PRIVATE CAPITAL ADVISORY

1H 2022 Global Secondary Market Review

JULY 2022

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Introduction

As macroeconomic uncertainty led to widespread disruption in the public markets, the private equity secondary market proved resilient and posted another record for first-half volume. Buyers, limited partners and financial sponsors continue to pursue creative solutions for liquidity as traditional M&A exits and distributions have slowed.

1H 2022 Highlights

- Global secondary volume was $57 billion, surpassing the prior 1H record of $48 billion in 2021. Strong buy-side demand, combined with thoughtful portfolio construction and seller transaction flexibility, led to this record level of secondary volume
- Many LPs, who are increasingly overweight private exposure, brought transactions to market to rebalance their asset allocations; LP volume was $33 billion and accounted for 58% of market volume
- The GP-led market was highly active with transaction volume of $24 billion, concentrated in high-quality, buyout-focused single-asset transactions
- Average pricing for LP transactions across all strategies was 86% of NAV; pricing softened as the first half progressed in tandem with declining public markets and increasing volatility
- The ratio of available capital to LTM volume (capital overhang multiple) decreased to 1.6x from 1.8x at the end of 2021, driven by strong capital deployment; however, dedicated available capital remains high at $227 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 Expectations Revisited

We witnessed peak market activity and record volume in 2021 due to pent-up buyer demand, remarkable supply and steadily increasing public markets. As a result, we had high expectations for 2022, which we revisit now at the year's halfway mark:

	Beg. of Year 2022 Expectations	Status Check / Revised Estimate
Total Volume	$150+ Billion	$120+ Billion
Avg. High Bid (All Strategies)	90%+ of NAV	86%+ of NAV
GP-Led Activity	50%+ of Total Volume	On Track
Dedicated Available Capital	$250+ Billion	On Track

First Half Themes

During 1H 2022, the following themes emerged:

Record First-Half Volume Amid Macroeconomic Challenges

First half volume was $57 billion, surpassing the previous record of $48 billion set in 1H 2021. GP-led volume comprised 42% of the total, as GPs continued to supply the market with high-quality opportunities. LPs sold significant exposure primarily due to overallocation concerns that were further exacerbated by declining public portfolios.

LP Portfolio Pricing Declines Due to Valuation Concerns

The average high bid for all strategies was 86% of NAV, representing a 600 basis point decrease from 2021. LP portfolio pricing steadily declined throughout 1H 2022 as buyers increasingly scrutinized private company valuations.

GP-Led Market Remains Robust

GP-led secondary market volume and pricing withstood a challenging macroeconomic environment. GP-led volume of $24 billion was heavily weighted to single-asset continuation fund transactions (~48% of total GP-led volume), predominantly in high-quality buyout assets.

Dedicated Available Capital Remains Above $200 Billion

Dedicated available capital is estimated at $227 billion at the end of 1H 2022, representing a 4% decrease from 2021. As most buyers continued to fundraise and deployed capital on pace with expectations, the market appears sufficiently capitalized heading into 2H 2022.

As of June 30, 2022

✓ **$57 billion**
1H 2022 Total Volume

✓ **$33 billion**
1H 2022 LP Volume

✓ **$24 billion**
1H 2022 GP-Led Volume

✓ **86% of NAV**
Avg. High Bid (All Strategies)

