PRIVATE CAPITAL ADVISORY

H1 2023 Global Secondary Market Review

JULY 2023

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Introduction

After a slow start to 2023, improved clarity in the economic outlook and higher secondary pricing drove an increase in market activity in Q2. As we start the second half, buyside capitalization remains strong, and buyers are eager to invest in high-quality GP-led transactions and diversified LP portfolios.

H1 2023 Highlights

- Global secondary volume was $43 billion, a decline of 25% from the record $57 billion set in H1 2022. Total volume was lower as improving public markets relieved overallocation pressure on LPs, and GP-led investors prioritized opportunities featuring the highest quality assets and most attractive transaction dynamics
- LP volume was $25 billion and accounted for 58% of market volume; LPs continue to utilize the secondary market to actively manage their private equity portfolios and are expected to increase market supply in H2 2023 as pricing increases hold
- GP-led volume was $18 billion in H1 2023, contracting by 25% compared to H1 2022, as sponsors continued to tap the GP-led market to create innovative liquidity solutions for their portfolio companies in a challenged M&A / public exit environment
- Average pricing for LP transactions across all strategies was 84% of NAV; pricing increased from the lows of 2022, buoyed by a strong rebound in public market indices and a more stable macro environment
- The ratio of available capital to LTM secondary volume (capital overhang multiple) increased to 2.3x from 2.1x at the end of 2022, driven by record fundraises and lower-than-expected capital deployment; dedicated available capital – the sum of equity dry powder, near-term fundraising and available leverage – remains high at $220 billion

About This Report

This report represents Jefferies' mid-year review of the secondary market. We rely on insights from Jefferies' Private Capital Advisory ("PCA") 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' PCA team and public non-Jefferies transactions.

First Half Review

Market Status Check

Following a sharp decline in market activity in H2 2022, we expected stabilizing public markets would lead to a resurgence in secondary volume and pricing in 2023. The first six months showed mixed results:

	Original 2023 Expectations	Status Check	Revised 2023 Estimate
Total Volume	$120+ Billion	Down	$100+ Billion
Avg. High Bid – All Strategies (LP)	~85%+ of NAV	On Pace	~85% of NAV
GP-Led / LP Volume Split	50% / 50%	Slight LP Shift	~55% LP Share
Dedicated Available Capital	$150-175 Billion	Up	~$200 Billion

First Half Themes

Lower Than Anticipated Volume

First half volume was $43 billion, down 25% from the record $57 billion set in H1 2022. While market activity remained robust, particularly in Q2 2023, LP volume was lower than expected as rising public markets relieved overallocation pressures and increased pricing expectations. GP-led investors meanwhile prioritized opportunities featuring the highest quality assets and most attractive transaction dynamics.

LP Portfolio Pricing Rebounds

The average high bid for all strategies was 84% of NAV, representing a 600 basis point increase from H2 2022. Pricing for LP portfolios steadily improved throughout H1 2023 as public markets gained steam and aggressive portfolio bidders seeking diversification reemerged.

GP-Led Activity Remains Robust

GP-led activity (as segmented by transaction type) remained largely in line with 2022 as single-asset continuation funds represented the most popular transaction type, though activity in multi-asset opportunities increased slightly. GP-led volume was $18 billion, representing 42% of total volume.

Dedicated Available Capital Holds Steady

Dedicated available capital, inclusive of near-term fundraising, is estimated at $220 billion at the end of H1 2023, nearly unchanged from 2022. Record fundraises from the largest secondary buyers, combined with prudent first half deployment, leave the market sufficiently capitalized heading into H2, assuming buyers' near-term fundraising plans are successful.

