

# Setter Capital Volume Report

Secondary Market H1 2015



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## Highlights

The Setter Capital Volume Report analyzes global secondary market activity in H1 2015 and covers the following topics:

- Total Volume of Secondary Deals
- Secondary Volume H1 2015 vs. H1 2014
- 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 FY 2015
- Changes in the Level of Competition
- Changes in Debt Levels
- Expected Returns of Secondary Purchases
- Expected Distribution and NAV Changes in H2 2015
- General Partners' Approach to the Secondary Market



## 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 H1 2015? 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 July 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 H1 2015.

We were pleased by the high response rate – of the 116 most active and regular buyers in the secondary market, 78 agreed to share their confidential results (see [partial list of participants](#)). Given the high response rate and the fact that eight of the ten largest buyers participated, the respondents to our survey represented 78% 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.

## H1 2015 in Review

After two years of breakneck growth, the secondary market took a breather with total volume of completed transactions falling 5.1% to \$20.6 billion USD in H1 2015, down from \$22 billion recorded in the [Setter Capital Volume Report H1 2014](#).

Although the market was down, the experience across different sectors was far from uniform. Private equity secondaries grew 1.9% year over year, reaching a total of \$16.2 billion, whereas real estate secondaries were down 1.8%. Hedge fund secondaries experienced the largest drop (down 78.6%) as side pocket supply continued to evaporate. Energy fund secondaries were also down 78.5% year over year (from \$1.6 billion to \$350 million) as falling energy prices caused the bid-ask spread to widen. The biggest volume improvement was seen in infrastructure secondaries, growing 28.5% to \$614 million, as buyers continued to enter this new market.

The volume of 'direct secondaries' hit \$5.5 billion, up 21% year over year, as more managers looked to liquidate or restructure older funds. This is not surprising given that 45% of respondents felt that more managers attempted to liquidate or restructure older funds in H1 2015 as compared to H1 2014. Managers also increasingly turned to the secondary market to explore stapled transactions, as roughly 31% of respondents felt that a materially higher number had sought staples in H1 2015 as compared to H1 2014. On a combined basis, managers of funds across buyout, VC, hedge, fund of funds and secondary funds accounted for roughly 34% of total sale volume, as they used the secondary market to create liquidity.

It should be noted that volume, which is measured in US dollars, may in fact have been approximately the same as last year if it were not for the depreciation in the Euro. The Euro, which was down roughly 19.2% year over year, made all European fund/asset purchases (roughly 25% of total volume) appear optically lower.

While the breadth and number of buyers continued to increase, the most significant activity was driven by a few large buyers in the market. The eight largest buyers, defined as those that deployed more than \$600 million in H1, accounted for 49% of the market's total volume (up significantly from their 44% share in H1 2014), while thirty mid-sized buyers accounted for roughly 35% (vs. 38% in H1 2014) and seventy eight small buyers represented roughly 16% (vs 18% in H1 2014). Buyers continued to diversify their secondary focus with about 23% of participants buying other alternative investment types for the first time (infrastructure, real estate, etc.).

Buyer competition for deals continued to heat up in H1 as noted by 97% of respondents who felt it was either similar or higher than last year. As a means to stay competitive, the use of debt to improve pricing and deal returns became more prevalent - 44% of respondents felt that buyers had used significantly more leverage as compared to the prior year.

Increasing buyer competition may in part be explained by the increasing level of intermediation in the market - approximately 65.6% (\$13.5 billion) of total secondary volume involved an intermediary in H1 2015 as compared to a 59% in H1 2014 – an increase of 12.5% year over year. 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.

There were a total of 586 transactions in H1 2015, with an average size of approximately \$35.1 million. Although the number of transactions was lower than H1 2014, the average deal size increased 49.5% year over year, reflecting the fact that more multi-hundred million-dollar transactions were completed in H1 2015.

The marked increase in large deals, the dominance of secondary funds (80.2% of total volume) and the increased market share of large buyers all demonstrate that H1 2015 was a banner first half for the large entrenched secondary players. Transaction volume completed by large buyers was \$10.1 billion, a 5.8% 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. GPs (not including fund of funds and secondary funds) (20.8%) and banks (20.5%) were the most active sellers in H1 2015, and most buyers expect pensions to be most active sellers in H2.

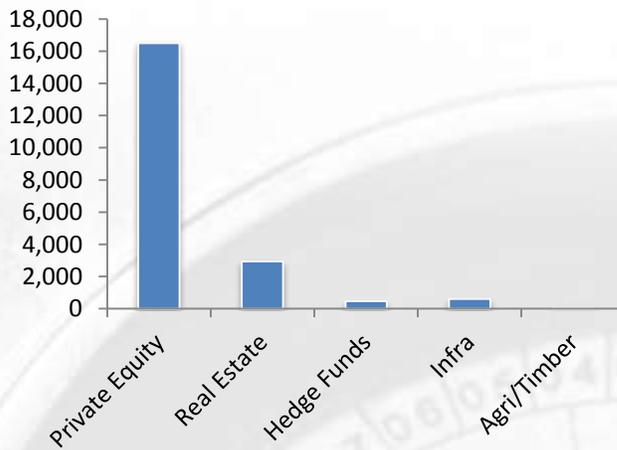
Pricing, which is largely determined by buyers' forecasts of NAV changes and distribution flows, should not change much in H2 as the survey respondents predicted that the pace of distributions would only be 0.4% higher and NAVs would only appreciate a modest 1.65% in H2 as compared to H1 2015.

Looking forward, buyers expect full year 2015 volume to be \$45.7 billion, which would be a 7.4% decrease over the \$49.3 billion transacted in 2014. This is also down from the \$56.5 billion they predicted just six months ago in the [Setter Capital Volume Report FY 2014](#), signifying a more measured outlook.

