 billion (139.2% increase YoY)

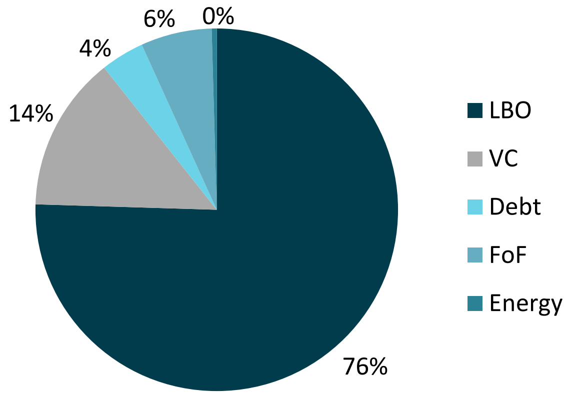
Real estate fund purchases totaled $2.06 billion (21.1% increase YoY)

Hedge fund purchases totaled $330 million (23.3% decrease YoY)

Agriculture/Timber fund purchases totaled $380 million (15.0% increase YoY)

Types of funds purchased

Private equity funds



LBO – $49.6 billion
(Up 158.3% YoY from $19.2 billion)

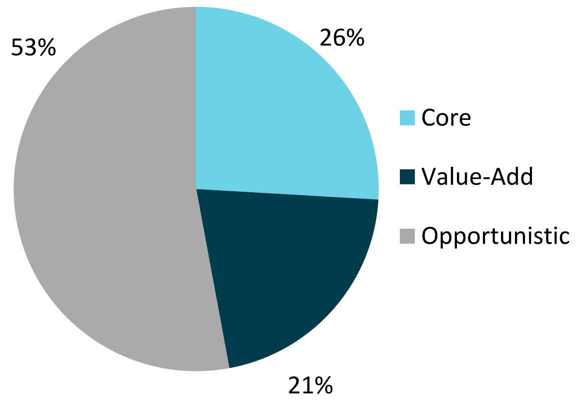
VC – $9.1 billion
(Up 154% YoY from $3.59 billion)

Debt – $2.5 billion
(Up 300.4% YoY from $640 million)

Fund of Funds – $4.2 billion
(Up 249.7% YoY from $1.19 billion)

Energy – $294 million
(Up 30.1% YoY from $230 million)

Real estate funds



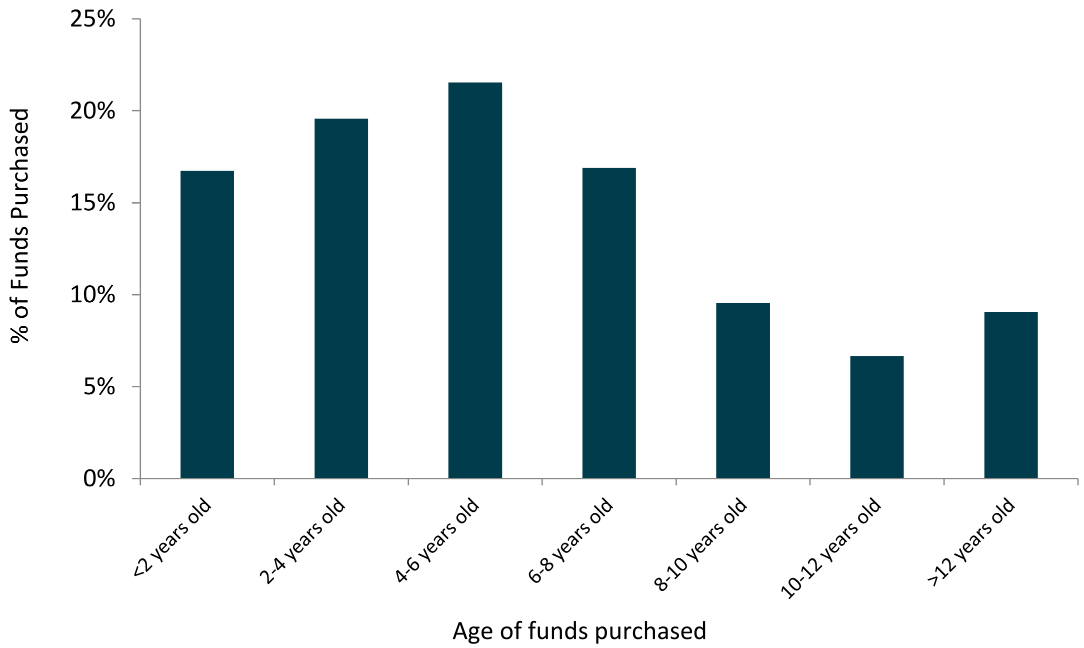
Core – $530 million
(Down 50.9% YoY from $1.09 billion)

Value-Add – $440 million
(Up 180.0% YoY from $160 million)

Opportunistic – $1.09 billion
(Up 138.2% YoY from $460 million)

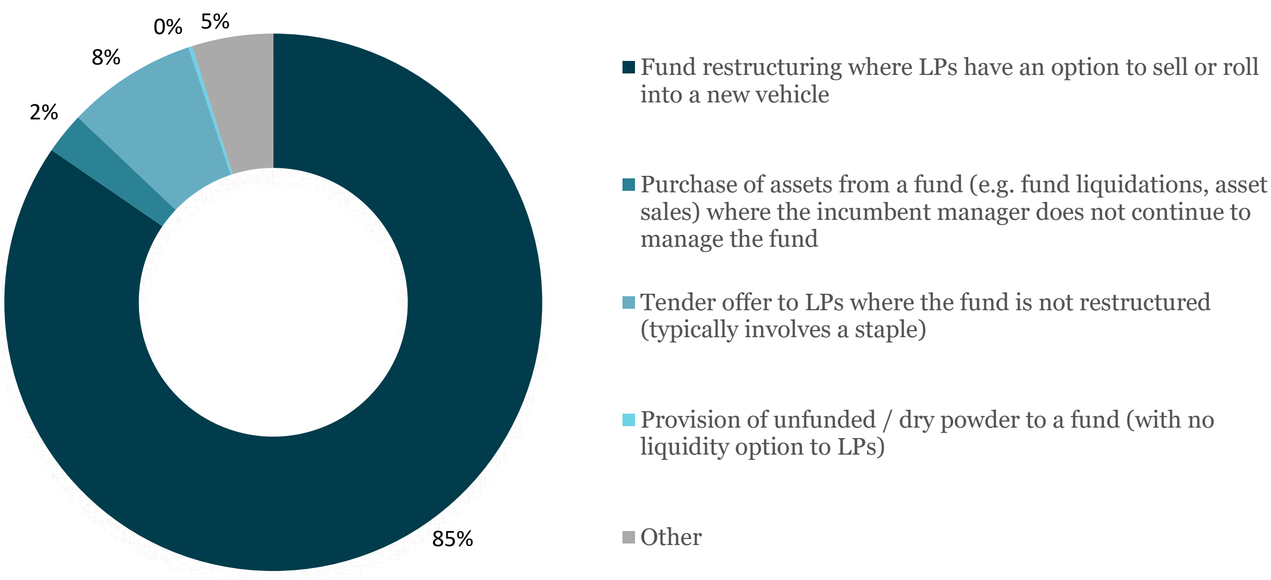
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 5.78 years old which is slightly higher than the average in FY 2020 (5.72 years old).

