Setter

Volume Report FY 2022

First in the secondary market.

Highlights

The Setter Capital Volume Report analyzes global secondary market activity in FY 2022 and covers the following topics:

› Total Volume of Secondary Deals

› Secondary Volume FY 2022 vs. FY 2021

› 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 2023

› Changes in Level of Buyer Competition

› Changes in Debt Levels

› Expected Returns of Secondary Purchases

› Expected Distribution and NAV Changes in FY 2023

› General Partners' Approach to the Secondary Market

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The survey

As the secondary market continues to grow and evolve, we seek to take a comprehensive and methodical approach to quantifying the market and identifying trends. Using a survey approach, we asked principals directly the same questions that buyers, sellers and secondary fund LPs often ask us. How much was completed in FY 2022? 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 31 question survey of the most active global buyers in the secondary market for alternative investments, conducted at the end of December 2022. 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 2022. Please note that all values throughout the report are denoted in USD.

We were pleased by the high response rate, as 98 of the 129 most active and regular buyers in the secondary market agreed to share their confidential results (see partial list of participants on page 27). Given the high response rate, and the fact that all twenty-three of the largest buyers participated, the respondents to our survey represented 95.4% of the transaction volume, making it the most reliable and exhaustive study of the industry's activities.

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

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

FY 2022 in review

With the backdrop of challenging public markets and inflationary pressures, the secondary market logged $101.51 billion in FY 2022 volume, markedly down from the $143.41 billion transacted in FY 2021.

With the exception of debt fund secondaries (up 30.3% to $3.33 billion in FY 2022 from $2.55 billion in FY 2021), volume was down across all alternative investments in the secondary market. Private equity secondaries (funds and directs) decreased 29.7% year over year, to $93.67 billion. Private equity funds were down 24.9% ($49.36 billion in FY 2022 from $65.75 billion in FY 2021) with decreases seen across LBO funds (down 21.4% to $39.02 billion from $49.63 billion in FY 2021), VC funds (down 51.7% to $4.40 billion from $9.11 billion in FY 2021) and fund of fund secondaries (down 41.5% to $2.44 billion from $4.17 billion in FY 2021). Energy fund secondaries were down 39.2% to $178 million in FY 2022 from $290 million in FY 2021, real estate fund and direct secondaries were down 39.5% to $2.98 billion and hedge fund secondaries were down 47.5% to $200 million in FY 2022.

Traditional fund secondaries decreased 23.7% from $73.43 billion in FY 2021 to $56.0 billion in FY 2022, while direct secondaries decreased 35.0% from $69.98 billion to $45.51 billion (private equity directs were $44.30 billion and real estate directs were $1.21 billion). As a result, fund secondaries went from 51.2% of total volume in FY 2021 to 55.2% in FY 2022.

As the breadth and number of buyers continue to increase, the most significant activity was driven by the largest buyers in the market. The twenty-three largest buyers, defined as those that deployed more than $1 billion in FY 2022, accounted for 75.9% of the market's total volume (vs. 80.9% in FY 2021), while the sixty-five mid-sized buyers accounted for 22.2% (vs. 18.0% in FY 2021) and the forty-one smallest buyers represented 1.9% (vs. 1.2% in FY 2021). In fact, the top four buyers alone transacted on approximately $29.5 billion in volume (29% of the total 2022 volume).

69.6% of respondents felt that buyer competition for deals remained the same in FY 2022, while 25.3% felt it was lower than 2021. Although the use of debt to improve pricing and deal returns continued to be common in the secondary market, 45.2% of respondents felt the use of leverage was lower than in 2021.

Agents intermediated 70.5% of deals in FY 2022, versus 79.6% in FY 2021. In terms of dollars, agents intermediated $71.59 billion in deals in FY 2022, which was 37.3% less than they did in FY 2021.

There were a total of 1,919 transactions in FY 2022, with an average size of approximately $52.9 million. The number of transactions was down 17.8% from the 2,335 transactions completed in FY 2021 and the average deal size was lower by 13.9%, given the reduced number of large-scale deals. For 71.9% of their deals, buyers paid 100% cash on closing, while the balance of deals involved other payment terms or structuring.

As for deal execution, 36.0% of buyers had a higher proportion of deals fall apart in FY 2022 versus FY 2021. This is significantly more than FY 2021, when only 8.8% reported more deals falling through. Buyers noted that the main reason was that the seller decided not to sell (71.2%). Adverse portfolio or manager issues uncovered in post-LOI diligence (5.8%) and GPs not allowing transfers / PTP issues (5.8%) were two other notable deal breakers.

General partners, that are not fund of funds or secondary funds, accounted for 35.7% of all sellers, as they looked to tap the secondary market to create liquidity for their LPs and creative ways to increase AUM. Indeed, 36.0% of survey respondents felt that meaningfully more GPs coordinated tender offers or attempted to liquidate or restructure older funds in FY 2022 as compared to FY 2021 and 41.9% of respondents felt that a materially higher number of GPs sought staples in FY 2022 as compared to FY 2021. Pensions were the next most active sellers accounting for 27.6% of the total volume, followed by insurance companies who accounted for 9.0%. Looking forward, most buyers expect pensions to be the biggest sellers in FY 2023 (43.4% of total transaction volume).

From a geographical perspective, North American sellers continued to account for the largest proportion of volume in FY 2022 selling $63.49 billion (62.5% vs. 72.3% in FY 2021), whereas Western European sellers sold $23.01 billion (22.7% vs. 21.6% in FY 2021) and Asian-Pacific sellers accounted for $13.39 billion (13.2% vs. 5.7% in FY 2021). Other geographies accounted for 1.6% of the total volume in FY 2022, up from .4% in FY 2021.

Buyers estimated that NAV valuations will decrease 1.4% and the pace of distributions will likewise decrease 1.4% in FY 2023. These forecasts are more pessimistic than those in the FY 2022, when buyers expected NAVs to increase by 3.4% and distributions to increase .4% in the coming year.

Looking forward, buyers expect FY 2023 volume to be $129.19 billion, up 27.3% from the $101.5 billion transacted in FY 2022.

More Insight.

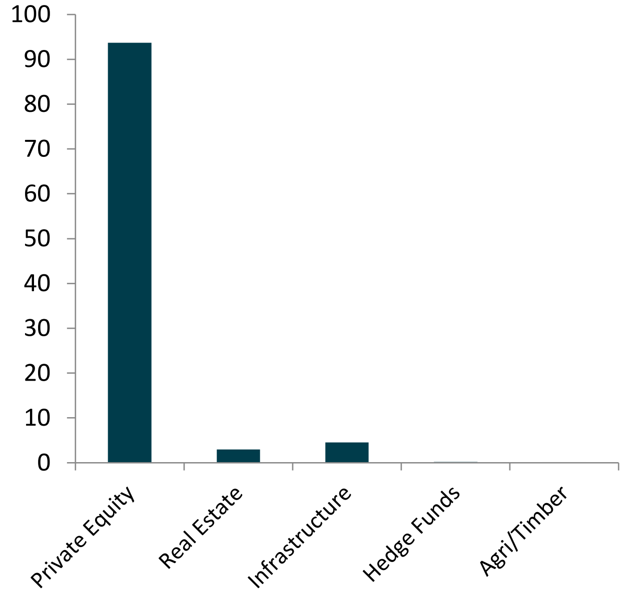
In the secondary market, knowledge is power.
By providing granular custom portfolio analysis and industry-leading market research, we empower our clients to make the most informed decisions.

