PRIVATE CAPITAL ADVISORY

Global Secondary Market Review

JULY 2021

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Introduction

After a wild 2020, which included a complete halt of secondary activity in the first half, followed by an unprecedented rebound to record-level volume in the second half, momentum continued into 2021. The first six months were nothing short of extraordinary, with buyers, sellers, sponsors and intermediaries all very busy executing record levels of secondary transactions.

Highlights From the First Half

- Global secondary volume was $48 billion, setting a first-half record. GP-led transactions accounted for 60% of volume, solidifying a new "normal" of consistent prominence
- Average pricing for all strategies was 90% of NAV in LP secondary transactions, marking a pivotal rebound after three consecutive annual declines
- Private equity sponsors continue to identify "trophy" assets for GP-led opportunities; single-asset continuation fund transactions represented 45% of total GP-led volume
- Near-term available capital stands at a record $231 billion, but aggressive capital deployment drove the capital overhang multiple down to 2.6x from 3.1x at the end of 2020
- After LPs sat on the secondary sideline for most of 2020, they have returned to the market in earnest in 2021; traditional LP sales were $19 billion in 1H 2021, representing a 58% increase from 1H 2020

About This Report

This report represents Jefferies' 1st mid-year review of the secondary market. We rely on insights from our global team who work closely with the largest and most influential limited partners, general partners and other market participants on a regular basis. The results of our discussions, surveys and research are contained within this report, along with our transaction information and known market data from sources such as Preqin and PEI. Unless otherwise noted, data included herein is based on transactions executed by Jefferies' Private Capital Advisory team and public non-Jefferies transactions.

First Half Review

Market Expectations Revisited

We projected market trends and full year statistics in January 2021. Record-level available capital, consistent public market rallies, and strong momentum leading into the new year resulted in aggressive expectations. Here is a look at the halfway mark:

	Beg. of Year 2021 Expectations	Status Check
Total Volume	**$90-100B**	**On Track**
GP-Led Volume	**$45B+**	**Exceeding Expectations**
Avg. High Bid (All Strategies)	**90%+**	**On Track**
Capital Overhang	**2.0x**	**On Track**

First Half Themes

During six months of prolific secondary activity, the following themes emerged:

Volume Poised for a Record-Breaking Year

First half volume was $48 billion, eclipsing the previous first half record of $42 billion set in 2019. GP-led volume accounted for 60% of this total, representing a new "normal" of relative balance between GP and LP deals. At this pace, total annual volume will set a new record.

Pricing Rebounds After Three Annual Declines

The average high bid for all strategies was 90% of NAV, representing a 400 basis point increase from 2020. Buyers were eager to deploy capital in LP portfolios, and they bid aggressively for diversification and quality.

GP-Led Transactions Continue to Flourish

GP-led volume cleared new heights as sponsors fully embraced single-asset continuation fund transactions as a viable alternative to typical exit paths for their best performing assets. Of the $29 billion of GP-led volume, ~45% was comprised of single-asset continuation fund transactions.

Capital Overhang Drops From Peak Levels

The capital overhang multiple decreased to 2.6x during the first half due to robust capital deployment, despite record fundraising. The buy-side remains well-capitalized to continue this momentum into 2H.

As of June 30, 2021

✓ **$48 billion**
1H 2021 Total Volume

✓ **$29 billion**
1H 2021 GP-Led Volume

✓ **90% of NAV**
Avg. High Bid (All Strategies)

