Setter

Volume Report FY 2023

Edition 22

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in FY 2023 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume FY 2023 vs. FY 2022

› 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 2024

› Changes in Level of Buyer Competition

› Changes in Debt Levels

› Pricing in FY 2023

› Expected Hiring in FY 2024

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in FY 2024

› 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 many transactions were completed in FY 2023? How much was completed in LBO, venture, real estate, infrastructure, credit, energy, real asset 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 34-question survey of the most active global buyers in the secondary market for alternative investments, conducted at the end of December 2023. 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 2023. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 94 of the 131 most active and regular buyers in the secondary market agreed to share their confidential results (see partial list of participants on page 28). The respondents to our survey represented 91.5% of the total market volume, making it the most reliable, consistent 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 2023 in review

Consistent with the stronger outlook anticipated for the second half of 2023 (see Setter Volume Report H1 2023), the secondary market logged $106.33 billion in FY 2023 volume, up from the $101.51 billion transacted in FY 2022.

Volume was a mix across the different segments of the secondary market. The private equity secondary market (funds and directs[1]) increased 4.0% year over year, to a total of $97.44 billion. Real estate secondaries (funds and directs) were down 26.5% to $2.19 billion, as were hedge fund secondaries, down 38.2% to $120 million. Private equity fund secondaries were up 11.0% ($54.77 billion in FY 2023 from $49.36 billion in FY 2022). LBO fund secondaries as well as venture funds were both up, 14.4% and 9.5% respectively. Private debt fund secondaries were up 5.0% ($3.49 billion from $3.33 billion in FY 2022). Decreases were seen for secondaries of fund of funds (down 31.6%) and energy funds (down 9.2%).

LP-led fund secondaries increased 12.3% from $56 billion in FY 2022 to $62.89 billion in FY 2023, while direct secondaries decreased 4.6% from $45.51 billion to $43.44 billion (private equity directs were $42.67 billion and real estate directs were $770 million). As a result, fund secondaries went from 55.2% of total volume in FY 2022 to 59.1% in FY 2023.

Despite the breadth and number of buyers continuing to rise, the most significant activity was driven by the 21 largest buyers in the market. The largest buyers (defined as those that deployed more than $1 billion in FY 2023) accounted for 74.1% of the market's total volume (vs. 75.9% in FY 2022), while the 70 mid-sized buyers accounted for 24.1% (vs. 22.2% in FY 2022) and the 40 smallest buyers represented 1.8% (vs. 1.9% in FY 2022). In fact, the top five buyers alone transacted $35.75 billion in volume (33.6% of the total 2023 volume).

74.4% of respondents felt that buyer competition for deals remained the same in FY 2023, while 12.2% felt it was lower. Although the use of debt to improve pricing and deal returns continued to be common in the secondary market, 52.0% of respondents felt the use of leverage was lower than in 2022.

Agents intermediated 75.4% of deals in FY 2023, versus 71.59% in FY 2022. In terms of dollars, agents intermediated $80.14 billion in deals in FY 2023, which is 11.9% more than FY 2022.

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

There were 1693 transactions in FY 2023, with an average size of $62.81 million. The number of transactions was down 11.8% from the 1919 transactions completed in FY 2022 while the average deal size was higher by 18.8%. Buyers paid 100% cash on closing for 71.9% of deals (exactly the same in 2022), while making use of other payment arrangements, such as deferred payments (25.8% of all deals) in FY 2023.

As for deal execution, 19.5% of buyers had a higher proportion of deals fall apart in FY 2023 as compared to the prior year. This is meaningfully less than FY 2022, when 36.0% reported more deals falling through. The main reasons for deals dying included sellers changing their mind and deciding not to sell (68.8%), adverse portfolio or manager issues uncovered in post-LOI diligence (8.3%) and GPs blocking transfers or PTP issues (6.3%).

Pensions were the most active sellers, accounting for 36.3% of total volume while insurance companies, accounted for 17.6%. General partners (excluding fund of funds and secondary funds) were16.6% of all sellers as they tapped the secondary market to create liquidity for their LPs and creative ways to increase AUM. 31.2% of survey respondents felt that GPs coordinated more secondaries including liquidating or restructuring older funds in FY 2023 and 32.1% of respondents felt that a higher number of GPs sought staples compared to the prior year. Looking forward, most buyers expect pensions to be the biggest sellers and to account for 45.1% of anticipated transaction volume in FY 2024.

From a geographical perspective, North American sellers continued to account for the largest proportion of volume, selling $64.33 billion (60.5% vs. 62.5% in FY 2022), whereas Western European sellers sold a higher proportion in FY 2023 (29.9% vs. 22.7% in FY 2022) than the prior year, and Asian-Pacific sellers accounted for $9.01 billion (8.5% vs. 13.2% in FY 2022). Other geographies accounted for 1.1% of the total volume, slightly down from 1.6% in FY 2022.

Buyers estimated that the average pricing in FY 2023 for LP-led fund sales and GP-led direct deals was a 13.59% discount to NAV and 7.46% discount to NAV, respectively.

Buyers expect NAV valuations to increase 3.2% and the pace of distributions to increase 4.7% in FY 2024. These forecasts were much more optimistic than those of FY 2022, when buyers had expected NAVs to decrease by 1.4% and distributions to decrease 1.4% in the following year.

On the hiring front, buyers expect to increase their headcount by 5.33%.

Looking forward, buyers expect FY 2024 to remain strong, with 2024 volume hitting $140.06 billion, which would be a significant 31.7% increase from FY 2023.

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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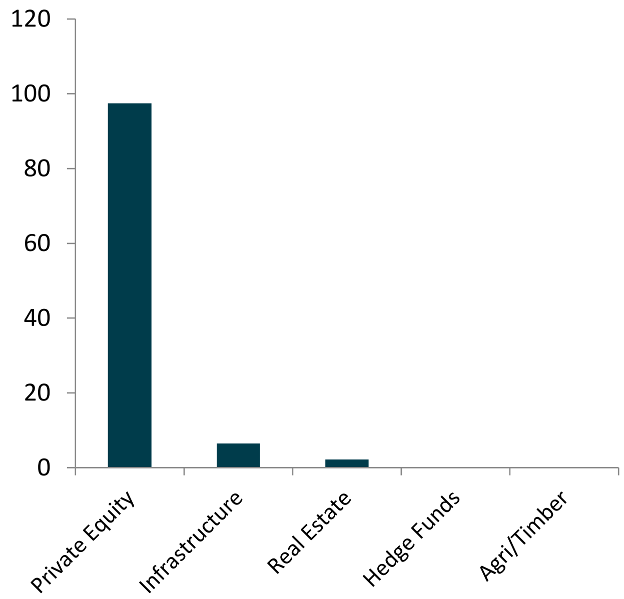
Total volume

Total secondary market volume for FY 2023 was $106.33 billion. This is the volume estimate derived from the 131 secondary buyers surveyed with dedicated secondary efforts and includes 103 secondary funds, 16 funds of funds, 5 hedge funds, 4 investment consultants, 2 family offices and 1 pension. We believe this estimate is reliable as the 94 survey respondents alone reported $97.29 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): $97.44 billion (4.0% increase YoY)

Infrastructure Funds: $6.48 billion (42.9% increase YoY)

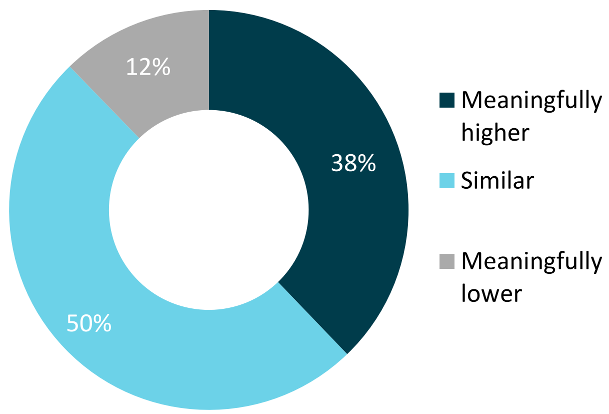
Real Estate (Directs & Funds): $2.19 billion (26.5% decrease YoY)

Hedge Funds: $120 million (38.2% decrease YoY)

Agriculture/Timber Funds: $100 million (29.6% decrease YoY)

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

FY 2023 volume vs. FY 2022 volume

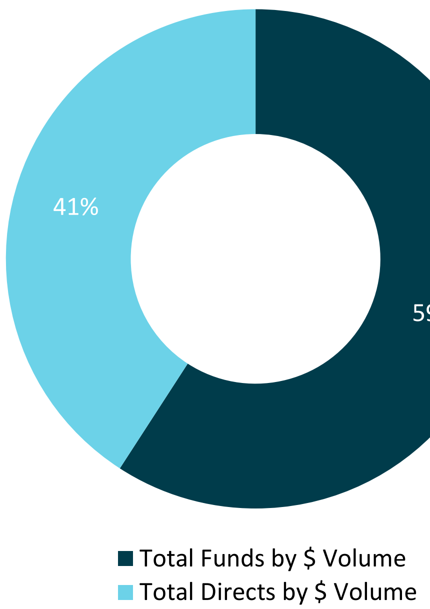


FY 2023 volume increased 4.7% compared to FY 2022, which was $101.51 billion.