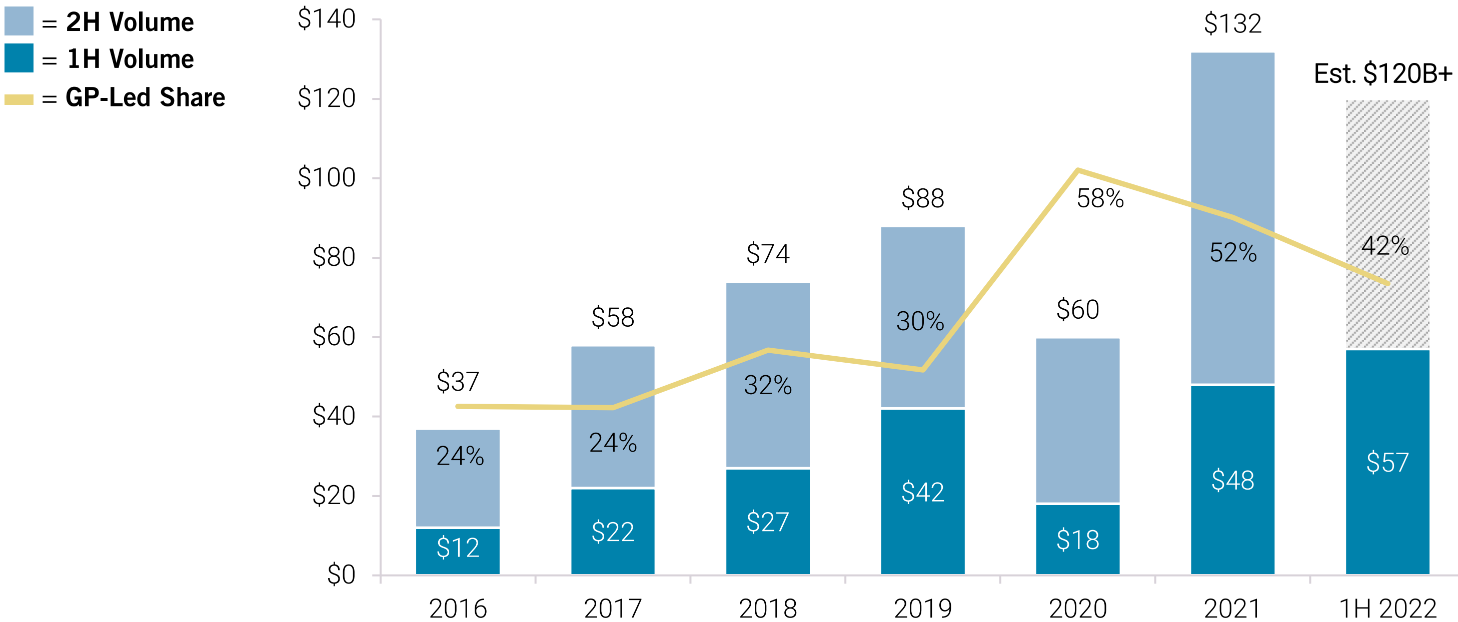
✓ **$227 billion**
Dedicated Available Capital

Secondary Volume

Record First-Half Volume Amid Macroeconomic Uncertainty

Volume in the first half of 2022 was $57 billion, representing a 19% increase from 1H 2021 and a first-half record. Strong momentum from Q4 2021 carried over to 2022, as widespread supply of large, diversified LP portfolios and high-quality GP-led opportunities was well-received by an active buy-side eager to deploy capital. Although the public markets experienced historic downturns in 1H 2022 (S&P 500 decreased 21%), buyers, LP sellers and GPs were determined to close deals that were launched early in the new year.

Fig. 1. Annual transaction volume ($B)



	2016	2017	2018	2019	2020	2021	1H 2022
Total Volume Growth (%)	--	57%	28%	19%	(32%)	120%	19% (1)
LP Volume Growth (%)	--	57%	14%	24%	(60%)	156%	74% (1)
GP-Led Volume Growth (%)	--	56%	71%	8%	35%	94%	(17%) (1)

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

Strong Supply of High-Quality GP-led Deals

GP-led transactions accounted for 42% of first-half volume, reaching $24 billion. Single-asset continuation funds comprised the largest segment of the GP-led market, as sponsors continued to execute secondary transactions that provided additional time and (most often) capital for their "trophy" assets. Buyout transactions accounted for the vast majority of GP-led volume (~85% of total); while transactions in the infrastructure, energy, real assets, venture and credit asset classes collectively comprised ~15% of GP-led volume. While secondary investors are closely monitoring private valuations and macroeconomic conditions, the GP-led secondary market is open and well-capitalized. A decline in PE-backed exit activity in tandem with elevated LP appetite for liquidity is likely to further support the use of continuation funds as a regular-way exit route.

The "LP Squeeze" Catalyzes Selling Activity

Traditional LP portfolio volume grew 74% from 1H 2021 to $33 billion in 1H 2022. Many LPs are overallocated to private equity, creating a "numerator issue" when viewing PE as a proportion of total AUM. LPs' private portfolios grew in 1H due to (i) flat or rising valuations of underlying portfolio companies, (ii) faster fundraising velocity, with many LPs filling their 2022 commitment budget by March and (iii) slowing distribution activity, with total capital calls often outpacing total distributions. The numerator issue was amplified by a simultaneous "denominator effect" as total AUM decreased due to broad public market declines. Many LPs experienced pressure to sell, resulting in resurgent LP portfolio supply. We estimate 8 transactions of $1 billion or greater closed in 1H, including a record-breaking $6 billion deal – the largest LP portfolio sale in history.