✓ **2.6x**
Capital Overhang Multiple

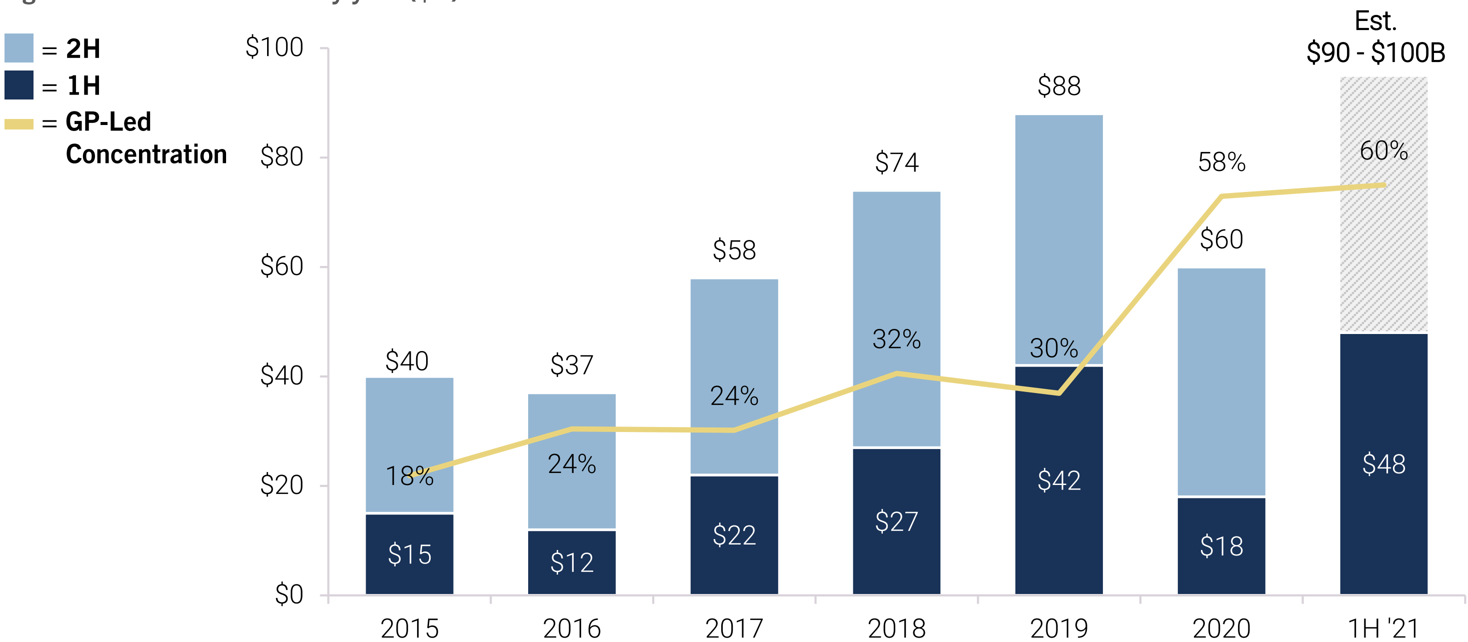
✓ **$231 billion**
Near-Term Available Capital

Secondary Volume

Volume Poised for a Record-Breaking Year

Volume in the first half of 2021 was $48 billion, representing a 167% increase from 1H 2020. The perfect storm – (i) pent-up buyer demand for high-quality assets and portfolios, (ii) continued supply of GP-led deals and (iii) traditional LP sellers returning to complement a saturated GP-led market – created a very busy first half. Market activity is expected to continue this pace in the second half, which would result in annual volume eclipsing the previous high of $88 billion set in 2019.

Fig. 1. Transaction volume by year ($B)



	2015	2016	2017	2018	2019	2020	1H '21
Volume Growth (%)	--	(8%)	57%	28%	19%	(32%)	167% (1)
GP-Led Growth (%)	--	27%	56%	71%	8%	35%	383% (1)

(1) Represents 1H volume growth

GP-Led Prominence – The New "Normal"

After a year of heightened GP-led secondaries during the global pandemic, the question entering 2021 was: can the pace continue? The answer is clearly "yes"! GP-led transactions accounted for a majority of first-half volume (60%), continuing the trend from 2020. We are witnessing a new "normal". GPs continue to creatively unlock value by accessing follow-on capital and identifying and holding trophy assets for growth and expansion. Buyers build upon direct relationships with sponsors, while LPs lock-in unrealized gains and receive liquidity. Over 25 single-asset and multi-asset GP-led restructuring transactions closed in the first half, and 14 of those represented deals greater than $500 million.