## Total Volume

**Total secondary market volume for H1 2015 was \$20.6 billion.** This is the volume estimate of the 116 secondary buyers with dedicated secondary efforts and includes 59 secondary funds, 38 funds of funds, 8 hedge funds, 8 investment consultants, 2 pensions and 1 insurance company. We believe this estimate is reliable as the 78 survey respondents alone reported \$15.3 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



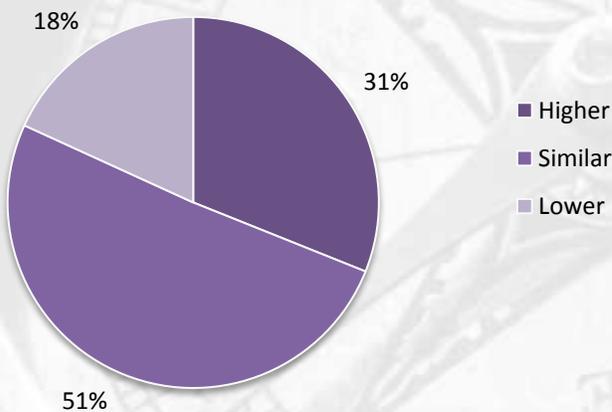
**Private Equity** (Directs<sup>1</sup> & Funds): \$16.5 billion (1.9% increase YoY)

**Real Estate** (Directs & Funds): \$2.9 billion (1.8% decrease YoY)

**Hedge Funds**: \$471.6 million (78.6% decrease YoY)

**Infrastructure Funds**: \$614.2 million (28.5% increase YoY)

### H1 2015 Volume vs. H1 2014 Volume



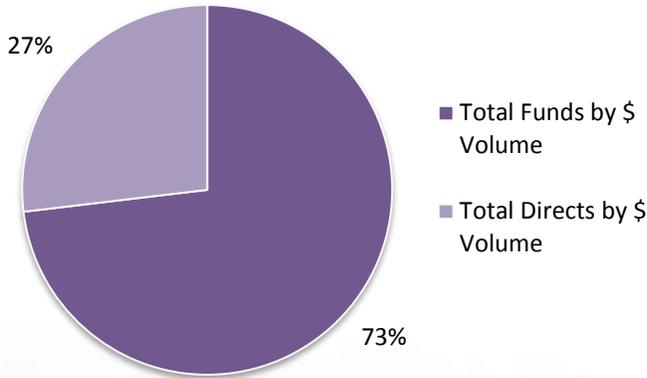
H1 2015 volume decreased 5.1% compared to H1 2014, which was roughly \$22 billion.

51% of survey respondents felt volume was similar to H1 2014, while 31% said it was significantly higher and 18% felt it was significantly lower, showing buyers' had mixed success in H1 2015.

<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

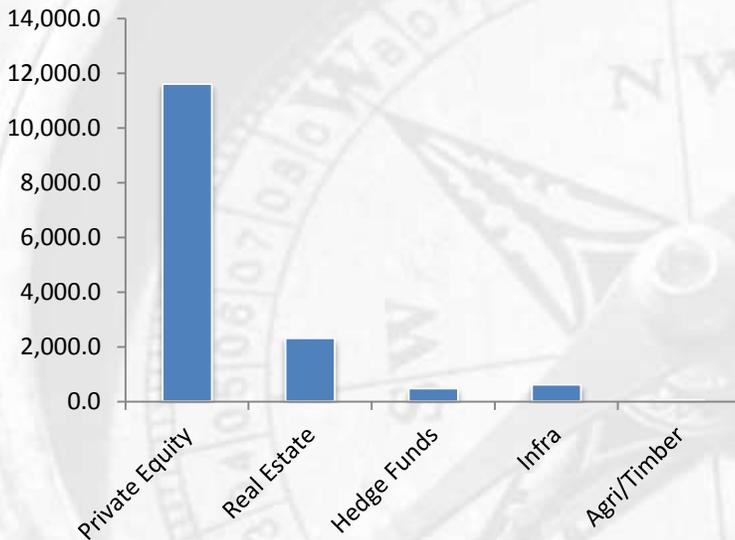


In H1 2015, \$15.1 billion of funds (73.1%) and \$5.5 billion of directs (26.9%) were purchased.

Secondaries of direct investments increased significantly from \$4.6 billion in H1 2014 to \$5.5 billion in H1 2015, which represents a 19.3% increase. This category includes the volume transacted in GP restructurings and purchases of single minority stakes and co-investments.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 74.1% funds and 25.8% directs.

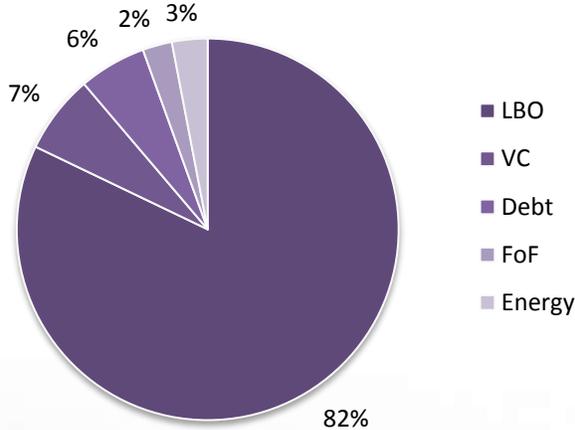
## Breakdown of Fund Secondaries



- Private equity fund purchases totaled \$11.6 billion (~77.1% of total fund sales)
- Real estate fund purchases totaled \$2.3 billion (~15.3% of total fund sales)
- Hedge fund purchases totaled \$471.6 million (~3.1% of total fund sales)
- Infrastructure fund purchases totaled \$614.2 million (~4.1% of total fund sales)

