Setter

Volume Report H1 2024

23rd Edition

First in the secondary market.

Highlights

The Setter Volume Report analyzes global secondary market activity in H1 2024 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume H1 2024 vs. H1 2023

› 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

› Change in Level of Buyer Competition

› Changes in Debt Levels

› Pricing in H1 2024

› Expected Hiring in FY 2024

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in H2 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 directly asked principals the same questions that buyers, sellers and secondary fund LPs often ask us. How many transactions were completed in H1 2024? 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 June 2024. 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 H1 2024. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 88 of the 132 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 86.8% 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.

H1 2024 in review

The first half of 2024 recorded a record 50.2% increase in total volume as secondary market activity continued its upward trend. The secondary market logged $67.71 billion in volume, significantly up from the $45.09 billion transacted in H1 2023.

Except for hedge fund and debt fund secondaries, volume was significantly up across all segments of the secondary market. The private equity secondary market (funds and directs[1]) increased 53.6% year over year, to a total of $63.32 billion. Real estate secondaries (funds and directs) were up 55.4% to $1.49 billion, while hedge fund secondaries were down 38.3% to $60 million. Private equity fund secondaries were up 39.4% ($34.36 billion in H1 2024 from $24.65 billion in H1 2023). LBO fund secondaries were up 38.7% ($28.53 billion in H1 2024 from $20.57 billion in H1 2023) while venture fund secondaries had a record setting 151.3% ($2.66 billion in H1 2024 from $1.06 billion in H1 2023) increase in volume due in large part to a $1bn venture portfolio Lexington bought early in the year. Private debt fund secondaries were slightly down 3.3% ($1.98 billion from $2.04 billion in H1 2023). Increases were likewise seen for secondaries of fund of funds (up 18.2%) and energy and infrastructure funds (up 85.0% and 2.2%, respectively).

LP-led fund secondaries increased 35.2% from $28.14 billion in H1 2023 to $38.05 billion in H1 2024, while direct secondaries also increased 75.0% from $16.95 billion to $29.66 billion (private equity directs were $28.96 billion and real estate directs were $70 million). As a result, fund secondaries went from 62.4% of total volume in H1 2023 to 56.2% in H1 2024.

Despite the breadth and number of buyers continuing to rise, the most significant activity was driven by the 20 largest buyers in the market. The largest buyers (defined as those that deployed more than $600 million in H1 2024) accounted for 71.4% of the market's total volume (vs. 62.2% in H1 2023), while the 55 mid-sized buyers accounted for 24.7% (vs. 31.6% in H1 2023) and the 57 smallest buyers represented 3.9% (vs. 6.2% in H1 2023). In fact, the top five buyers alone transacted $36.50 billion in volume (53.9% of the total 2024 volume).

68.0% of respondents felt that buyer competition for deals remained the same in H1 2024, while 28.0% felt it was higher. The use of debt to improve pricing and deal returns continued to be common in the secondary market and 84.1% of respondents felt the use of leverage was the same as in 2023.

Agents intermediated 73.9% of deals in H1 2024, versus 75.4% in H1 2023. In terms of dollars, agents intermediated $50.04 billion in deals in H1 2024, which is 47.3% more than H1 2023.

[1] Directs include GP-led deals such as fund recapitalizations, continuation funds and fund liquidations.

There were 1068 transactions in H1 2024, with an average size of $63.42 million. The number of transactions was up 23.3% from the 866 transactions completed in H1 2023 and the average deal size was also higher by 21.8%. Buyers paid 100% cash on closing for 68.4% of deals while making use of other payment arrangements, such as deferred payments in H1 2024.

As for deal execution, 11.0% of buyers had a higher proportion of deals fall apart in H1 2024 as compared to the prior six months. This is meaningfully less than H1 2023, when 17.9% reported more deals falling through. The main reasons that deals fell apart was that the seller simply decided not to sell (76.0%), disagreement over NAV or post-reference date cash flows adverse portfolio or manager issues uncovered in post-LOI diligence (6.0%) and GP did not allow transfer / PTP issues and adverse portfolio or manager issues uncovered in post-LOI diligence (both 4.0%).

Pensions were the most active sellers, accounting for 33.1% of total volume while managers of funds across all strategies such as buyout, venture and fund of funds accounted for 29.5%. Insurance companies accounting for 13.7%, up significantly from 8.5% in the prior year. 24.7% of survey respondents felt that GPs coordinated more secondaries including liquidating or restructuring older funds in H1 2024 and 27.4% of respondents felt that a higher number of GPs sought staples compared to the prior six months. Looking forward, most buyers expect pensions to continue to be the biggest sellers accounting for 42.8% of anticipated transaction volume in H2 2024.

From a geographical perspective, North American sellers continued to account for the largest proportion of volume, selling $45.67 billion (67.4% vs. 65.3% in H1 2023), whereas Western European sellers accounted for $17.01 in H1 2024 volume (25.1% vs. 25.3% in H1 2023) and Asian-Pacific sellers accounted for $4.51 billion (6.7% vs. 7.3% in H1 2023). Other geographies accounted for 0.8% of the total volume, down from 2.1% in H1 2023.

As to pricing, buyers estimated that the average price in H1 2024 for LP-led fund sales and GP-led direct deals was a 12.77% discount to NAV and 5.95% discount to NAV, respectively.

Buyers expect NAV valuations to increase 3.1% and the pace of distributions to increase 4.0% in H2 2024. These forecasts are more optimistic than those of H1 2023, when buyers had expected NAVs and distributions to increase by 2.2% and 2.3% in the upcoming year.

On the hiring front, buyers expect to increase their headcount by 5.61%.

Looking forward, buyers expect FY 2024 to remain strong, with 2024 volume hitting $131.24 billion, which would be a 19.5% increase from FY 2023 and set a new yearly record.

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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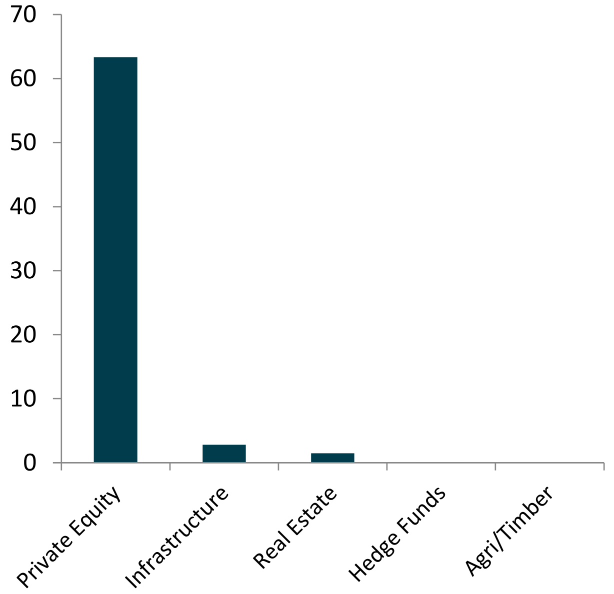
Total volume

Total secondary market volume for H1 2024 was $67.71 billion. This is the volume estimate derived from the 132 secondary buyers surveyed with dedicated secondary efforts and includes 104 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 88 survey respondents alone reported $58.76 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): $63.32 billion (53.6% increase YoY)

Infrastructure Funds: $2.82 billion (2.2% increase YoY)

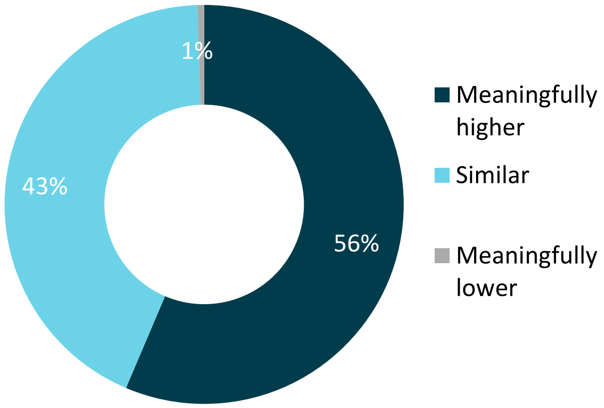
Real Estate (Directs & Funds): $1.49 billion (55.4% increase YoY)

Hedge Funds: $60 million (38.3% decrease YoY)

Agriculture/Timber Funds: $28 million (38.7% decrease YoY)

[1] Directs include GP-led deals such as fund recapitalizations, continuation funds and fund liquidations.