12.3% of survey respondents felt their volume was lower in FY 2023, 49.9% felt their volume was similar and 37.8% of the respondents reported their volume was higher than FY 2022.

Assets purchased

Funds vs. directs[1]

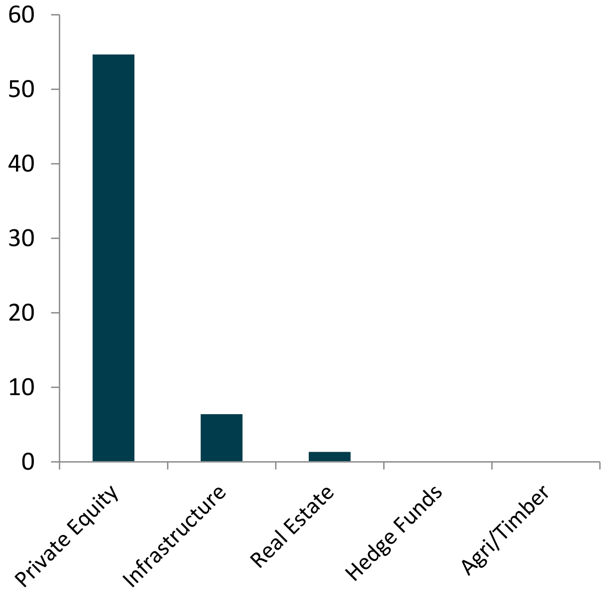


Fund secondaries increased 12.3%, from the $56.00 billion recorded in FY 2022 to $62.89 billion in FY 2023. Direct secondaries, however, decreased 4.6% from $45.51 billion in FY 2022 to $43.44 billion in FY 2023.

As a proportion of total volume, direct secondaries went from 44.8% in FY 2022 to 40.9% in FY 2023.

Survey respondents estimated that the split between fund and direct secondaries in three years would be 55.3% funds and 44.7% directs.

Breakdown of fund secondaries



Private equity fund purchases totaled $54.77 billion (11.0% increase YoY)

Infrastructure fund purchases totaled $6.48 billion (42.9% increase YoY)

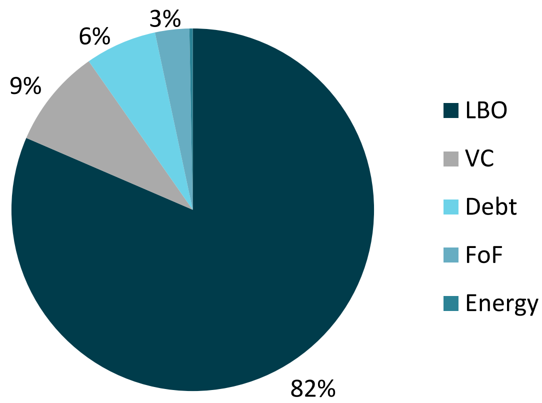
Real estate fund purchases totaled $1.42 billion (19.6% decrease YoY)

Hedge fund purchases totaled $120 million (38.2% decrease YoY)

Agriculture/Timber fund purchases totaled $100 million (29.6% decrease YoY)

Types of funds purchased

Private equity funds



LBO – $44.63 billion
(Up 14.4% YoY from $39.02 billion)

VC – $4.82 billion
(Up 9.5% YoY from $4.40 billion)

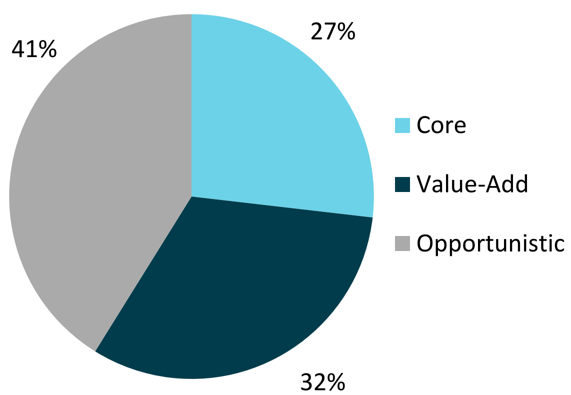
Debt – $3.49 billion
(Up 5.0% YoY from $3.33 billion)

Fund of Funds[2] – $1.67 billion
(Down 31.6% YoY from $2.44 billion)

Energy – $162 million
(Down 9.2% YoY from $178 million)

[2] Includes total for both Fund of Funds and Secondary Funds

Real estate funds



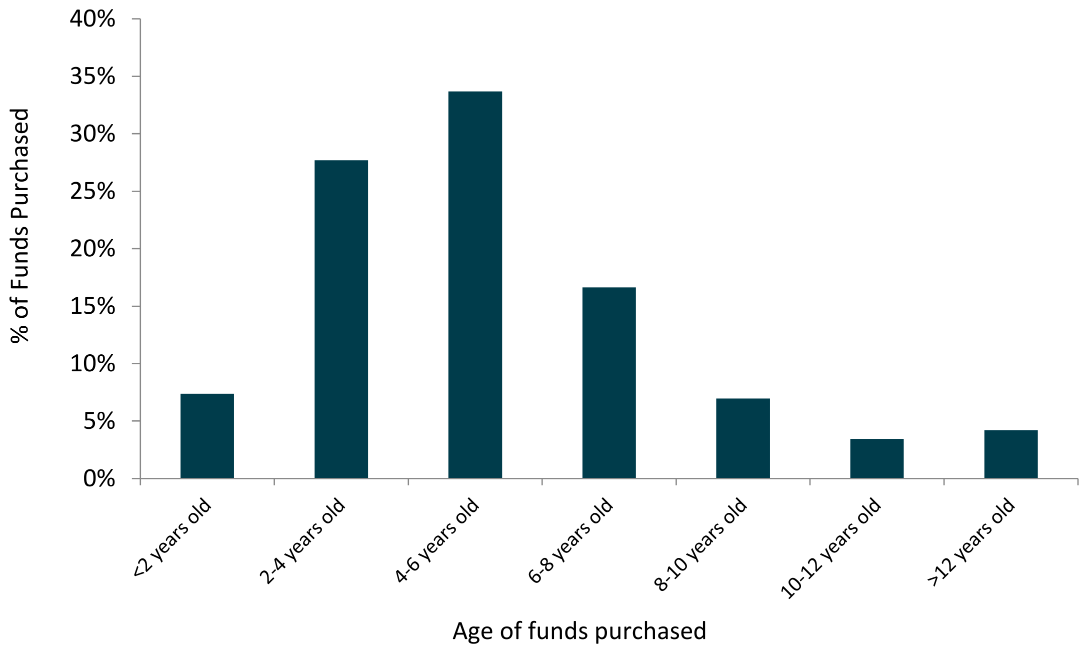
Core – $380 million
(Down 56.8% YoY from $880 million)

Value-Add – $450 million
(Up 23.2% YoY from $370 million)

Opportunistic – $580 million
(Up 13.3% YoY from $510 million)