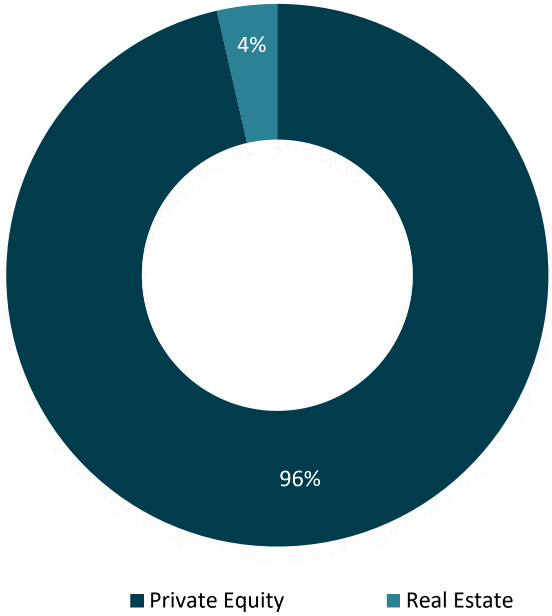


Types of direct secondaries

Types of direct deals completed by buyers

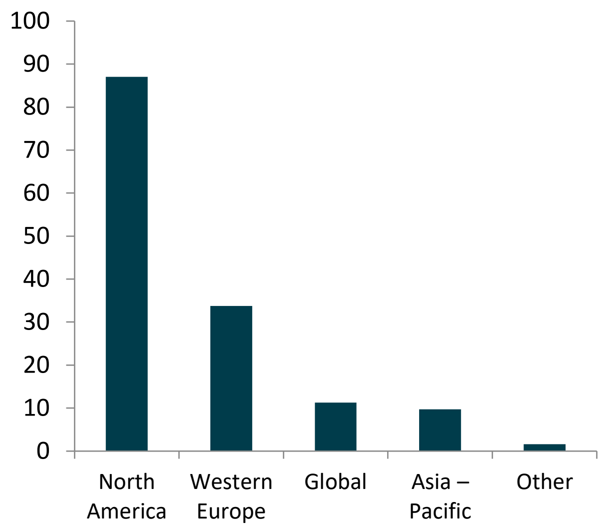


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 96.4% ($67.47 billion) and 3.6% respectively ($2.51 billion) of the total directs volume.

Geography of assets purchased



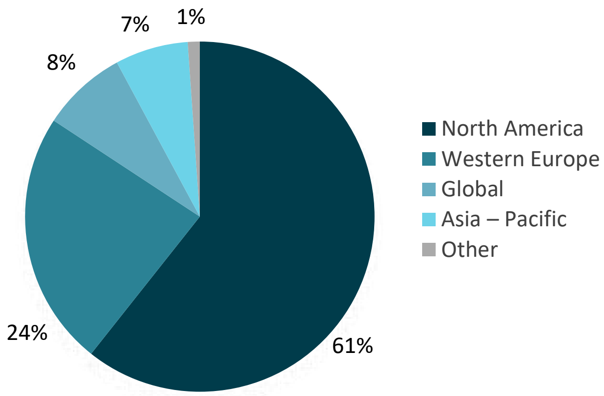
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in FY 2021:

North America – $87.03 billion
(Up 148.7% YoY from $35.00 billion)

Western Europe - $33.79 billion
(Up 87.8% YoY from $18 billion)

Global – $11.31 billion
(Up 205.7% YoY from $3.7 billion)

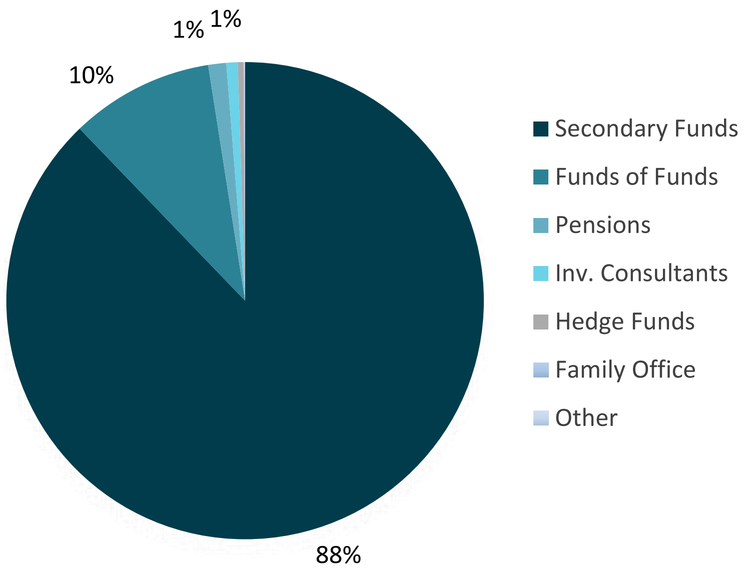
Asia-Pacific – $9.70 billion
(Up 147.7% YoY from $3.92 billion)



In terms of percentage, North American focused funds and directs accounted for 60.7% of total volume, Western European funds and directs accounted for 23.6% and Asia-focused funds and directs accounted for 6.8% of sales.

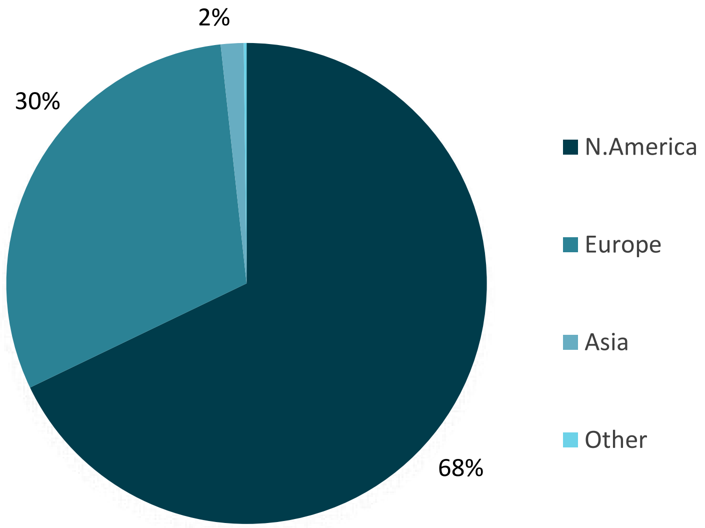
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in FY 2021, accounting for 87.8% ($125.94 billion) of total purchases while funds of funds accounted for 9.7% ($13.93 billion).