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Secondary Volume (Cont.)

Buyer "Flight-to-Quality" Influences Portfolio Construction

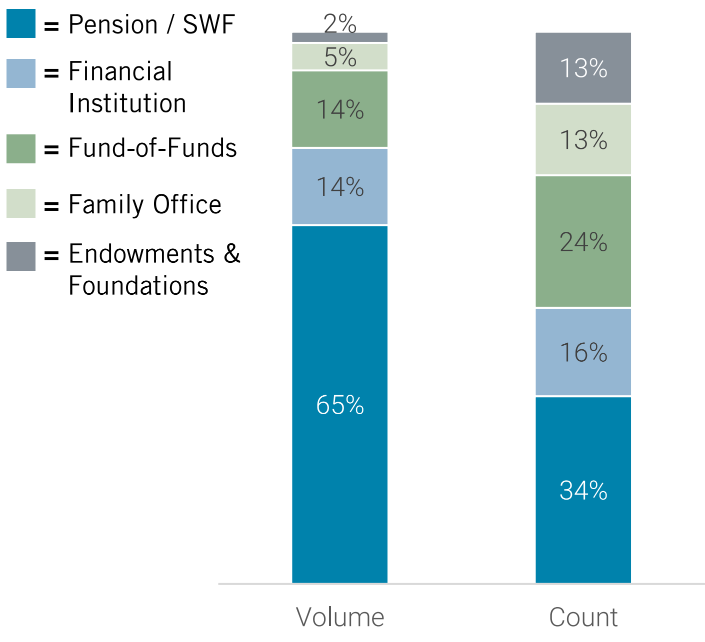
Challenging macroeconomic conditions in 1H 2022 directly affected buyer preferences and resulted in increased selectivity and a flight to high-quality assets. LPs often brought more exposure to market than they were willing to sell in order to (i) offer buyers greater bidding flexibility choosing from a "menu" of options and (ii) give themselves maximum optionality to capitalize on price and liquidity objectives. GPs were thoughtful with their portfolios and generally marketed assets that were resilient to a potential recession.

LP Transactions		GP-Led Transactions	
In Favor	**Out of Favor**	**In Favor**	**Out of Favor**
▲ Buyout exposure ▲ North American exposure ▲ Post-2017 vintages ▲ Blue-chip managers ▲ Low leverage ▲ Diversification	▼ Venture exposure ▼ Emerging markets exposure ▼ Pre-2012 vintages ▼ Unfamiliar managers ▼ Public exposure ▼ Significant concentration	▲ Profitable / cash flow generating companies ▲ Resilient businesses ▲ Conservatively leveraged companies ▲ Demonstrated GP track record of success ▲ Strong GP alignment	▼ Pre-EBITDA companies ▼ Highly cyclical businesses ▼ Highly leveraged companies ▼ Unfamiliar managers / emerging markets ▼ Minimal GP commitment

LP Seller Dynamics and Transaction Flexibility

During periods of economic uncertainty, deferrals and structured transactions become more prevalent to bridge widening bid-ask spreads and complete transactions. There were virtually no distressed sellers in 1H 2022, however LPs demonstrated a strong desire to complete transactions, with many finding themselves needing to sell for the first time to alleviate overallocation; we estimate 48% of LP sales involved a first-time seller. The use of deferrals was increasingly accepted, as an estimated 40% of LP sales involved a portion of the purchase price deferred to a later date, compared to ~10% in 2021. The most common deferral in 1H was 50% of the purchase price deferred for 12 months. Buyers are increasingly preferring deferrals, given slowing distributions, resulting in strong deferral offers – sometimes 400-600 basis points higher than comparable cash offers. Alternative structures, including preferred equity solutions and bank financings, were also prevalent in situations where LPs either wanted to maintain AUM or avoid selling at significant discounts to NAV.

Fig. 2. LP portfolio transactions by seller type



Increased Prevalence of Single-Buyer Solutions for LP Portfolios

Single-buyer solutions (i.e., 75%+ of portfolio NAV sold to one counterparty) were selected in most LP transactions (69% of total) in 1H 2022, representing an increase from 2021 (60% of total). Multi-buyer solutions accounted for the remaining 31%, and 23% of all LP sales involved three or more counterparties. Buyers were more selective and frequently only bid for funds where they were existing investors or had high conviction in the GP or underlying portfolio assets. This phenomenon led to a lower rate of portfolio-level offers since there was a heightened scrutiny on GP valuation marks, particularly those for unfamiliar managers or lower-quality assets.