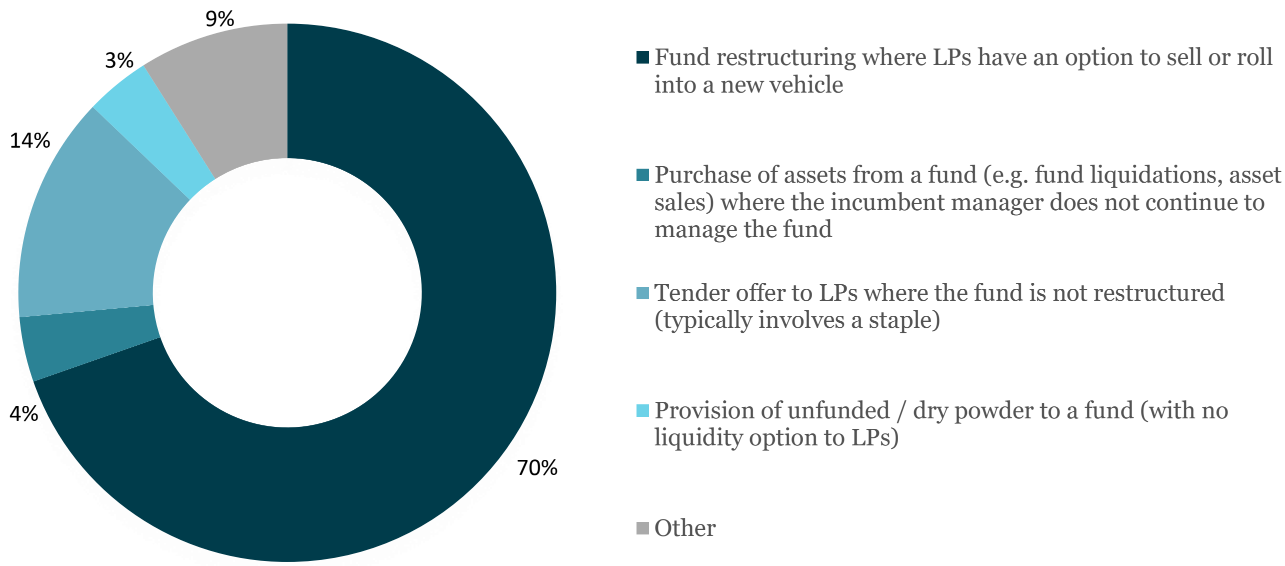
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 5.30 years old which is similar to the average in FY 2022 (5.25 years old).

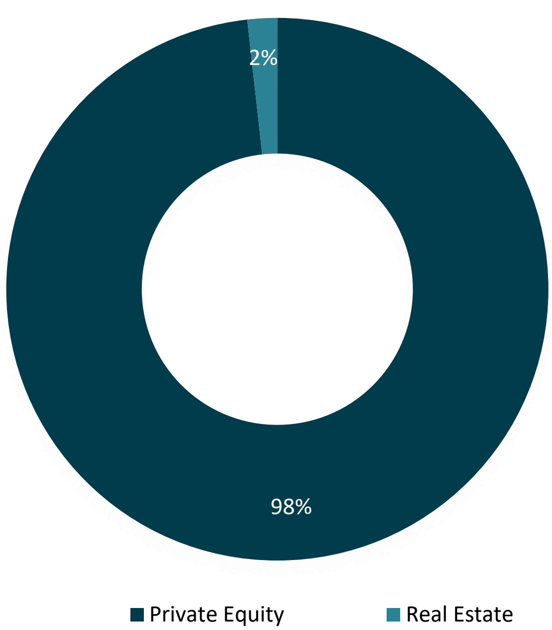


Types of direct secondaries

Types of direct deals completed by buyers

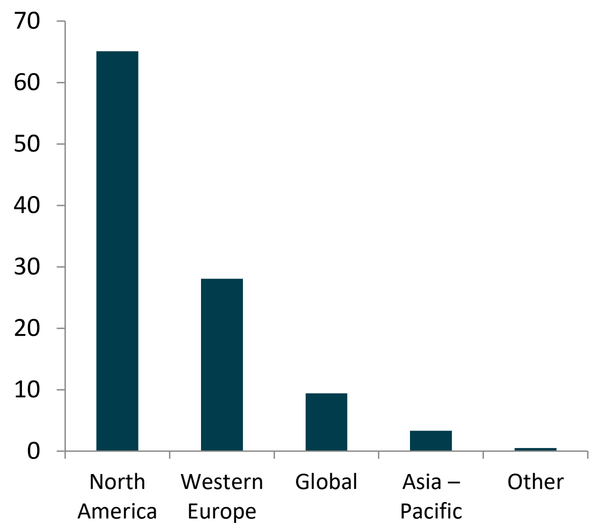


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 98.2% ($42.67 billion) and 1.8%, respectively, ($770 million) of the total directs volume.

Geography of assets purchased



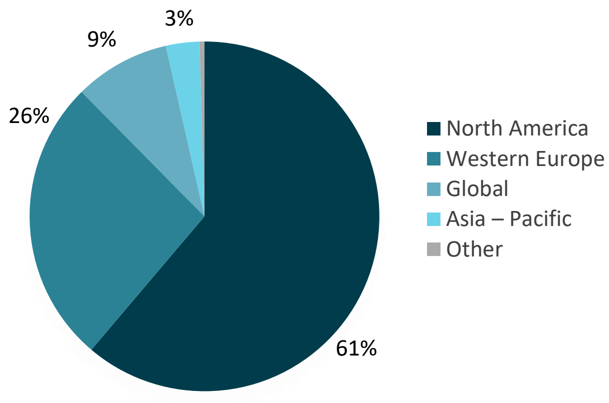
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in FY 2023:

North America – $65.07 billion
(Up .9% YoY from $64.52 billion)

Western Europe - $28.08 billion
(Up 15.5% YoY from $24.31 billion)

Global – $9.40 billion
(Up 41.3% YoY from $6.65 billion)

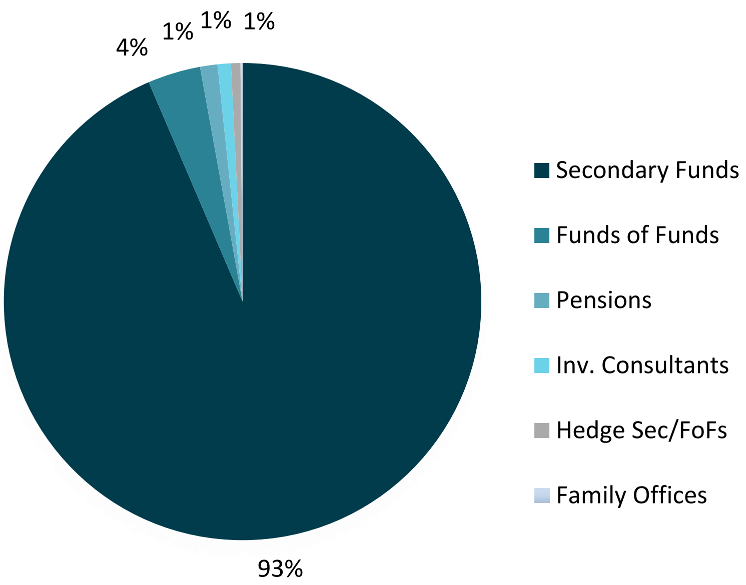
Asia-Pacific – $3.31 billion
(Down 31.5% YoY from $4.82 billion)



In terms of percentage, North American-focused funds and directs accounted for 61.2% of total volume, Western European-focused assets accounted for 26.4%, global-focused assets accounted for 8.8% of and Asia-Pacific-focused assets accounted for 3.1% of sales.

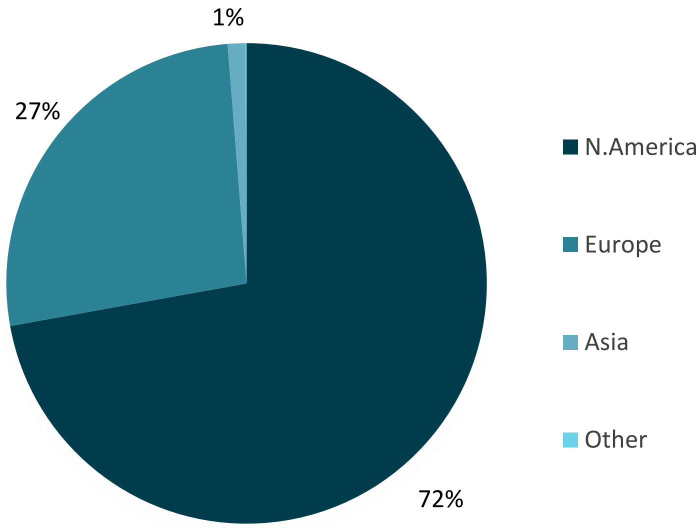
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in FY 2023, accounting for 93.6% ($99.49 billion) of total purchases while funds of funds accounted for 3.6% ($3.80 billion).

Location of buyers[3]



North American buyers transacted the most (72.2% of total volume) in FY 2023, up as a percentage from 69.6% total volume in FY 2022.