H1 2024 volume vs. H1 2023 volume

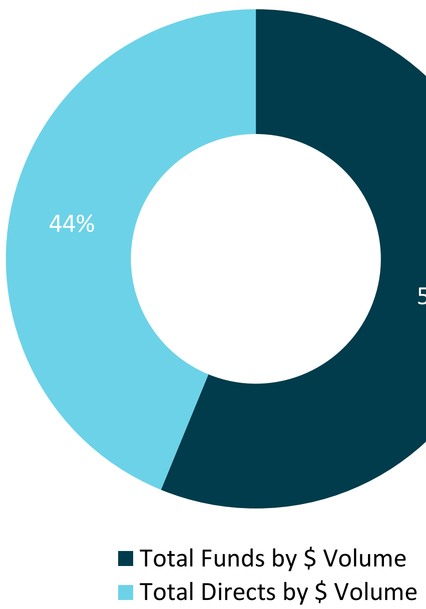


H1 2024 volume increased 50.2% compared to H1 2023, which was $45.09 billion.

Only 0.6% of survey respondents felt their volume was lower in H1 2024, 43.0% felt their volume was similar and 56.4% of the respondents reported their volume was higher than H1 2023.

Assets purchased

Funds vs. Directs

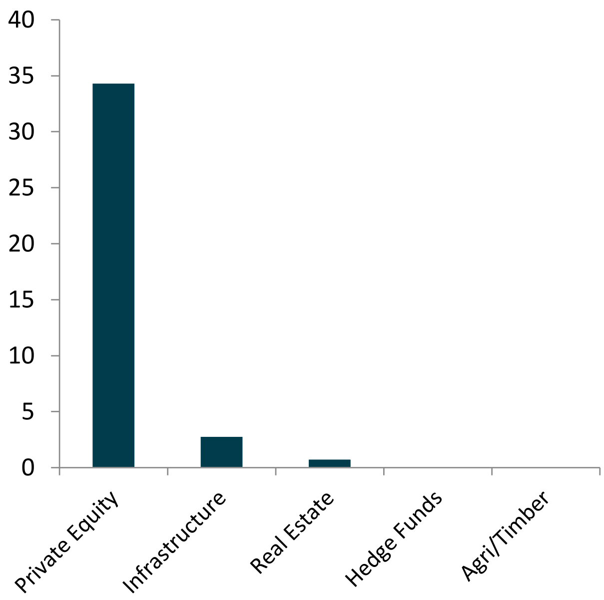


Fund secondaries increased 35.2%, from the $28.14 billion recorded in H1 2023 to $38.05 billion in H1 2024. Direct secondaries, substantially jumped 75.0% from $16.95 billion in H1 2023 to $29.66 billion in H1 2024.

As a proportion of total volume, direct secondaries went from 37.6% in H1 2023 to 43.8% in H1 2024.

Survey respondents estimated that the split between fund and direct secondaries in three years would be 55.5% funds and 44.5% directs.

Breakdown of fund secondaries



Private equity fund purchases totaled $34.36 billion (39.4% increase YoY)

Infrastructure fund purchases totaled $2.82 billion (2.2% increase YoY)

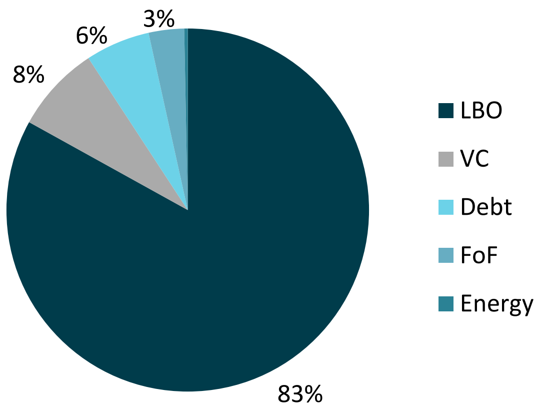
Real estate fund purchases totaled $780 million (32.8% increase YoY)

Hedge fund purchases totaled $60 million (38.3% decrease YoY)

Agriculture/Timber fund purchases totaled $30 million (38.7% decrease YoY)

Types of funds purchased

Private equity funds



LBO – $28.53 billion
(Up 38.7% YoY from $20.57 billion)

VC – $2.66 billion
(Up 151.3% YoY from $1.06 billion)

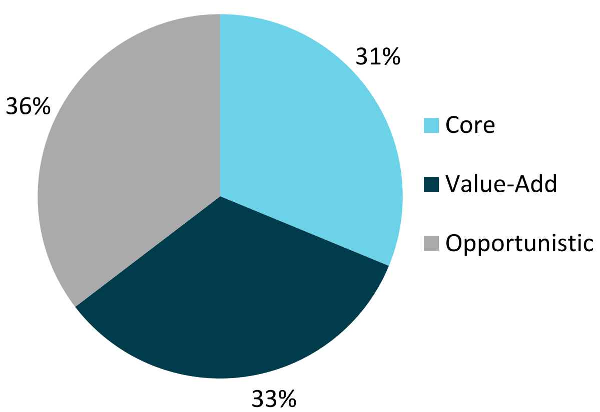
Debt – $1.97 billion
(Down 3.3% YoY from $2.04 billion)

Fund of Funds[2] – $1.09 billion
(Up 18.2% YoY from $919 million)

Energy – $107 million
(Up 85% YoY from $58 million)

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

Real estate funds



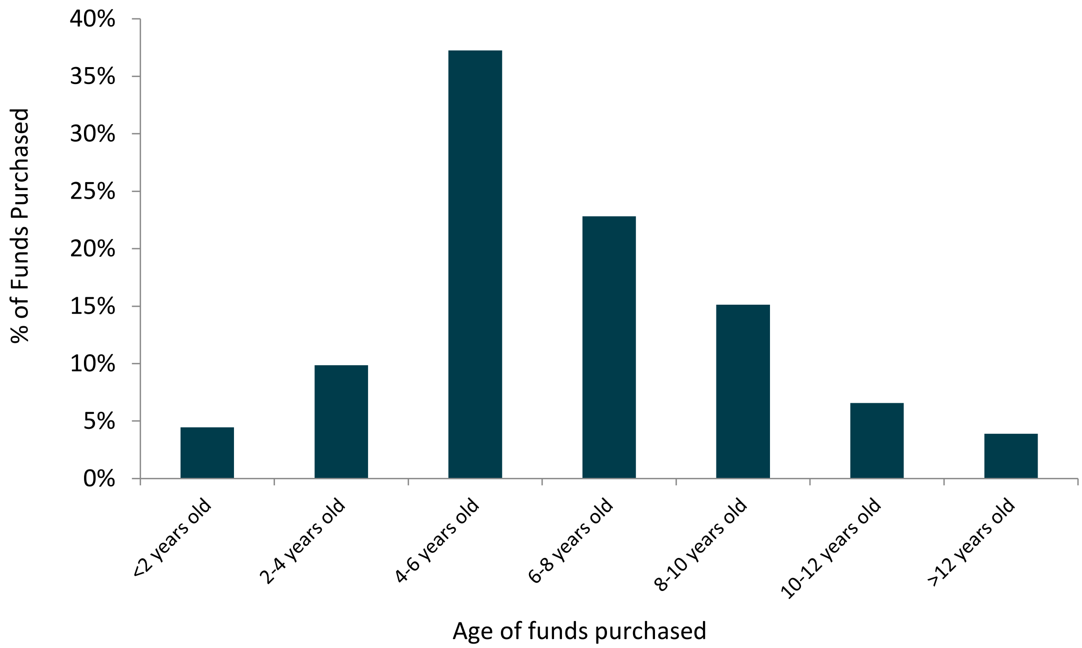
Core – $244 million
(Up 32.8% YoY from $18 million)

Value-Add – $261 million
(Up 18.1% YoY from $220 million)

Opportunistic – $277 million
(Up 50.3% YoY from $180 million)