Buyer Need For Diversification & LP Comeback

Traditional LP portfolio volume was positioned for a stout comeback and grew 58% from 1H 2020 to $19 billion. Although GP-led transactions have proved accretive to buyer returns, company concentration limits impact the number of single-asset deals most buyers can do. Growth in concentrated GP-led transactions left buyers wanting diversification, paving the way for a favorable LP selling environment. Ten LP portfolio sales greater than $500 million closed in the first half, and five of those represented deals greater than $1 billion. Buyers remain eager for high-quality, diversified LP portfolios, and we expect supply will match pent-up demand in the second half of the year.

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Secondary Volume

Supply Catalysts

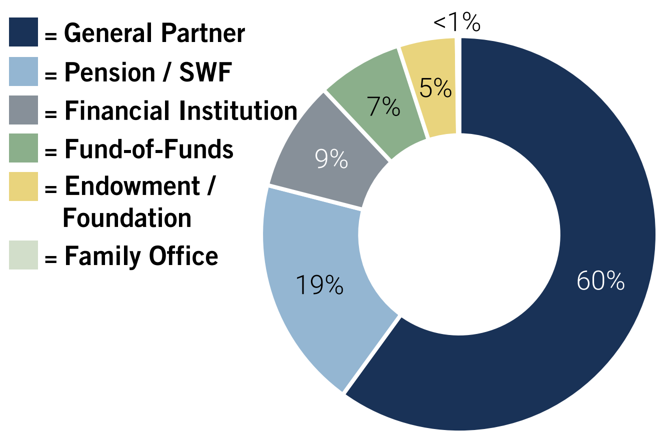
Remarkable supply helped achieve record first-half volume, which was a function of the following factors:

LP	**Private Equity Outperformance / Overallocation**	▪ Many LPs were overallocated to PE after experiencing outsized gains in 2020 ▪ 66% of sellers used the market to lock-in unrealized gains and de-risk their portfolios, and many who had planned sales in 2020 ultimately waited until 2021 to sell
LP	**Full Valuations & Non-Core Exposure**	▪ Q4 2020 marked high-water marks for underlying PE assets due to consistent public market rallies and increasing investor confidence during the period ▪ 25% of sellers sold to reduce exposure to non-core managers and strategically rebalance their portfolios
GP	**Trophy Assets**	▪ A growing number of GPs have either contemplated or executed a GP-led deal, and they continue to identify assets with significant upside potential ▪ GPs began transferring newer assets out of relatively young vehicles, suggesting age of assets and holdings periods are becoming less significant criteria
GP	**Increase DPI / Reset Fund Terms**	▪ GPs often entertain continuation fund deals to increase DPI to investors, as funds near the end of their term and/or distribution activity slows ▪ These transactions help GPs build value while combatting pressures from investors to sell during inopportune periods

Seller Dynamics

GP-led secondary processes accounted for 60% of total transaction volume, followed by LP transactions undertaken by pensions and financial institutions, representing 19% and 9%, respectively. For sellers of traditional LP portfolios, many pensions, endowments and foundations have a June 30 fiscal year-end and sought to close transactions in 1H 2020 prior to their fiscal year-ends. Recent private equity gains in some cases enabled LPs to sell larger discount portfolios (i.e., tail-end, emerging markets, etc.), as these gains were used to offset realized losses from selling at a discount. Fund-of-funds were active sellers (7% of total volume), and along with regular-way vehicle wind-down / opportunistic sales, these groups found alternative methods to provide liquidity to their LPs via GP-led tender offers and continuation fund transactions.

Fig. 2. Transaction volume by seller type



Bidding Activity Accelerates

Although the influx of both GP-led and traditional LP portfolio opportunities led to increased selectivity among some buyers, we saw an overall increase in bidding activity. LP portfolios received bids from ~30% of contacted parties on average, and many featured bids from 40%+ of contacted parties. This activity led to better pricing discovery and more optionality for sellers, which ultimately resulted in a higher proportion of closed deals. We estimate an 80% close rate for all LP-led supply brought to market in the first half.