Location of buyers[1]



North American buyers transacted the most (67.9% of total volume) in FY 2021, down as a percentage from 68.6% total volume in FY 2020.

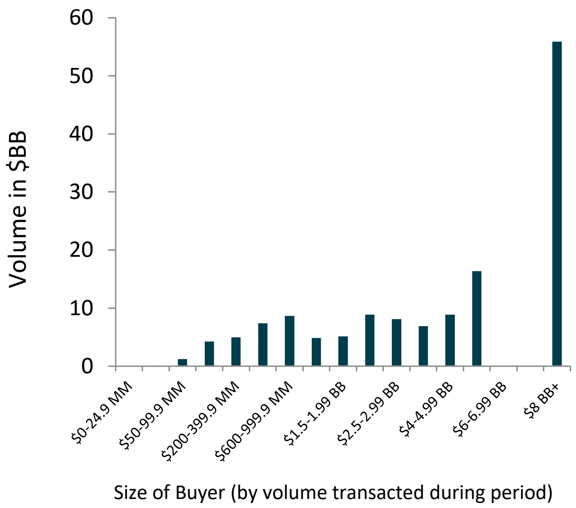
European buyers accounted for 30.4% of total volume in FY 2021, which was up from FY 2020 (28.9%).

[1]Location is based on head office location.

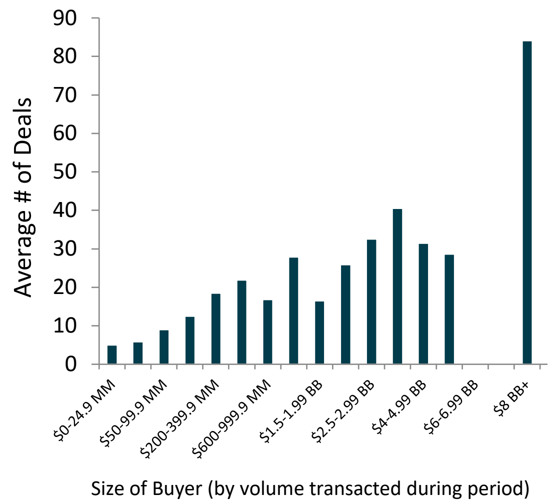
Activity levels of small, medium and large buyers

Applying the survey respondents' dollar volume and transaction numbers, whilst 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



25 large buyers (defined as those that deployed $1 billion or more in FY 2021) purchased $116.00 billion, representing approximately 80.89% of total volume across 926 transactions with an average deal size of $125.27 million. This was a substantive increase from FY 2020, where large buyers accounted for 67.19%. In fact, the top three buyers alone transacted on approximately $47 billion in volume.

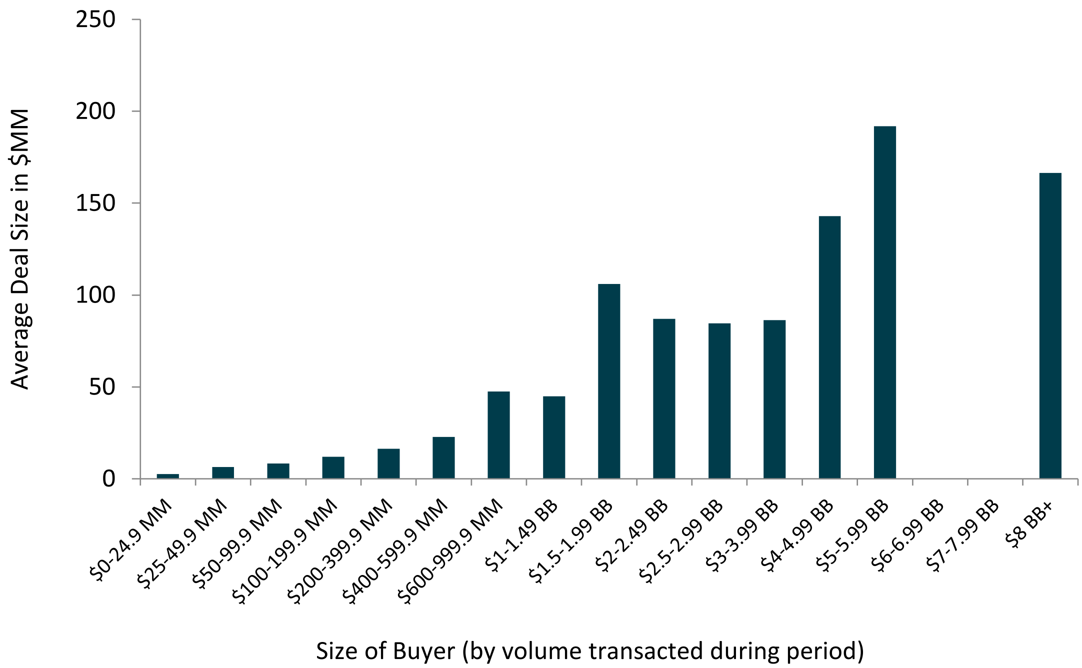
72 medium-sized buyers (defined as those that deployed $100 million to $1 billion in FY 2021) purchased $25.75 billion, representing approximately 18.0% of total volume across 1,165 transactions with an average deal size of $25.75 million. This was a decrease from FY 2020, where they accounted for 29.8%.

31 small buyers (defined as those that deployed less than $100 million in FY 2021) purchased $1.66 billion, representing approximately 1.2% of total volume across 244 transactions with an average deal size of $6.82 million. This was a decrease from FY 2020, where they accounted for 3.0%.