Setter

Total volume

Total secondary market volume for FY 2022 was $101.51 billion. This is the volume estimate derived from the 129 secondary buyers surveyed with dedicated secondary efforts and includes 80 secondary funds, 38 funds of funds, 6 hedge funds, 3 investment consultants, 1 family office and 1 pension. We believe this estimate is reliable as the 98 survey respondents alone reported $96.89 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): $93.67 billion (29.7% decrease YoY)

Infrastructure Funds: $4.53 billion (0.9% decrease YoY)

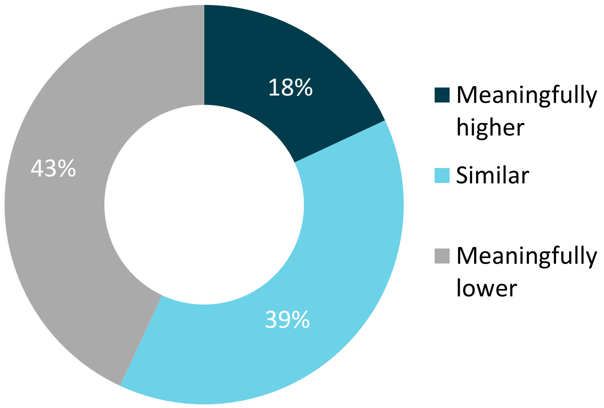
Real Estate (Directs & Funds): $2.98 billion (39.5% decrease YoY)

Hedge Funds: $200 million (47.5% decrease YoY)

Agriculture/Timber Funds: $140 million (56.7% decrease YoY)

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

FY 2022 volume vs. FY 2021 volume

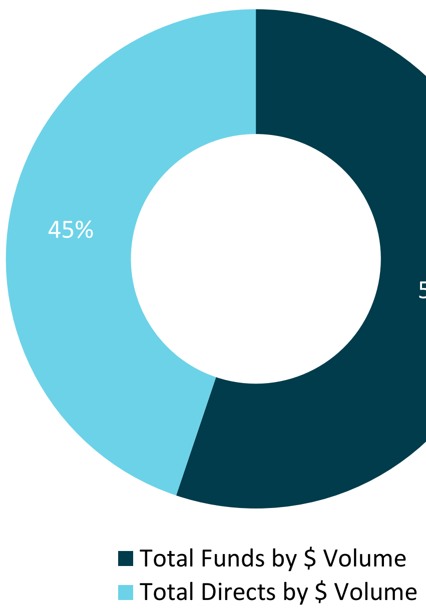


FY 2022 volume materially decreased 29.2% compared to FY 2021, which was $143.41 billion.

Indeed, 43.1% of survey respondents felt their volume was lower in FY 2022, 38.9% felt their volume was similar and 18.1% of the respondents reported their volume was higher than FY 2021.

Assets purchased

Funds vs. directs[1]



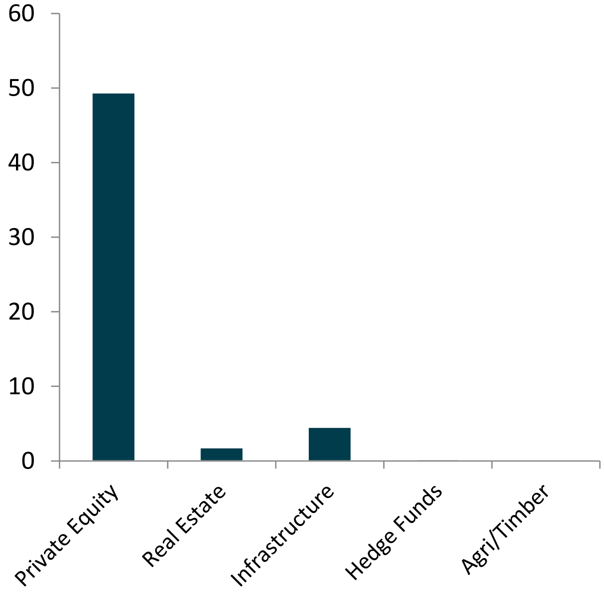
Fund secondaries decreased 23.7%, from the $73.43 billion recorded in FY 2021 to $56.00 billion in FY 2022. Direct secondaries[1], likewise, decreased 35.0% from $69.98 billion in FY 2021 to $45.51 billion in FY 2022.

As a proportion of total volume, direct secondaries went from 48.8% in FY 2021 to 44.8% in FY 2022.

Survey respondents estimated that the split between fund and direct secondaries in 3 years would be 55.8% funds and 44.2% directs.

[1] Direct secondaries include fund restructurings, tender offers, and purchases of single minority stakes and co-investments.

Breakdown of fund secondaries



Private equity fund purchases totaled $49.36 billion (24.9% decrease YoY)

Infrastructure fund purchases totaled $4.53 billion (7.8% decrease YoY)

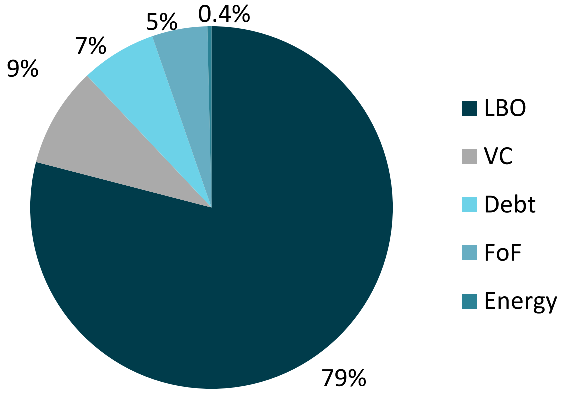
Real estate fund purchases totaled $1.76 billion (14.3% decrease YoY)

Hedge fund purchases totaled $200 million (39.7% decrease YoY)

Agriculture/Timber fund purchases totaled $140 million (62.3% decrease YoY)

Types of funds purchased

Private equity funds



LBO – $39.02 billion
(Down 21.4% YoY from $49.63 billion)

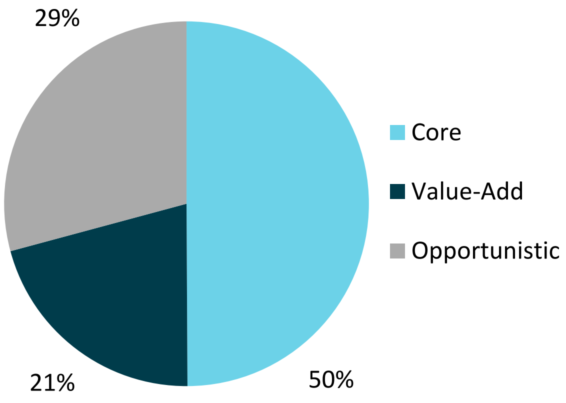
VC – $4.40 billion
(Down 51.7% YoY from $9.11 billion)

Debt – $3.33 billion
(Up 30.3% YoY from $2.55 billion)

Fund of Funds – $2.44 billion
(Down 41.5% YoY from $4.17 billion)

Energy – $178 million
(Down 39.2% YoY from $294 million)

Real estate funds



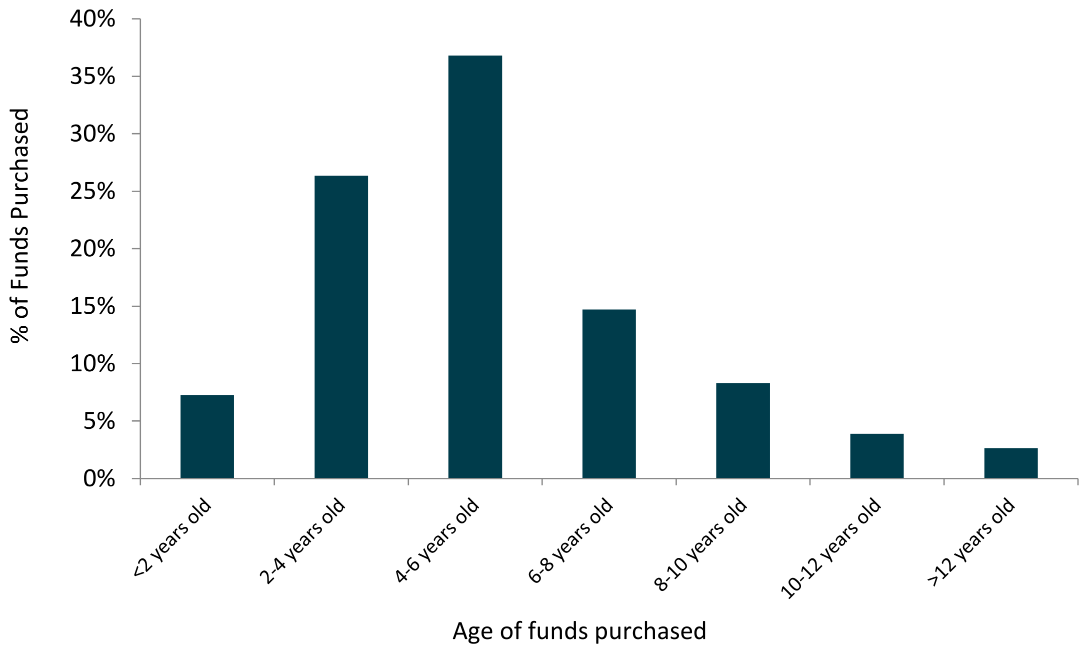
Core – $880 million
(Up 64.9% YoY from $530 million)