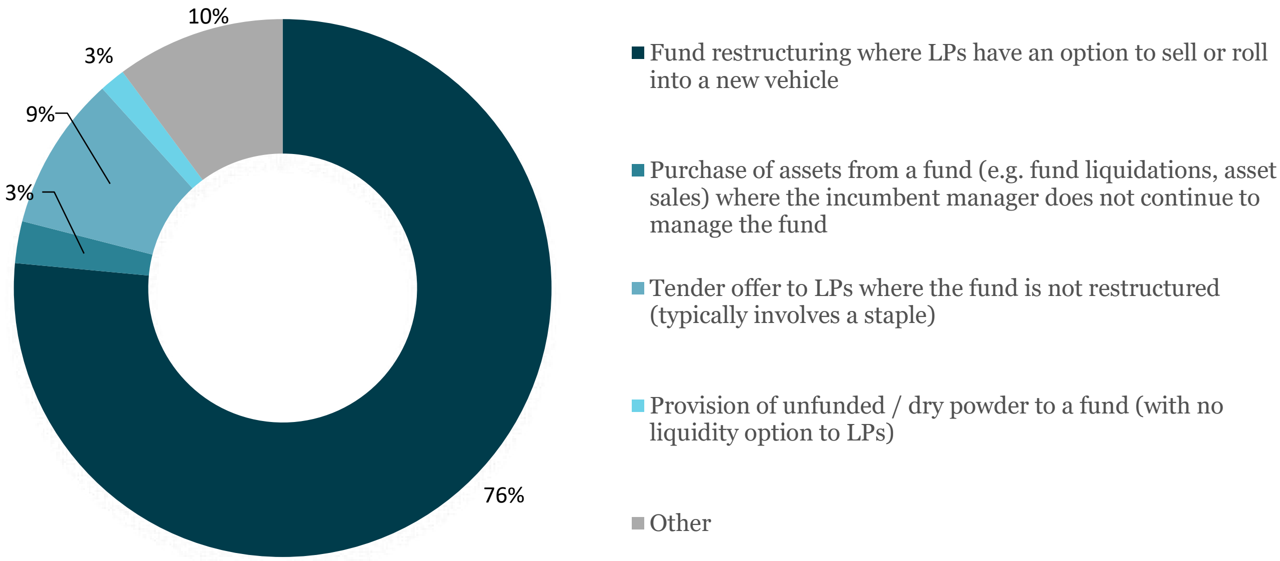
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 6.39 years old which is more mature than the average in H1 2023 (4.65 years old).

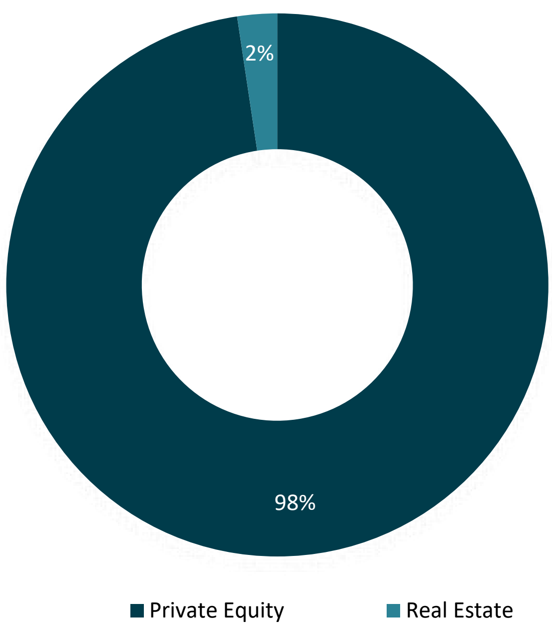


Types of direct secondaries

Types of direct deals completed by buyers

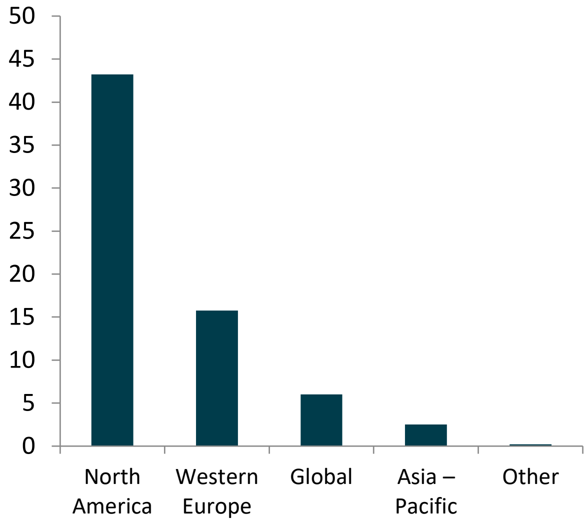


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 97.6% ($28.96 billion) and 2.4%, respectively, ($700 million) of the total directs volume.

Geography of assets purchased



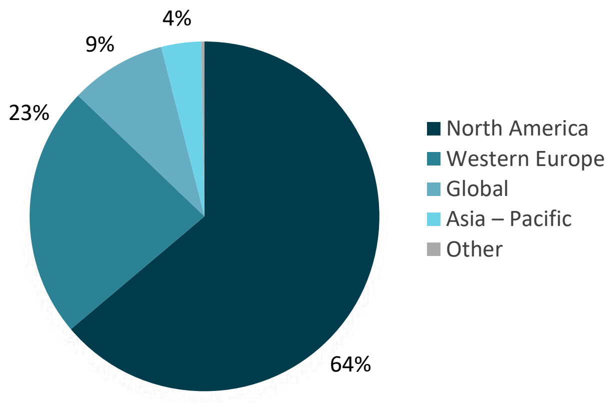
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2024:

North America – $43.23 billion
(Up 53.3% YoY from $28.20 billion)

Western Europe - $15.78 billion
(Up 25.7% YoY from $12.55 billion)

Global – $6.01 billion
(Up 115.6% YoY from $2.79 billion)

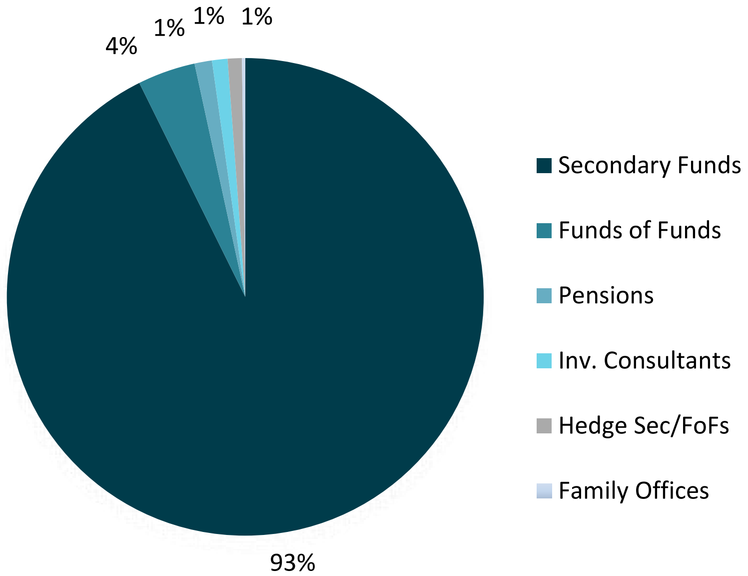
Asia-Pacific – $2.50 billion
(Up 64.0% YoY from $1.53 billion)



In terms of percentage, North American-focused funds and directs accounted for 63.8% of total volume, Western European-focused assets accounted for 23.3%, global-focused assets accounted for 8.9% and Asia-Pacific-focused assets accounted for 3.7% of sales.

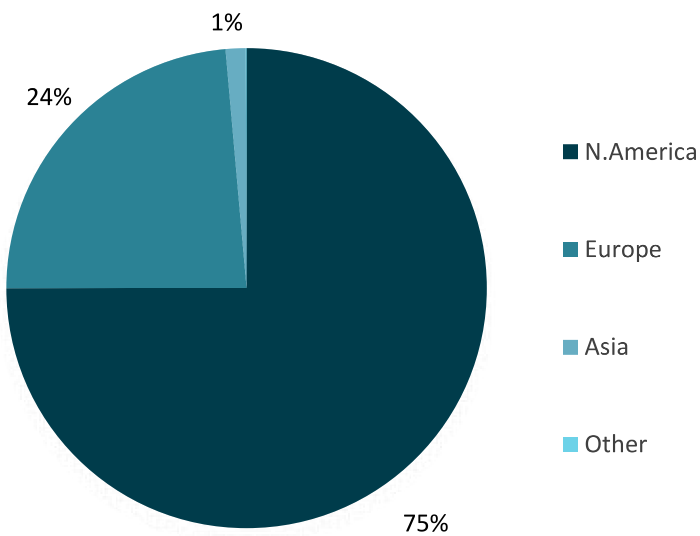
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in H1 2024, accounting for 92.7% ($62.75 billion) of total purchases while funds of funds accounted for 3.9% ($2.65 billion).

Location of buyers[3]



North American buyers transacted the most (75.0% of total volume) in H1 2024, up as a percentage from 67.8% total volume in H1 2023.

