



# Setter Capital Volume Report

Secondary Market 2014



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## Highlights

The Setter Capital Volume Report analyzes global secondary market activity in 2014 and covers the following topics:

- Total Volume of Secondary Deals
- Secondary Volume 2014 vs. 2013
- Breakdown of Volume between Funds and Directs
- Breakdown of Volume by Type of Assets Purchased
- Breakdown of Volume by Geography of Assets Purchased
- Profile of Buyers
- Number of Deals and Average Deal Size
- Buyers' Scope of Interest
- Profile of Sellers
- Percentage of Intermediated Deals
- Predicted Secondary Deal Volume for 2015
- Changes in the Level of Competition
- Changes in Debt Levels
- Expected Multiples



## The Survey

As the secondary market continues to grow and evolve, we seek to take a comprehensive and methodical approach to quantifying the market and identifying trends. Using a survey approach, we asked principals directly the same questions that buyers, sellers, agents and secondary fund LPs often ask us. How much was completed in 2014? How much was completed in LBO, venture, real estate, infrastructure and hedge fund secondaries? What are the expected returns and debt levels?

This report summarizes the results of our survey of the most active buyers in the secondary market for alternative investment funds conducted early January 2015. Volume is defined as total exposure (NAV + unfunded in USD) purchased by the respondents and participants included only deals where a binding agreement (e.g. P&S) was entered into during 2014.

We were pleased by the high response rate – of the 115 most active and regular buyers in the secondary market, 84 agreed to share their confidential results (see [partial list of participants](#)). Given the high response rate and the fact that nine of the ten largest buyers participated, the respondents to our survey represented 84% of the transaction volume, making it the most reliable and detailed study of the industry's activities.

Being mindful of response bias, we compared the list of respondents to those who had declined to respond, and did not find any meaningful or obvious 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.

## 2014 in Review

2014 marked the busiest year for the secondary market to date with an estimated \$49.3 billion in completed transactions. Year over year, volume increased 37% driven by new and incumbent buyers who optimistically and aggressively put money to work and the large number of sophisticated LPs who executed opportunistic sales. In lockstep, Setter Capital experienced a strong year with \$4.7 billion in completed transactions.

The breadth and number of buyers continued to increase with total volume and activity of small and medium buyers becoming more significant. Large buyers, defined as those who deployed more than \$1 billion, accounted for 59.8% of the market's total volume in 2014, while mid-sized buyers accounted for roughly 34.9% of total volume and small buyers represented roughly 5.3%. Also driving the expansion of the secondary market was the number of buyers expanding their scope of interest into areas in which they were previously inactive. Approximately 31% of buyers broadened their secondary focus in 2014 to include buying other alternative investment types (e.g. infrastructure, real estate, portfolios of direct, etc.).

There were a total of 1270 transactions in 2014, with an average size of approximately \$37.7 million. Although the number of transactions was roughly the same as in 2013, the average deal size increased 34.6% year over year, reflecting the fact that more multi-hundred million / billion+ dollar transactions were completed in 2014.

The marked increase in large deals, the dominance of secondary funds (78.6% of total volume) and the increased market share of large buyers, all demonstrate that 2014 was a banner year for the large entrenched secondary players. Transaction volume completed by large buyers was \$29.5 billion, a 54.6% increase in volume year over year.

The ranks of opportunistic sellers continued to grow given investors' increasing familiarity and comfort with secondary sales along with the disappearance of the stigma associated with selling. Pensions (28.4%) and banks (24.8%) were the most active sellers in 2014, and most buyers expect the trend to continue in 2015 with pensions increasing in proportion.

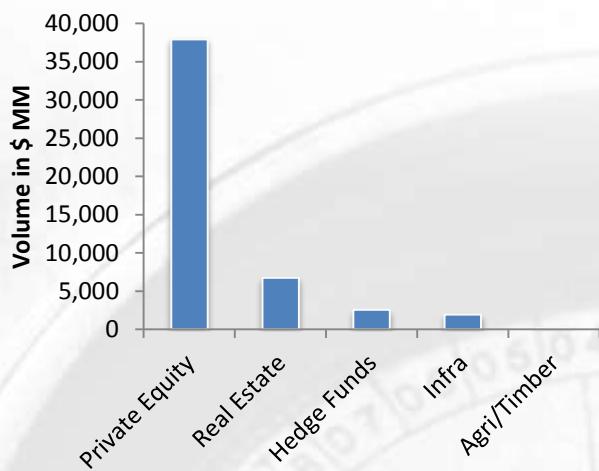
Approximately 56.9% (\$28.1 billion) of total secondary volume involved an intermediary in 2014, either on the buy or sell-side as compared to an estimated \$20.5 billion in 2013. We expect the level of intermediation to continue to rise in response to the entrance of new agents and as sellers struggle to stay on top of the ever growing buyer universe.