Value-Add – $370 million
(Down 15.5% YoY from $440 million)

Opportunistic – $510 million
(Down 52.7% YoY from $1.09 billion)

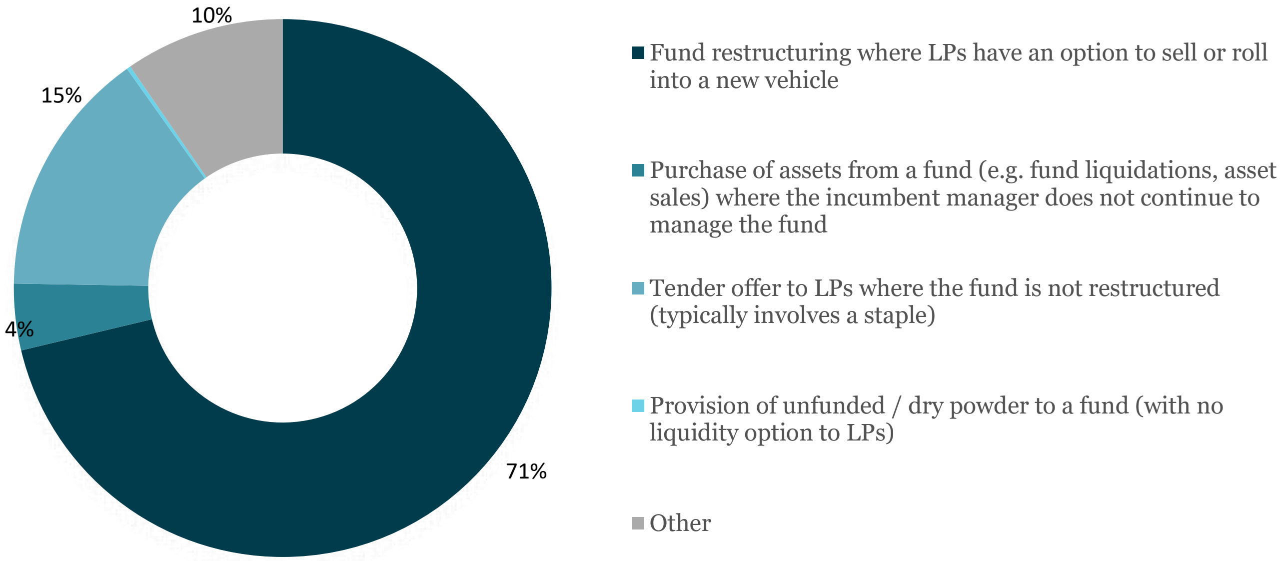
Maturity of funds purchased

As illustrated below, buyers bought funds across various vintages, whether as a portfolio or on a single line basis. The average fund purchased was 5.25 years old which is slightly younger than the average in FY 2021 (5.78 years old).

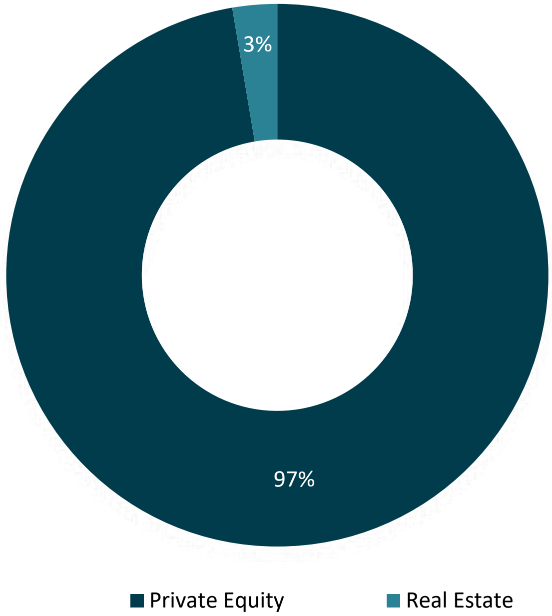


Types of direct secondaries

Types of direct deals completed by buyers

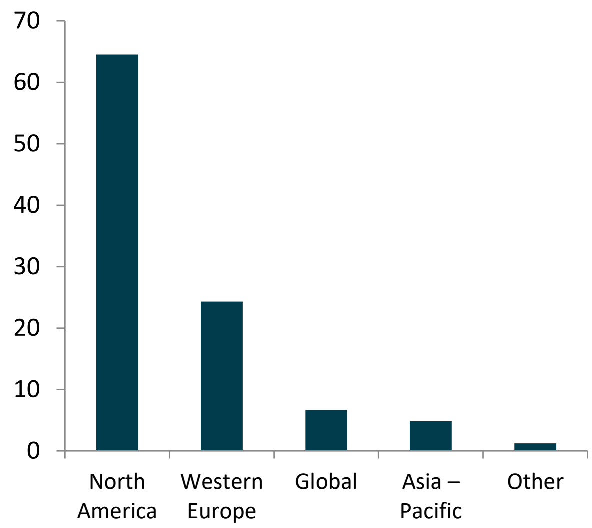


Private equity directs vs. real estate directs



Private equity directs and real estate directs accounted for 97.3% ($44.30 billion) and 2.7%, respectively, ($1.21 billion) of the total directs volume.

Geography of assets purchased



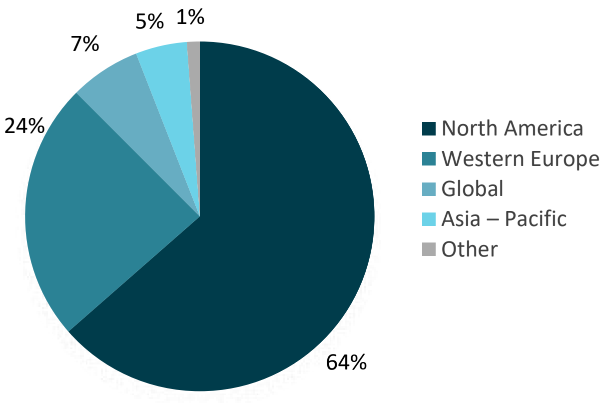
North American and Western European focused funds/directs accounted for the vast majority of assets purchased in FY 2022:

North America – $64.52 billion
(Down 25.9% YoY from $87.03 billion)

Western Europe - $24.31 billion
(Down 28.1% YoY from $33.79 billion)

Global – $6.65 billion
(Down 41.2% YoY from $11.31 billion)

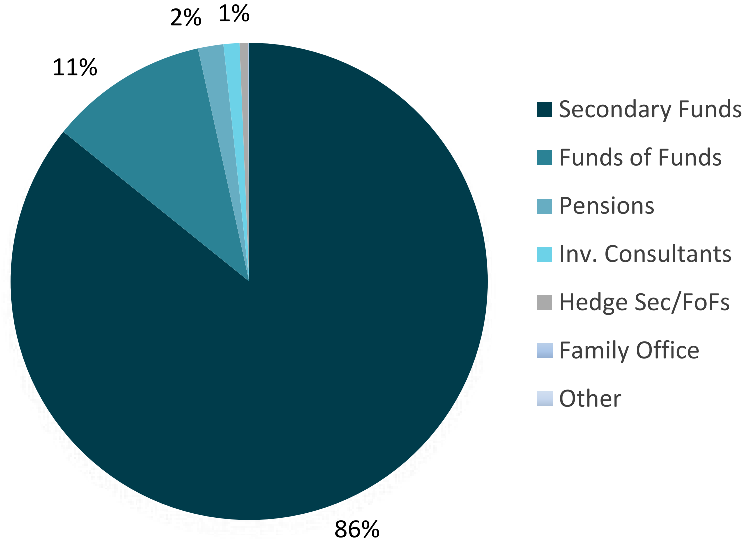
Asia-Pacific – $4.82 billion
(Down 50.3% YoY from $9.70 billion)



In terms of percentage, North American focused funds and directs accounted for 63.6% of total volume, Western European focused assets accounted for 23.9%, Global focused assets accounted for 6.6% of and Asia-Pacific focused assets accounted for 4.8% of sales.