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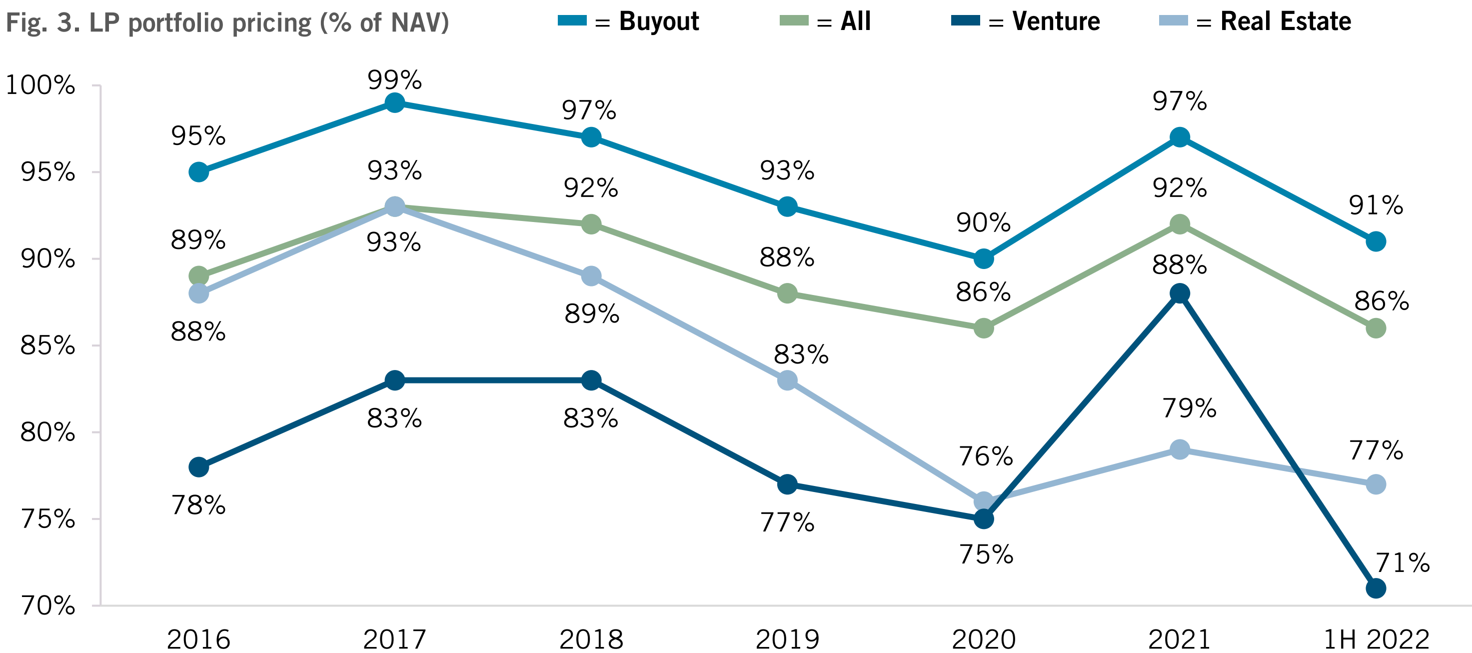
Secondary Pricing – LP Portfolios

Pricing Drops Due to Market Volatility & Valuation Concerns

Following a meaningful improvement in 2021, pricing dropped 600 bps to 86% of NAV for all strategies in 1H 2022. Pricing decreased across all strategies as the year progressed, including most notably for venture funds, which declined precipitously to 71% of NAV in the period. Sharp public market declines and increasing economic uncertainty drove pricing declines as buyers showed skepticism of GP valuations prior to and including March 31, 2022. Slowing distribution activity resulting from weaker IPO and M&A environments further contributed to the decrease in pricing. Going forward, we expect pricing declines to moderate in 2H 2022 as GPs adjust private valuations and the economic outlook becomes clearer.