## Types of Funds Purchased

### Private Equity Funds Purchased



**LBO** – \$9.5 billion  
(Up 12.8% YoY from \$8.3 billion)

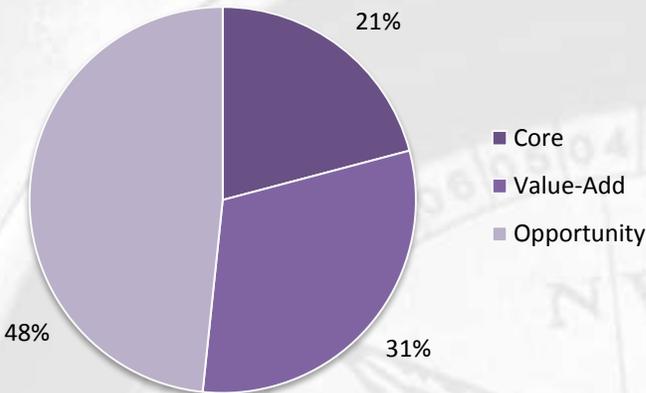
**VC** – \$773.3 million  
(Up 3.1% YoY from \$749.8 million)

**Debt** – \$662.3 million  
(Up 71.9% YoY from \$385.2 million)

**Fund of Funds** – \$289.2 million  
(Down 15.2% YoY from \$341.1 million)

**Energy** – \$349.7 million  
(Down 78.5% YoY from \$1.6 billion)

### Real Estate Funds Purchased

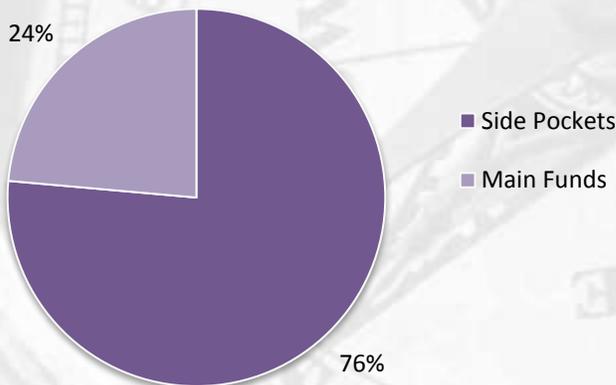


**Core** – \$481.7 million  
(Down 71.7% YoY from \$1.7 billion)

**Value-Add** – \$709.7 million  
(Down 5.4% YoY from \$750 million)

**Opportunity** – \$1.1 billion  
(Up 76.1% YoY from \$633 million)

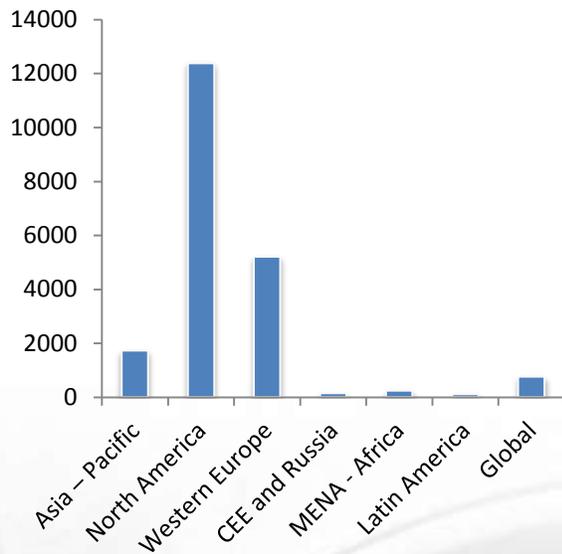
### Hedge Funds Purchased



**Side Pockets** – \$360.4 million  
(Down 82.8% YoY from \$2.1 billion)

**Main Funds** – \$111.3 million  
(Up 35.7% YoY from \$82 million)

## Geography of Assets Purchased



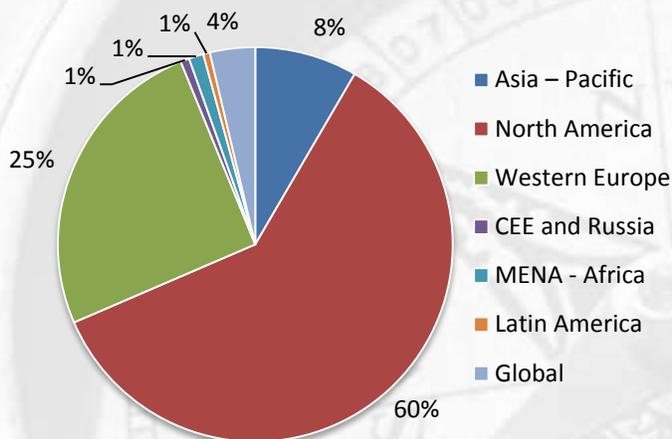
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in H1 2015:

**North America** – \$12.4 billion  
(up 7.4% from \$11.6 billion)

**Western Europe** - \$5.2 billion  
(down 21.7% from \$6.7 billion\*)

**Asia-pacific** – \$1.7 billion  
(down 42.3% from \$3.0 billion)

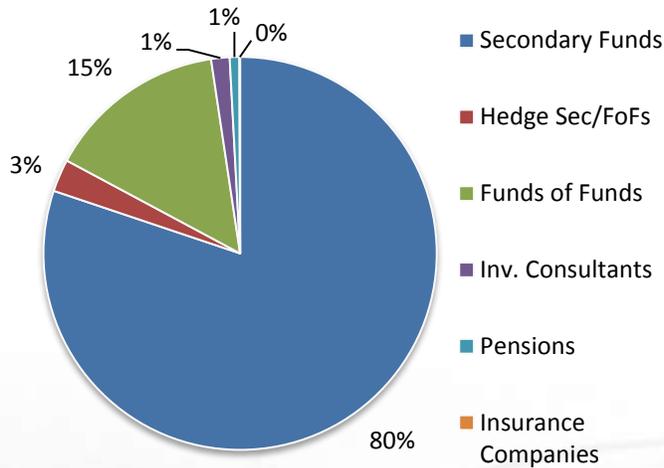
\* Please note: The decrease in Western European focused funds/directs was largely caused by the EUR/USD exchange rate, where the Euro depreciated 19.2% YoY.



In terms of percentage, North American focused funds and direct investments accounted for 60.1% of total volume, Western European assets accounted for 25.3% and Asia-Pacific focused funds/directs accounted for 8.4% of sales.