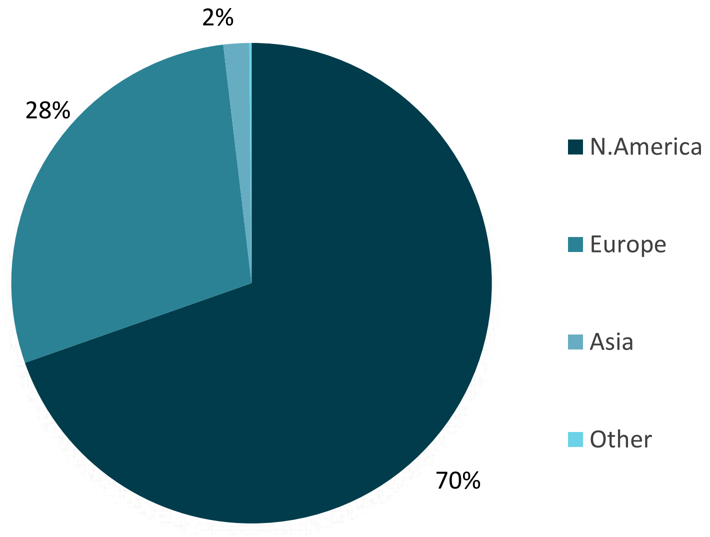
Profiles of buyers

Type of buyers



Secondary funds were again the most active buyers in FY 2022, accounting for 85.8% ($87.09 billion) of total purchases while funds of funds accounted for 10.8% ($10.93 billion).

Location of buyers[1]



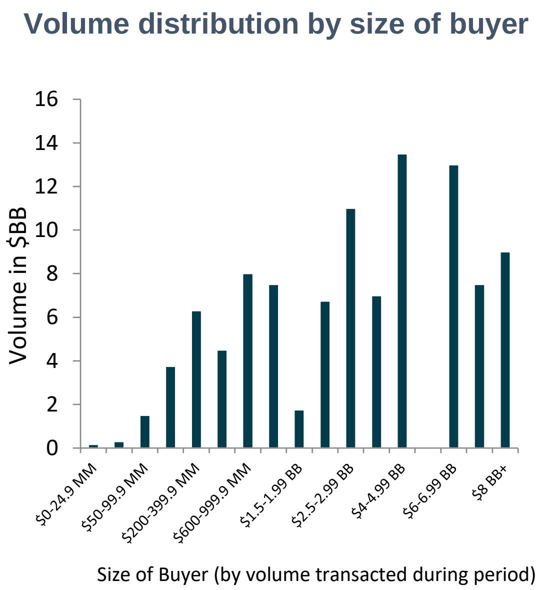
North American buyers transacted the most (69.6% of total volume) in FY 2022, up as a percentage from 67.9% total volume in FY 2021.

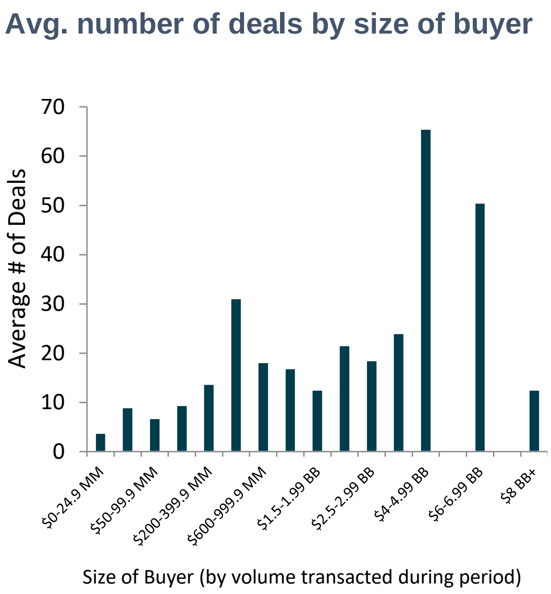
European buyers accounted for 28.5% of total volume in FY 2022, which was down from FY 2021 (30.4%).

[1]Location is based on head office location.

Activity levels of small, medium and large buyers

Applying the survey respondents' dollar volume and transaction numbers, whilst taking into consideration the proportion of small, medium and large buyers that did not participate, we estimated the market share of small, medium and large buyers as follows:





23 large buyers (defined as those that deployed $1 billion or more in FY 2022) purchased $77.00 billion, representing approximately 75.85% of total volume across 680 transactions with an average deal size of $113.16 million. This was a decrease from FY 2021, where large buyers accounted for 80.89%.

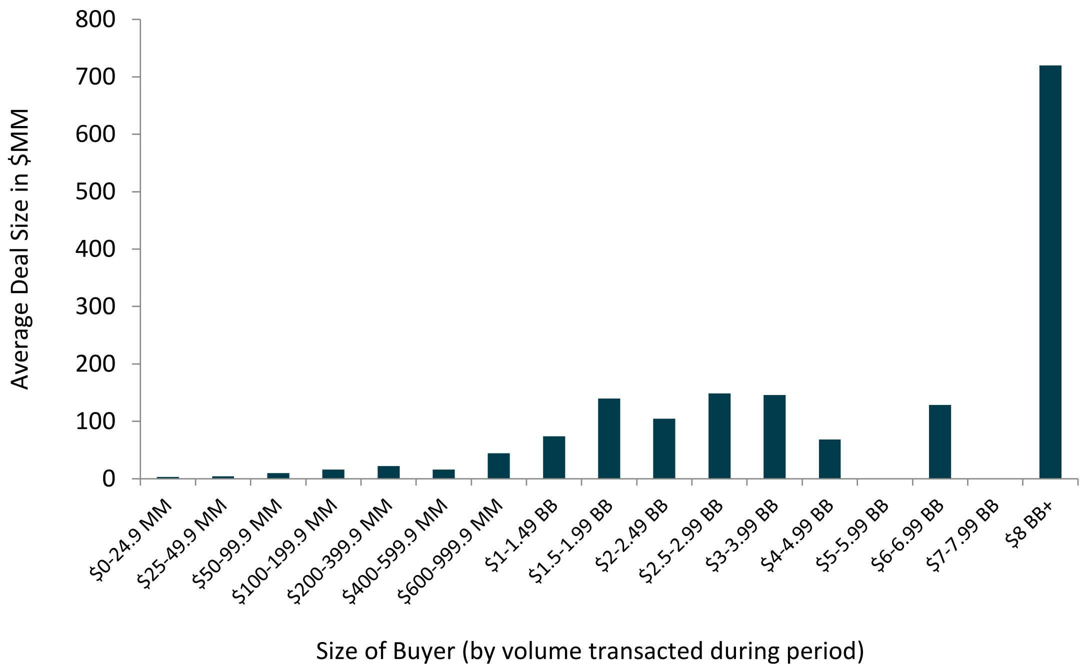
65 medium-sized buyers (defined as those that deployed $100 million to $1 billion in FY 2022) purchased $22.55 billion, representing approximately 22.2% of total volume across 951 transactions with an average deal size of $23.72 million. This was an increase from FY 2021, where they accounted for 18.0%.

41 small buyers (defined as those that deployed less than $100 million in FY 2022) purchased $1.96 billion, representing approximately 1.9% of total volume across 288 transactions with an average deal size of $6.81 million. This was a slight increase from FY 2021, where they accounted for 1.2%.