In 2015, buyers expect another record year for the secondary market, with volume estimated to hit \$56.5 billion. This would represent a growth rate of 14.5%, albeit lower than the 37.1% experienced in 2014. Indeed, only 14.3% of participants believed 2015 volume would be significantly higher than 2014, versus 49.3% who felt 2014 would be significantly higher than 2013 ([Setter Capital Volume Report FY 2013](#)).

## Total Volume

**Total secondary market volume for 2014 was \$49.3 billion.** This is the volume estimate of the 115 secondary buyers with dedicated secondary efforts and includes 60 secondary funds, 35 funds of funds, 10 hedge funds, 7 investment consultants, 2 pensions and 1 insurance company. We believe this estimate is reliable as the 84 survey respondents alone reported \$41.5 billion in 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 recently built teams dedicated to secondary purchases.

### Type of Assets Purchased



**Private Equity (Directs<sup>1</sup> & Funds):** \$37.9 billion  
(35.9% increase YoY)

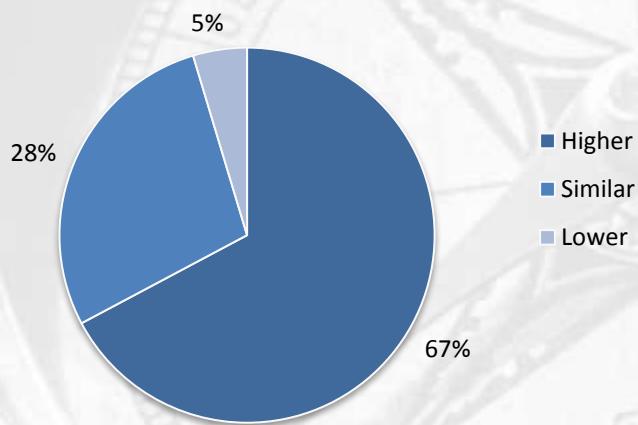
**Real Estate Funds:** \$6.8 billion  
(32.5% increase YoY)

**Hedge Funds:** \$2.5 billion

**Infrastructure Funds:** \$1.9 billion  
(177.7% increase YoY)

**Agriculture/Timber Funds:** \$0.2 Billion  
(7.8% decrease YoY)

### 2014 Volume Compared to 2013



This year's volume represents a 37.1% increase over 2013 volume which was \$36 billion.

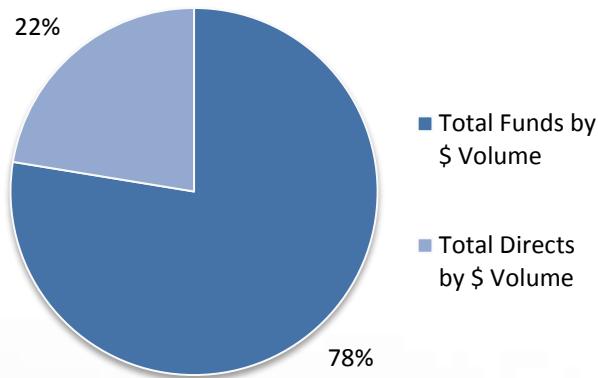
Consistent with this figure, 67.3% of respondents said 2014 volume was significantly higher than 2013, 28.1% felt it was similar and only 4.6% felt it was significantly lower.

Private Equity secondary volume increased from \$27.9 billion to \$37.9 billion, a 35.9% increase in 2014. Real estate volume increased from \$5.1 billion to 6.8 billion, a 32.5% increase in 2014.

<sup>1</sup> Directs include fund recapitalizations and restructurings, fund liquidations, and purchase of single minority stakes and co-investments.

## Assets Purchased

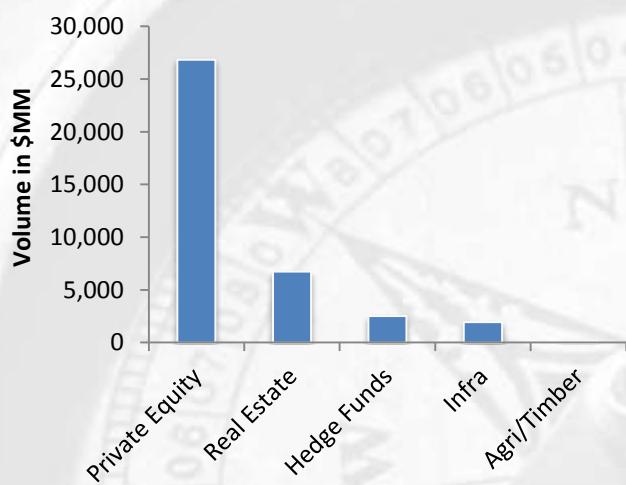
### Funds vs. Directs



In 2014, \$38.3 billion of funds (77.6%) and \$11.0 billion of directs (22.4%) were purchased.

Secondaries of direct investments increased significantly from \$5.3 billion in 2013 to \$11.1 billion in 2014, which represents a 109.4% increase. This category includes the volume transacted in GP restructurings and purchases of single minority stakes and co-investments.