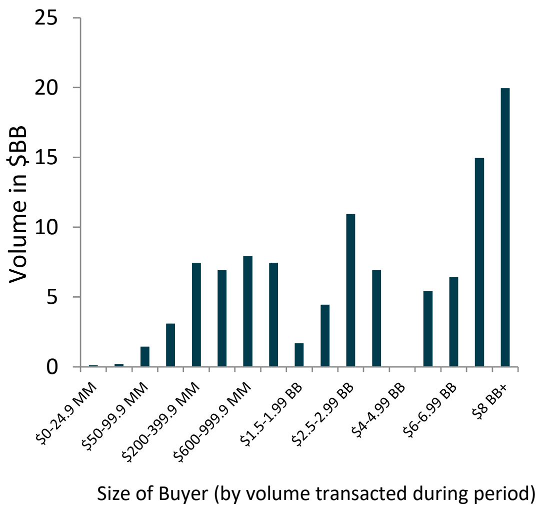
European buyers accounted for 26.6% of total volume in FY 2023, which was down from FY 2022 (28.5%).

[3]Location is based on head office location.

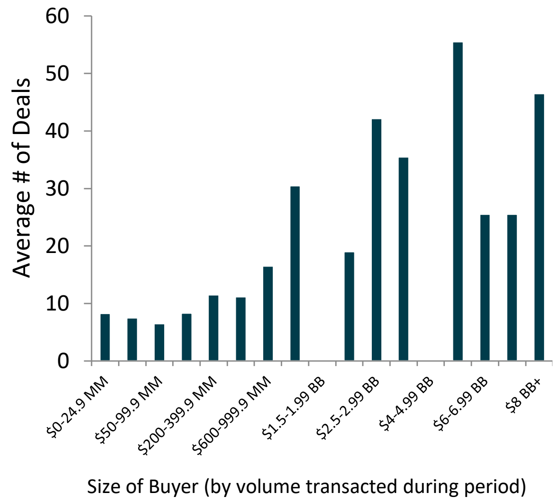
Activity levels of small, medium and large buyers

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



21 large buyers (defined as those that deployed $1 billion or more in FY 2023) purchased $78.75 billion, representing approximately 74.07% of total volume across 683 transactions with an average deal size of $115.38 million. This was a decrease from FY 2022, where large buyers accounted for 75.8%.

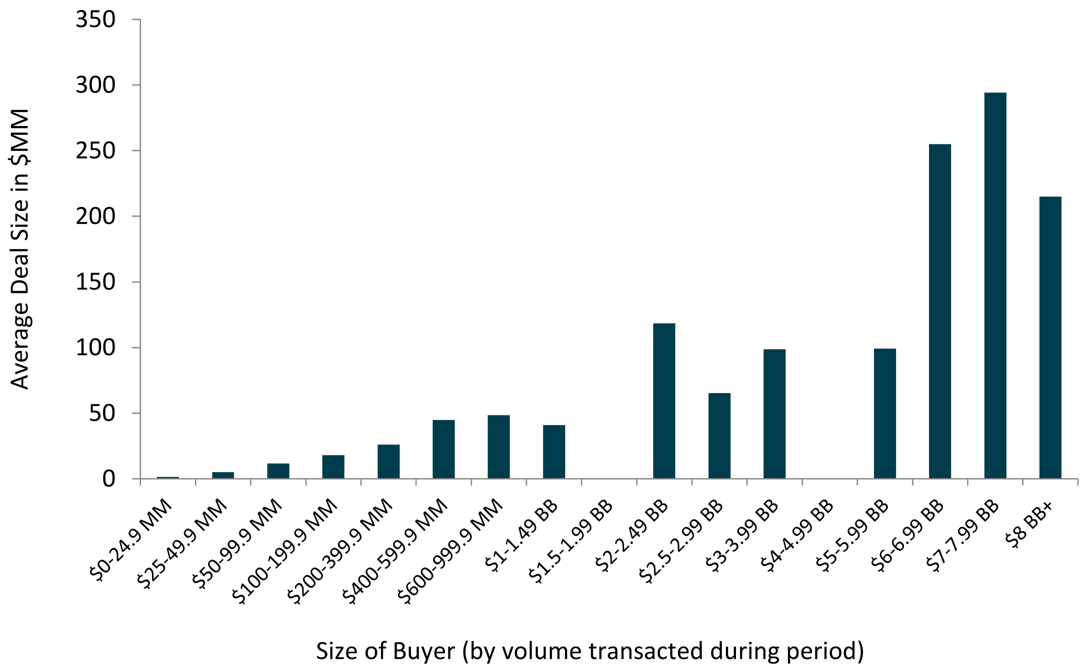
70 medium-sized buyers (defined as those that deployed $100 million to $1 billion in FY 2023) purchased $25.65 billion, representing approximately 24.1% of total volume across 751 transactions with an average deal size of $34.16 million. This was an increase from FY 2022, where they accounted for 22.2%.

40 small buyers (defined as those that deployed less than $100 million in FY 2023) purchased $1.93 billion, representing approximately 1.8% of total volume across 259 transactions with an average deal size of $7.42 million. This was a decrease from FY 2022, where they accounted for 1.9%.

Number of deals and average deal size

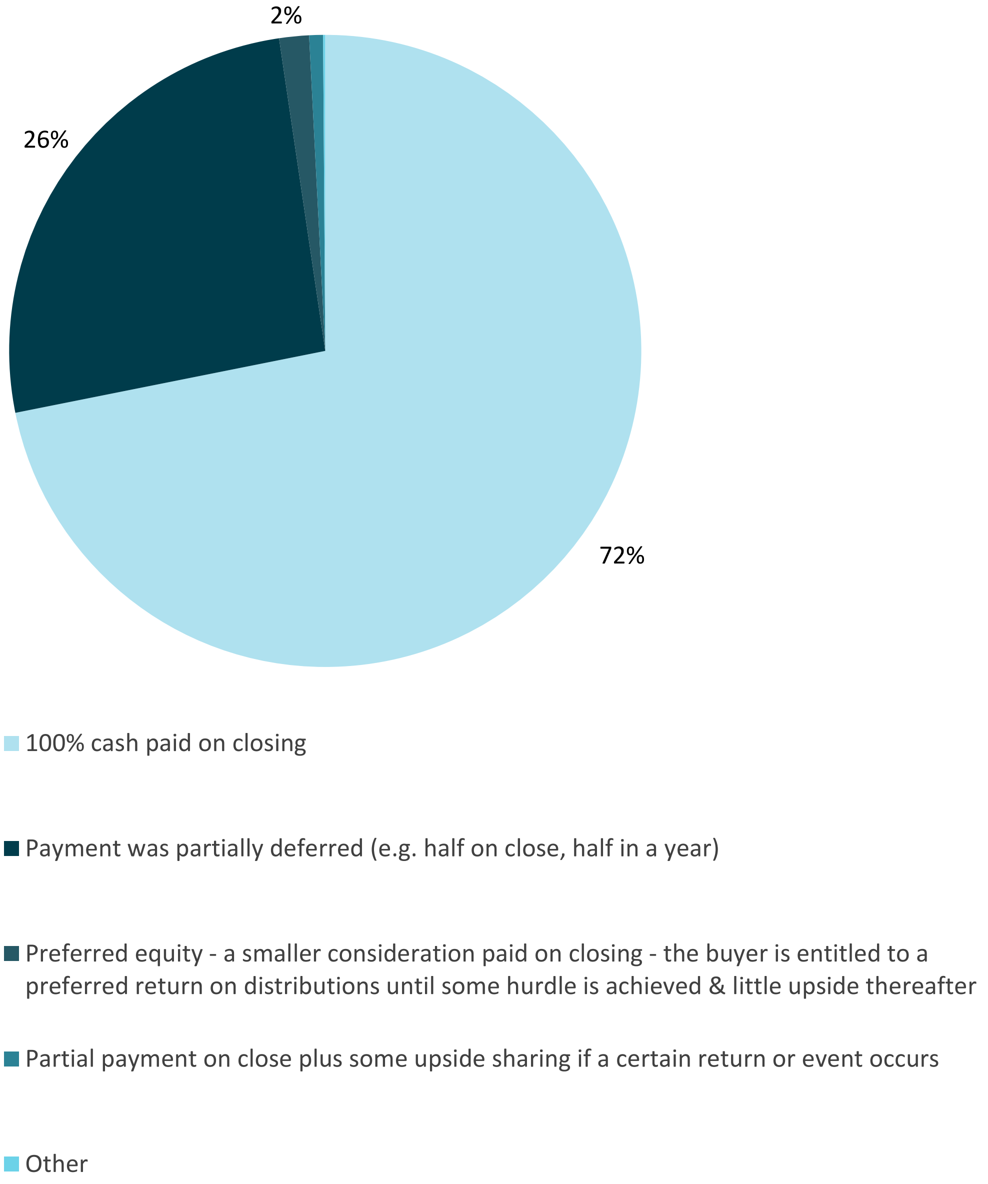
Buyers completed 1693 transactions in FY 2023 across the entire secondary market for alternative assets, with an average size of approximately $62.81 million. The number of transactions decreased 11.8% from 1919 transactions in FY 2022, while the average deal size however increased 18.8% from $52.89 million in FY 2022.