As of June 30, 2023

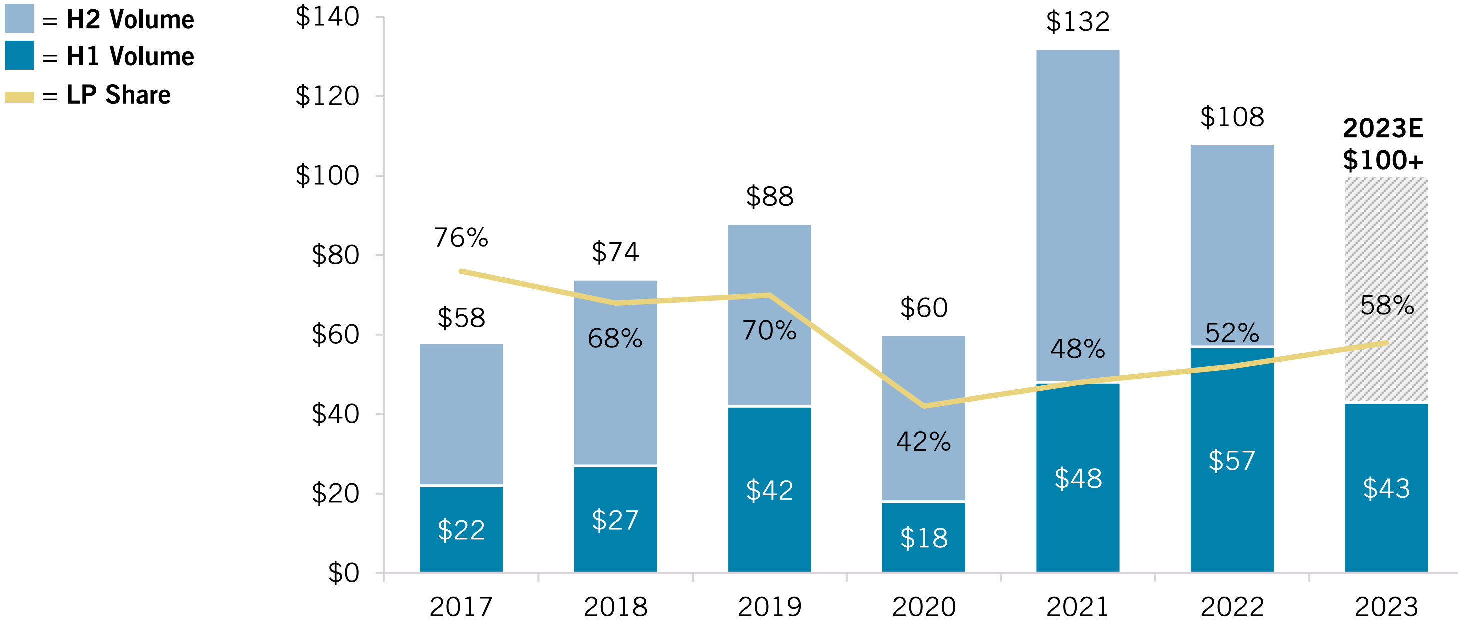
- ✓ **$43 Billion**
  H1 2023 Total Volume
- ✓ **$25 Billion**
  H1 2023 LP Volume
- ✓ **$18 Billion**
  H1 2023 GP-Led Volume
- ✓ **84% of NAV**
  Avg. High Bid – All Strategies (LP)
- ✓ **$220 Billion**
  Dedicated Available Capital

Secondary Volume

First Half Volume Declines as Economic Outlook Stabilizes

Volume in the first half of 2023 was $43 billion. Persistent and significant bid-ask spreads between buyers and sellers resulted in a slow start to the year for the LP market, while concentration limits among secondary buyers drew out the timeline of several large GP-led transactions. As public markets improved over the course of H1 2023 (S&P 500 up 16%), secondary pricing recovered and more supply came to market. Despite persistent macro challenges (interest rate / inflation impacts and ongoing Russia-Ukraine conflict), buyers have strong demand for high-quality GP-led transactions and diversified LP portfolios heading into H2 2023.

Fig. 1. Annual Transaction Volume ($B)



	2017	2018	2019	2020	2021	2022	2023
Total Volume Growth (%)	57%	28%	19%	(32%)	120%	(18%)	(25%) (1)
LP Volume Growth (%)	57%	14%	24%	(60%)	156%	(13%)	(24%) (1)
GP-Led Volume Growth (%)	56%	71%	8%	35%	94%	(24%)	(25%) (1)

(1) Represents H1 volume growth year-over-year

GP-Led Activity Levels Largely Sustained

Despite H1 2023 GP-led volume contracting 25% year-over-year to $18 billion, activity remains at elevated levels as compared to the recent pre-pandemic history of the secondary market. Sponsors continue to utilize the GP-led toolkit to produce innovative liquidity solutions for their portfolio companies, increasingly via single- and multi-asset continuation fund transactions designed to provide more robust realization events for selling funds. Opportunities with high-quality middle market portfolio companies have become more desirable as lead investors prioritize investments with shorter marketing processes and lower execution risk. Mutual alignment with sponsors on GP-led transactions remains of paramount importance to investors, with the share of single-asset transactions featuring cross-fund investments increasing to ~40% in H1 2023.

Shifting LP Seller Rationale

We continue to see little distressed selling – many LPs are overallocated to private equity, and have been for years, but are not under severe pressure to sell. The denominator effect also lessened in H1 with the recovery in the public markets. Selling rationale shifted from overallocation (48% of sellers in 2022 to 31% in H1 2023) to administrative and non-core manager clean-ups (39% in 2022 to 56% in H1 2023). LP volume fell 24% to $25 billion.