Number of deals and average deal size

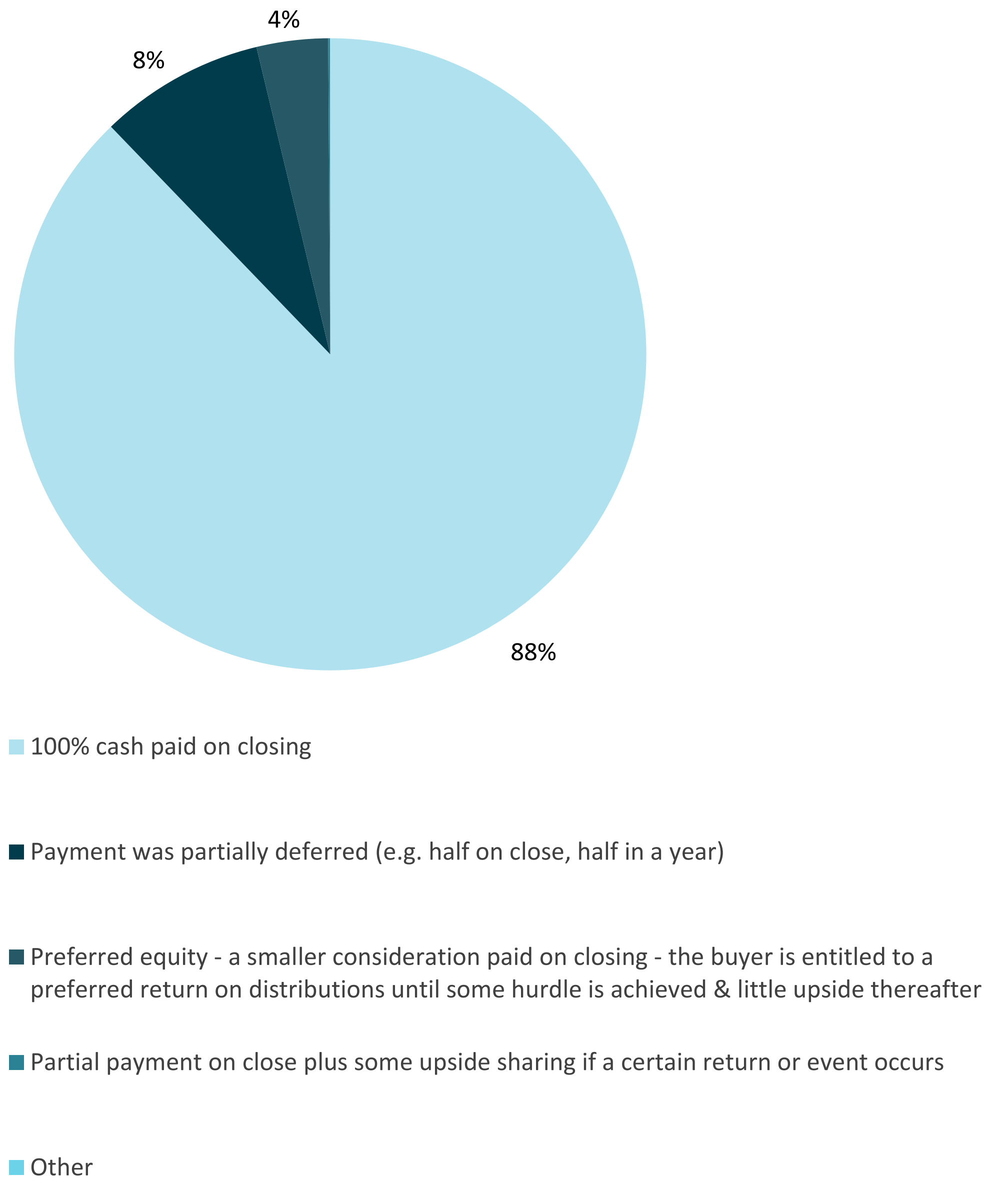
Buyers completed 2335 transactions in FY 2021 across the entire secondary market for alternative assets, with an average size of approximately $61.43 million. The number of transactions increased 69.6% from 1376 transactions in FY 2020, while the average deal size also increased 36.9% from $44.88 million in FY 2020.

Average deal size by size of buyer



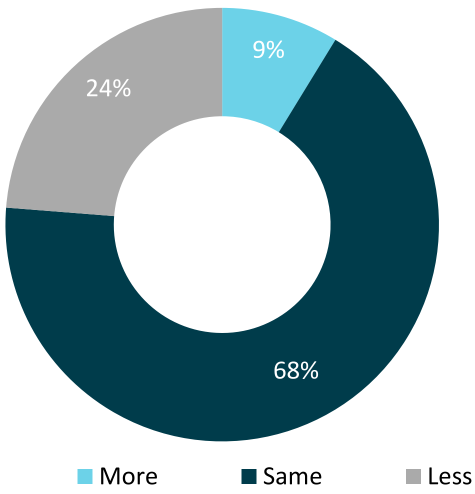
Payment terms

For 87.8% of their deals, buyers paid 100% cash on closing, while the balance of deals involved other payment terms or structuring as outlined below. This is up from FY 2020, when buyers paid 100% cash on closing for only 77.18% of their deals.



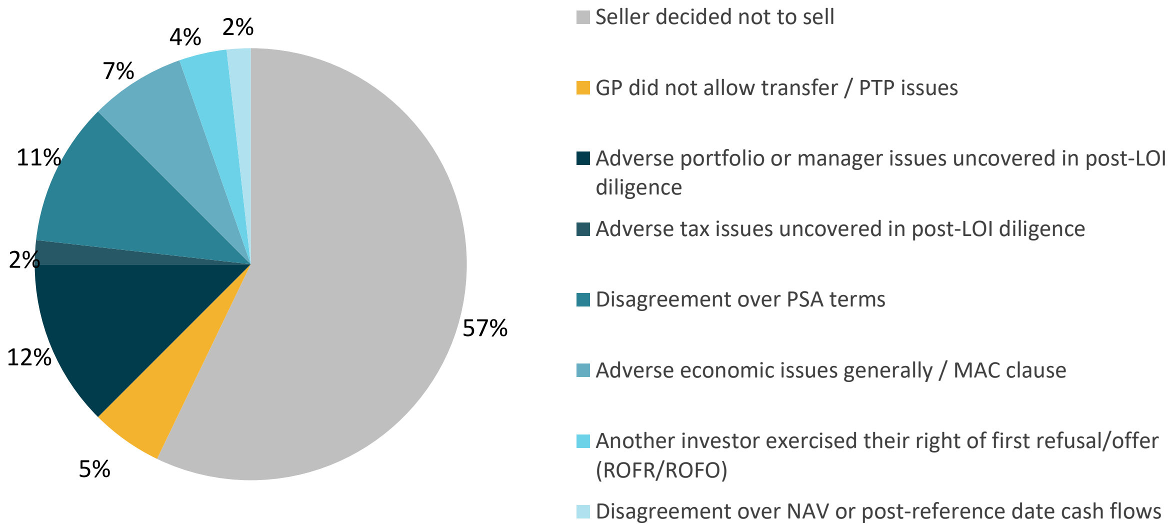
Execution risk

Percentage of deals that fell apart in FY 2021 vs. FY 2020



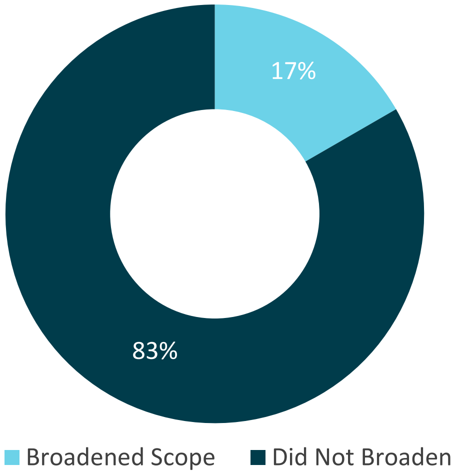
Only 9% of respondents had a higher proportion of their deals fall through in FY 2021, versus the same period in 2020. This is up slightly from H1 2021, when 7% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was that the seller simply decided not to sell (57%). Other reasons included adverse portfolio or manager issues uncovered in post-LOI diligence (13%) and disagreement over PSA terms (11%).