Average deal size by size of buyer



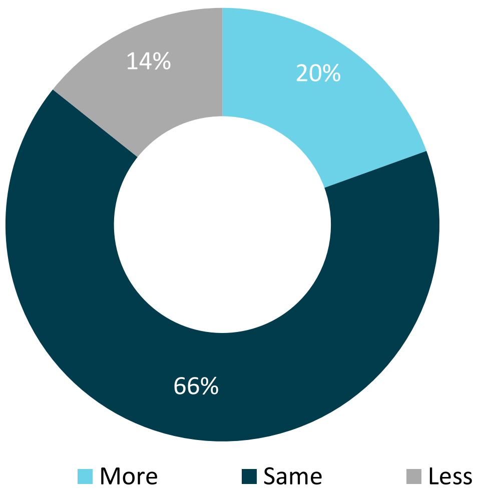
Payment terms

For 71.9% of their deals, buyers paid 100% cash on closing, while the balance of deals involved other payment terms or structuring as outlined below. For 25.8% of their deals, buyers paid a portion of the consideration in cash up front with the rest of the consideration being deferred. This payment structure was almost the same in 2022 (25.2% of deals), as buyers used deferrals to improve their prices and bridge the bid-ask spread.



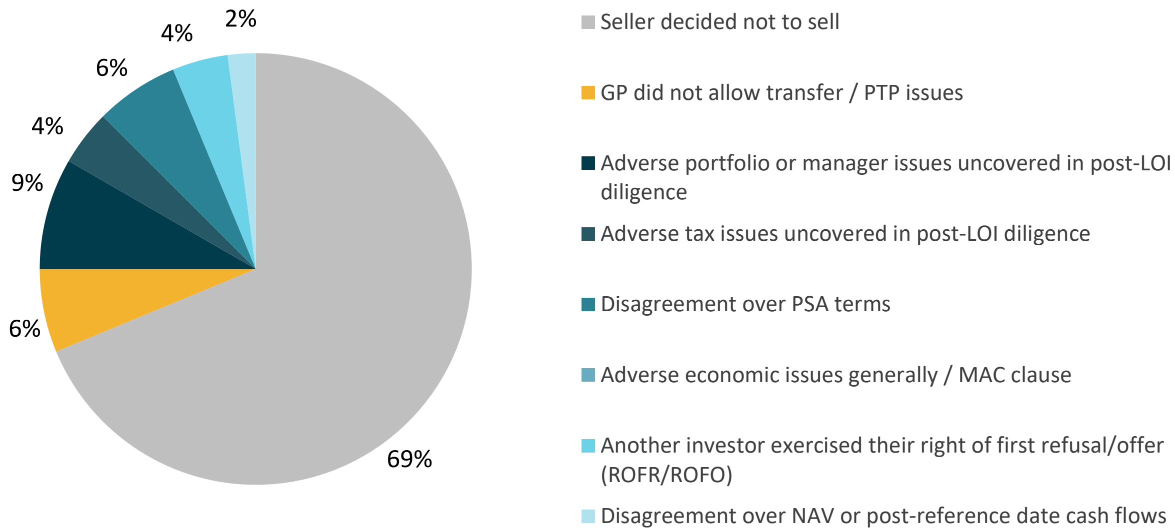
Execution risk

Percentage of deals that fell apart in FY 2023 vs. FY 2022



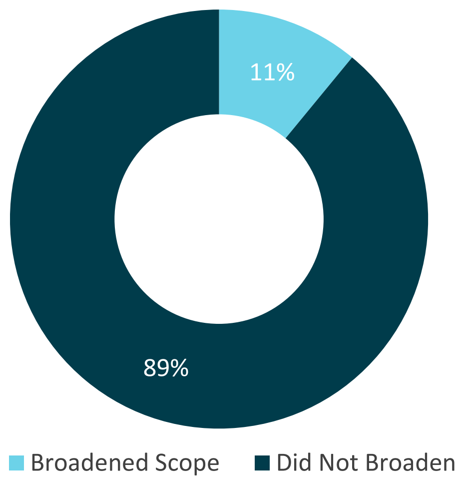
19.5% of respondents had a higher proportion of deals fall through in FY 2023, versus FY 2022. This is significantly lower than FY 2022, when 36.0% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was that the seller simply decided not to sell (68.8%). Other reasons included adverse portfolio or manager issues uncovered in post-LOI diligence (8.3%) and GP did not allow transfer / PTP issues (6.3%).



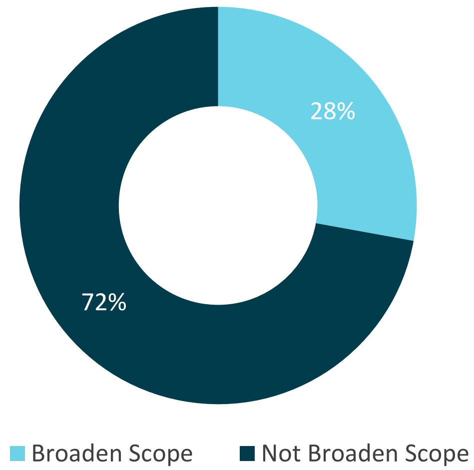
Buyers’ scope of interest

Buyers broadening their focus in FY 2023



11.0% of participants broadened their secondaries focus in FY 2023 to include buying other alternative investment types (direct secondaries, infrastructure, private debt, etc.).

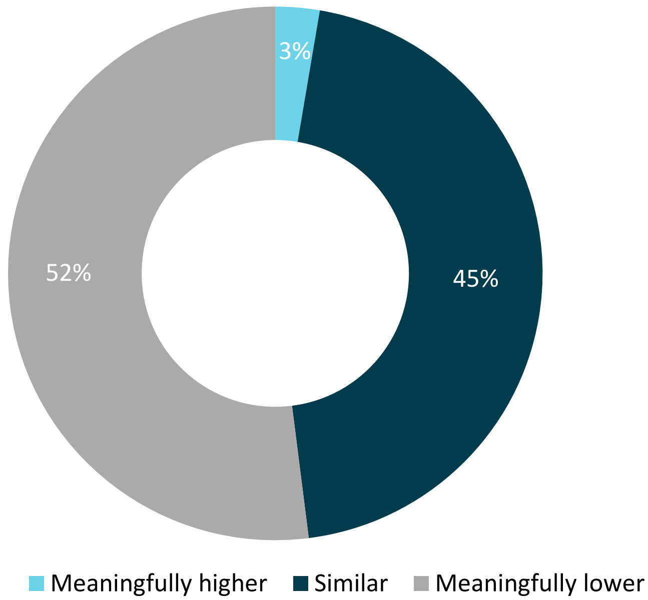
Buyers that intend to broaden their focus in FY 2024



27.8% of participants plan to broaden their secondaries focus in FY 2024 to include buying other alternative investment types. In lockstep, respondents expected to increase their headcount by 5.33% in 2024.

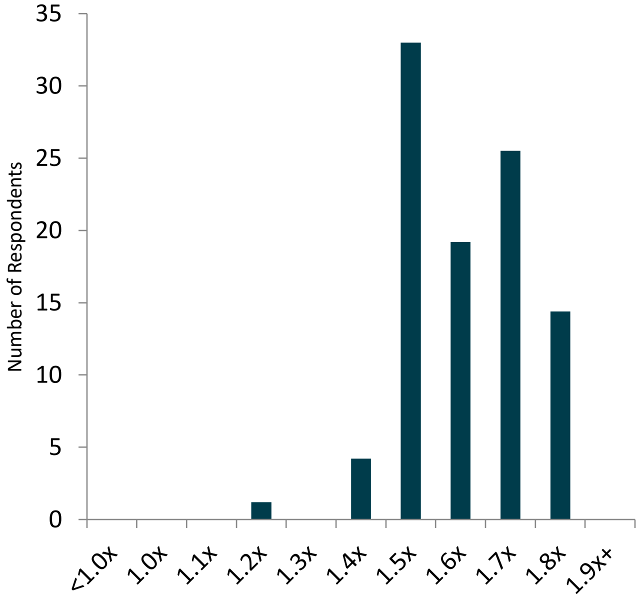
Leverage and returns

Level of debt used by buyers in FY 2023 vs. FY 2022



Debt usage declined in 2023. 45.3% of respondents believed the level of debt used by buyers was the same, only 2.7% felt it was more and 52.0% felt it had decreased in FY 2023. This is about the same from 2022, when 45.2% of buyers felt the level of debt used was lower.