Still, market activity picked up in Q2 as buyers resumed bidding aggressively for diversified portfolios. Many LPs are now facing negative net cash flows in their private equity portfolios on par with the worst periods of the GFC and Covid-19 pandemic, which alongside improved pricing, is expected to help spur selling activity in H2 2023.

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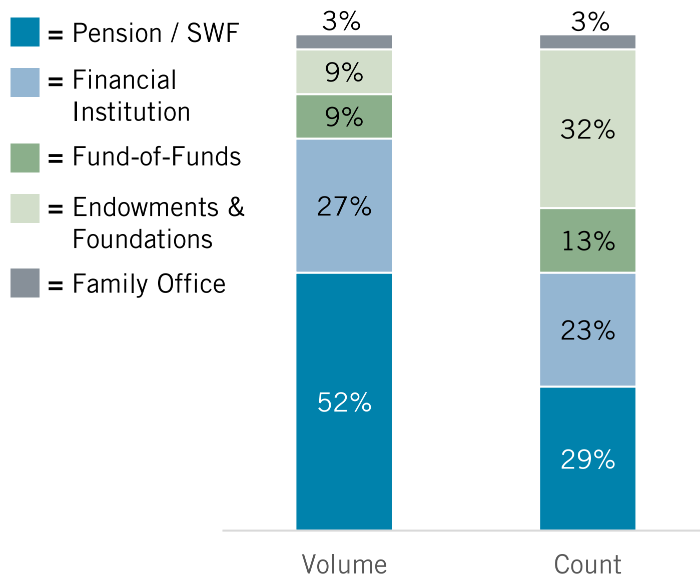
LP Market

LPs Show Increasing Flexibility

Despite the decline in H1 LP volume, increased transaction flexibility among LP sellers in Q2 led to a higher success rate for transactions brought to market. Sellers also exhibited increasing sophistication, with a willingness to sell partial commitments of certain funds and entertain offers for “off-menu” funds to maximize pricing. The improved pricing environment and clear transaction objectives resulted in an increase in the average percentage of NAV sold relative to NAV marketed (44% in 2022 compared to 58% in H1 2023). Pensions continued to drive LP selling volume (52% of LP volume in H1 2023) with multiple $1 billion+ portfolio offerings.

Deferrals remain in favor, with 30% of LP sales involving a portion of the purchase price deferred to a later date compared to 40% in 2022 and 10% in 2021. LPs averse to discounts and accounting losses similarly used alternative transaction structures, including preferred equity.

Fig. 2. LP Portfolio Transactions by Seller Type



Return of the Portfolio Buyer

Portfolio buyers reemerged in H1 2023, with the average number of buyers per transaction falling to 2.2 from 3.5 in 2022. While the percentage of transactions with more than one buyer remained above 60%, we observed a clear trend of large portfolio buyers returning to the market and bidding aggressively. With the continued supply of concentrated GP-led transactions, buyers have strong demand for diversification and were eager to bid on high-quality, buyout-focused portfolios. Several large LP portfolios in H1 2023 included relatively homogenous managers and funds, which were conducive to single-party solutions.

LP Volume Concentrated in Buyout and Trending Newer

Buyers are focusing their time and resources on assets, sectors, managers and geographies they know well. North American managers and buyout strategies dwarfed all other geographies and strategies, with 69% of total volume in North America and 72% of total volume comprising buyout funds. Venture / growth volume increased to 14% of total volume in H1 2023 from 8% in 2022, as venture GPs slowly lowered their marks from peak valuations and pricing improved as a result. There is copious pent-up venture supply, but volume remains constrained by the wide bid-ask spread among buyers and sellers, with no significant change expected in H2. Mezz / distressed, energy, real estate and FoF / secondaries volume are largely unchanged.

The average age of funds sold declined to 7.0 years in H1 2023 from 8.4 years in 2022 as buyers demonstrated a preference for newer vintage funds with perceived multiple uplift and LPs chased higher pricing.