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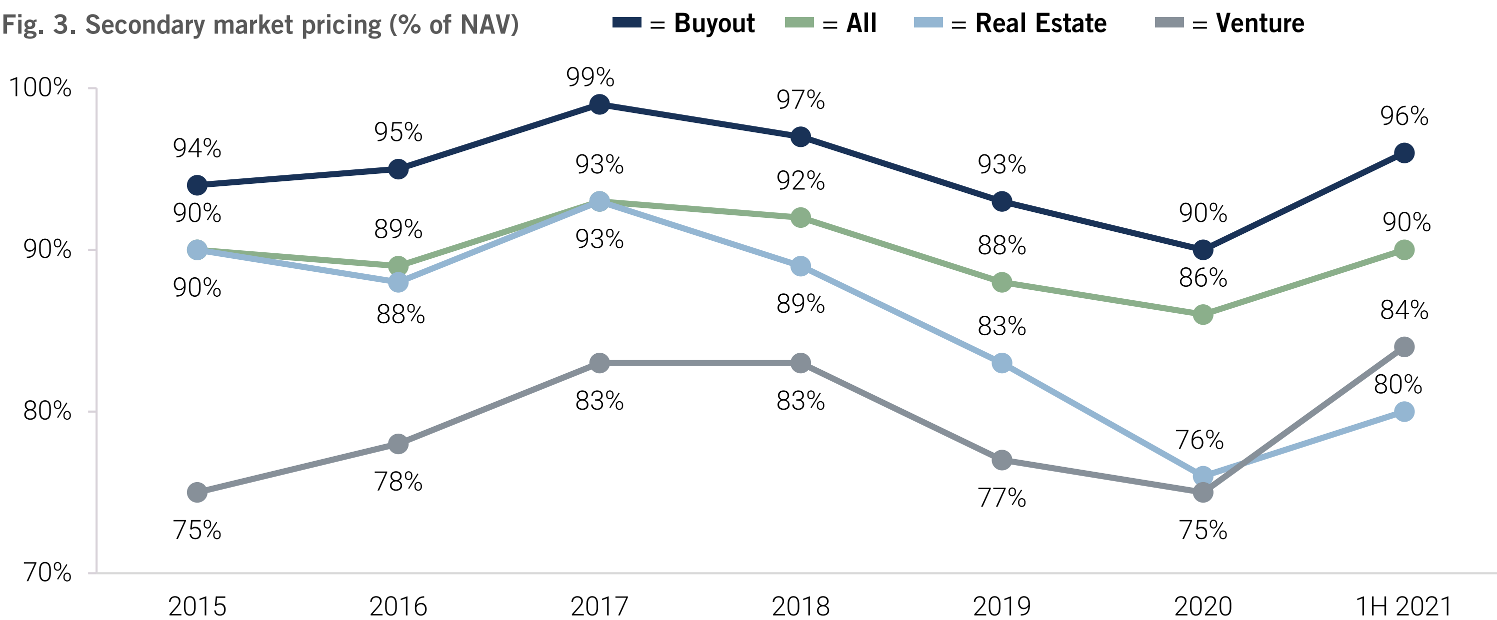
Secondary Pricing

Pricing Rebounds After Three Annual Declines

The average high bid for all strategies in the first half was 90% of NAV, which represented a 400 basis point increase from 2020 along with a long-overdue correction from three consecutive annual declines. Most transactions in 1H were priced off of a September 30, 2020 or December 31, 2020 record date. The public markets continued to rally from those record dates, and aggressive pricing was necessary to cover the bid-ask spread. Further, distribution activity returned to a normal pace, and public listings boomed, particularly with many sponsors using SPACs to take portfolio companies public in Q1.

Fig. 3. Secondary market pricing (% of NAV)



Pricing By Strategy

Pricing for each strategy increased:

- Buyout: Pricing increased 600 basis points, on average, from 2020. Buyers bid aggressively for high-quality, buyout-centric portfolios to account for the lack of supply in 2020. Demand for newer vintages (i.e., 2016 or younger) was matched by increased supply and drove pricing.
- Venture: Pricing increased 900 basis points, on average, from 2020. Strong pricing was primarily driven by demand for late-stage technology exposure. Pricing further benefited from an active IPO market, as many underlying portfolio companies went public, along with robust revaluations from pre-IPO financing rounds.
- Real estate: Pricing increased 400 basis points, on average, from 2020. Industrial and niche sectors (life sciences, cold storage) were in high demand. The retail, hospitality, and office sectors all remained challenged given COVID-related factors.