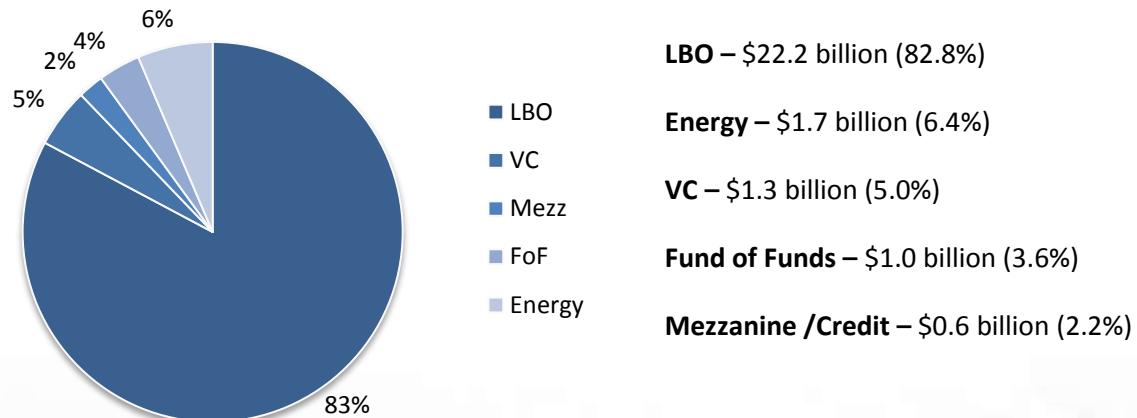
### Breakdown of Fund Secondaries



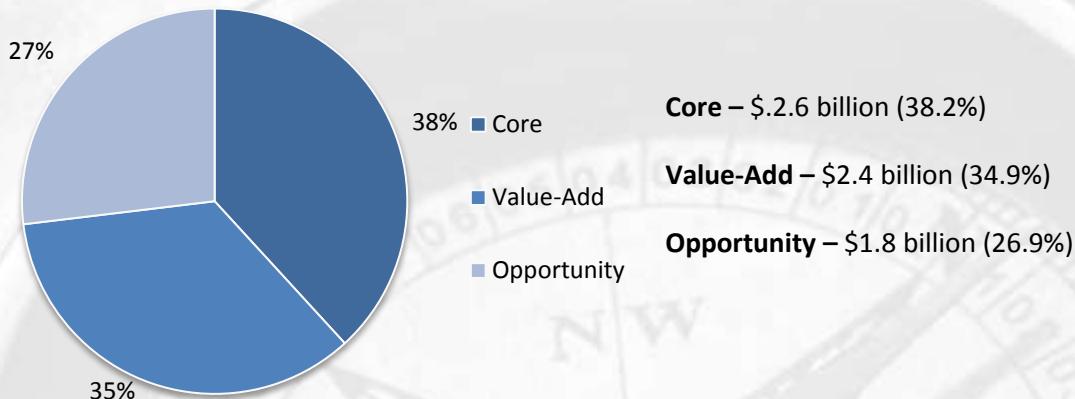
- Private equity fund purchases totaled \$26.8 billion (~70.0% of total fund sales)
- Real estate fund purchases totaled \$6.8 billion (~17.7% of total fund sales)
- Hedge fund purchases totaled \$2.5 billion (~6.7% of total fund sales)
- Infrastructure fund purchases totaled \$1.9 billion (~5.1% of total fund sales)
- Agriculture/Timber funds purchases totaled 0.2 billion (~0.5% of total fund sales)