Fig. 3. LP Transaction Volume by Strategy Type

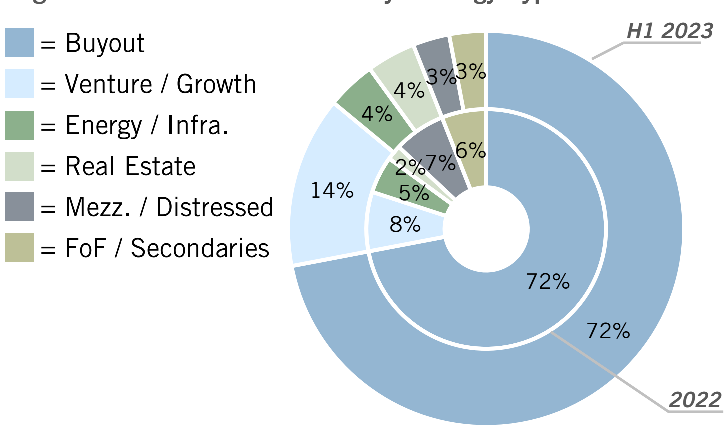
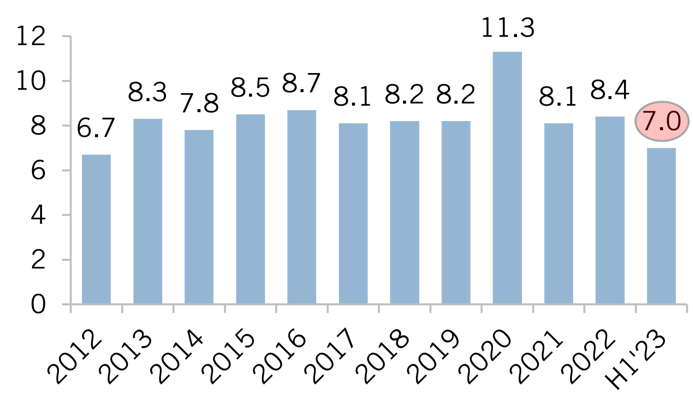


Fig. 4. Average Age of LP Funds Sold by Year



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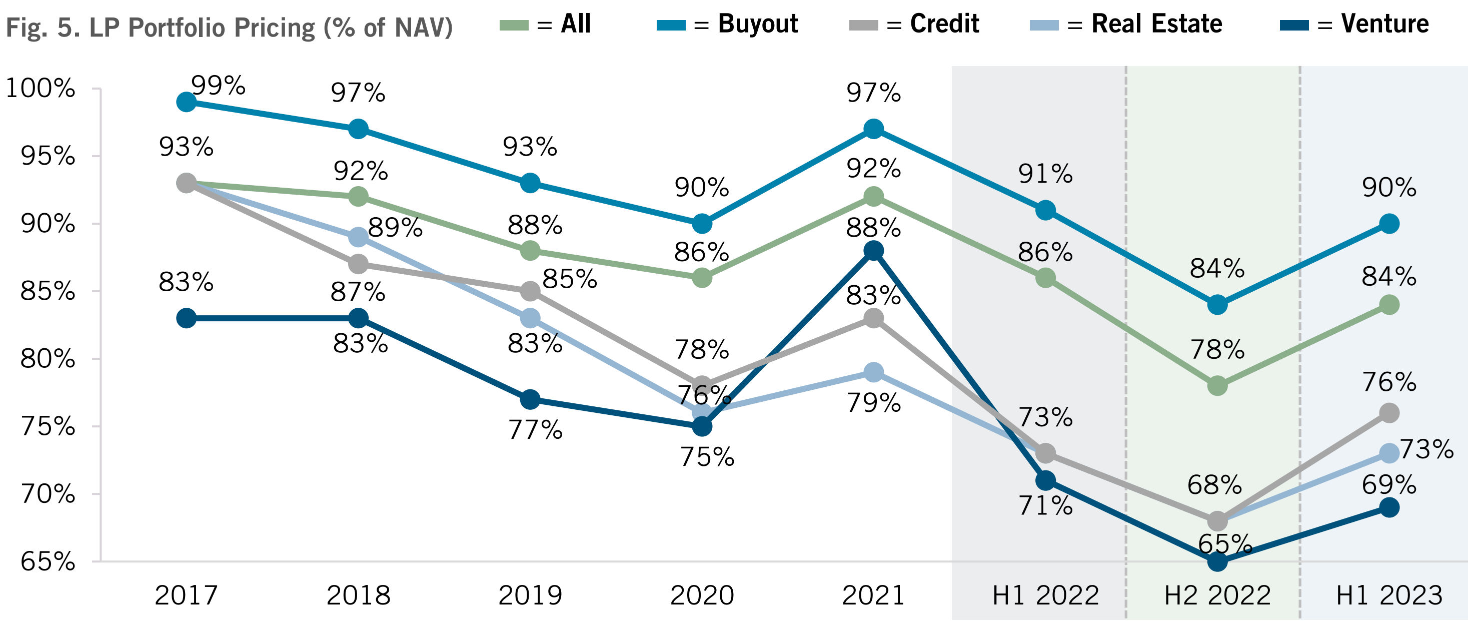
LP Market – Secondary Pricing