## Profile of Buyers

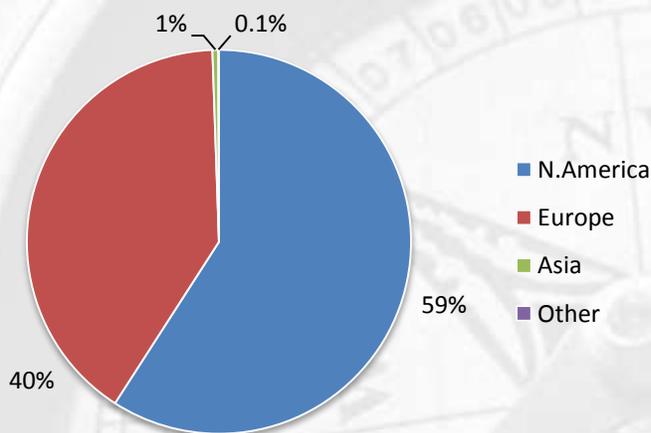
### Type of Buyers



Secondary funds were the most active buyers in H1 2015, accounting for 80.2% (\$16.5 billion) of total purchases, while funds of funds accounted for 14.8% (\$3.1 billion), and funds of hedge funds/hedge fund secondary funds accounted for 2.7% (\$550 million).

Please note: over 1,000 non-traditional buyers were not included in our survey and the resulting estimates.

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



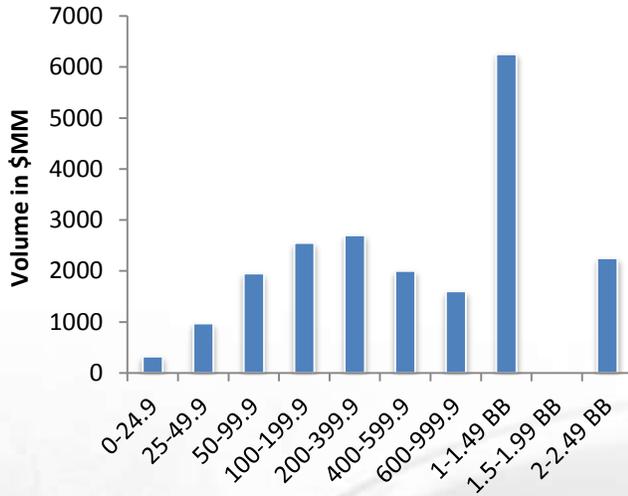
North American buyers transacted the most (59.1% of total volume) in H1 2015, up from 57% of total volume in H1 2014.

European buyers accounted for 40.4% of total volume in H1 2015, which was roughly the same year over year.

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

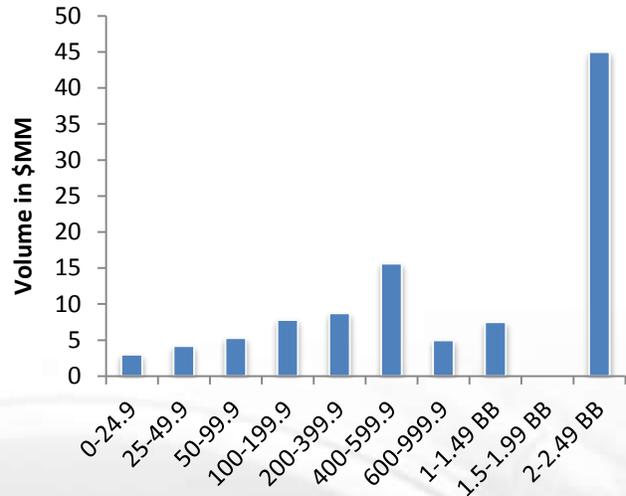
## Activity Levels of Small, Medium and Large Buyers

**Volume Distribution by Size of Buyer**



**Buyers Grouped by Their Volume \$MM**

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



**Buyers Grouped by Their Volume \$MM**

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:

8 large buyers (defined as those that deployed \$600 million or more in H1 2015) purchased \$10.1 billion, representing approximately 49.0% of total volume across 88 transactions with an average deal size of \$131.1 million. This was a meaningful increase from H1 2014, where large buyers accounted for 44%.

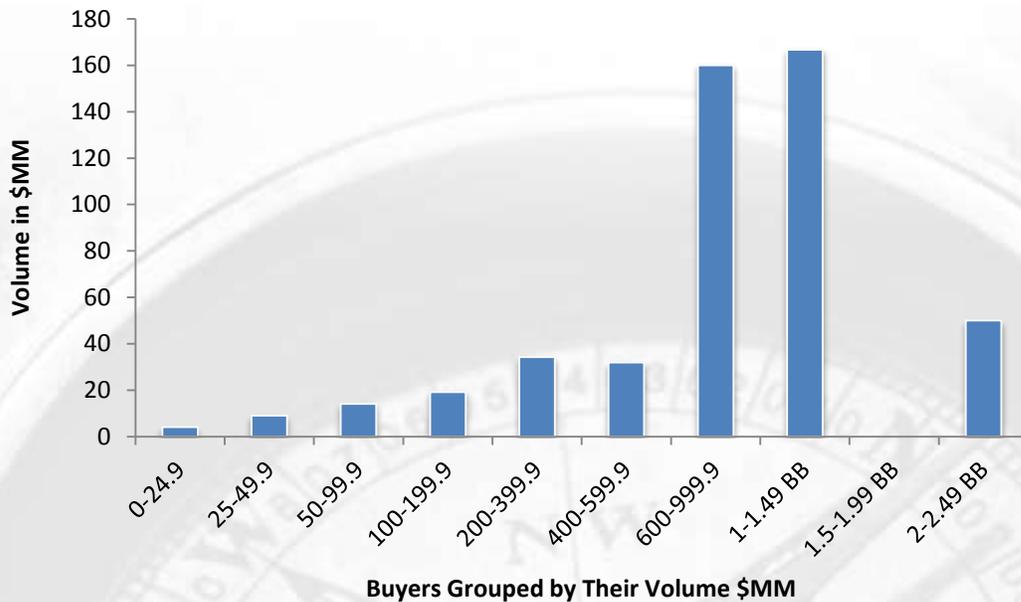
30 medium sized buyers (defined as those that deployed \$100 to \$600 million in H1 2015) purchased \$7.25 billion, representing approximately 35.2% of total volume across 221 transactions with an average deal size of \$28.5 million. This was a decrease from 2013, where they accounted for 38%.