## Types of Funds Purchased

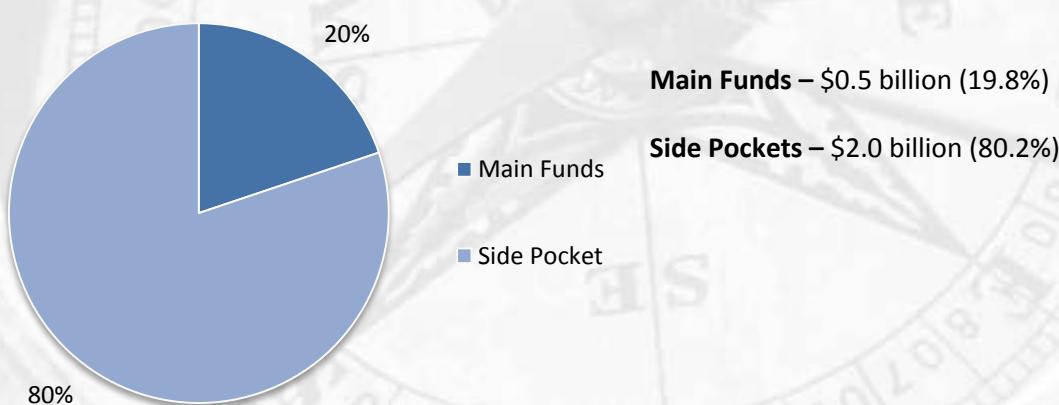
### Private Equity Funds Purchased



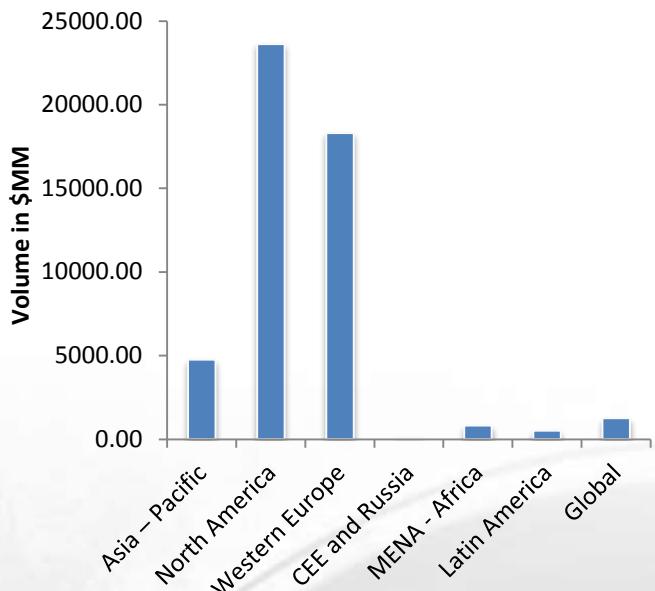
### Real Estate Funds Purchased



### Hedge Funds Purchased



## Geography of Assets Purchased

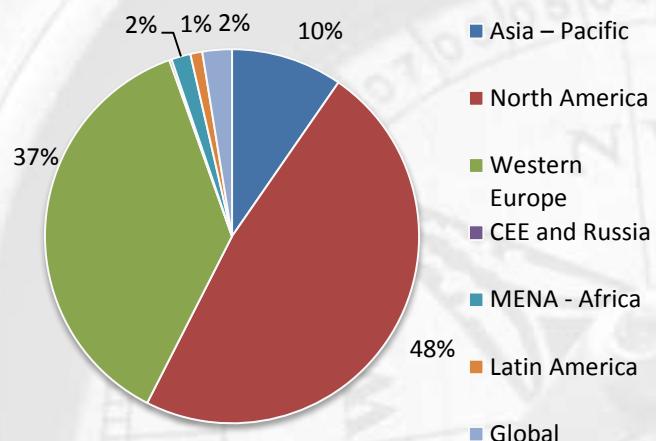


North American and Western European focused funds/directs accounted for the vast majority of assets purchased in 2014:

**North America – \$23.6 billion**

**Western Europe - \$18.3 billion**

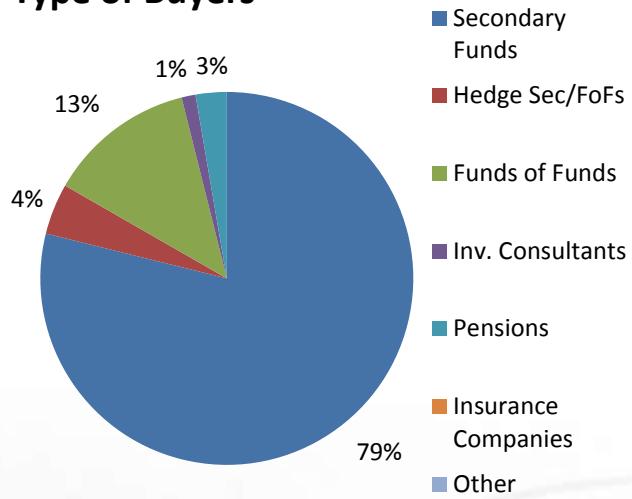
**Asia-Pacific – \$4.8 billion**



In terms of percentage, North American focused funds and direct investments accounted for 47.9% of total volume, Western European assets accounted for 37.1% and Asia-Pacific focused funds/directs accounted for 10.0% of sales.

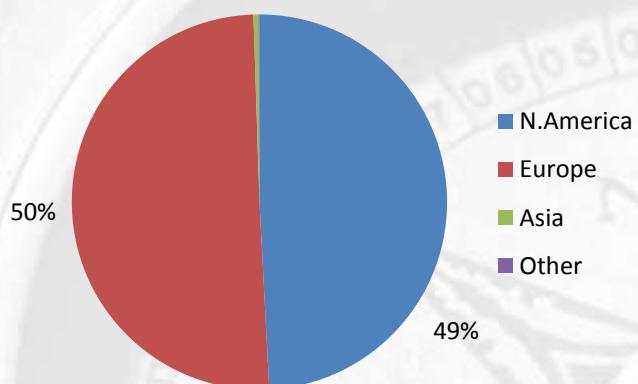
## Profile of Buyers

### Type of Buyers



Secondary funds were the most active buyers in 2014, accounting for 78.6% (\$38.8 billion) of total purchases, while funds of funds accounted for 12.8% (\$6.3 billion), and funds of hedge funds/hedge fund secondary funds accounted for 4.4% (\$2.2 billion). Please note: over 1000 non-traditional buyers were not included in our survey and the resulting estimates.