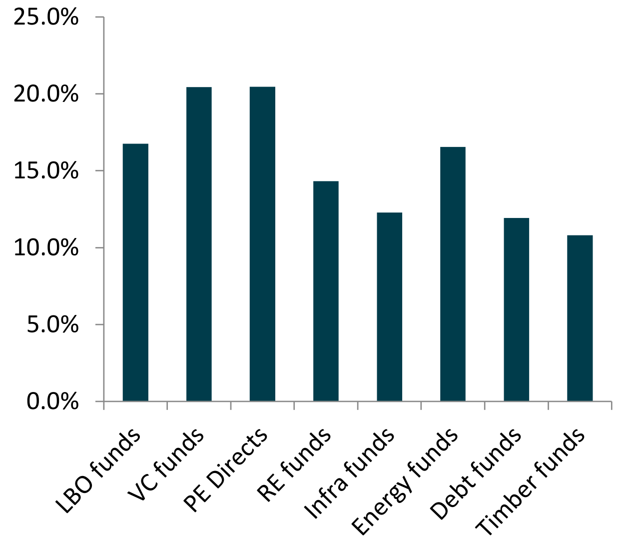
Expected multiple for secondary deals completed in FY 2023



Respondents predicted that the average gross multiple for secondary deals completed in FY 2023 will be 1.60x, higher than the 1.55x buyers expected from deals completed in FY 2022.

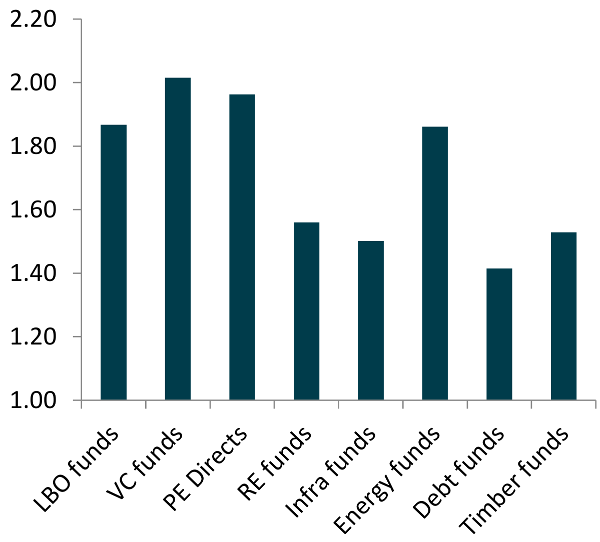
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers' average targeted IRR was 16.8% for LBO funds, 20.4% for VC funds, 20.5% for private equity directs, 14.3% for real estate funds, 12.3% for infrastructure funds, 16.5% for energy funds, 11.9% for performing debt funds and 10.8% for timber funds.

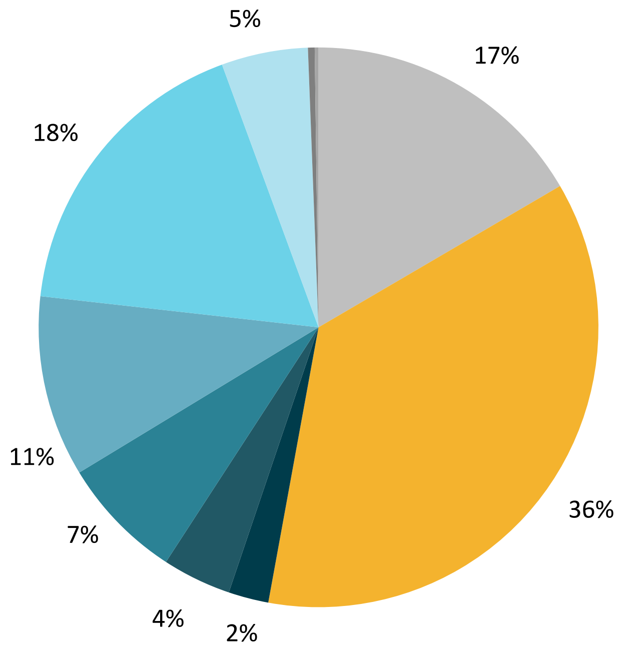
Targeted multiples on secondary purchases



On average, buyers' average targeted multiple was 1.87x for LBO funds, 2.02x for VC funds, 1.96 for private equity directs, 1.56x for real estate funds, 1.50x for infrastructure funds, 1.86x for energy funds, 1.42x for performing debt funds and 1.53x for timber funds.

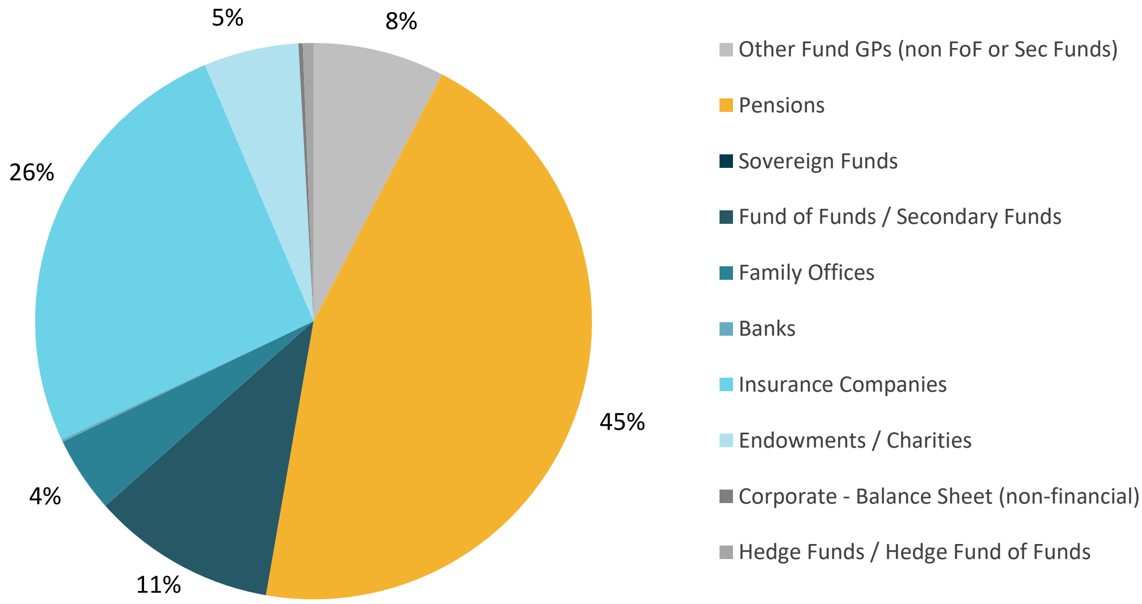
Seller profiles

Types of sellers in FY 2023

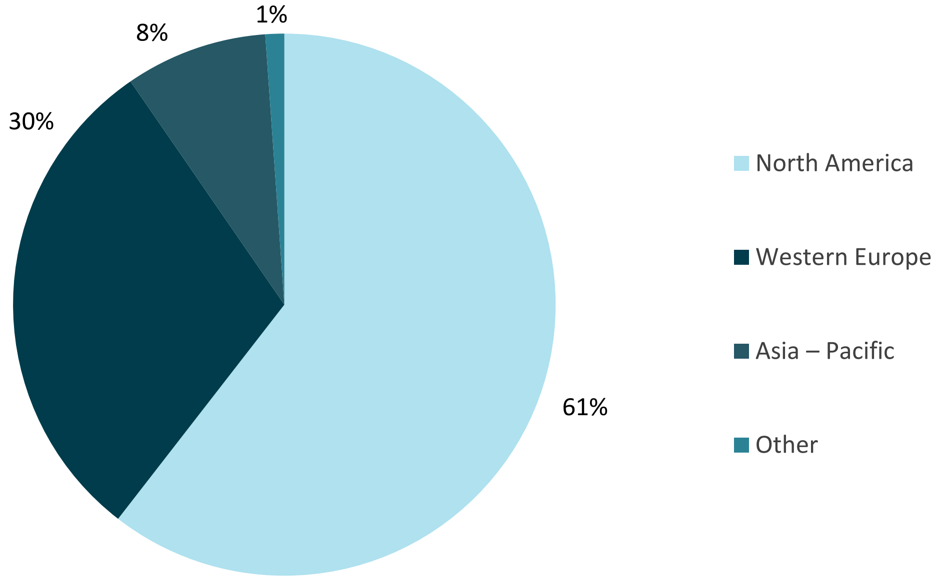


Pensions and insurance companies were the most active sellers in FY 2023 making up 36.3% and 17.6% of the FY 2023 volume, respectively. Most buyers expect pensions to be the biggest sellers in FY 2024 (45.1% of total transaction volume).