Number of deals and average deal size

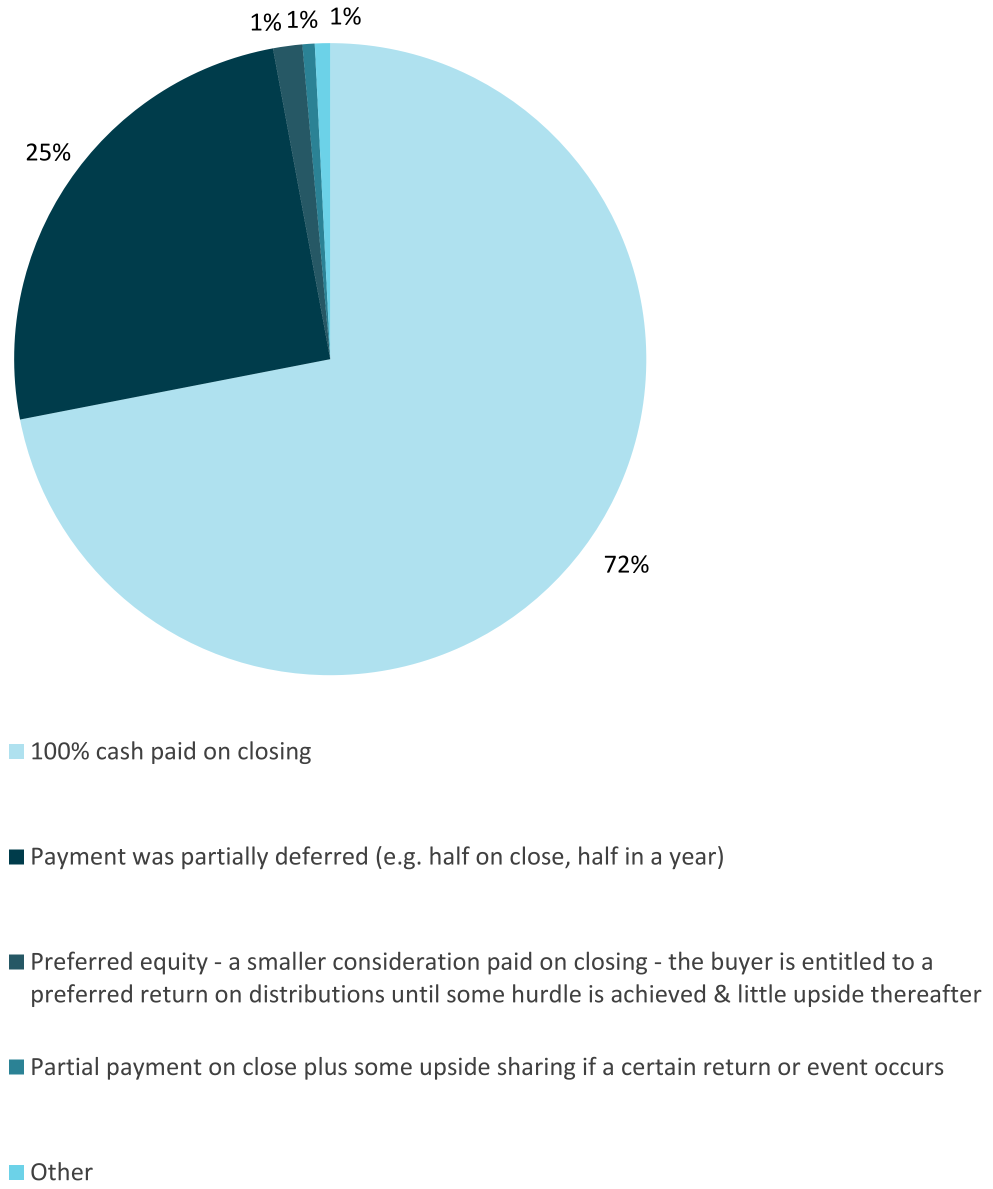
Buyers completed 1,919 transactions in FY 2022 across the entire secondary market for alternative assets, with an average size of approximately $52.89 million. The number of transactions decreased 17.8% from 2,335 transactions in FY 2021, while the average deal size likewise decreased 13.9% from $61.43 million in FY 2021.

Average deal size by size of buyer



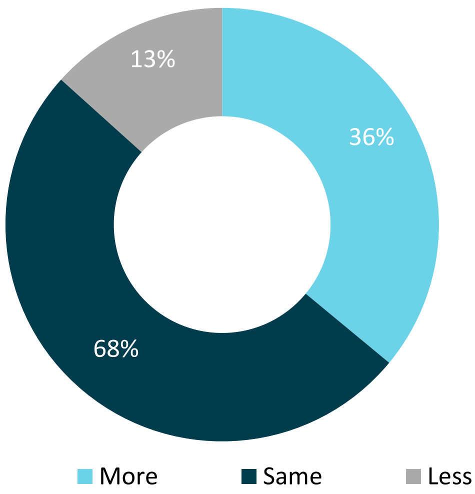
Payment terms

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. This is down from FY 2021, when buyers paid 100% cash on closing for 87.8% of their deals. For 25.2% 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 more common in 2022 than in 2021 (only 8.5% of deals), as buyers used deferrals to improve their prices and bridge the bid-ask spread.



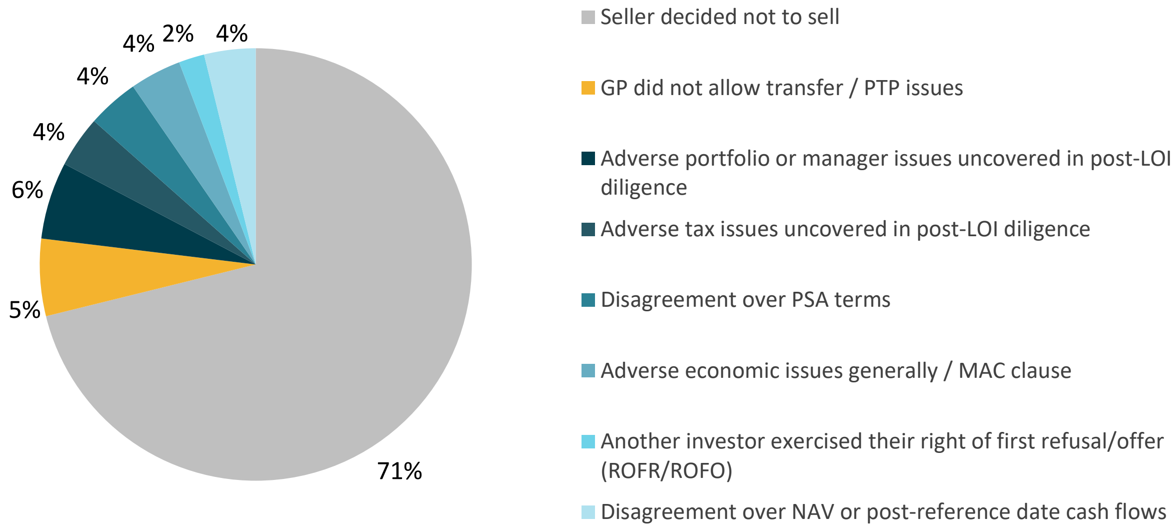
Execution risk

Percentage of deals that fell apart in FY 2022 vs. FY 2021



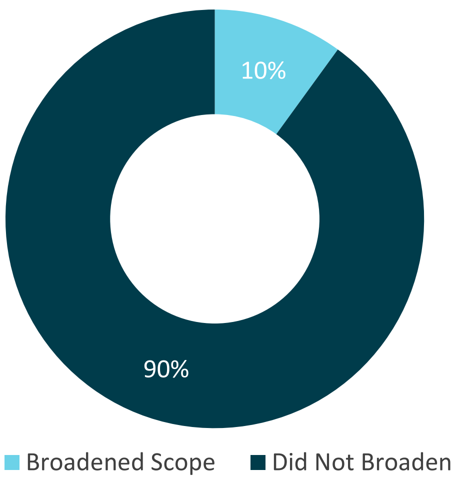
36.0% of respondents had a higher proportion of their deals fall through in FY 2022, versus FY 2021. This is significantly higher than FY 2021, when only 8.8% reported a higher proportion of their deals falling through.

As outlined below, the main reason that deals fell apart was that the seller simply decided not to sell (71.2%). Other reasons included GP did not allow transfer / PTP issues (5.8%) and adverse portfolio or manager issues uncovered in post-LOI diligence (5.8%).



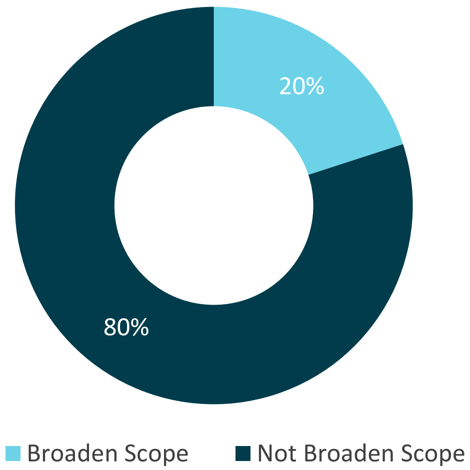
Buyers' scope of interest

Buyers that broadened their focus in FY 2022



10.0% of participants broadened their secondaries focus in FY 2022 to include buying other alternative investment types (direct secondaries, infrastructure, private debt, etc.).