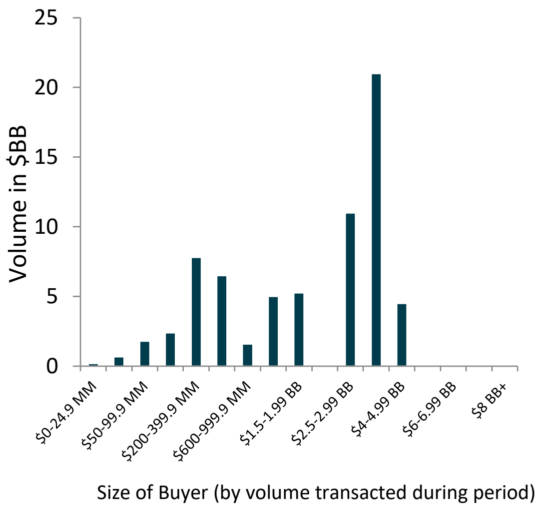
European buyers accounted for 23.6% of total volume in H1 2024, which was down from H1 2023 (31.0%).

[3]Location is based on head office location.

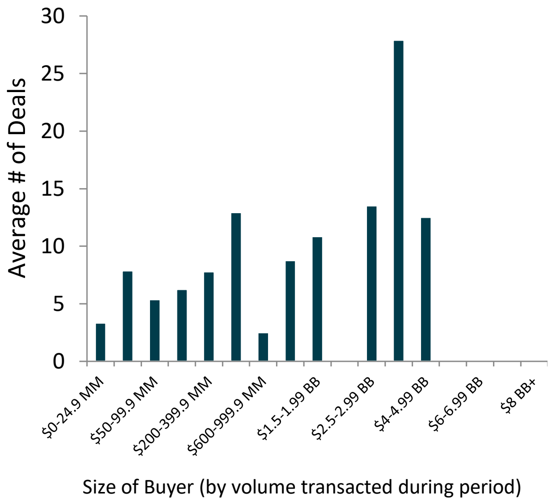
Activity levels of small, medium and large buyers

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



20 large buyers (defined as those that deployed $600 million or more in H1 2024) purchased $48.35 billion, representing approximately 71.4% of total volume across 307 transactions with an average deal size of $157.33 million. This was an increase from H1 2023, where large buyers accounted for 62.2%.

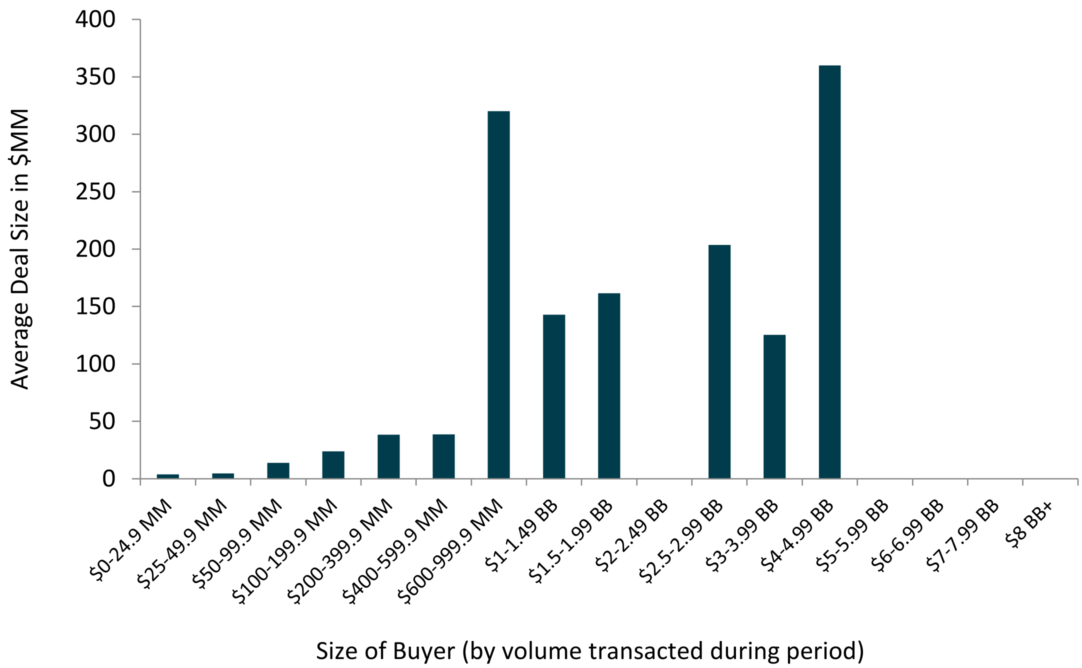
55 medium-sized buyers (defined as those that deployed $100 million to $600 million in H1 2024) purchased $16.70 billion, representing approximately 24.7% of total volume across 465 transactions with an average deal size of $35.90 million. This was a decrease from H1 2023, where they accounted for 31.6%.

57 small buyers (defined as those that deployed less than $100 million in H1 2024) purchased $2.66 billion, representing approximately 3.9% of total volume across 295 transactions with an average deal size of $9.02 million. This was a decrease from H1 2023, where they accounted for 6.2%.

Number of deals and average deal size

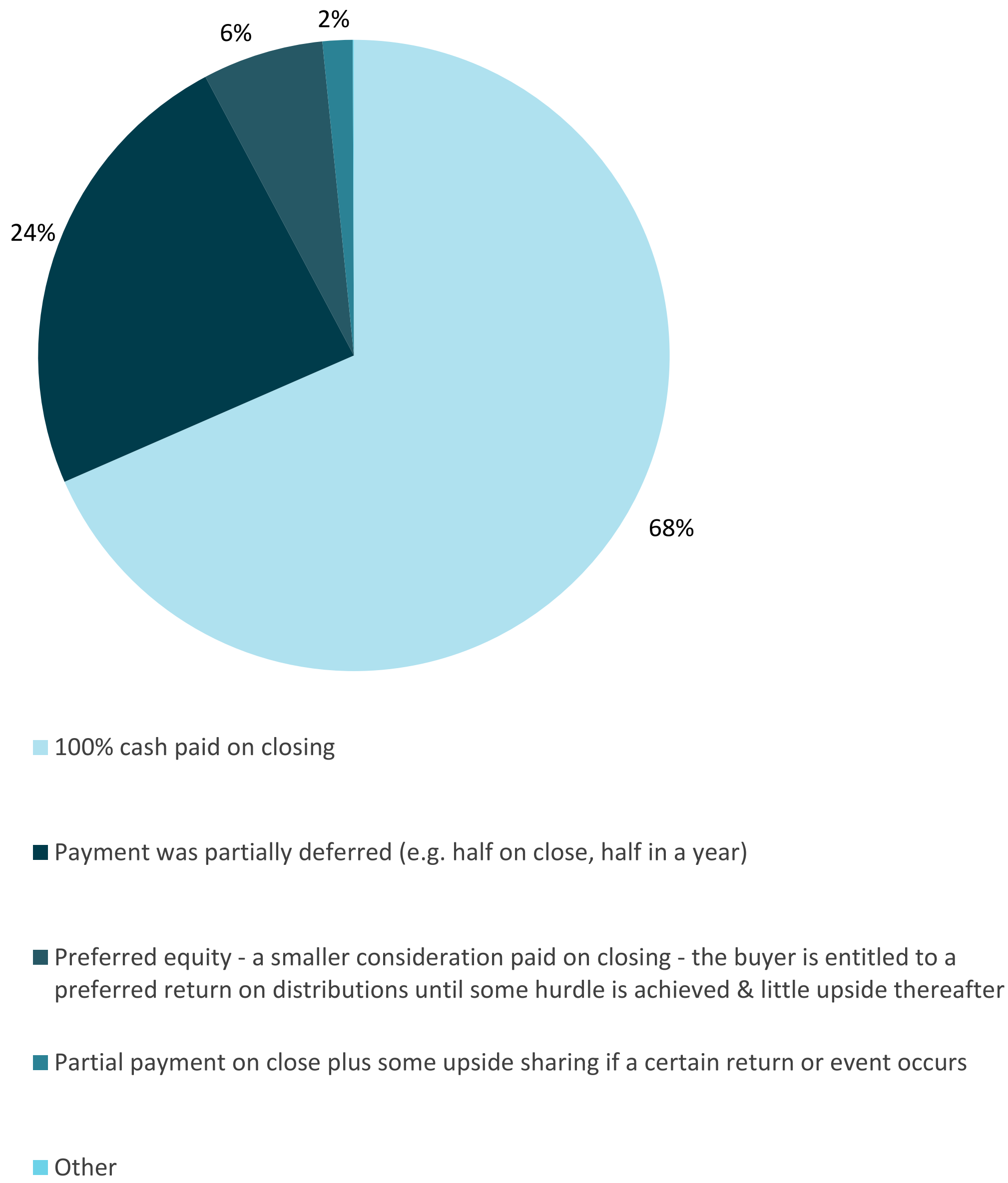
Buyers completed 1068 transactions in H1 2024 across the entire secondary market for alternative assets, with an average size of approximately $63.42 million. The number of transactions increased 23.3% from 866 transactions in H1 2023, while the average deal size likewise increased 21.8% from $52.07 million in H1 2023.