Fig. 3. LP portfolio pricing (% of NAV)



Pricing By Strategy

Pricing decreased across strategies:

- Buyout: Pricing decreased 600 bps from 2021 to 91% of NAV. Buyers continued to show a strong preference for North American buyout exposure; however, persistent public market declines and slowing distribution activity widened bid-ask spreads in the period. Top-tier, recent vintage buyout exposure continued to price at 95%+ of NAV.
- Venture: Pricing decreased 1,700 bps from 2021 to 71% of NAV. A rapid increase in VC-backed valuations in 2021 led to unprecedented venture supply in the market through Q1 2022. Meanwhile, the decline in public trading multiples created widespread buyer skepticism of private valuations, resulting in pricing decreasing as the year has progressed.
- Credit / Distressed: Pricing decreased 800 bps from 2021 to 75% of NAV. Older vintage, distressed exposure comprised the bulk of market supply which drove pricing lower in the period.
- Real Estate: Pricing decreased 200 bps from 2021 to 77% of NAV. North American industrial and infrastructure sectors were in high demand while pricing for Asian, European multi-family and U.S. office assets remained challenging.

Pricing By Vintage & Geography

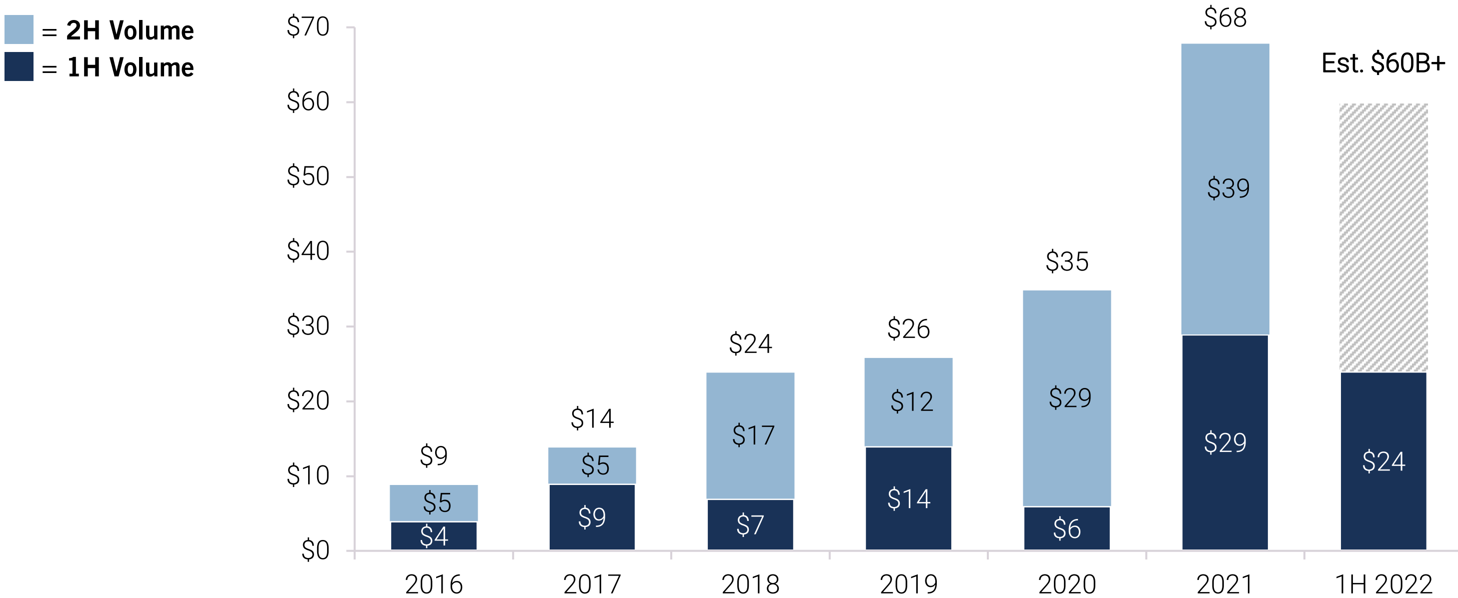
The weighted average vintage of all funds sold was 2014 (i.e., eight years old). Funds with 2018 or newer vintages priced at 94% of NAV, while funds with 2011 and older vintages priced at 75% of NAV. LP portfolios trended slightly older in 1H 2022 – 84% of funds sold by count (61% by NAV) were at least eight years old, compared to 65% by count in 2021 (46% by NAV). North American funds priced at 86% of NAV, compared to 92% of NAV in 2021, and North American / W. European assets continue to garner the most buyer attention amidst the "flight-to-quality." Buyers also showed a marked shift in vintage preference as the year unfolded, favoring 2018 and newer vintages still within their investment period. Moreover, buyers showed increasing interest in acquiring funds with meaningful unfunded exposure.