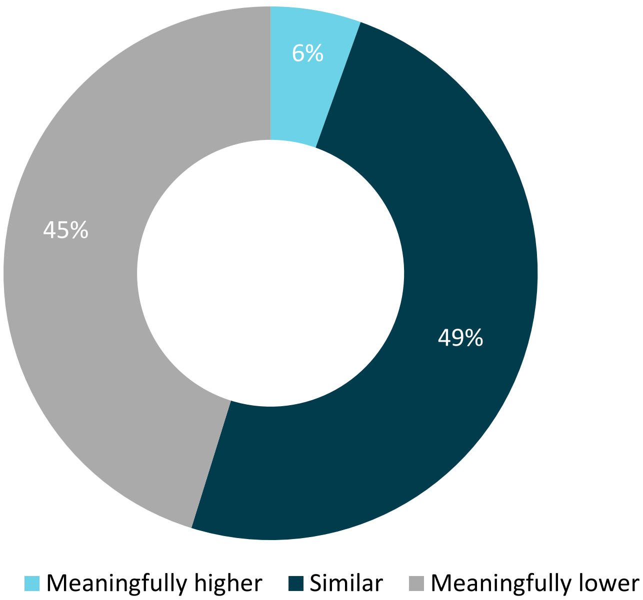
Buyers that intend to broaden their focus in FY 2023



20.0% of participants plan to broaden their secondaries focus in FY 2023 to include buying other alternative investment types.

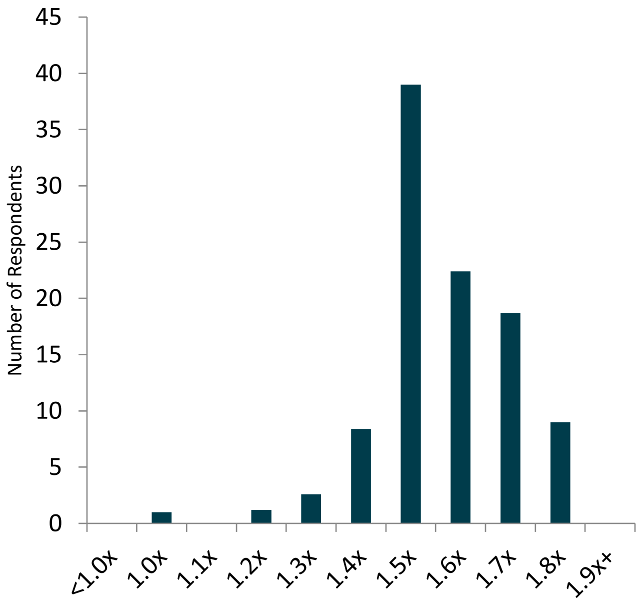
Leverage and returns

Level of debt used by buyers in FY 2022 vs. FY 2021



49.3% of respondents believed the level of debt used by buyers was the same, only 5.5% felt it was more and 45.2% felt it had decreased in FY 2022. This is quite different from 2021, when only 1.3% of buyers felt the level of debt used was lower.

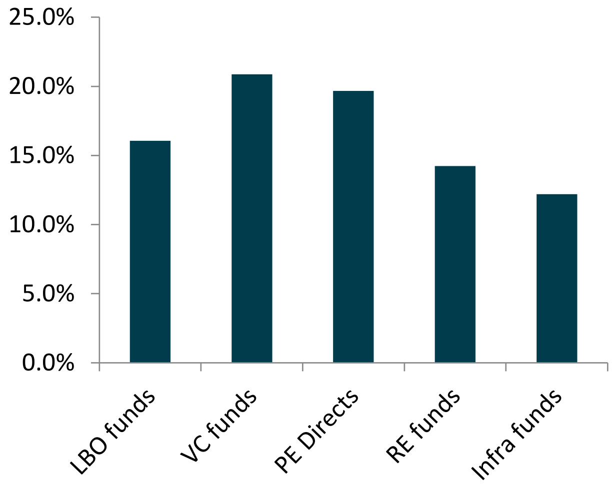
Expected multiple for secondary deals completed in FY 2022



Respondents predicted that the average gross multiple for secondary deals completed in FY 2022 will be 1.55x, similar to the 1.54x buyers expected from deals completed in FY 2021.

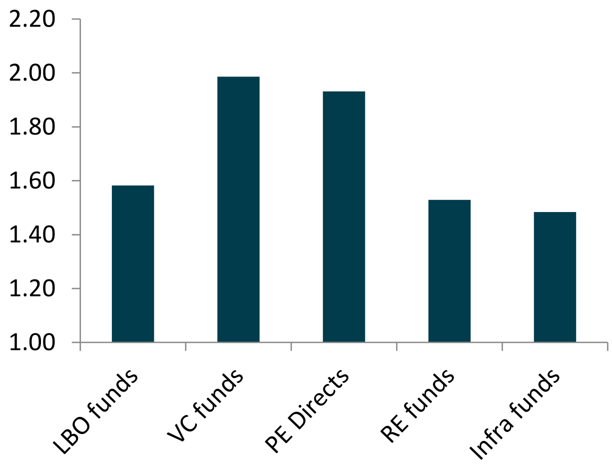
Buyers' return targets

Targeted IRRs on secondary purchases



When underwriting new purchases, buyers' average targeted IRR was 16.1% for LBO funds, 20.9% for VC funds, 19.7% for private equity directs, 14.2% for real estate funds and 12.2% for infrastructure funds.

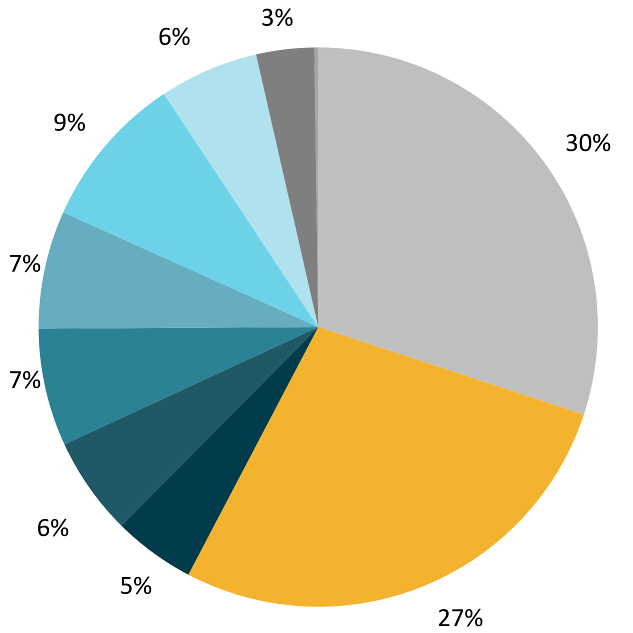
Targeted multiples on secondary purchases



On average, buyers' average targeted multiple was 1.58x for LBO funds, 1.99x for VC funds, 1.93x for private equity directs, 1.53x for real estate funds and 1.48x for infrastructure funds.