Average deal size by size of buyer



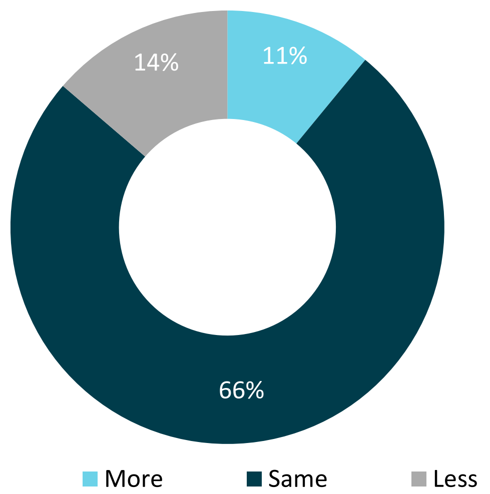
Payment terms

For 68.4% of their deals, buyers paid 100% cash on closing, while the balance of deals involved other payment terms or structuring as outlined below. For 23.8% 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 utilized less than in 2023 (27.4% of deals), when buyers used deferrals more often to improve their prices and bridge the bid-ask spread.



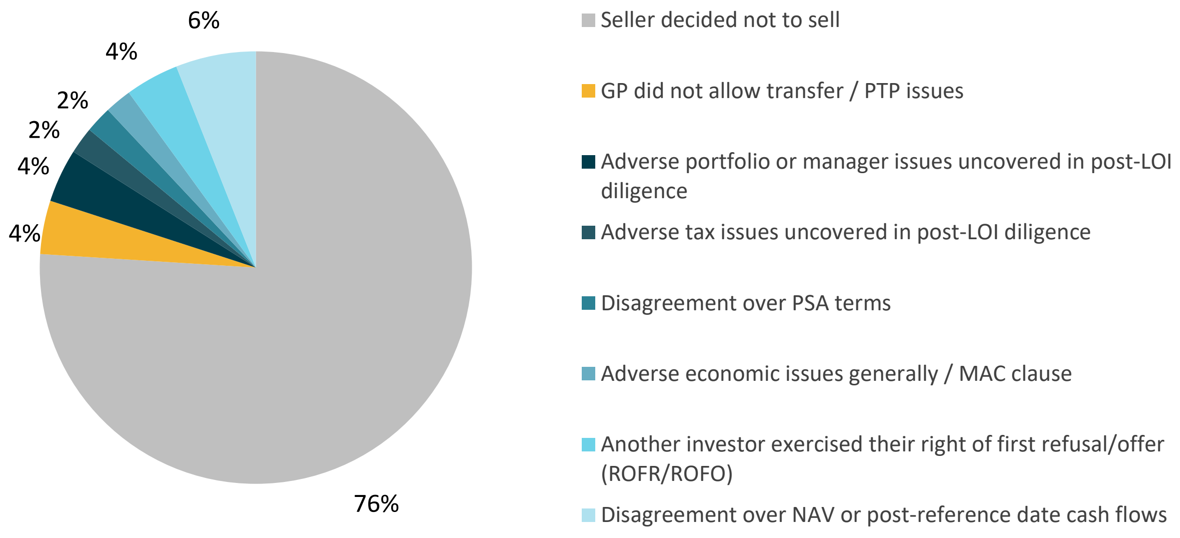
Execution risk

Percentage of deals that fell apart



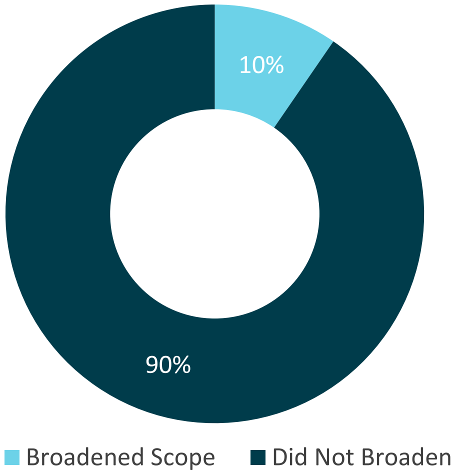
11.0% of respondents had a higher proportion of deals fall through in H1 2024, versus H1 2023. This is lower than H1 2023, when 17.9% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was that the seller simply decided not to sell (76.0%). Other reasons included disagreement over NAV or post-reference date cash flows (6.0%) and GP did not allow transfer / PTP issues and adverse portfolio or manager issues uncovered in post-LOI diligence (both 4.0%).



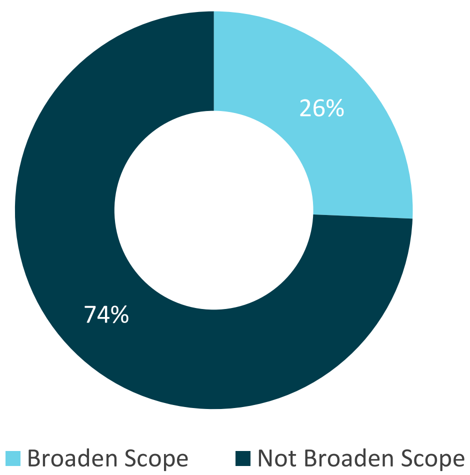
Buyers' scope of interest

Buyers broadening their focus in H1 2024



9.6% of participants broadened their secondaries focus in H1 2024 to include buying other alternative investment types (direct secondaries, infrastructure, private debt, etc.).

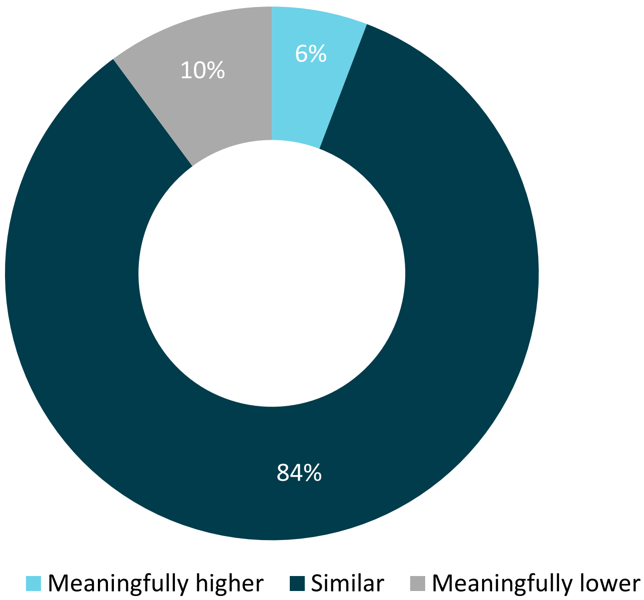
Buyers that intend to broaden their focus in H2 2024



25.7% of participants plan to broaden their secondaries focus in H2 2024 to include buying other alternative investment types. In lockstep, respondents expected to increase their headcount by 5.61% in H2 2024.

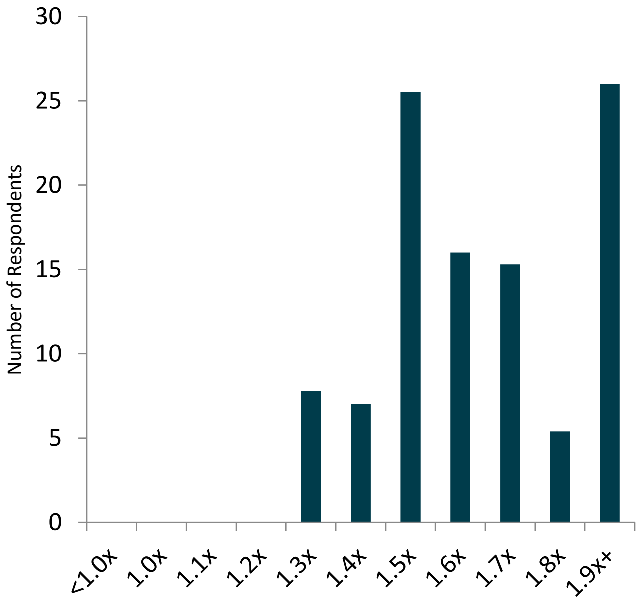
Leverage and returns

Level of debt used by buyers



Debt usage continued to be prevalent in H1 2024. 84.1% of respondents believed the level of debt used by buyers was the same as H1 2023, while 5.8% felt it was more and 10.1% felt it was less. This is significantly different from 2023, when 51.4% of buyers felt the level of debt used was lower.