### Locations of Buyers<sup>2</sup>

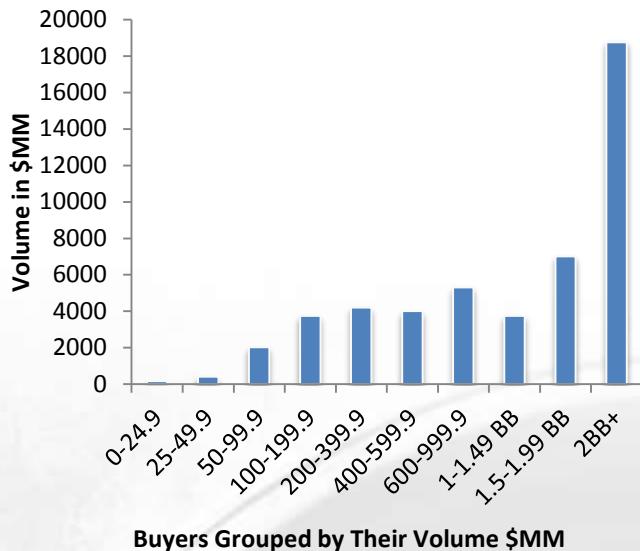


European buyers transacted the most (~50.3% of total volume) in 2014, followed by North American buyers (~49.2%).

<sup>2</sup> Location is based on head office location.

## Activity Levels of Small, Medium and Large Buyers

**Volume Distribution by Size of Buyer**



**Average Number of Transactions by Size of Buyer**



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:

50 small buyers (defined as those that deployed less than \$100 million in 2014) purchased \$2.6 billion, representing approximately 5.3% of total volume across 259 transactions with an average deal size of \$10.0 million. There was a slight decrease from 2013, where they accounted for 6%.

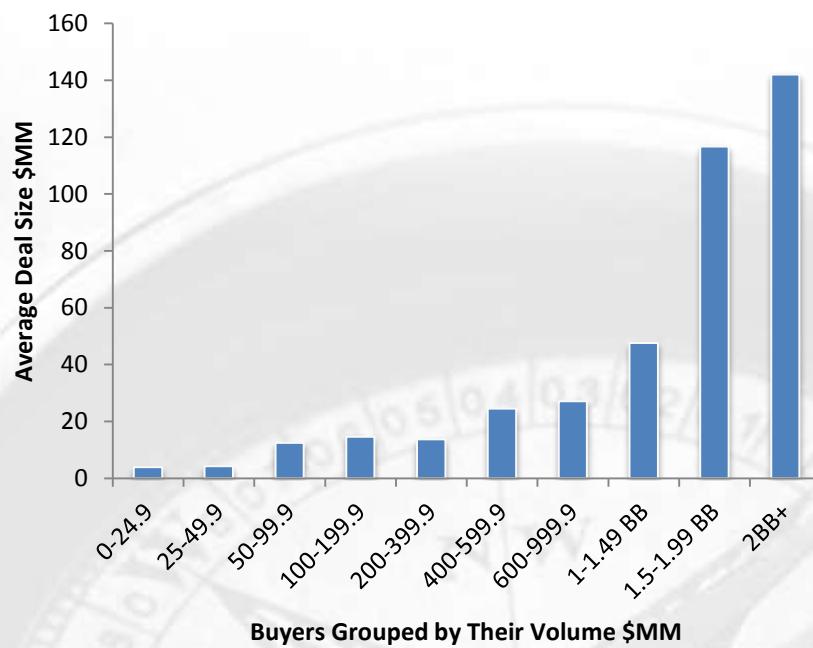
54 medium sized buyers (defined as those that deployed \$100 to \$999.9 million in 2014) purchased \$17.3 billion, representing approximately 34.9% of total volume across 738 transactions with an average deal size of \$23.4 million. There was a decrease from 2013, where they accounted for 41%.

11 large buyers (defined as those that deployed \$1 billion or more in 2014) purchased \$29.5 billion, representing approximately 59.8% of total volume across 273 transactions with an average deal size of \$108.0 million. There was a meaningful increase from 2013, where large buyers accounted for 53%.

## Number of Deals and Average Deal Size

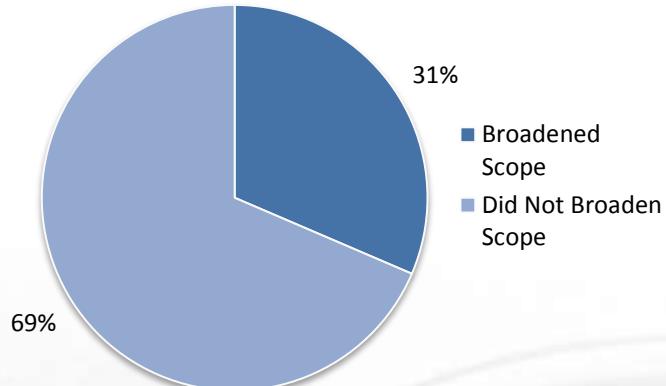
Respondents completed approximately 1067 secondary deals in 2014, from which we extrapolated an estimate of 1270 transactions across the entire secondary market for alternative assets, with an average size of approximately \$37.7 million. Although the number of transactions in 2014 was roughly the same as in 2013, the average deal size increased 34.6%, reflecting the fact that more multi-hundred million / billion+ dollars deals were completed in 2014.