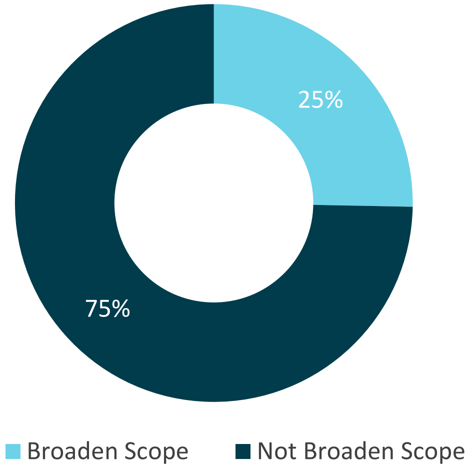
Buyers' scope of interest

Buyers that broadened their focus in FY 2021



16.7% of participants broadened their secondaries focus in FY 2021 to include buying other alternative investment types (direct secondaries, infrastructure, private debt, etc.).

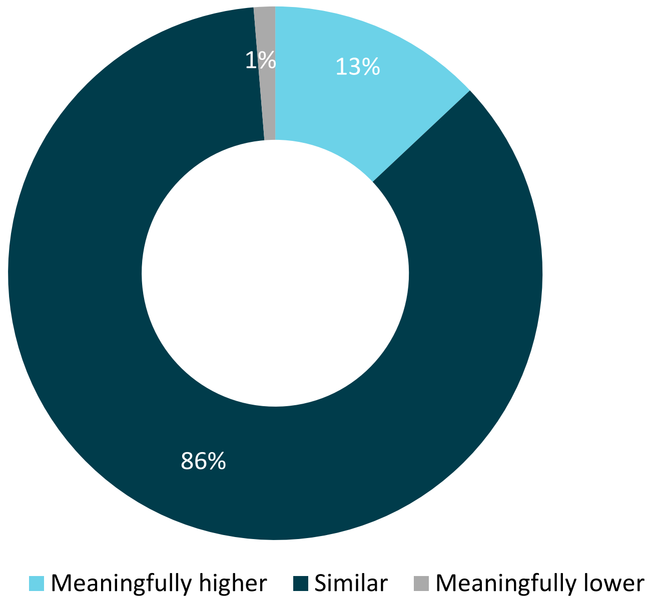
Buyers that intend to broaden their focus in FY 2022



25.3% of participants plan to broaden their secondaries focus in FY 2022 include buying other alternative investment types.

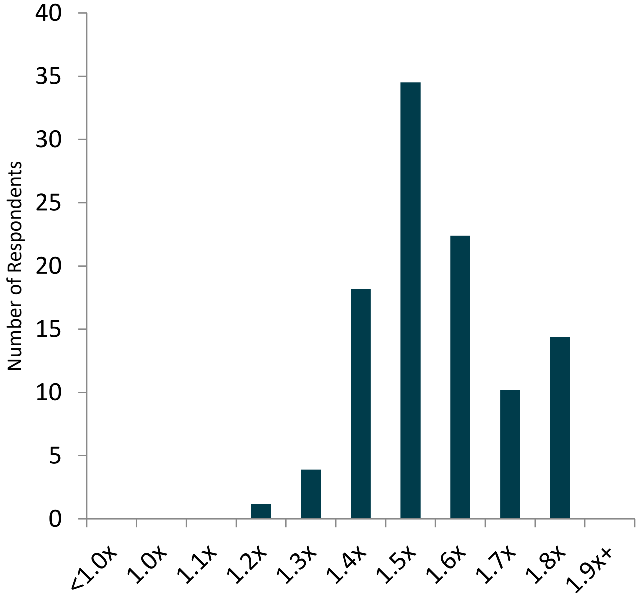
Leverage and returns

Level of debt used by buyers in FY 2021 vs. FY 2020



85.7% of respondents believed the level of debt used by buyers was the same, 13.0% felt it was more and only 1.3% felt it had decreased significantly in FY 2021.

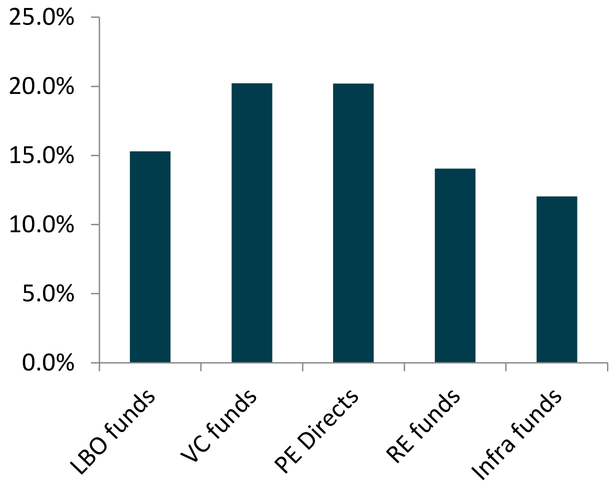
Expected multiple for secondary deals completed in FY 2021



Respondents predicted that the average gross multiple for secondary deals completed in FY 2021 would be 1.54x, which was similar to the 1.58x buyers expected from deals completed in FY 2020.

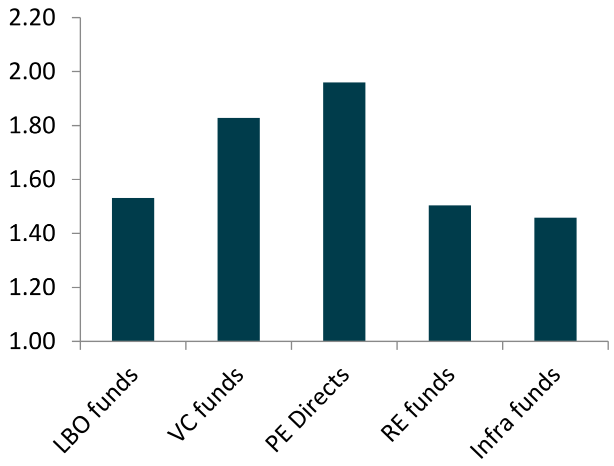
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers estimated their peers' average targeted IRR to be 15.3% for LBO funds, 20.2% for VC funds, 20.2% for private equity directs, 14.1% for real estate funds and 12.0% for infrastructure funds.