Pricing By Vintage

The weighted average vintage of all funds sold was 2013 (i.e., eight years old). Funds with 2016 or younger vintages priced at 96% of NAV on average, and the average high bid for recent-vintage (i.e., less than five years old) buyout funds in North America and Europe was 101% of NAV. Funds with 2009 or older vintages priced at 85% of NAV on average. “Tail-end” portfolios (i.e., over 10 years old) priced particularly well in 1H, as investors had higher confidence and better visibility into near-term distribution activity and exit timing for many portfolio companies. This trend signals a shift from pandemic-driven buyer sentiment in 2020, where buyers frequently paid higher prices for funds with significant unfunded capital and punitively discounted tail-end portfolios.

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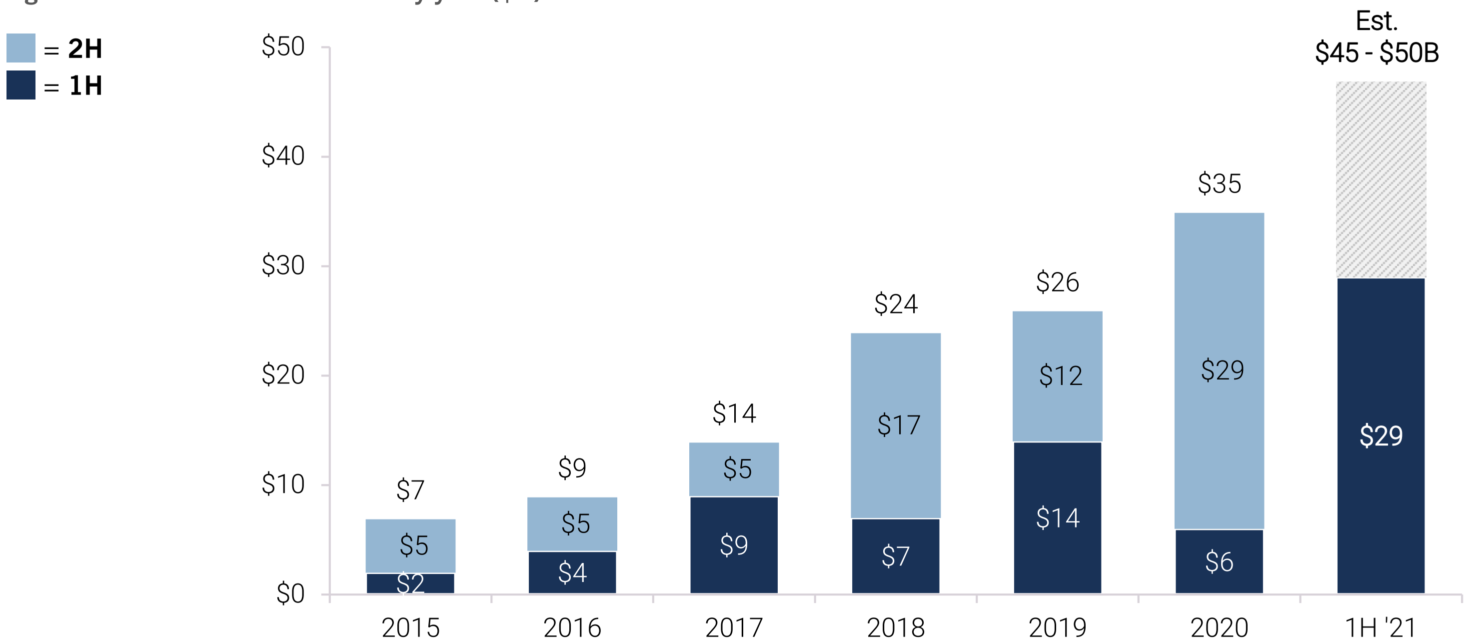
GP-Led Activity