78 small buyers (defined as those that deployed less than \$100 million in H1 2015) purchased \$3.25 billion, representing approximately 15.8% of total volume across 277 transactions with an average deal size of \$10.0 million. This was a slight decrease from H1 2014, where they accounted for 18% of total volume.

## Number of Deals and Average Deal Size

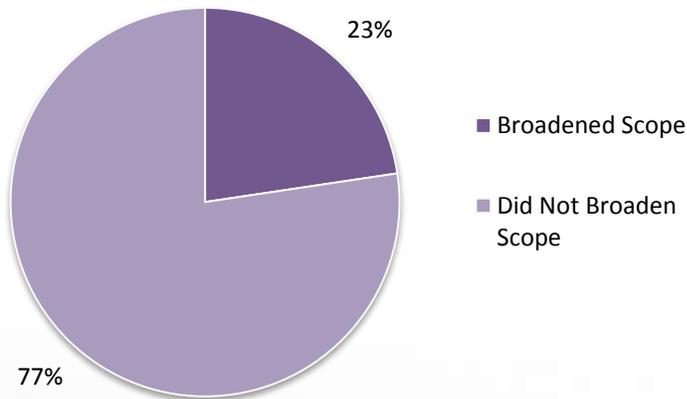
Respondents completed approximately 450 secondary deals in H1 2015, from which we extrapolated an estimate of 586 transactions across the entire secondary market for alternative assets, with an average size of approximately \$35.1 million. Although the number of transactions in H1 2015 was lower than H1 2014, the average deal size increased 49.5%, reflecting the fact that more multi-hundred million deals were completed in H1 2015.

### Average Deal Size by Size of Buyer



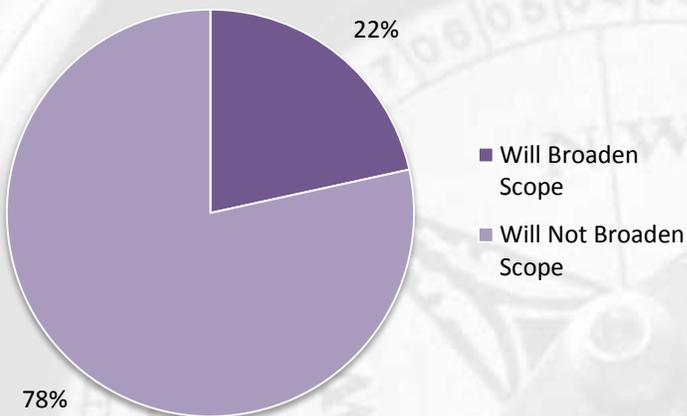
## Buyers' Scope of Interest

### Buyers That Broadened Their Focus in H1 2015



Approximately 22.6% of participants broadened their secondary focus in H1 2015 to include buying other alternative investment types (e.g. infrastructure, real estate, portfolios of direct, etc.). This percentage represents a 14.8% decrease from H1 2014.

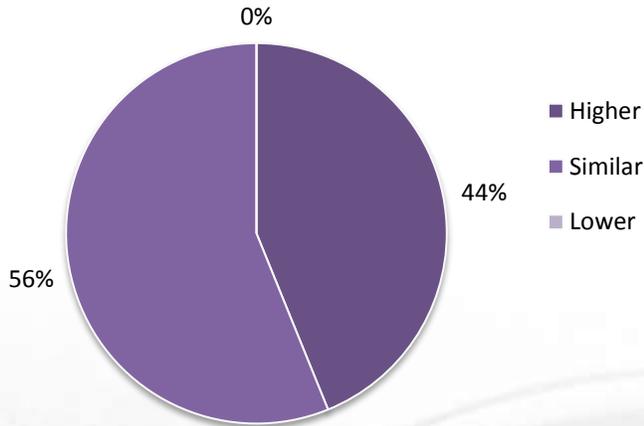
### Buyers That Intend to Broaden Their Focus in H2 2015



Approximately 21.6% of the participants plan to broaden their secondary focus in H2 2015 to include buying other alternative investment types. This percentage represents a 14.5% decrease from buyer's expectations in H1 2014. This may represent a levelling off of buyers diversifying their secondary strategies.

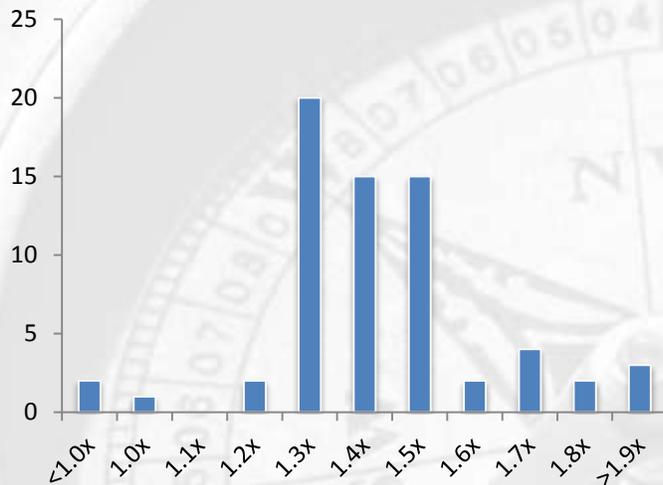
## Debt and Returns

### Level of Debt Used by Buyers in H1 2015 vs. H1 2014



43.9% of respondents believed the level of debt used by buyers had increased significantly in H1 2015. The balance felt it was the same and no one felt it was less.