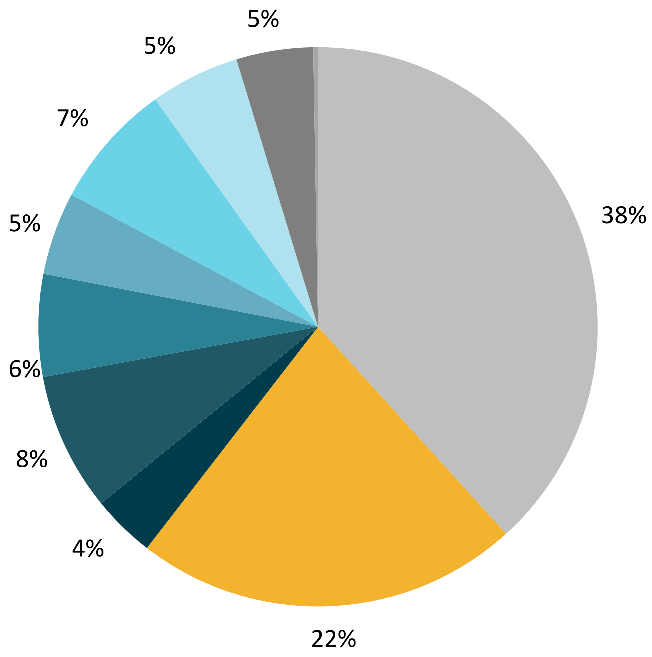
Targeted multiples on secondary purchases



On average, buyers estimated their peers' targeted multiples to be 1.53x for LBO funds, 1.83x for VC funds, 1.96x for private equity directs, 1.50x for real estate funds and 1.46x for infrastructure funds.

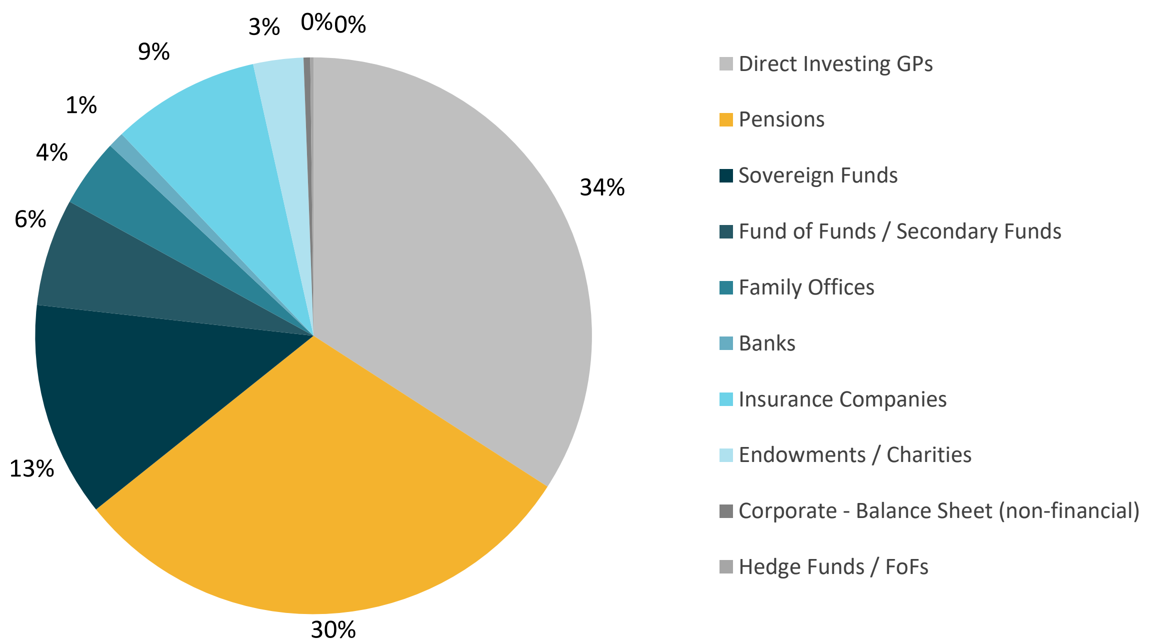
Seller profiles

Types of sellers in FY 2021



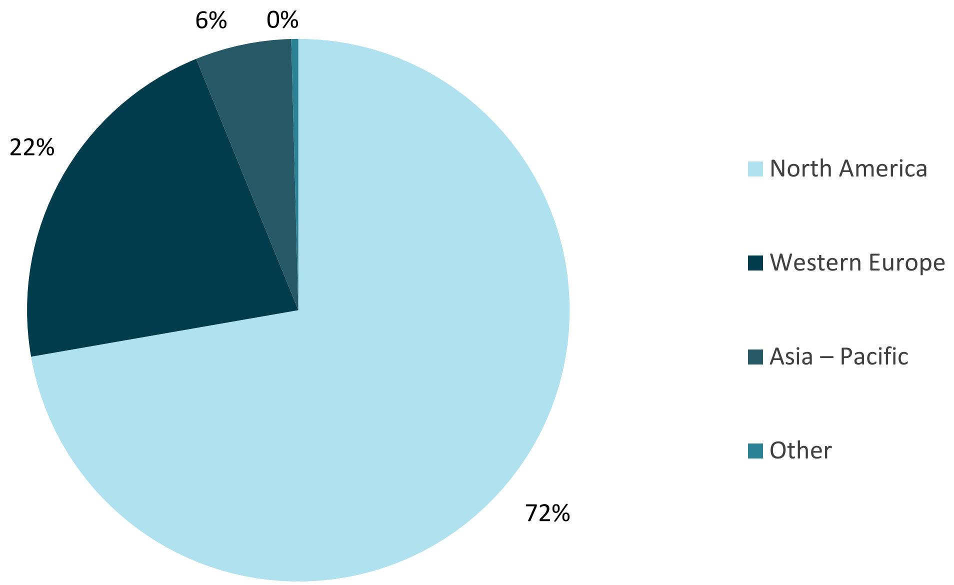
Direct investing GPs (i.e. not fund of funds or secondary funds) and pensions were the most active sellers in FY 2021 making up 38.3% and 22.2% of the FY 2021 volume, respectively. Most buyers expect GPs (that are not fund of funds or secondary funds) to also be the biggest sellers in FY 2022 (34.1% of total transaction volume).