Pricing Improves With Revitalized Market Confidence

LP portfolio pricing across all strategies rebounded by 600 basis points, a substantial improvement from decade-low levels in H2 2022, reaching 84% of NAV. This sharp recovery illustrates the market's ongoing recalibration as buyers and sellers regain confidence and adapt to the new interest rate landscape and rising public valuations (the S&P 500 rose by 16% in H1). Despite this resurgence, investors remained wary of overpaying; less than 1% of funds priced above 100% of NAV, and many older and / or less desirable funds traded below 75% of NAV. Each deal priced sequentially higher, and we expect similar trends through H2 2023, with bid-ask spreads expected to narrow as pricing continues to stabilize.

Fig. 5. LP Portfolio Pricing (% of NAV)



Pricing & Demand by Strategy

- Buyout: Pricing climbed 600 basis points from H2 2022, reaching 90% of NAV. Underlying portfolio company performance was relatively strong, and an increase in comparable public company multiples was a prominent factor in buyers increasing pricing. However, the potential for delayed exits for portfolio companies and the looming specter of macro uncertainty effectively capped pricing, with less than 5% of buyout funds exceeding 95% of NAV.
- Venture: Despite a modest 400 basis point increase from H2 2022 to 69% of NAV – a rise outpaced by other strategies – venture pricing remains subdued. This restraint reflects ongoing buyer apprehension about overvaluation, particularly in light of peak financing activity and venture sentiment in 2020-2021.
- Credit / Distressed: A notable 800 basis point increase from H2 2022 propelled pricing to 76% of NAV, buoyed by fresh capital dedicated to credit secondaries. Reduced credit volume (3% of H1 volume compared to 7% of total volume in 2022) reflects selective investor focus that targeted secured, high-yield opportunities and avoided distressed, high-risk investments.
- Real Estate: Pricing improved by 500 basis points from H2 2022 to 73% of NAV. While office and retail sectors remained challenged given a reduction in re-leasing rates, demand for industrial, logistics and multi-family assets was unabated.

Pricing & Demand by Vintage and Geography

The weighted average vintage of all funds sold in H1 2023 was 2016, marking the youngest average fund age in a decade (seven years old). Funds with 2018 or newer vintages traded at 91% of NAV, whereas funds with 2012 and older vintages traded at 73% of NAV. Nearly 50% of the funds sold had 2018 or newer vintages, and only 23% of volume comprised funds with 2014 or older vintages. Certain funds deployed in 2020 and 2021 faced buyer skepticism, as GPs deployed significant capital in a peak-valuation environment. North American funds, pricing at 88% of NAV (up from 86% of NAV in 2022), continued to attract the greatest buyer interest. Volume of Asian funds rose sharply, accounting for 11% of total volume (compared to just 2% in 2022), though average pricing for Asian interests remained depressed at less than 70% of NAV.

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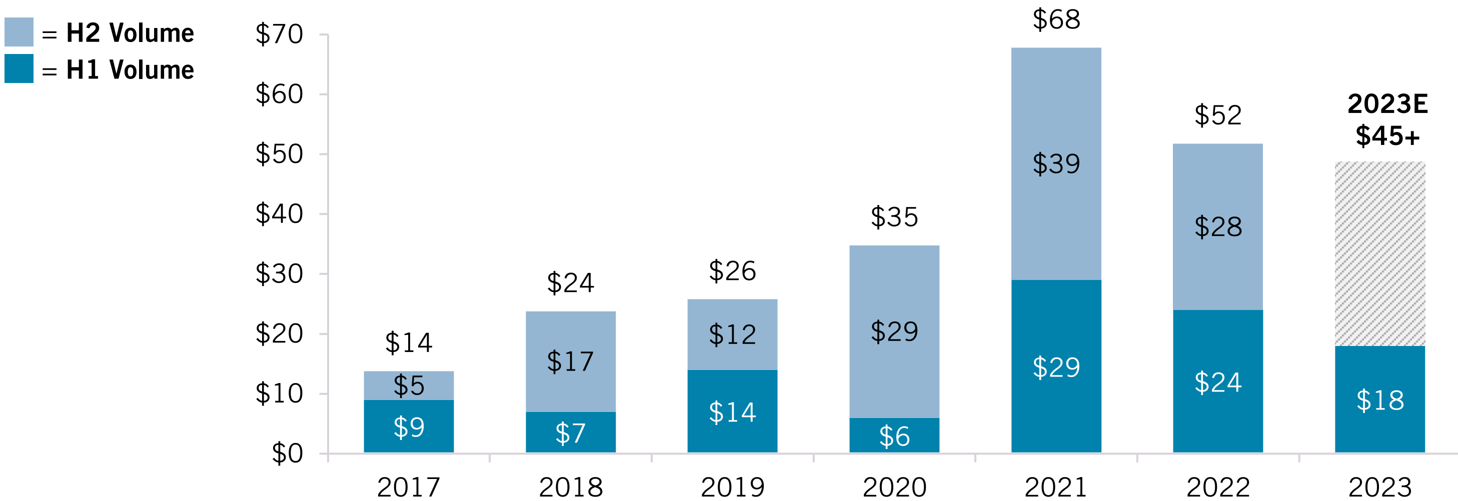
GP-Led Market