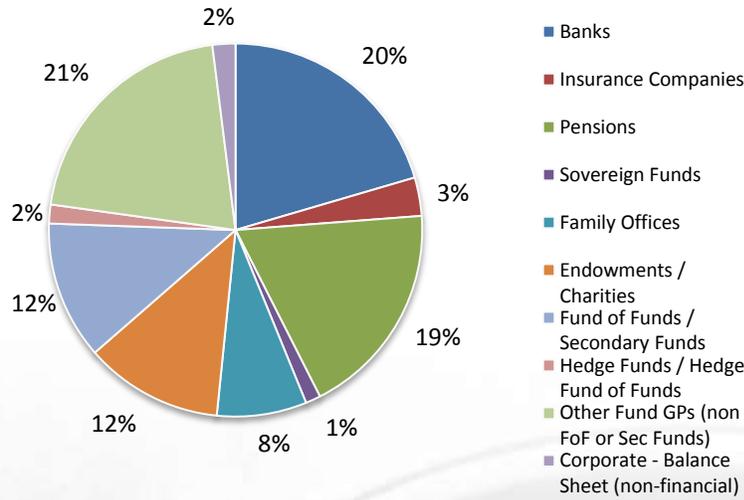
### Expected Multiple for Secondary Deals Completed in H1 2015



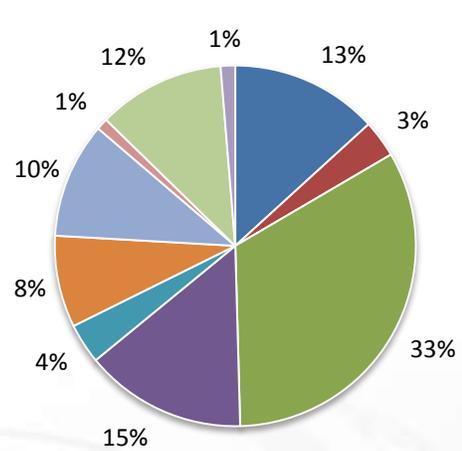
Respondents predicted that the average gross multiple for secondary deals completed in H1 2015 would be 1.43x.

## Seller Profiles

### Type of Sellers in H1 2015

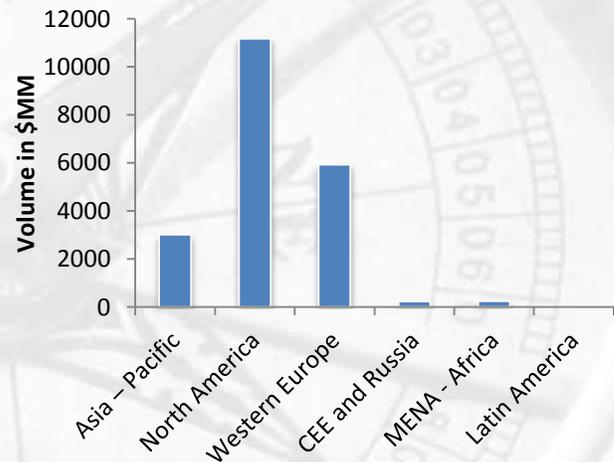
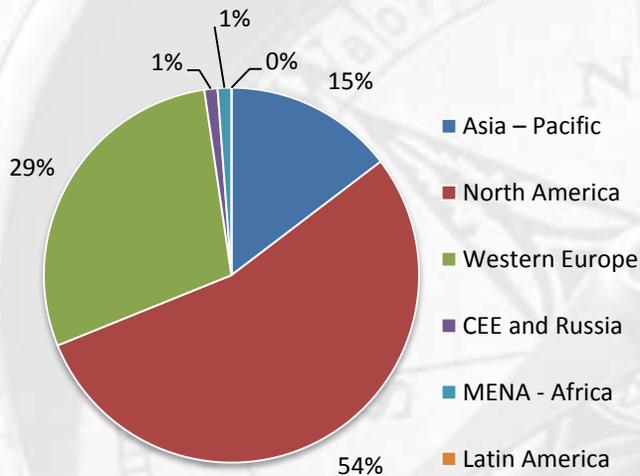


### Expected Sellers for H2 2015



GPs (not including funds of funds and secondary funds) and banks were the most active sellers in H1 2015 making up 20.8% and 20.5% of volume respectively. Most buyers expect pensions and sovereign funds to be the biggest sellers in H2 2015.

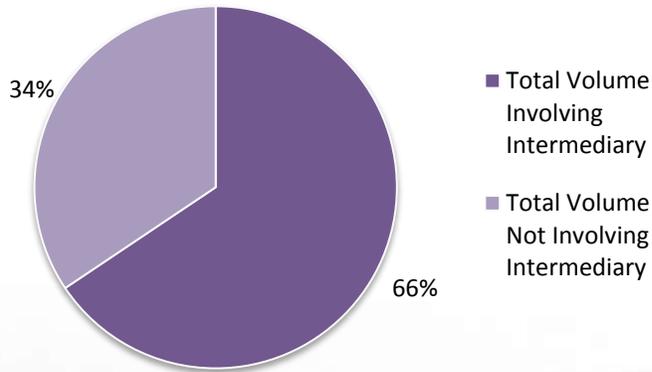
## Geography of Sellers



In terms of the location of sellers, North American and Western European sellers accounted for the vast majority of volume in H1 2015. North American sellers sold \$11.2 billion (54.2%), whereas Western European sellers sold \$5.9 billion (28.8%). Asia-Pacific sellers accounted for 14.6% of the total volume.