Expected sellers in FY 2022

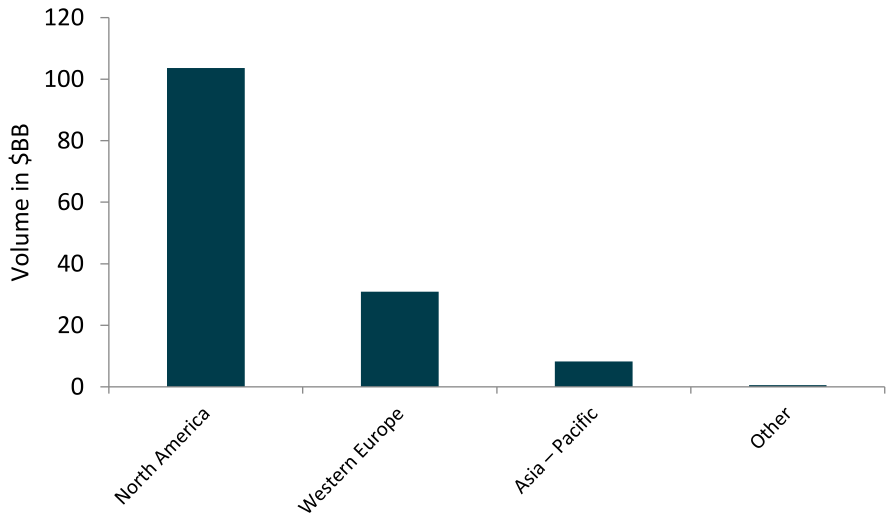


Seller location

Geography of sellers

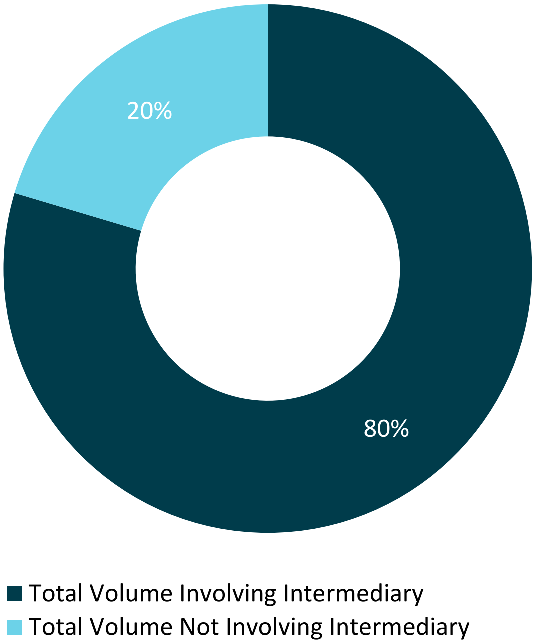


In terms of the location of sellers, North America accounted for the majority of volume in FY 2021. North American sellers sold $103.63 billion (72.3% vs. 62.0% in FY 2020), whereas Asia-Pacific sellers sold $8.21 billion (5.7% vs. 10.0% in FY 2020). Western European sellers accounted for 21.60% of the total volume down from 25.9% in FY 2020. Other geographies, such as the Middle East accounted for 0.4% of the total volume in FY 2021, down from 2.1% in FY 2020.



Intermediation and level of competition

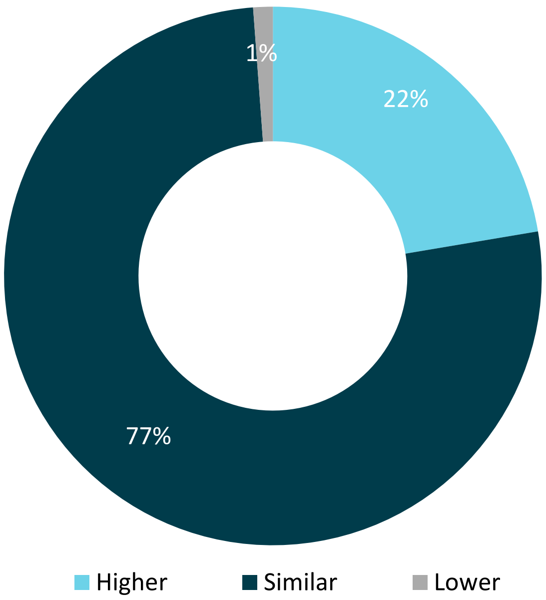
Volume of intermediated transactions



Approximately $114.18 billion (79.6%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was significantly higher than FY 2020 where it was $40.56 billion (65.7% of total).

In terms of volume, agents intermediated $73.61 billion more in deals as compared to FY 2020, representing an increase of 181.5%.

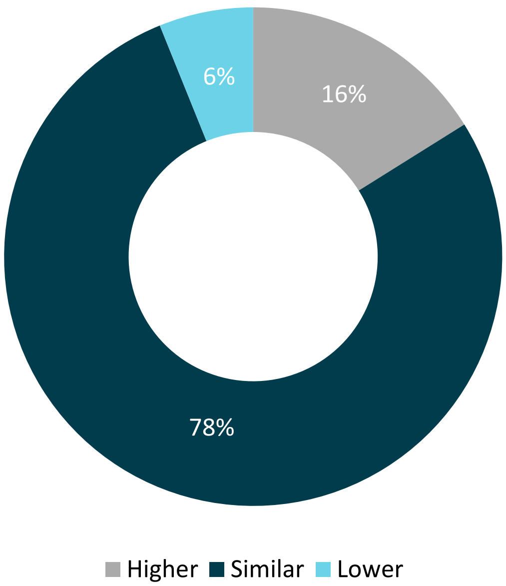
Buyer competition for deals in FY 2021 vs. FY 2020



76.5% of respondents felt buyer competition in FY 2021 was similar to FY 2020, while 22.4% felt buyer competition was significantly higher. Only 1.2% of survey respondents felt buyer competition was lower in FY 2020.

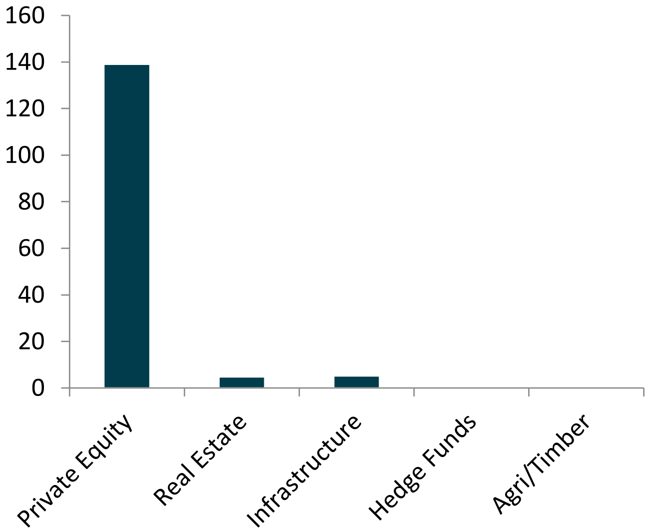
Projected volume for FY 2022

How FY 2022 volume will compare to FY 2021



16.1% of respondents felt that their FY 2022 volume will be meaningfully higher than FY 2021, 6.1% felt it would be meaningfully lower, while 77.8% of the respondents felt that it will be similar.