Record Level GP-Led Volume

The frenetic pace of the GP-led market in 2H 2020 continued into 2021, with 1H 2021 volume surging to $29 billion. This represents 60% of total secondary market transaction volume and a 380%+ increase from the $6 billion of volume seen in 1H 2020. With more than 60+ transactions launched in 2021 alone, the GP-led market is on track to double from levels seen in 2019 and 2020 (and each were record-breaking years). As outlined below, the GP-led market's rapid growth has been driven by a range of factors, including: (i) the rapid adoption of single-asset transactions; (ii) high-quality, recent vintage deal flow; (iii) expanded transaction rationale; (iv) new methods of obtaining price discovery; and (v) new GP-led investment platforms.

Fig. 4. GP-led transaction volume by year ($B)



	2015	2016	2017	2018	2019	2020	1H '21
GP-Led % of Total Volume	18%	24%	24%	32%	30%	58%	60%
GP-Led Growth (%)	--	27%	56%	71%	8%	35%	383% (1)

(1) Represents 1H volume growth

Rapid Adoption of Single-Asset Transactions

Sponsors of all sizes have embraced single-asset continuation fund transactions as a viable alternative to traditional exit paths (e.g., M&A, IPO) for high-performing portfolio companies ready for a liquidity event. Single-asset continuation funds represented approximately 45% of total GP-led deal volume in 1H 2021, up from a small fraction of the overall market several years ago. The growth in single-asset transactions is largely responsible for increased levels of overall GP-led volume. As a result of this shift, continuation fund transaction volume now vastly outweighs other components of the GP-led secondaries market at ~85% of total volume in 1H 2021 (evenly split between multi- / single-asset transactions). The rapid adoption and growing permanence of single-asset GP-led secondaries will continue to transform the secondaries market and reshape secondary investors' strategies.

Higher-Quality, Recent Vintage Deal Flow

Broad acceptance of GP-led secondaries by both sponsors and market participants has notably altered asset vintage composition. In 1H 2021, assets selected for GP-led deals were on average ~6 years old, considerably more recent than prior years, and several high-profile single-asset transactions were only 2-4 years old. In addition, nearly 90% of transaction deal flow was centered around buyout funds / assets, which typically attract the highest levels of demand and pricing from investors. The sharp increase in higher quality deal flow as a result of GPs accessing the secondary market to manage recent vintage "trophy" assets has attracted several asset management platforms to seed new secondary investing strategies. With GPs increasingly utilizing secondary transactions to manage their portfolios, the market grows in importance as an avenue to access the most attractive private equity assets.

GP-Led Activity

Expanded GP-Led Transaction Rationale

Historically, sponsors pursued GP-led secondaries to solve for funds beyond their original terms with assets requiring longer hold periods. However, over the last 18 months and in 1H 2021 in particular, sponsor rationale for executing secondary transactions has been relatively evenly split across: (i) extending asset duration; (ii) securing additional growth capital; and (iii) proactively generating liquidity for limited partners. Strip sales and tender offers typically are unable to solve for all three of these objectives and represented just 15% of 1H 2021 GP-led deal volume. A desire for additional growth capital was a notable motivating factor in many single-asset continuation funds, as GPs sought to support consolidation strategies / inorganic growth initiatives. On average, continuation fund transactions involved new vehicles with 20% unfunded sleeves to support follow-on investment opportunities.

New Methods of Obtaining Price Discovery

Auction processes remained the most common method of price discovery for GP-led secondary transactions and for single-asset continuation funds. Pricing for over 80% of 1H 2021 single-asset transactions was determined via a traditional secondary auction as opposed to a third-party mark (e.g., minority equity investment). However, it is important to note that processes where third-party investor marks set pricing were rarely seen, if at all, several years ago. The fact that several of these transactions took place in 1H 2021 demonstrates that the third-party mark methodology is gaining share and potentially being used to widen the scope of candidates for GP-led transactions.