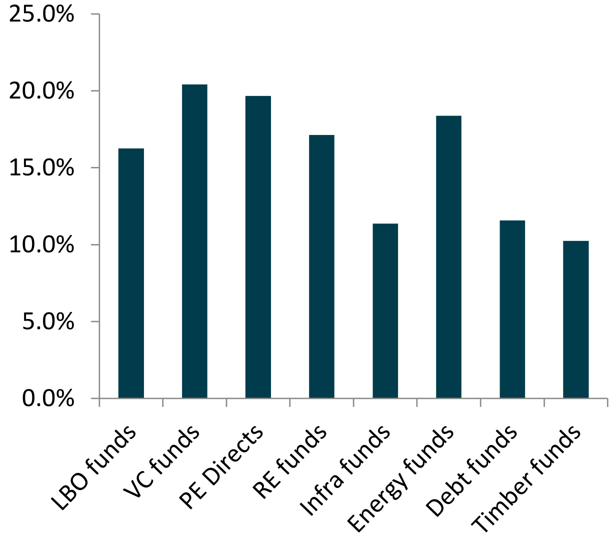
Expected multiple for secondary deals completed in H1 2024



Respondents predicted that the average gross multiple for secondary deals completed in H1 2024 will be 1.63x, higher than the 1.59x buyers expected from deals completed in H1 2023.

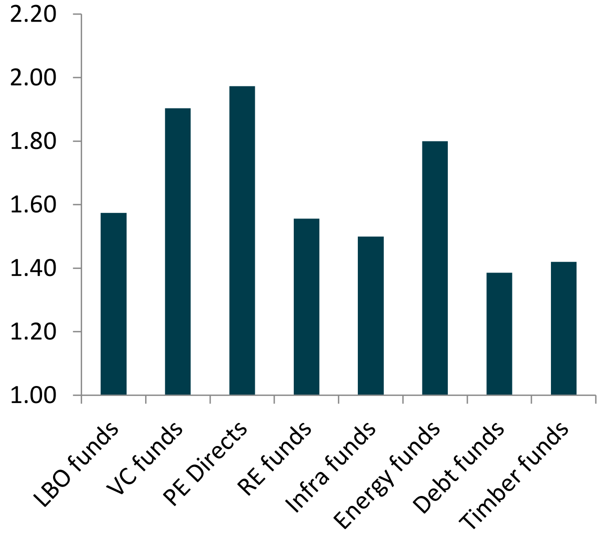
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers' average targeted IRR was 16.3% for LBO funds, 20.4% for VC funds, 19.7% for private equity directs, 17.1% for real estate funds, 11.4% for infrastructure funds, 18.4% for energy funds, 11.6% for performing debt funds and 10.3% for timber funds.

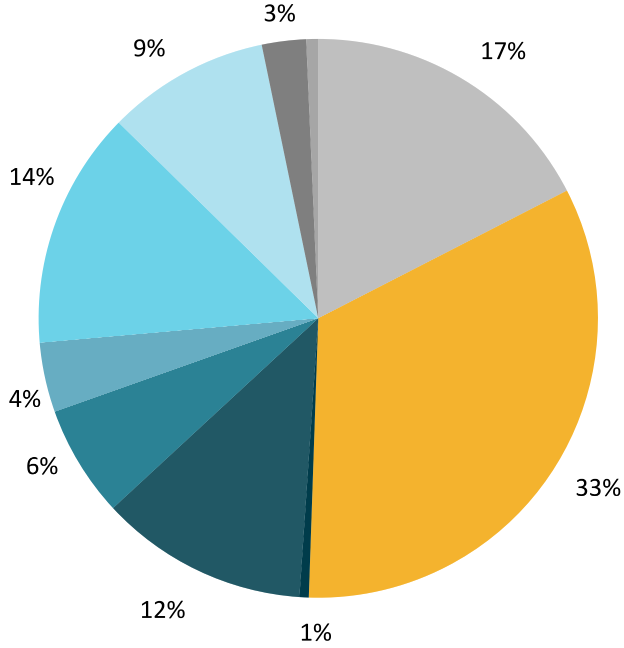
Targeted multiples on secondary purchases



On average, buyers' average targeted multiple was 1.57x for LBO funds, 1.90x for VC funds, 1.97 for private equity directs, 1.56x for real estate funds, 1.50x for infrastructure funds, 1.80x for energy funds, 1.39x for performing debt funds and 1.42x for timber funds.

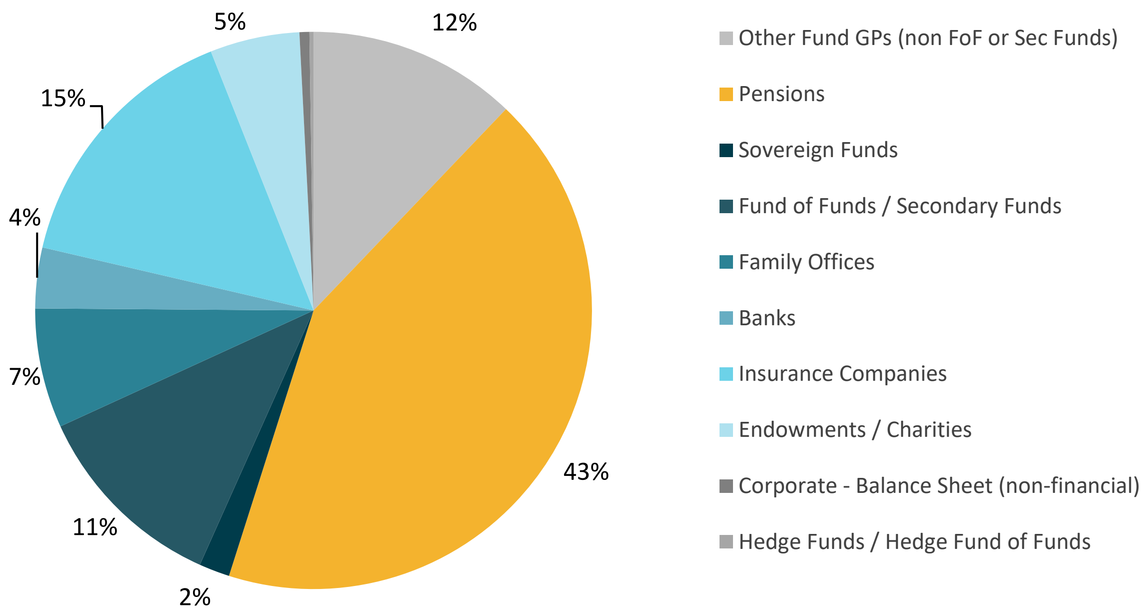
Seller profiles

Types of sellers in H1 2024

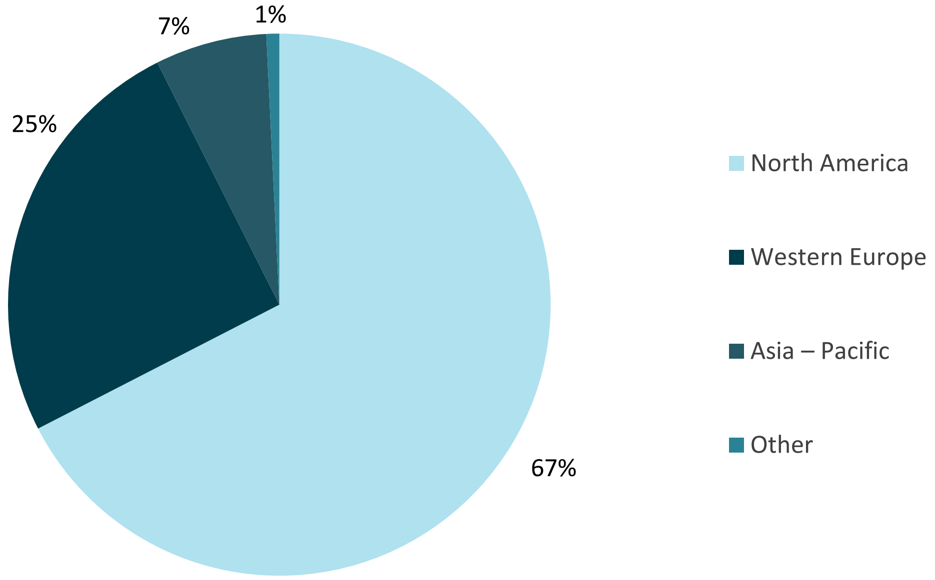


Pensions and GPs (non FoF and Sec. Funds) were the most active sellers in H1 2024 making up 33.1% and 17.4% of the H1 2024 volume, respectively. Most buyers expect pensions to be the biggest sellers in FY 2024 (42.8% of total transaction volume).