GP-Led Volumes Remain at Elevated Levels

The GP-led secondary market posted an estimated $18 billion of transaction volume in H1 2023, reflecting a modest 25% contraction year-over-year, and only a 38% decline versus record levels achieved in H1 2021. The GP-led market still comprised 42% of total secondary volume in H1 2023, despite the continued opportunity for secondary investors to acquire diversified LP portfolios at a meaningful discount throughout the first half of the year. The GP-led secondary market's resilience through H1 2023 has been sustained by stable GP-led supply and demand characteristics, driven by GP-led transactions' demonstrated track record of delivering innovative liquidity solutions for PE-backed companies and investors' continued appetite for high-quality exposures featuring attractive transaction dynamics.

Fig. 6. GP-Led Annual Transaction Volume ($B)



	2017	2018	2019	2020	2021	2022	2023
GP-Led % of Total Volume	24%	32%	30%	58%	52%	48%	42%
GP-Led Growth (%)	--	71%	8%	35%	94%	(24%)	(25%) (1)

(1) Represents H1 volume growth year-over-year

Distribution of GP-Led Transactions Remains Fixed

Continuation fund transactions remained the dominant GP-led transaction type in H1 2023, representing ~80% of total volume. Strip sales, tenders, preferred / structured equity solutions and secondary directs comprised the remainder, representing a modest increase in the frequency of preferred / structured equity solutions as investors and GPs grappled with a challenging pricing environment and hard to bridge bid-ask spreads. Single-asset continuation funds represented the plurality of GP-led transaction volume (as they have for the last 3+ years), representing ~40% of total volume in H1 2023, a slight decline in their overall proportion of GP-led volume from H1 2022. We expect multi-asset continuation fund activity to remain elevated in the near-term as sponsors are more easily able to demonstrate transaction rationale for larger liquidity events for selling funds in the current persistently challenged M&A / public exit environment, particularly as fund-level distribution pacing has notably weakened since Q1 2022 and primary investors are prioritizing GP relationships actively delivering liquidity.

Investor Focus Remains on Mature, Buyout Assets

Continuing the trend from 2022, heightened investor scrutiny and a value investing orientation has favored opportunities providing exposure to profitable and conservatively levered companies operating in non-cyclical sectors with highly repeatable levers for organic and inorganic value-creation. An estimated ~80% of H1 2023 GP-led volume was comprised of buyout assets, down marginally from ~85% in 2022. Buyout assets in the middle market featuring modestly sized continuation funds (~$250-750 million vehicles) captured considerable market attention in 2023, as lead investors gravitated towards transactions with shorter marketing processes and lower execution risk. Part of this pivot to the middle market is driven by investors' desire to curate distinct portfolios for their LPs, which are increasingly able to access larger-cap GP-led transactions via syndication opportunities. Real asset transactions comprised nearly ~15% of total volume across infrastructure, real estate and energy strategies, while venture / growth transactions remained flat versus 2022 at just ~5% of volume.

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GP-Led Market (Cont.)

Demonstrating Mutual Alignment with Sponsors

Strong alignment between sponsors and secondary investors remained essential to achieve successful transaction outcomes. Approximately 90% of closed continuation funds involved sponsors rolling at least 100% of their crystallized economics, with ~50% featuring an incremental out-of-pocket commitment beyond re-invested proceeds. As anticipated by our previous market reports, single-asset continuation fund transactions featuring parallel cross-fund investments from a sponsor's latest flagship fund grew to comprise ~40% of volume in H1 2023, relative to ~25% in 2022.