## Intermediation and Level of Competition

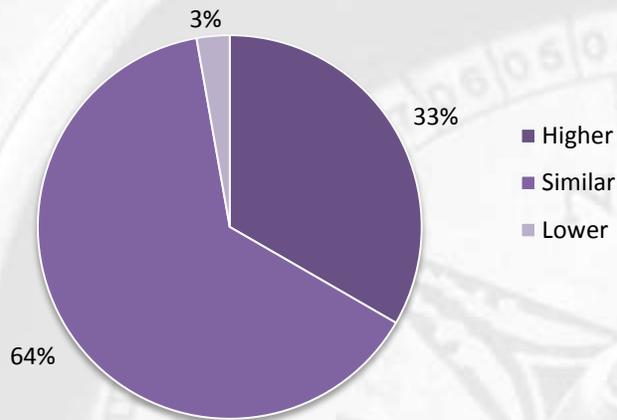
### Volume Intermediated



Approximately 65.6% (\$13.5 billion) of total secondary volume involved an intermediary, either on the buy or sell-side, as compared to 59% in H1 2014.

In terms of volume, agents intermediated \$1.5 billion more in deals, an increase of 12.5% over H1 2014.

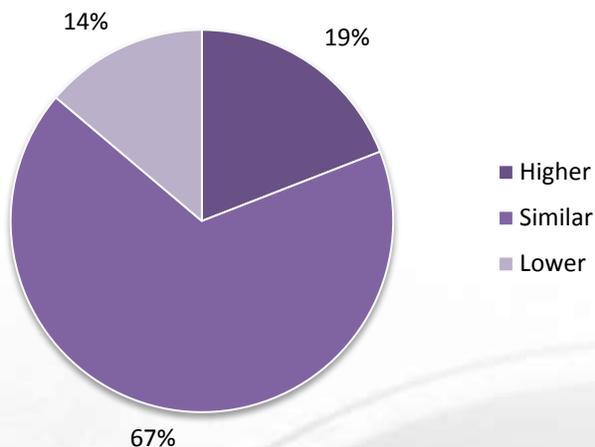
### Buyer Competition for Deals in H1 2015 vs. H1 2014



33.3% of respondents felt buyer competition in H1 2015 was significantly higher than H1 2014, while 63.9% felt it was similar. Only 2.8% felt buyer competition was lower in H1 2015.

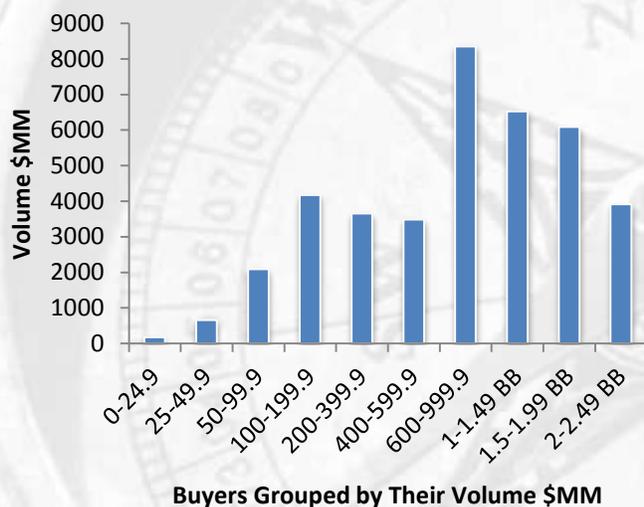
# Projected Volume for Full Year 2015

## How 2015 Volume Will Compare to 2014



67% of respondents felt that FY 2015 volume will be similar to that of 2014, with the remainder roughly split between those who felt it would be higher (19%) and lower (14%). By contrast, buyers were much more optimistic in H1 2014, with 49.3% of respondents predicting the full year would be higher to the prior year and almost no buyers expecting it to be lower.

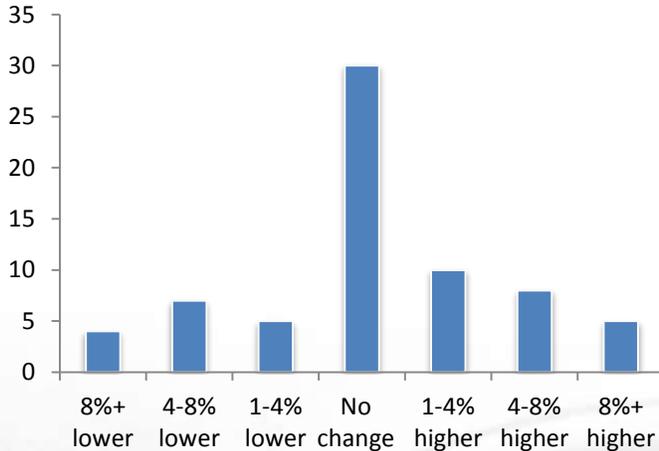
## Predicted Volume for FY 2015



Respondents predicted total volume for 2015 across all asset classes to be \$45.7 billion, which would represent a 7.4% decrease over the \$49.3 billion transacted in 2014. Estimated 2015 volume is \$36.6 billion for private equity, \$6.5 billion for real estate, \$1.0 billion for hedge funds, \$1.4 billion for infrastructure fund.

## Expected Distribution and NAV Changes in H2 2015

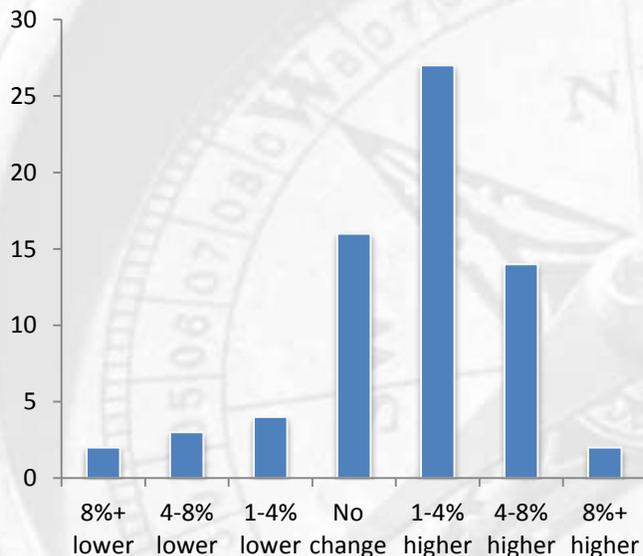
### Distribution Pace in H2 2015 vs. H1 2015



Most respondents expect the pace of distributions in H2 2015 to be the same as H1 2015.