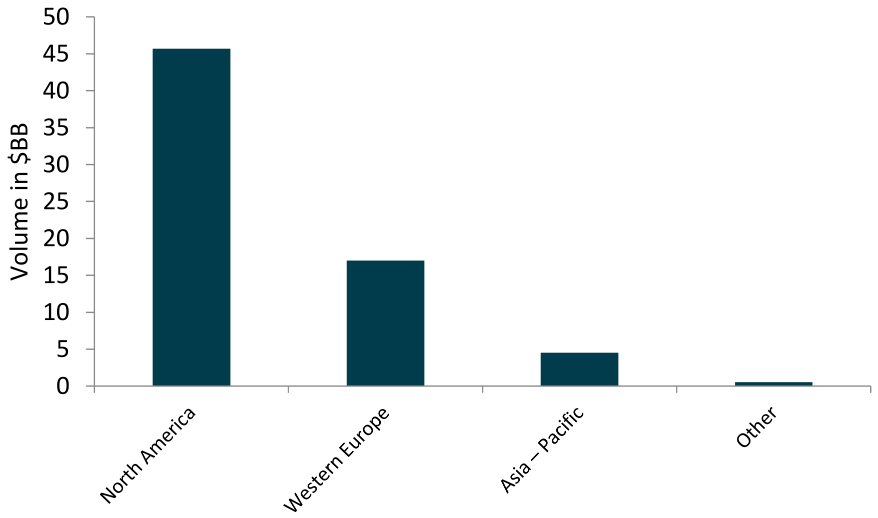
Expected sellers in H2 2024



Seller location

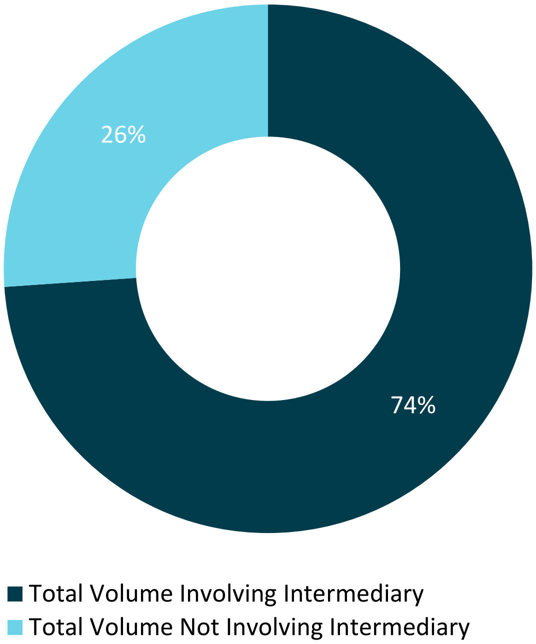


In terms of the location of sellers, North America accounted for the majority of volume in H1 2024. North American sellers sold $45.67 billion (67.4% vs. 65.3% in H1 2023), whereas Asia-Pacific sellers sold $4.51 billion (6.7% vs. 7.3% in H1 2023). Western European sellers accounted for 25.1% of the total volume slightly down from 25.3% in H1 2023. Other geographies, such as the Middle East accounted for 0.8% of the total volume in H1 2024, down from 2.1% in H1 2023.



Intermediation and level of competition

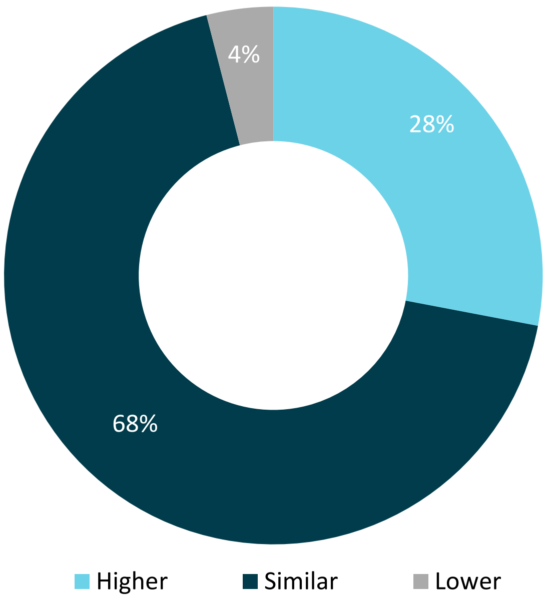
Volume of intermediated transactions



Approximately $50.04 billion (73.9%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was higher than H1 2023 where it was $33.98 billion (75.4% of total).

In terms of volume, agents intermediated $16.06 billion more in deals as compared to H1 2023, representing an increase of 47.3%.

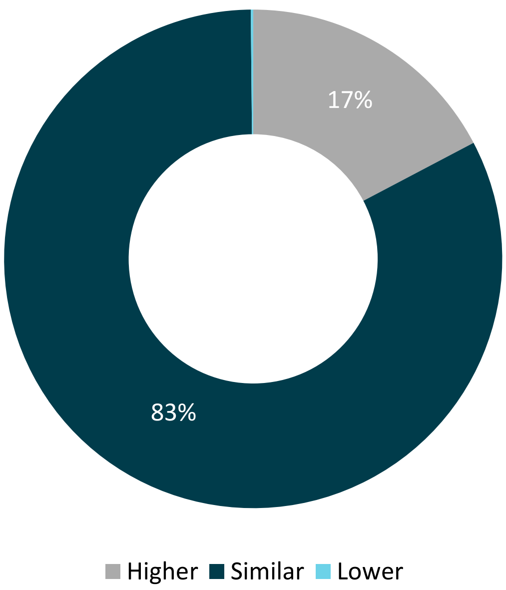
Buyer competition for deals



68.0% of respondents felt buyer competition in H1 2024 was similar to H1 2023, while 28.0% felt buyer competition was significantly higher. Only 4.0 % of survey respondents felt buyer competition was lower in H1 2024.

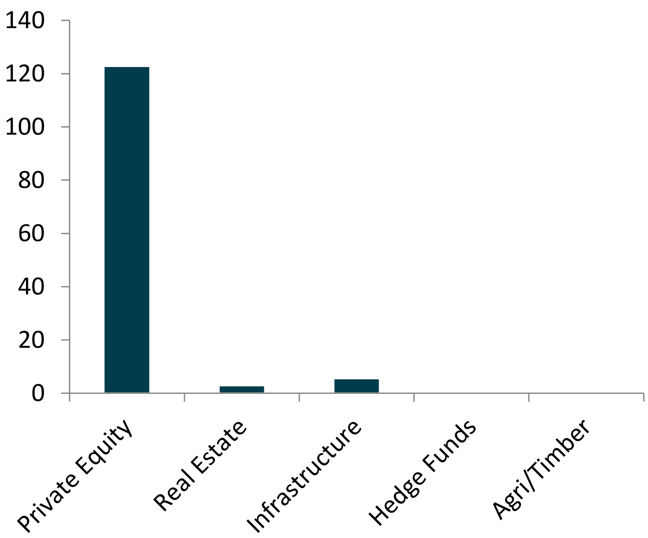
Projected volume for FY 2024

How H2 2024 volume will compare to H1 2024



A robust 2024 is expected as 17.3% of respondents felt that their H2 2024 volume will be meaningfully higher than H1 2024 and 82.6% felt that it will be similar.