Shifting Menu of Options for LP Roll-over

More than ever before, LPs were offered a "status quo" roll-over option that allowed electing LPs to retain elements of their existing management fee / carry terms from their incumbent fund structure in the new continuation fund. While there is often material variation in the exact structure of the "status quo" roll-over, the increased application has been pronounced as an estimated ~35% of continuation fund transactions offered LPs the option relative to just ~10% in 2022. This shift can largely be attributed to sponsors and advisors incorporating feedback from LPs desiring enhanced roll-over options, in addition to recent guidance from the Institutional Limited Partners Association (ILPA) in favor of incorporating "status quo" options for continuation fund transactions. Despite the increased optionality for existing LPs to retain exposures to companies contributed to continuation funds, LPs eagerly accepted liquidity where it was offered (~80% of LPs electing to sell into transactions) as distributions across their broader private equity programs dried up.

Flourishing Universe of GP-Led Investors

Sources of capital dedicated to investing in GP-led transactions continue to expand as new entrants and non-traditional investors (e.g., alternative asset managers, buyout sponsors, family offices, pension plans, sovereign wealth funds) build out dedicated GP-led investing strategies. Secondary fundraising as reported by Pitchbook was up nearly 40% quarter-over-quarter in Q1 2023, representing the only bright spot amongst private markets strategies, though admittedly that figure is dominated by one large fund closing.

There exists an expanding universe of investors that can make $100+ million commitments into concentrated multi-asset / single-asset deals. These lead investors are increasingly looking for ways to market their value-add and validate decisions to lean into certain marquee GP-led transactions as demonstration of their "angle" with sponsors, companies and situations. While some investors highlight their ability to act as full-service partners to sponsors (e.g., direct lending, co-investing, primary investing capabilities), others within larger asset management platforms have begun to offer portfolio companies access to various services made accessible by their scale (e.g., spend management, group purchasing, pricing negotiation tools, executive / talent search) as demonstration of their value-add.

H1 2023 Key Statistics	
$18 Billion	H1 2023 GP-Led Transaction Volume
42%	GP-Led Share of Total Secondary Volume
~80%	Continuation Funds *(% Share of GP-Led Volume)*
~40%	Single-Asset Continuation Funds *(% Share of Total GP-led Volume)*
~35%	Continuation Funds Offering "Status Quo" Option
~80%	Buyout Strategy *(% Share of GP-Led Volume)*
~40%	Single-Asset Transactions with Parallel Cross-Fund Commitments
~20%	Average Unfunded Commitment *(% of Continuation Fund)*
~80%	Average LP Selling Volume
~90%	Transactions with Sponsors Re-investing 100%+ Crystallized Economics

Dedicated Available Capital

Capital Overhang Rises

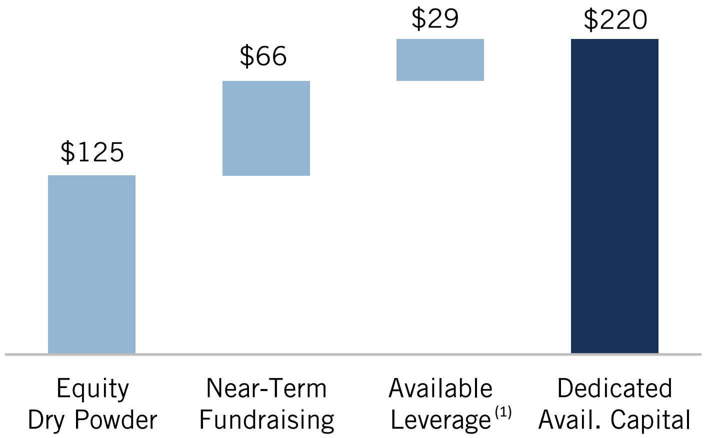
The capital overhang multiple rose to 2.3x in H1 2023 from 2.1x in 2022, driven by slower investor deployment, successful fundraises (average flagship fund step-up was 1.4x) and near-term fundraising expectations. We foresee near-term fundraising of $66 billion, which is a drop from previous years, as many buyers already completed fundraises and LPs are facing a heightened opportunity cost in the current liquidity-constrained environment. Along with strong H2 deployment, capital overhang could decline by year-end to the extent near-term fundraising plans are unsuccessful. The use of leverage remains under pressure in the wake of ten rate hikes since early 2022 and rigorous underwriting standards imposed by lenders.

The Evolving Secondary Capital Landscape

Secondary transaction capitalization is changing rapidly as the market evolves – secondary funds raised $39 billion in H1 2023, surpassing total fundraising in 2022. Select buyout managers have announced secondaries strategies (e.g., Audax, Astorg, TPG), while existing secondary players have developed sub-specialties (e.g., dedicated credit and real estate funds), and are raising distinct funds for LP / GP-led transactions. Secondary fundraising results varied greatly in H1 2023 – while some secondary investors raised record-breaking funds, others were far undersubscribed. For GP-led continuation funds and tender offers, institutional LPs are increasingly providing syndication capital where necessary. These trends collectively underscore a maturing secondary market that is responding to market developments and capital demands.