Average Deal Size by Size of Buyer



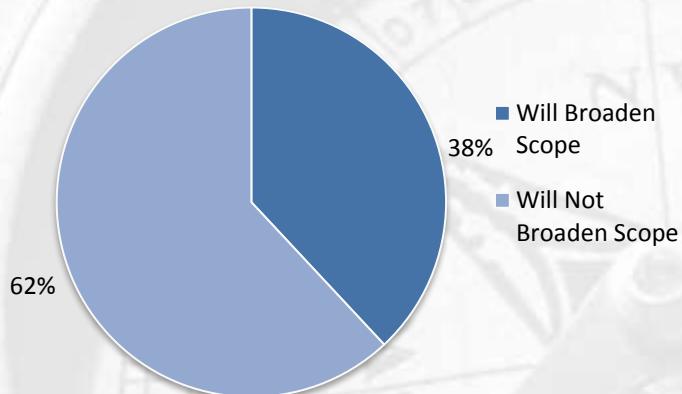
## Buyers' Scope of Interest

### Buyers That Broadened Their Focus in 2014



Approximately 31.4% of participants broadened their secondary focus in 2014 to include buying other alternative investment types (e.g. infrastructure, real estate, portfolios of directs, etc.). This percentage represents a 1.4% increase from 2013.

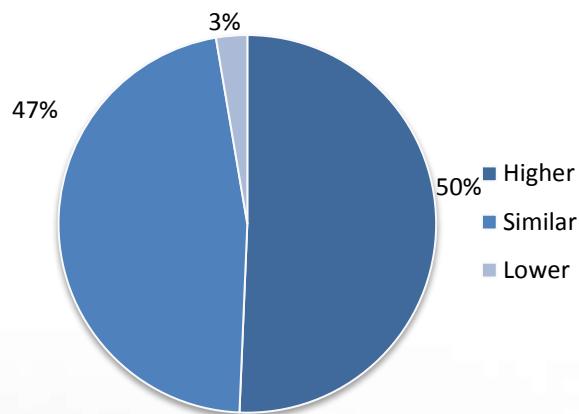
### Buyers That Intend to Broaden Their Focus in 2015



Approximately 38.1% of the participants plan to broaden their secondary focus in 2015 to include buying other alternative investment types. This percentage represents a 14.1% increase from buyer's expectations in 2013 and a continued trend of buyers to diversify.

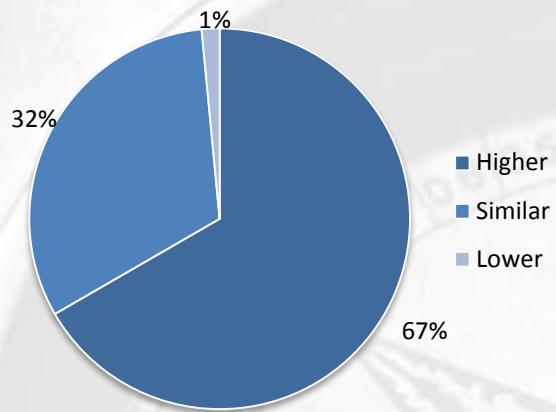
## Buyer Competition, Debt and Returns

### Buyer Competition for Deals in 2014 Compared to 2013



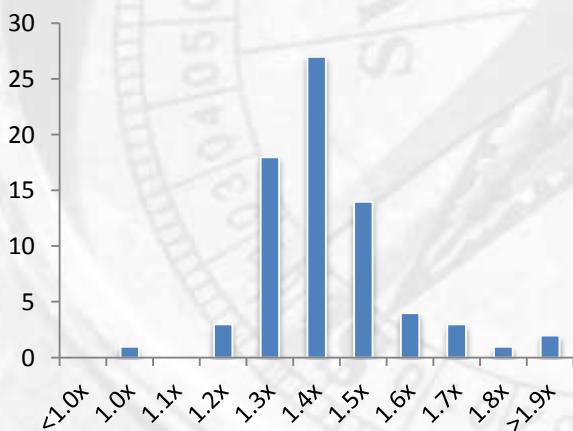
Over 50% of respondents felt buyer competition in 2014 was significantly higher than 2013, while 46.7% felt it was similar.

### Level of Debt Used by Buyers in 2014 Compared to 2013



Approximately two thirds believed the level of debt used by buyers had increased significantly in 2014.