Predicted volume for FY 2024

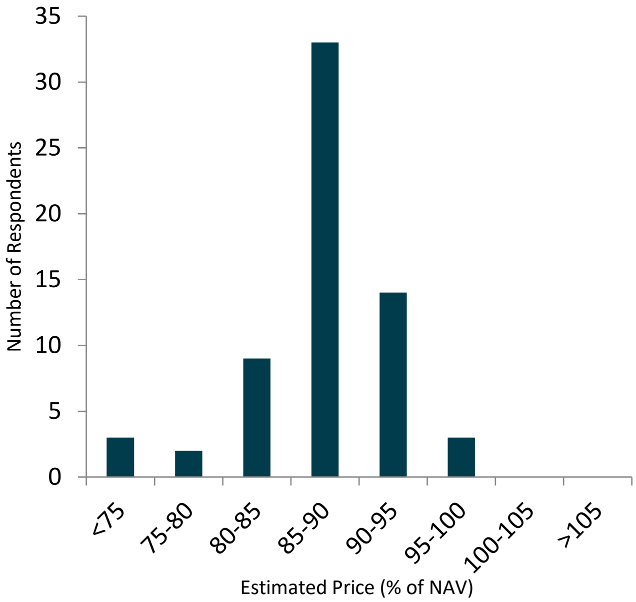


Respondents predicted the total volume for FY 2024 will be $131.24 billion, which would represent a 19.5% increase from the $106.33 billion transacted in FY 2023.

Assuming proportions do not change in FY 2024, Directs will be $57.48 billion and fund sales will be $73.76 billion. This also suggests private equity volume will be $122.72 billion in FY 2024, real estate will be $2.88 billion, infrastructure will be $5.46 billion, hedge funds will be $120 million and agriculture & timber will be $60 million.

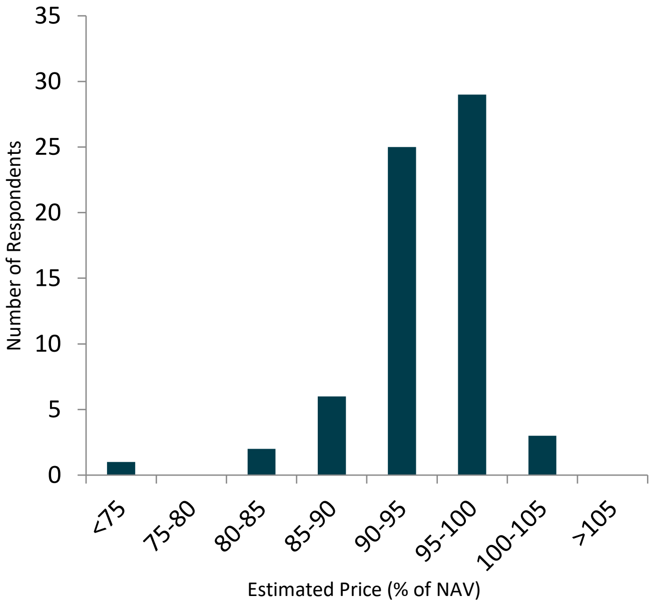
Pricing in H1 2024

Average price for LP-led fund sales



Respondents estimated that the average price for LP-led fund sales was a 12.77% discount to NAV in H1 2024.

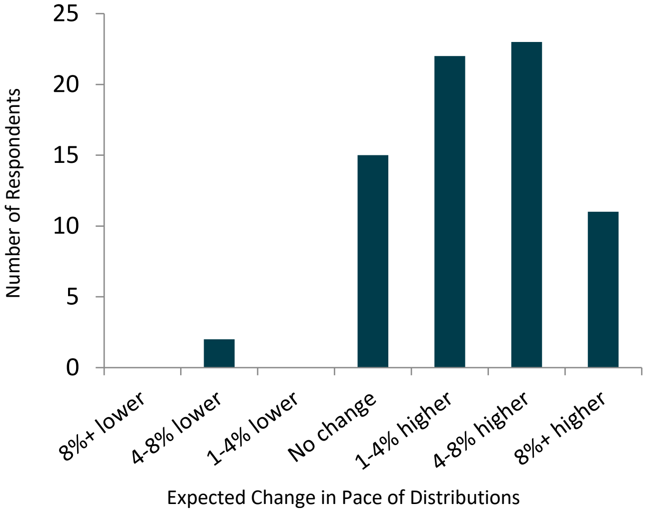
Average price for GP-led direct deals



Respondents estimated that the average price for GP-led direct deals was a 5.95% discount to NAV in H1 2024.

Expected distribution and NAV changes in FY 2024

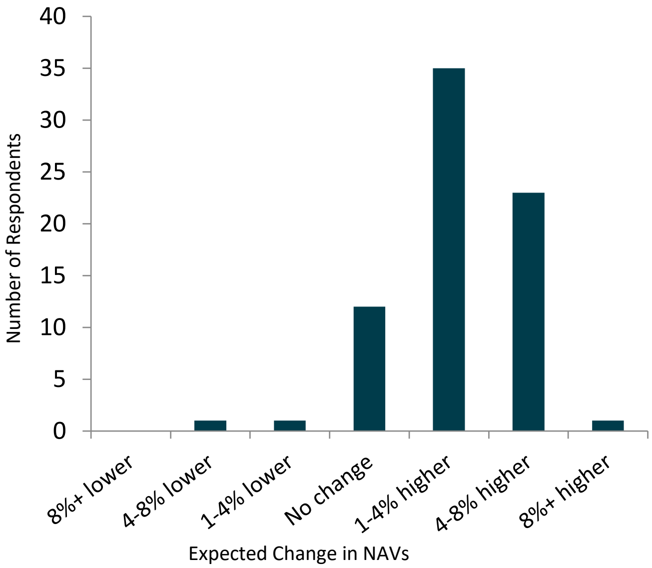
Expected change in distributions



Respondents expect the pace of distributions in H2 2024 to be higher than H1 2024 as the average response suggests an expected increase of 4.0%.

Respondents are more optimistic than they were in H1 2024, when they expected the pace of distributions to be up 2.3%.

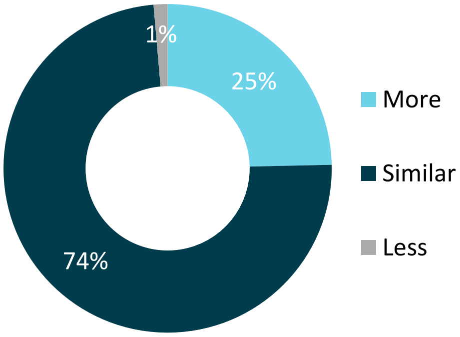
Expected change in NAV



On average, respondents expect NAV valuations to increase by 3.1% in H2 2024 compared to H1 2024. This is higher than H1 2023 when respondents expected NAVs to increase by 2.2% in the upcoming year.

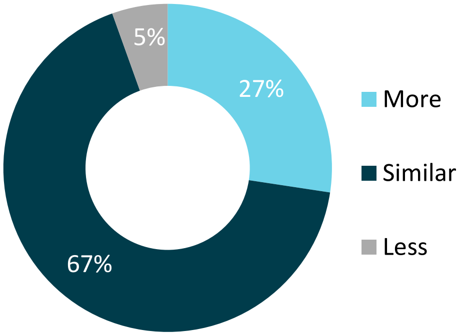
General partners' approach to the secondary market

Liquidations and restructurings



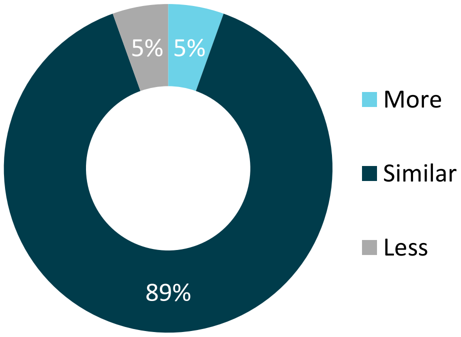
24.7% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in H1 2024 compared to H1 2023.

Staples sought by GPs



27.4% of respondents felt that meaningfully more GPs sought staples in H1 2024 as compared to H1 2023.

GPs' restrictiveness on transfers



The majority of the respondents felt that GPs' restrictiveness on transfers did not change in H1 2024 compared to H1 2023.

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
Capital Dynamics
Coller Capital
Corbin Capital Partners
CPPIB
Dawson Partners
Eurazeo
First Trust Capital Management
Flexstone Partners
Glendower Capital
Glouston Capital Partners
Golding Capital Partners
Grosvenor Capital Management
Hamilton Lane
HarbourVest Partners
Headlands Capital
Hollyport Capital
HQ Capital
Industry Ventures
Intermediate Capital Group (ICG)
Jasper Ridge
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
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
Oddo BHF Private Equity
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
Tikehau Capital Advisors
Top Tier Capital Partners
TR Capital
UBS Asset Management
Unigestion
Velocis
Vintage Investment Partners
W Capital
Warana Capital
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 Setter30 ™
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.

Setter Capital Inc.
+1 416 964 9555
settercapital.com

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