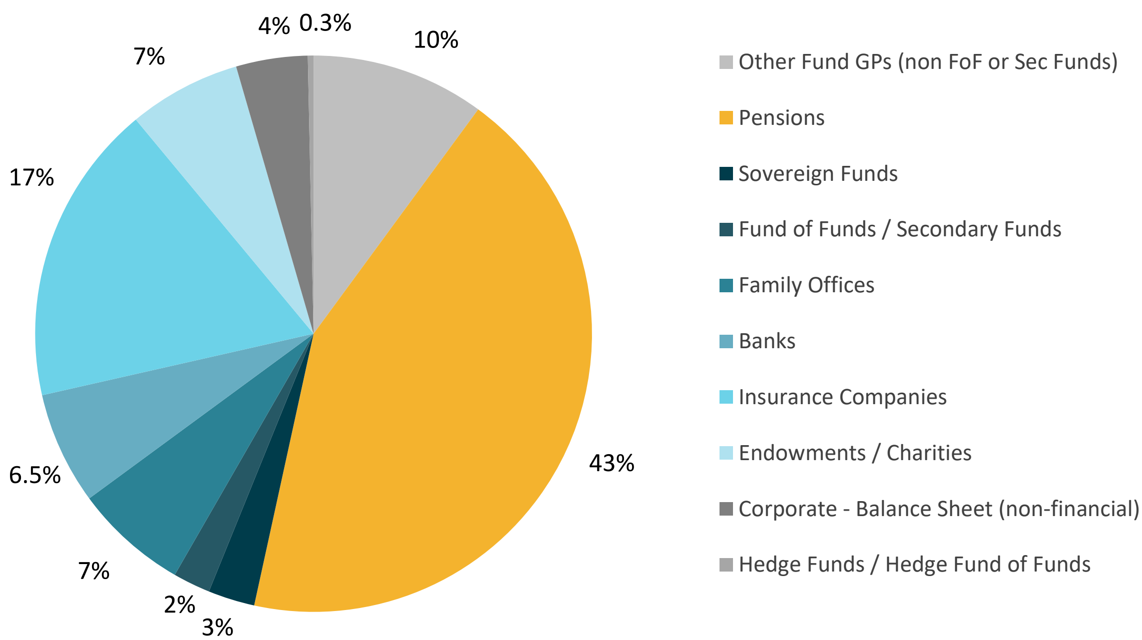
Seller profiles

Types of sellers in FY 2022



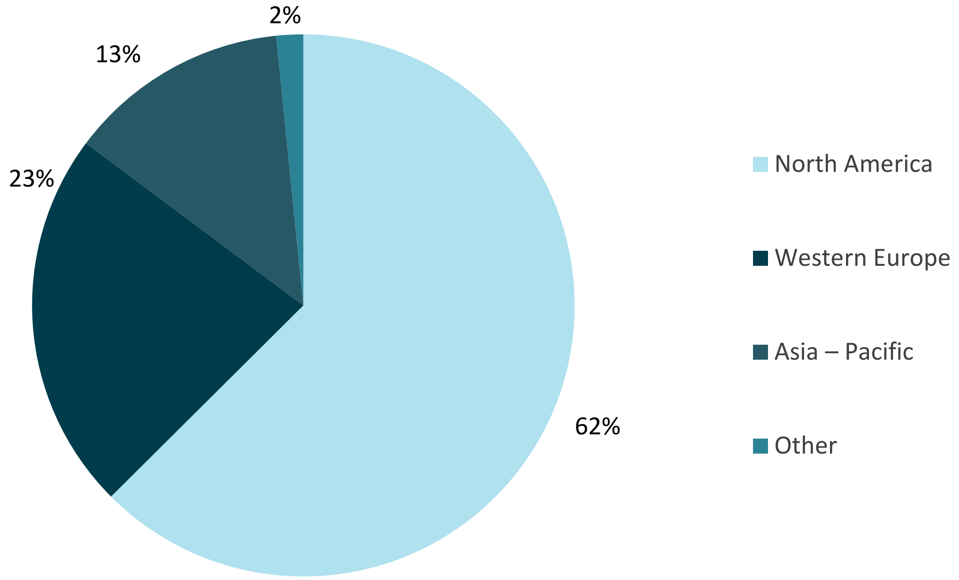
Direct investing GPs (i.e. not fund of funds or secondary funds) and pensions were the most active sellers in FY 2022 making up 30.1% and 27.6% of the FY 2022 volume, respectively. Most buyers expect pensions to be the biggest sellers in FY 2023 (43.4% of total transaction volume).

Expected sellers in FY 2023

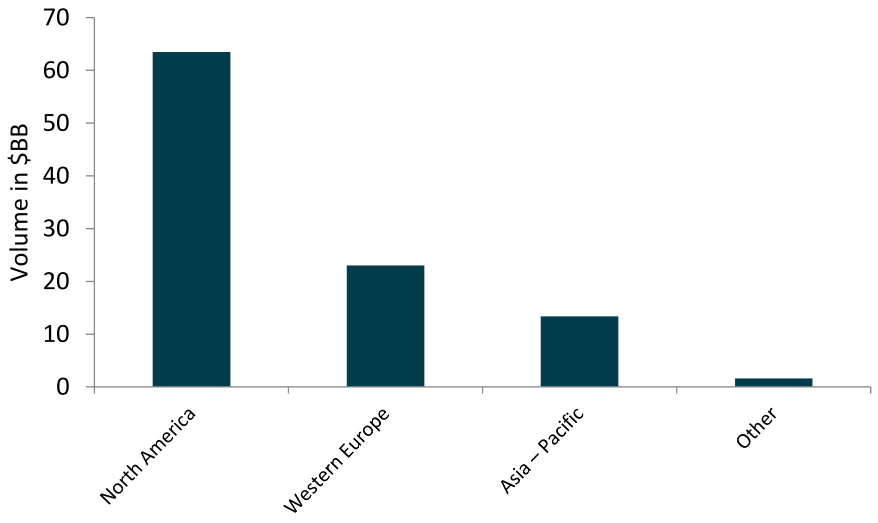


Seller location

Geography of sellers

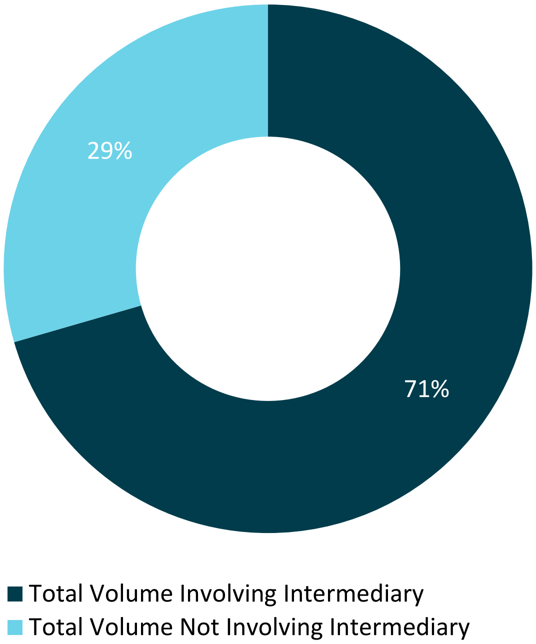


In terms of the location of sellers, North America accounted for the majority of volume in FY 2022. North American sellers sold $63.49 billion (62.5% vs. 72.3% in FY 2021), whereas Asia-Pacific sellers sold $13.39 billion (13.2% vs. 5.7% in FY 2021). Western European sellers accounted for 22.7% of the total volume down from 21.6% in FY 2021. Other geographies, such as the Middle East accounted for 1.6% of the total volume in FY 2022, up from 0.4% in FY 2021.



Intermediation and level of competition

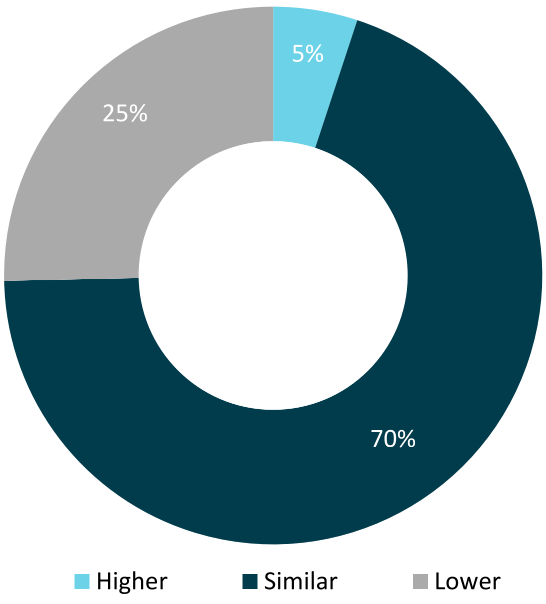
Volume of intermediated transactions



Approximately $71.59 billion (70.5%) of total secondary volume involved an intermediary, on either the buy or sell-side, which was lower than FY 2021 where it was $114.18 billion (79.6% of total).

In terms of volume, agents intermediated $42.59 billion less in deals as compared to FY 2021, representing a sizeable decrease of 37.3%.

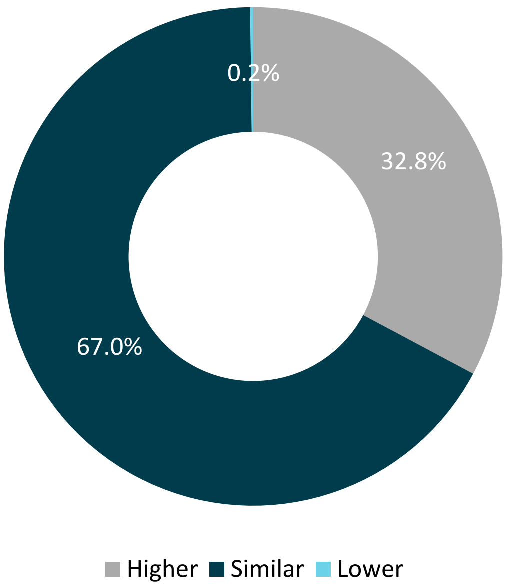
Buyer competition for deals in FY 2022 vs. FY 2021



69.6% of respondents felt buyer competition in FY 2022 was similar to FY 2021, while only 5.1% felt buyer competition was significantly higher. 25.3 % of survey respondents felt buyer competition was lower in FY 2022.