Robust Investor Demand Fueled by New Entrants

The secondary investor universe is seeing significant growth as new entrants become active participants in GP-led secondary transactions. Large alternative asset managers, direct investing GPs, formerly LP-secondary focused funds and global private capital allocators have announced intentions / seeded the launch of new GP-led investment platforms. This market demand has resulted in higher pricing, accelerated capital formation, and wider acceptance of "super carry" for certain highly sought-after investments. Until now, super carry had been reserved only for blue-chip sponsors where it was already featured as part of their flagship fund terms; however, in 1H 2021 25% carry tiers were a relatively common characteristic, especially in high-quality, oversubscribed transactions. The GP-led secondary market will continue to evolve as new entrants re-shape traditional market practices.

1H 2021 Key Statistics	
$29B	1H 2021 GP-Led Transaction Volume
60%	GP-Led Share of Total Secondary Volume
85%	Continuation Fund Transactions *(% Share of GP-Led Volume)*
45%	Single-Asset Continuation Fund Transactions *(% Share of GP-Led Volume)*
2015	Average GP-Led Asset Vintage
90%	Buyout Strategy *(% Share of GP-Led Volume)*
20%	Average Unfunded Commitment *(% of Continuation Fund)*
35%	GP-Led Transactions with "Super Carry" *(25%+)*

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Capital Overhang

Capital Overhang Drops From Peak Levels

The capital overhang multiple decreased to 2.6x from a record 3.1x at the end of 2020 primarily due to aggressive capital deployment. Near-term available capital as of June 30, 2021 was estimated at $231 billion, signaling peak levels and a sufficiently-capitalized market heading into the second half.

Near-Term Available Capital

Despite record-level deployment, equity dry powder increased 10% in 1H as fundraising continued at a record pace. Multiple global secondary buyers are currently raising >$10 billion funds. Some groups are also raising dedicated GP-led transaction funds, and we expect many others to follow. Primary private equity sponsors, including Brookfield, TPG, Apollo and others, have emerged as new sources of GP-led secondary capital, as sponsor-to-sponsor M&A continues to decline partly from cannibalization by the growing GP-led market.

Second Half Expectations

We expect history to repeat itself – second half volume is anticipated to eclipse the first half once again as demand remains high for diversified LP portfolios and quality GP-led opportunities. We believe the capital overhang multiple will continue to decrease in 2H given robust secondary activity.

Fig. 5. Secondary fund count by size (>$1B)