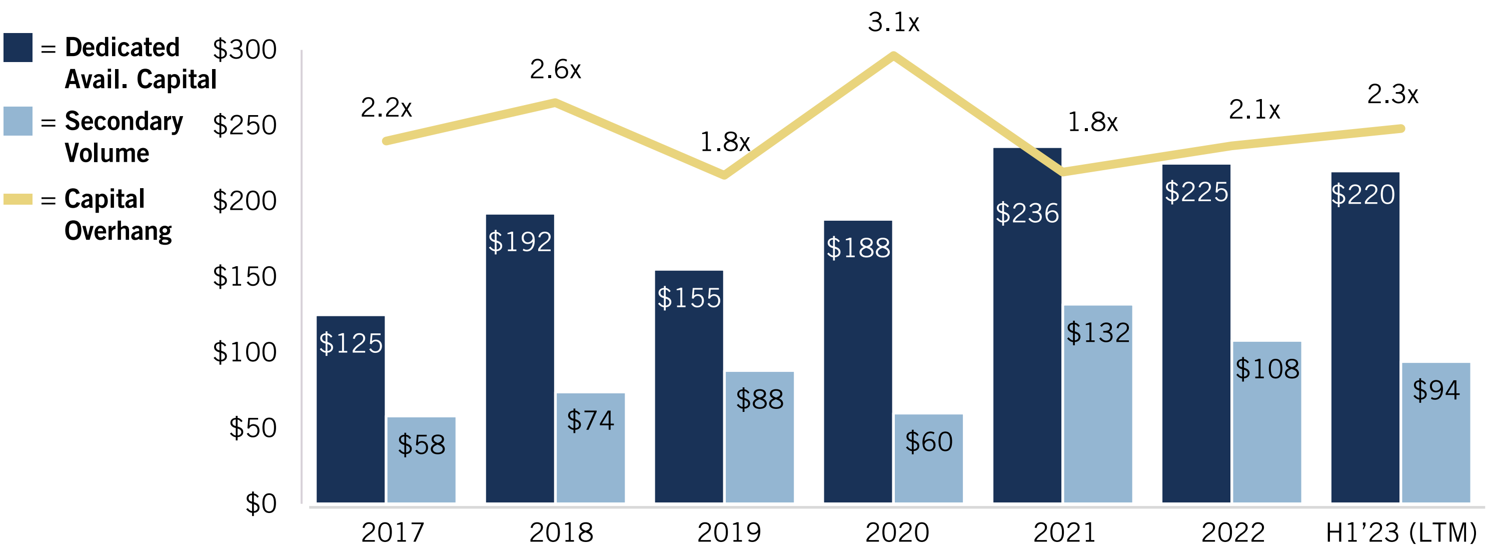
H1 2023 – Capital Overhang	
$220 Billion	Dedicated Available Capital
$94 Billion	LTM Secondary Volume
2.3x	Secondary Market Capital Overhang

Fig. 7. Dedicated Available Capital ($B)



(1) Estimated at 15% of equity dry powder plus current fundraising

Fig. 8. Secondary Capital and Activity ($B)



Capital Overhang Δ	--	+0.4x	(0.8x)	+1.3x	(1.3x)	+0.3x	+0.2x

Note: Capital overhang multiple represents the ratio of dedicated available capital to LTM transaction volume

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Conclusion

Second Half Outlook

Looking ahead to H2 2023, we forecast transaction volume of $60+ billion, spurred by favorable macro conditions, ample dedicated capital and strong pricing. We anticipate a relatively even split between LP and GP-led transaction volume in H2. Investors remain highly focused on LP transactions for diversification, while the GP-led segment is bolstered by a growing investor pool, a robust single-asset CV segment and near-par pricing. As pricing stabilizes across all strategies, we foresee bid-ask spreads narrowing, with expected average pricing of ~85% of NAV for LP portfolio offerings – barring any dramatic public market movements or unexpected macroeconomic shocks. We expect a slight decline in available capital at year-end following aggressive deployment by the largest buyers and longer-than-anticipated fundraises for certain buyers.

Jefferies' Private Capital Advisory 60+ person team has advised institutional investors and general partners on over $25 billion of private equity secondary transaction value since 2022, and over $160 billion 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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