On average respondents expected the pace of distributions to be 0.38% higher in H2 2015.

### Change in NAV in H2 2015 vs. H1 2015

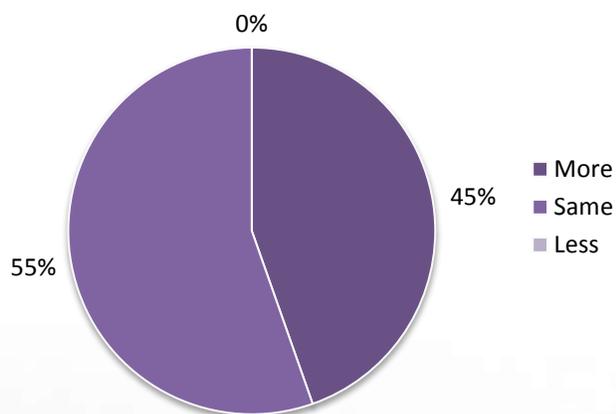


Most respondents expect NAV to be 1-4% higher in H2 2015 compared to H1 2015.

On average, respondents expected NAVs to appreciate 1.65% in H2.

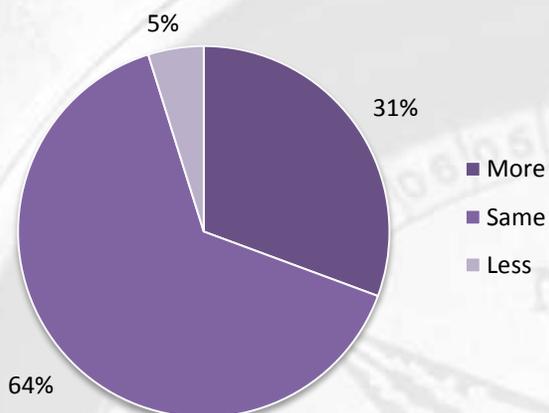
## General Partners' Approach to the Secondary Market

### Liquidations and Restructurings in H1 2015 vs. H1 2014



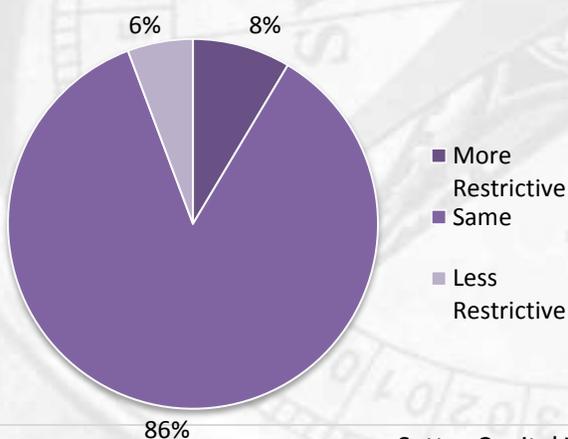
44.6% of respondents felt that more GPs attempted to liquidate or restructure older funds in H1 2015 compared to H1 2014.

### Staples Sought by GPs in H1 2015 vs. H1 2014



30.6% of respondents felt that a materially higher number of GPs sought staples in H1 2015 compared to H1 2014.

### GP Restrictiveness on Transfers in H1 2015 vs. H1 2014



Most respondents felt that GPs restrictiveness on transfers didn't change in H1 2015 compared to H1 2014.

## Select Respondents

17Capital  
Abbott Capital Management  
Access Capital Advisors  
Adams Street Partners  
Adveq  
AGC Equity Partners  
Akina Partners  
Alpha Associates  
Arcano Group  
Argentum  
Auda International  
BEX Capital  
Canada Pension Plan Investment Board  
Capital Dynamics  
Cipio Partners  
Coller Capital  
Commonfund Capital  
Corbin Capital Partners  
Crestline Investors  
DAAM UK (Deutsche Bank)  
Dorchester Capital Advisors  
Lothian Pension Fund  
Fondinvest  
Glenmede Trust  
Golding Capital Partners  
GP Advisors  
Graphite Capital  
Greenspring Associates  
Hamilton Lane Advisors  
HarbourVest Partners  
Headlands Capital  
Hollyport Capital  
Idinvest Partners  
International Woodland Company (IWC)  
Mantra Investments  
Munich Private Equity Partners  
Neuberger Berman  
NewQuest Capital Partners  
North Sky Capital  
Northern Trust Corporation  
Northleaf Capital  
NorthStar Realty Finance  
Pantheon  
Partners Group  
Pomona Capital  
Portfolio Advisors  
Private Advisors  
Private Equity Investors - PEI Funds  
RCP – Reserve Capital Partners  
ROC Partners  
Siguler Guff Advisors  
SL Capital Partners  
Sobera Capital  
Stafford Capital Partners  
Stepstone  
TR Advisors  
Tyrus Capital  
Unigestion  
Vintage Ventures  
W Capital Group  
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 institutional client base including some of the world's largest pensions, endowments, investment consultants and fund managers. To date, Setter Capital has completed over 400 transactions, representing more than \$18 billion in liquidity across venture capital, private equity, infrastructure, real estate, real asset, and hedge fund investments.

Setter Capital's mission is to make the secondary market more transparent and efficient for all market participants. To this end, Setter provides the market with complimentary secondary market research and analytical tools such as:

### [The Setter Liquidity Rating™](#)

A unique rating system that allows buyers, sellers and creditors to assess the relative liquidity of over 7000 different fund families.

### [The Setter Volume Report™ and the Setter Price Report™](#)

Two semi-annual reports that provide the most comprehensive and accurate assessments of the secondary market. Data is based on pricing of over 1900 funds and a survey of over two thirds of the most active secondary buyers globally.

### [SecondaryLink.com™](#)

A professional network where over 3900 institutional LPs and GPs connect on primary due diligence and the secondary market.

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