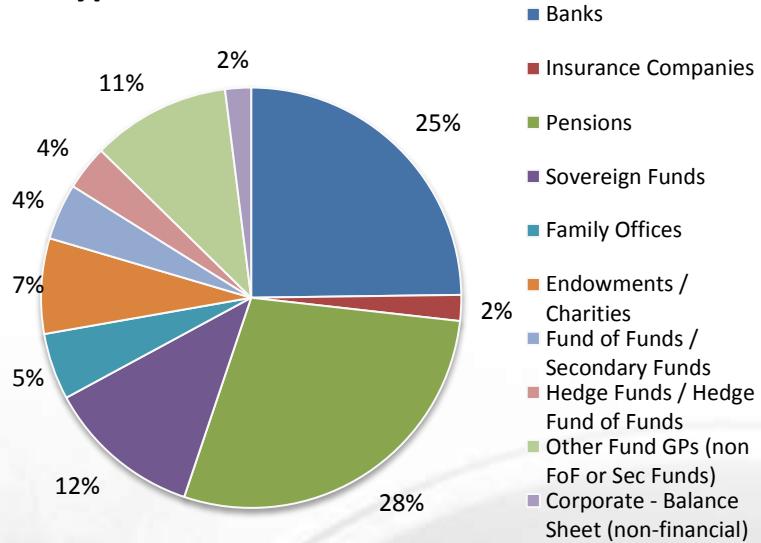
### Expected Multiple for Secondary Deals Completed in 2014



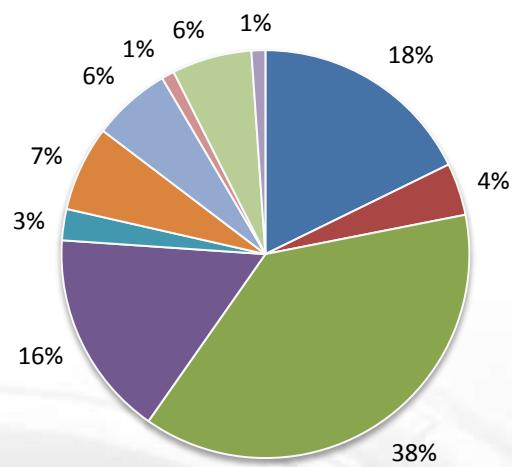
According to the respondents, the average expected gross multiple for secondary deals completed in 2014 will be 1.43x.

## Seller Profiles

### Type of Sellers in 2014

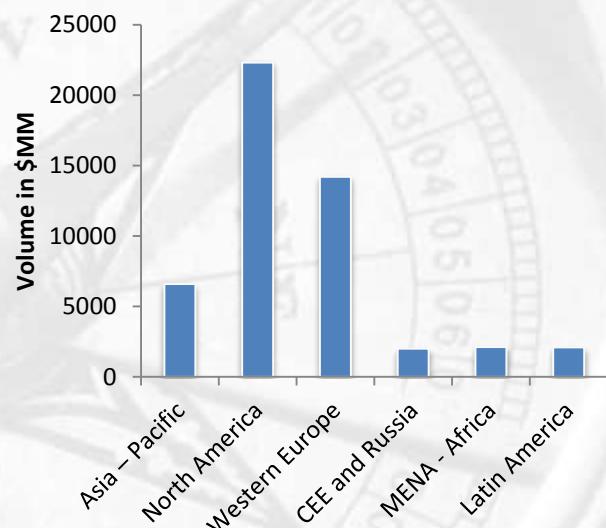
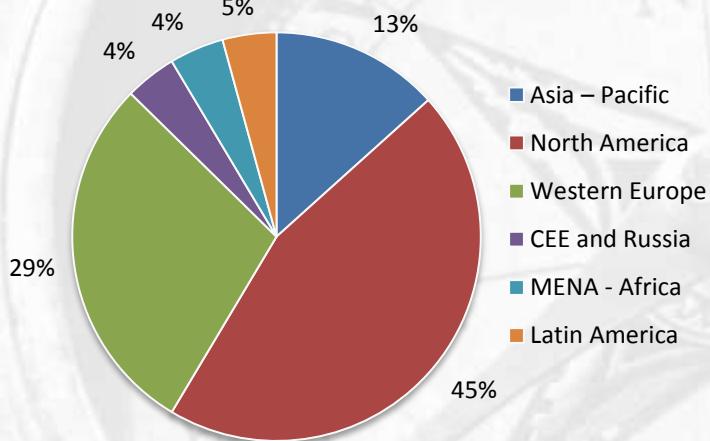


### Expected Sellers for 2015



Pensions (28.4%) and banks (24.8%) were the most active sellers in 2014. Most buyers expect the trend to continue in 2015 with pensions taking an increasing proportion.