Predicted volume for FY 2022

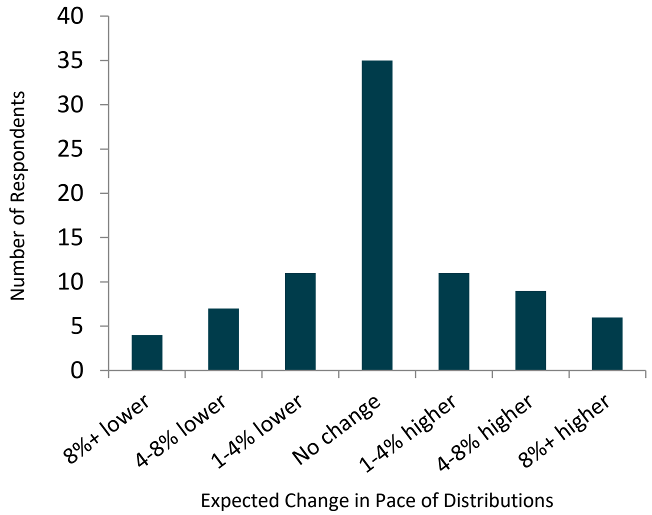


Respondents predicted total volume for FY 2022 to be $149.28 billion, which would represent a modest 4.09% increase from the $143.41 billion transacted in FY 2021.

Assuming proportions do not change in FY 2022, this suggests private equity volume will be $138.67 billion in FY 2022, real estate will be $4.76 billion, infrastructure will be $5.12 billion and agriculture & timber will be $390 million.

Expected distribution and NAV changes in FY 2022

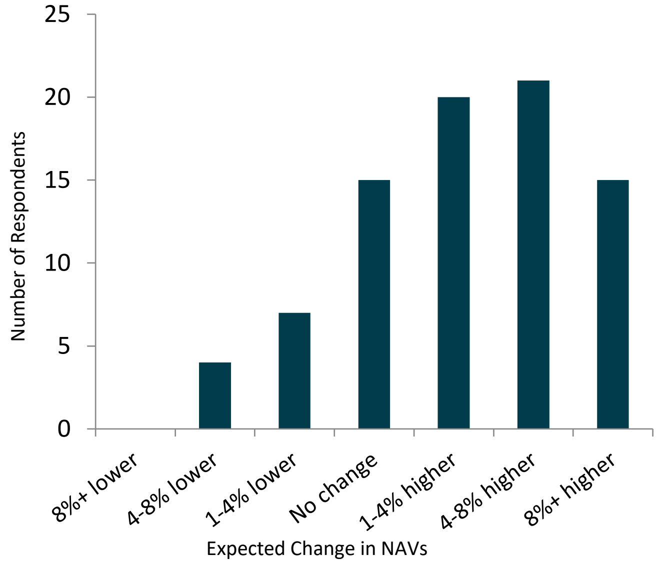
Distribution pace in FY 2022 vs. FY 2021



Respondents expect the pace of distributions in FY 2022 to only be slightly higher than FY 2021 as the average response suggests an expected increase of 0.4%.

Respondents are less optimistic than they were in FY 2020, when they expected the pace of distributions to be up 5.5%.

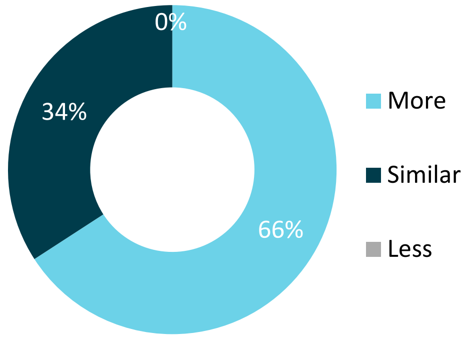
Change in NAV in FY 2022 vs. FY 2021



On average, respondents expect NAV valuations to increase by 3.42% in FY 2022 compared to FY 2021. This is lower than FY 2020 when respondents expected NAVs to increase by 5.1% in the upcoming year.

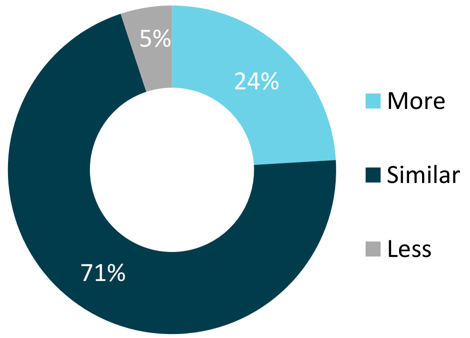
General partners' approach to the secondary market

Liquidations and restructurings in FY 2021 vs. FY 2020



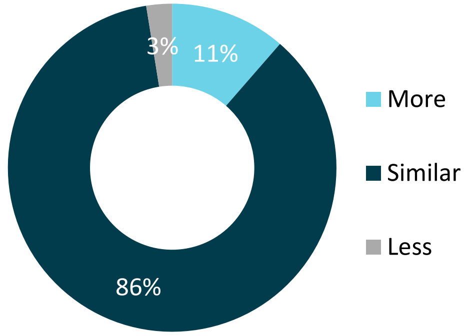
65.9% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in FY 2021 compared to FY 2020.

Staples sought by GPs in FY 2021 vs. FY 2020



70.9% of respondents felt that a similar number of GPs sought staples in FY 2021 as compared FY 2020.

GPs' restrictiveness on transfers in FY 2021 vs. FY 2020



The majority of the respondents felt that GPs' restrictiveness on transfers did not change in FY 2021 compared to FY 2020.

Select respondents

50 South Capital
Aberdeen Standard Investments
Access Capital
Adams Street Partners
Alpinvest Partners
Altamar Capital
Arcano Capital
Argentum
Bee Alternatives Limited
Bex Capital
Blackrock Private Equity Advisors
Capital Dynamics
Central Park Group
Cipio Partners
Coller Capital
Commonfund Capital
Corbin Capital Partners
CPPIB
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
ICG - Secondary Fund
Industry Ventures
Jasper Ridge
Jeneration Capital
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
MAM Alliance Partners
Mercury Partners
Metropolitan Realty
Montana Capital Partners
Morgan Stanley
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Oddo BHF Private Equity
Overbay Capital Partners
Pantheon Ventures
Partners Group
PineBridge Investments
Pomona Capital
Portfolio Advisors
Private Advisors
RCP Advisors
Roc Partners
Schroder Adveq
Stafford Capital
StepStone Group
Strategic Partners
Sturbridge Capital
Sweetwater Capital
Tikehau Capital Advisors
Top Tier Capital Partners
TR Capital
Tyrus Capital
UBS Asset Management
Vintage Ventures
W Capital
Warana Capital
Whitehorse Liquidity Partners
Willowridge Partners

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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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