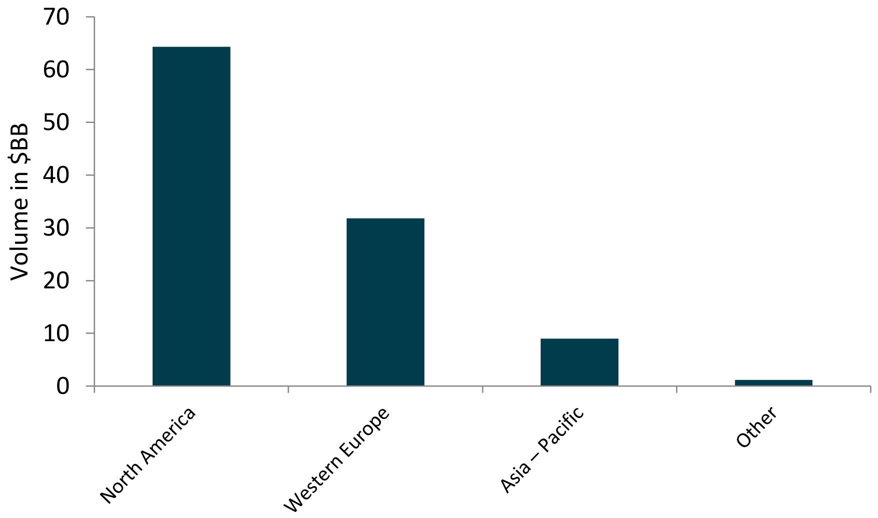
Expected sellers in FY 2024



Seller location

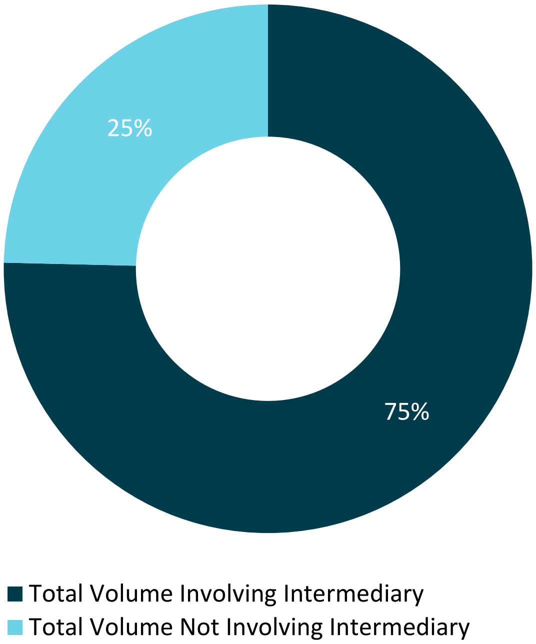


In terms of the location of sellers, North America accounted for the majority of volume in FY 2023. North American sellers sold $64.33 billion (60.5% vs. 62.5% in FY 2022), whereas Asia-Pacific sellers sold $9.01 billion (8.5% vs. 13.2% in FY 2022). Western European sellers accounted for 29.9% of the total volume up from 22.7% in FY 2022. Other geographies, such as the Middle East accounted for 1.1% of the total volume in FY 2023, down from 1.6% in FY 2022.



Intermediation and level of competition

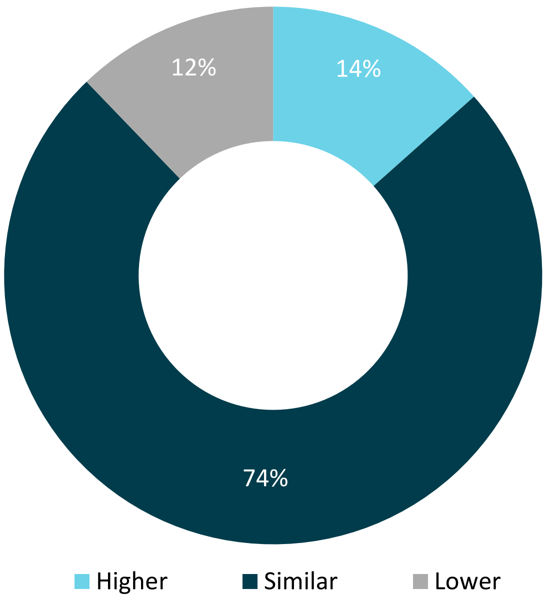
Volume of intermediated transactions



Approximately $80.14 billion (75.4%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was higher than FY 2022 where it was $71.59 billion (70.5% of total).

In terms of volume, agents intermediated $8.55 billion more in deals as compared to FY 2022, representing an increase of 11.9%.

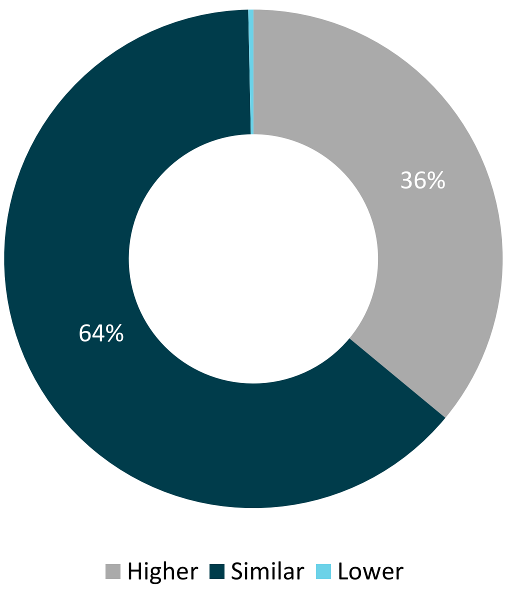
Buyer competition for deals in FY 2023 vs. FY 2022



74.4% of respondents felt buyer competition in FY 2023 was similar to FY 2022, while only 13.4% felt buyer competition was significantly higher. 12.2 % of survey respondents felt buyer competition was lower in FY 2023.

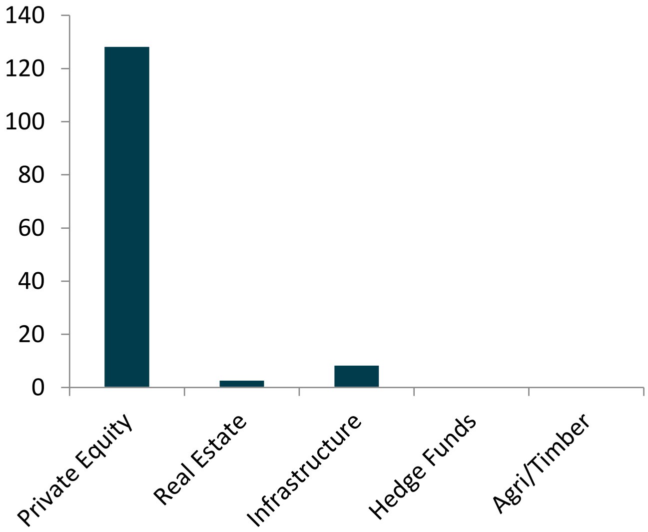
Projected volume for FY 2024

How FY 2024 volume will compare to FY 2023



A strong 2024 is expected as 36.0% of respondents felt that their FY 2024 volume will be meaningfully higher than FY 2023 and 63.7% felt that it will be similar.

Predicted volume for FY 2024

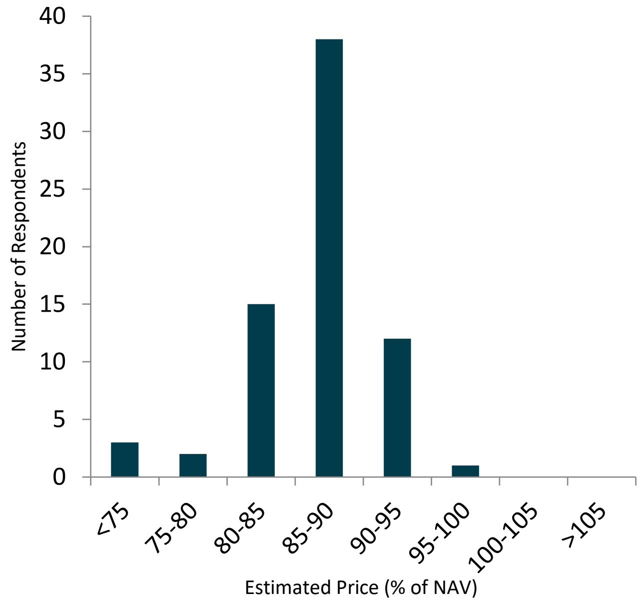


Respondents predicted the total volume for FY 2024 will be $140.06 billion, which would represent a 31.73% increase from the $106.33 billion transacted in FY 2023.