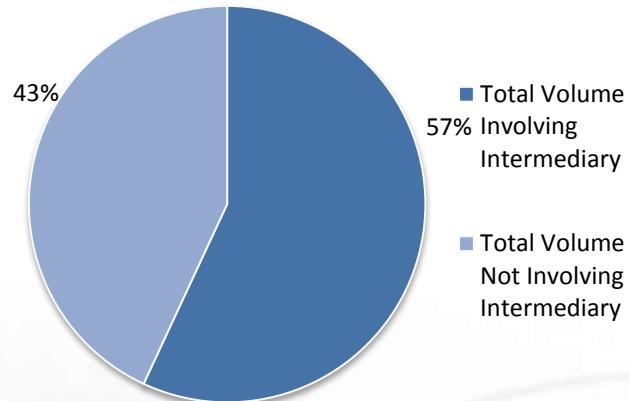
### Geography of Sellers



In terms of the location of sellers, North America and Western Europe based sellers accounted for the vast majority of volume in 2014. North America based sellers sold \$22.3 billion (45.2%), whereas Western European based sellers sold \$14.2 billion (28.8%). Asia-Pacific based sellers accounted for 13.3% of the total volume.

## Intermediaries

### Volume Intermediated

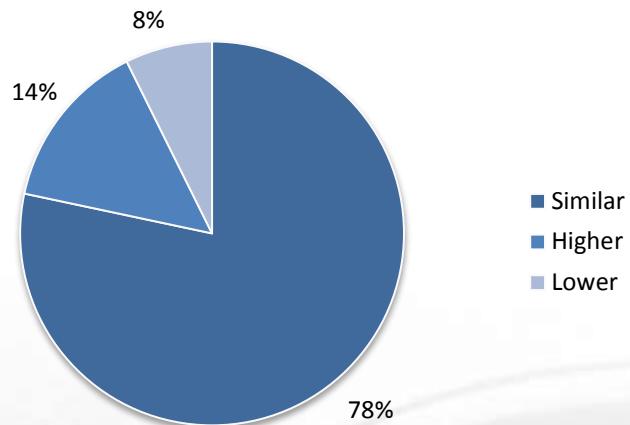


Approximately 56.9% (\$28.1 billion) of total secondary volume involved an intermediary, either on the buy or sell-side.

Although the percentage of deals intermediated was the same as 2013 , in terms of volume, agents intermediated \$7.6 billion more in deals, an increase of 37% over 2013. Indeed, Setter Capital had its most successful year with \$4.7 billion in completed transactions.

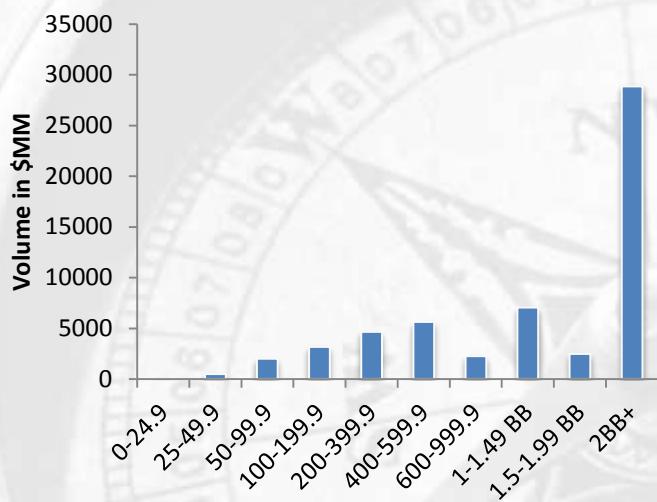
## Projected Volume for Full Year 2015

### How 2015 Volume Will Compare to 2014



92.7% of respondents felt 2015 volume will be similar or higher to 2014 volume. This figure is lower than the prior year (i.e. 99%) suggesting secondary market volume will not grow as fast next year.

### Predicted Volume for 2015



Respondents predicted total volume for 2015 across all asset classes to be \$56.5 billion, which would represent a 14.5% increase over the \$49.3 billion transacted in 2014. Estimated 2015 volume is \$43.9 billion for private equity, \$7.7 billion for real estate, \$2.5 billion for hedge funds, \$2.2 billion for infrastructure funds and \$0.2 billion for agriculture/timber funds.

## Select Respondents

17Capital	Neuberger Berman
Abbott Capital Management	Northleaf Capital
Access Capital Advisors	Northern Trust Corporation
Adams Street Partners	North Sky Capital
Adveq	NorthStar Realty
Akina Partners	Newquest Capital Partners
Alpha Associates	Pantheon Ventures
Arcano Group	Partners Group
Auda International	PEI Funds
Axiom Asia	Permal Capital
Canada Pension Plan Investment Board	Pictet Alternative Investments
Capital Dynamics	Portfolio Advisors
Commonfund Capital	Private Advisors
Coller Capital	RCP Advisors
Corbin Capital Partners	Stafford Capital Partners
DAAM UK (Deutsche Bank)	Siguler Guff Advisors
Dorchester Capital Advisors	SL Capital
Lothian Pension Fund	Sobera Capital
Fondinvest	Stepstone
Glenmede Trust	Storebrand
Graphite Capital	TR Capital Group
Greenspring Associates	Tyrus Capital
Hamilton Lane Advisors	Unigestion
HarbourVest Partners	Verdane Capital
Jasper Ridge Partners	Vintage Investment Partners
Mantra	W Capital Group
Mercer	Willowridge Partners
Munich Private Equity Partners	