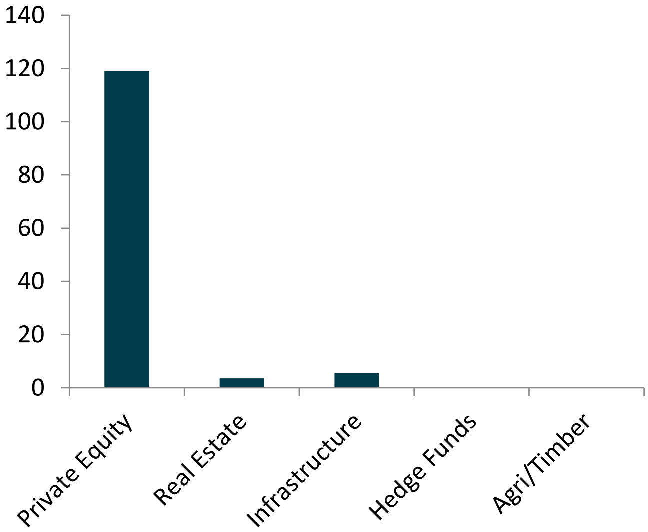
Projected volume for FY 2023

How FY 2023 volume will compare to FY 2022



32.8% of respondents felt that their FY 2023 volume will be meaningfully higher than FY 2022, 0.2% felt it would be meaningfully lower, while 67.0% of the respondents felt that it will be similar.

Predicted volume for FY 2023

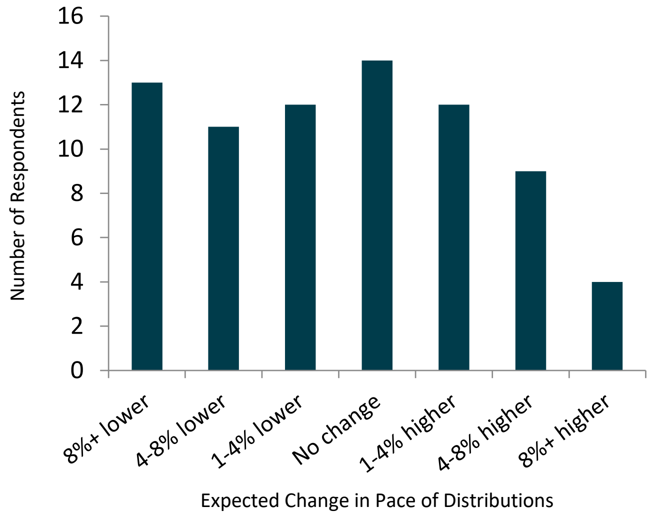


Respondents predicted total volume for FY 2023 will be $129.19 billion, which would represent a 27.26% increase from the $101.51 billion transacted in FY 2022.

Assuming proportions do not change in FY 2023, this suggests private equity volume will be $119.20 billion in FY 2023, real estate will be $3.79 billion, infrastructure will be $5.77 billion and agriculture & timber will be $180 million.

Expected distribution and NAV changes in FY 2023

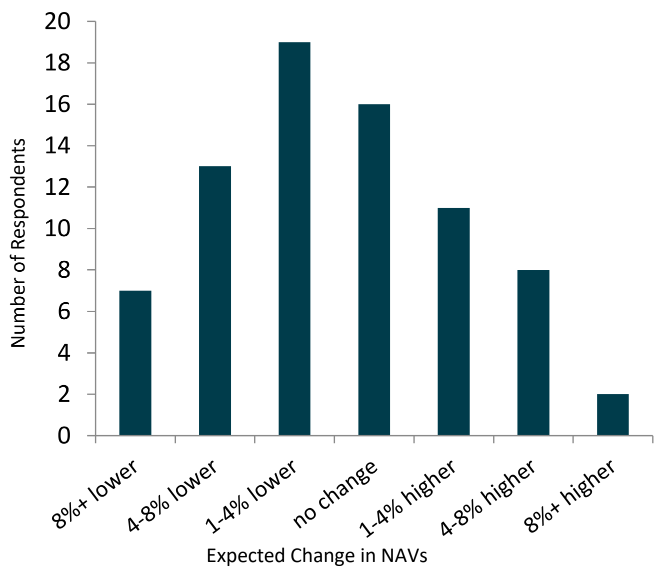
Distribution pace in FY 2023 vs. FY 2022



Respondents expect the pace of distributions in FY 2023 to be lower than FY 2022 as the average response suggests an expected decrease of 1.4%.

Respondents are less optimistic than they were in FY 2021, when they expected the pace of distribution to be up 0.4%.

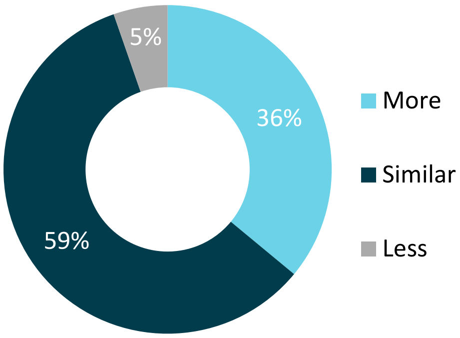
Change in NAV in FY 2023 vs. FY 2022



On average, respondents expect NAV valuations to decrease by 1.4% in FY 2023 compared to FY 2022. This is much lower than FY 2021 when respondents expected NAVs to increase by 3.4% in the upcoming year.

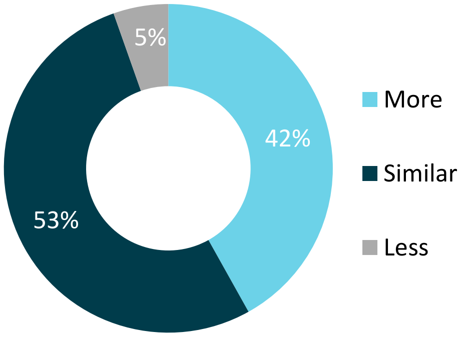
General partners’ approach to the secondary market

Liquidations and restructurings in FY 2022 vs. FY 2021



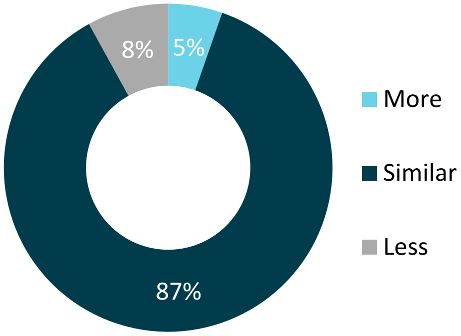
36.0% of respondents felt that meaningfully more GPs attempted to liquidate or restructure older funds in FY 2022 compared to FY 2021.

Staples sought by GPs in FY 2022 vs. FY 2021



41.9% of respondents felt that meaningfully more GPs sought staples in FY 2022 as compared to FY 2021.

GPs’ restrictiveness on transfers in FY 2022 vs. FY 2021



The majority of the respondents felt that GPs’ restrictiveness on transfers did not change in FY 2022 compared to FY 2021.

Select respondents

50 South Capital
Aberdeen Standard Investments
Adams Street Partners
Alpinvest Partners
AltamarCAM Capital
Apogem Capital
Arcano Capital
ARCIS Capital
Bee Alternatives Limited
Bex Capital
Blackrock Private Equity Advisors
Capital Dynamics
Coller Capital
Commonfund Capital
Corbin Capital Partners
CPPIB
Eurazeo
Felicitas Global Partners
Flexstone Partners
FlowStone Partners
Glendower Capital
Golding Capital Partners
Greenspring Associates
Grosvenor Capital Management
Hamilton Lane
HarbourVest Partners
Headlands Capital
Hollyport Capital
HQ Capital
ICG - Secondary Fund
Industry Ventures
Jasper Ridge
Kline Hill Partners
Knightsbridge Advisers
Landmark Partners
LGT Capital Partners
Macquarie Alliance Partners
Macquarie Asset Management
Mercury Partners
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
Origami Capital Partners
Overbay Capital Partners
Pantheon Ventures
Partners Group
Pathway Capital
Pictet & Cie Foundation
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
Tyrus Capital
UBS Asset Management
Unigestion
Velocis
Vintage Ventures
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 institutional 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 Liquidity Rating™ A unique rating system that allows buyers, sellers and creditors to assess the relative liquidity of over 7000 different fund families.

The Setter Volume Report™ and the Setter Price Report™
Two semi-annual reports that provide the most comprehensive and accurate assessments of the secondary market. Data is based on pricing of over 2000 funds and a survey of over two thirds of the most active secondary buyers globally.

SecondaryLink.com™ A professional network where over 5000 institutional LPs and GPs connect on primary due diligence and the secondary market.

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