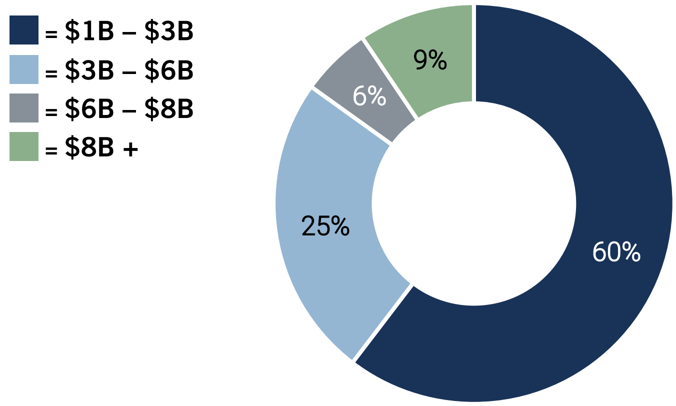
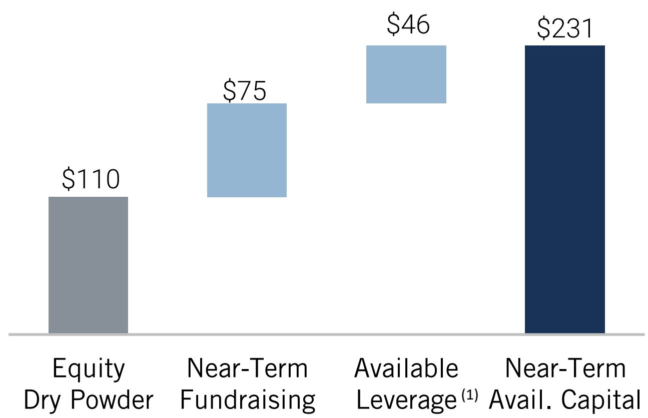
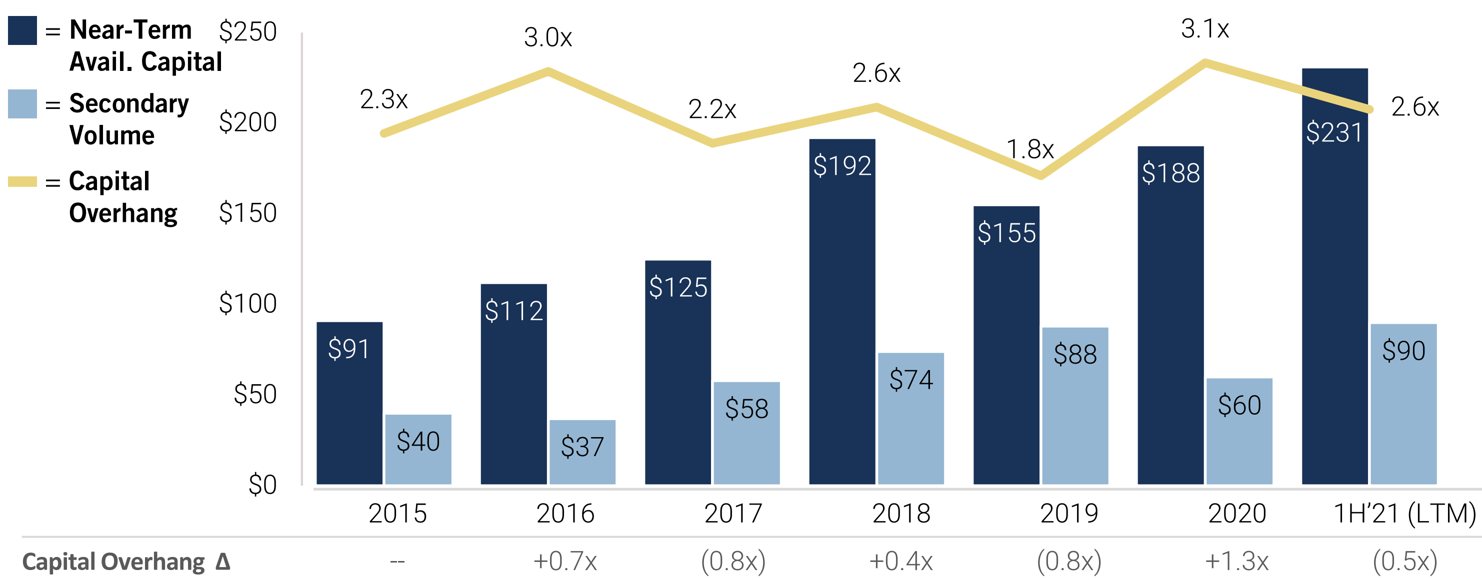


Fig. 6. Near-term available capital ($B)



(1) Estimated at 25% of equity dry powder plus near-term fundraising

Fig. 7. Secondary capital and activity ($B)



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Conclusion

First Half Recap & Second Half Outlook

The first half of 2021 delivered record volume driven by robust supply of both high-quality GP-led and LP portfolios, combined with a well-capitalized buy-side aggressively deploying capital. Pricing for LP portfolios rebounded, and record fundraising has driven near-term available capital to peak levels. As we move into the second half of the year, there appears to be no slow down in deal activity, as LPs seek to take advantage of strong secondary pricing to rebalance their portfolios and the universe of GPs considering continuation fund transactions is ever-expanding. While buy-side capital is prevalent, a busy first half that saw many buyers ahead of their deployment pace may lead buyers to become more selective, which will be a key consideration to watch as the year progresses.

Jefferies' Private Capital Advisory Team has advised institutional investors and general partners on over $80 billion of private equity secondary transaction value since 2001. Through its research-driven, analytical approach to the secondary market, Jefferies assists the most sophisticated institutional investors and general partners in achieving their objectives and fulfilling their fiduciary duties.

If you are interested in a confidential discussion of your alternative asset portfolio, including detailed insight into pricing for assets you would consider selling or ideas on other avenues to generate liquidity, please contact us.

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