Assuming proportions do not change in FY 2024, this suggests private equity volume will be $128.35 billion in FY 2024, real estate will be $2.88 billion, infrastructure will be $8.53 billion and agriculture & timber will be $130 million.

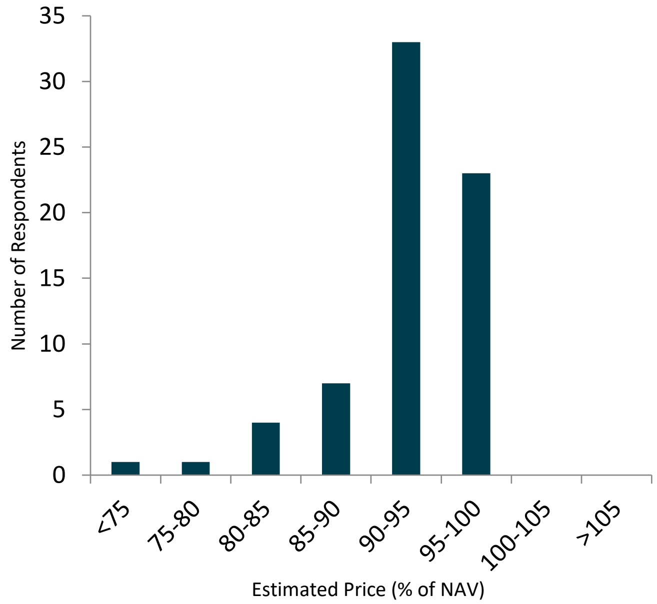
Pricing in FY 2023

Average price for LP-led fund sales



Respondents estimated that the average price for LP-led fund sales was a 13.59% discount to NAV in FY 2023.

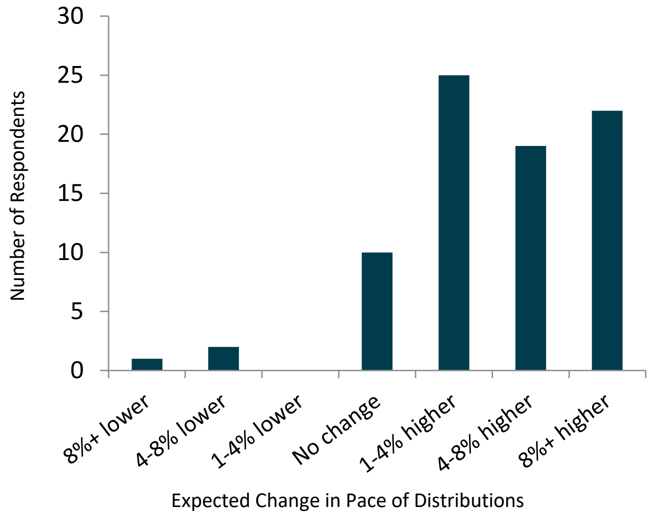
Average price for GP-led direct deals



Respondents estimated that the average price for GP-led direct deals was a 7.46% discount to NAV in FY 2023.

Expected distribution and NAV changes in FY 2024

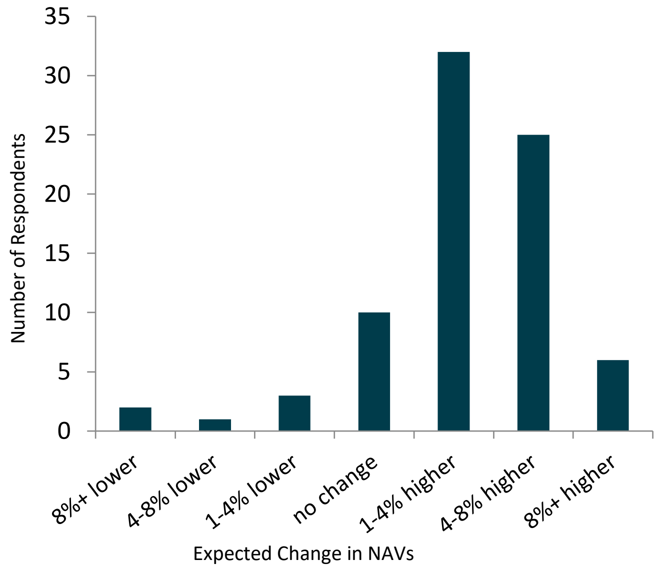
Distribution pace in FY 2024 vs. FY 2023



Respondents expect the pace of distributions in FY 2024 to be higher than FY 2023 as the average response suggests an expected increase of 4.7%.

Respondents are more optimistic than they were in FY 2023, when they expected the pace of distribution to be down 1.4%.

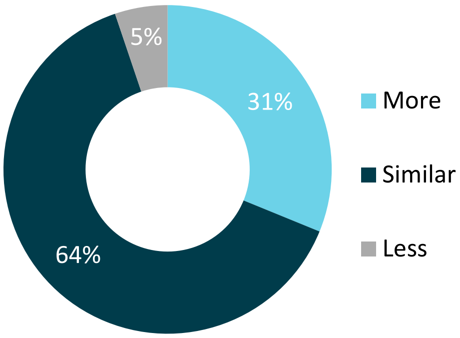
Change in NAV in FY 2024 vs. FY 2023



On average, respondents expect NAV valuations to increase by 3.2% in FY 2024 compared to FY 2023. This is much higher than FY 2022 when respondents expected NAVs to decrease by 1.4% in the upcoming year.

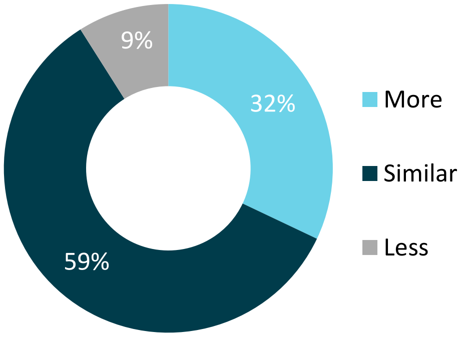
General partners' approach to the secondary market

Liquidations and restructurings in FY 2023 vs. FY 2022



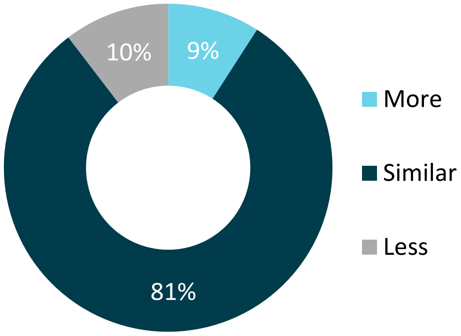
31.2% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in FY 2023 compared to FY 2022.

Staples sought by GPs in FY 2023 vs. FY 2022



32.1% of respondents felt that meaningfully more GPs sought staples in FY 2023 as compared to FY 2022.

GPs' restrictiveness on transfers in FY 2023 vs. FY 2022



The majority of the respondents felt that GPs' restrictiveness on transfers did not change in FY 2023 compared to FY 2022.

Select respondents

50 South Capital
Aberdeen Standard Investments
Adams Street Partners
Alpinvest Partners
AltamarCAM Capital
Apogem Capital
Arcano Capital
Bee Alternatives Limited
Bex Capital
Blackrock Private Equity Advisors
Capital Dynamics
Coller Capital
Commonfund Capital
Corbin Capital Partners
CPPIB
Eurazeo
Flexstone Partners
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Grosvenor Capital Management
Hamilton Lane
HarbourVest Partners
Headlands Capital
Hollyport Capital
HQ Capital
Intermediate Capital Group (ICG)
Industry Ventures
Jasper Ridge
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
Oddo BHF Private Equity
Macquarie Asset Management
Metropolitan Realty
Montana Capital Partners
Morgan Stanley
Multiplicity Partners AG
Neuberger Berman
Newbury Partners
NewQuest Capital Partners
North Sky Capital
Northleaf Capital
Overbay Capital Partners
Pantheon Ventures
Partners Group
PineBridge Investments
Pomona Capital
Portfolio 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
UBS Asset Management
Unigestion
Velocis
W Capital
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 client base including some of the world's largest pensions, endowments, investment consultants and fund managers. To date, Setter Capital has completed over 2000 transactions, representing more than $40 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 Volume Report ™
The semi-annual report that provides the most comprehensive and accurate assessments of the secondary market.

The Setter 30 ™
The quarterly ranking of the most sought-after venture-backed companies in the global secondary market.

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 Liquidity Report ™
A 17-page comprehensive review of an investor's portfolio addressing all aspects of active portfolio management and construction.

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