GP-Led Activity

GP-led Market Remains Robust

The GP-led secondary market remained strong in 1H 2022 despite an uncertain macroeconomic environment. Market volume reached an estimated $24 billion – 42% of total secondaries volume. This represents a decline of 17% from record-breaking levels achieved in 1H 2021 but is still 71% higher than the prior peak in H1 2019. Against a challenging market backdrop, we observed distinct themes that influenced GP-led secondaries including (i) a growing buyer preference for diversification; (ii) a flight to high-quality opportunities; (iii) transaction pricing occurring at or around NAV; and (iv) a more cautious but well-capitalized buy-side that is steadily deploying.

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



	2016	2017	2018	2019	2020	2021	1H 2022
GP-Led % of Total Volume	24%	24%	32%	30%	58%	52%	42% (1)
GP-Led Growth (%)	--	56%	71%	8%	35%	94%	(17%) (1)

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

Preference for Diversification

Continuation funds remained the most popular GP-led transaction structure, comprising 80% of total 1H 2022 GP-led volume. Single-asset continuation funds were highly prevalent, representing ~60% of total continuation fund volume and ~48% of total GP-led volume. Given record deployment into single-asset investments over the last 18 months, investor appetite for diversified, multi-asset transactions has notably increased, but other diversified transaction structures such as fund tenders and strip sales collectively represented ~7% of GP-led volume. Single-asset transactions will likely still comprise the largest component of volume going forward given strong supply-side dynamics, although we expect the share of stapled tender offerings to increase as sponsors leverage the secondary market to support primary fundraising.

High-Quality Deal Flow

GP-led transactions that closed in 1H 2022 continued to feature high-quality assets that expected to withstand economic volatility. 85%+ of GP-led volume was concentrated in buyout funds / assets, which tend to attract the highest levels of investor demand. The share of infrastructure transactions increased to almost 10% of volume (versus ~2% in 2021) as lower-risk assets with recession- or inflation- resistant characteristics became highly sought after. Conversely, the venture / growth segment comprised just ~5% of GP-led volume compared to ~11% in 2021, as volatility in technology valuations weighed on buyer demand for the strategy. The average maturity for assets brought to market in 1H 2022 was ~5 years (versus ~6 years in 1H 2021), reflecting continuation funds' ongoing acceptance as a regular exit path.

GP-Led Activity (Cont.)

GP-Led Pricing Dynamics

Although buyers were highly selective in 1H 2022, a focus on high-quality deal flow meant that ~75% of GP-led transactions still priced within 5% of NAV. However, the challenging underwriting environment certainly had an impact, with ~25% of transaction volume pricing at a 5%+ discount and very few transactions pricing at significant premiums. In many cases, pricing was supported by the implementation of various alternative transaction structures, such as performance-based earnouts and deferred payments, evidence that an increasingly sophisticated GP-led secondary market can creatively execute on complex transactions. Notwithstanding this, the continued downward pressure on public markets post March 31st coupled with the lag between public and private valuations will likely drive a higher proportion of transactions to price at more meaningful discounts through the remainder of the year. Alongside significant scrutiny on entry valuations, transaction terms and GP alignment were also heavily negotiated in 1H 2022. Larger GP commitments and cross-fund investments from a GP's flagship fund alongside continuation fund investors featured more regularly, while GP-friendly terms such as "super carry" that were more common in 2020 / early 2021 rarely materialized. In addition, GPs and intermediaries allowed prospective buyers extended due diligence periods to capture investor attention in a busy market and enable groups to work through valuation dynamics and analyze potential portfolio company performance in a more challenging environment.

A Prudent Buy-side

Unsurprisingly, the energetic pace of new GP-led transactions brought to market coupled with uncertain macroeconomic conditions had a direct impact on investor sentiment. Investment committees became more discerning when triaging transaction pipelines, and deal teams refocused on pursuing transactions involving their closest GP relationships. This increased buyer selectivity is also due to the high volume of transactions over the last 18 months, which has put the majority of secondary funds on or ahead of pace with respect to GP-led deployment targets. While we expect buyers will remain disciplined in the coming months, a variety of factors should lead to a strong supply of new opportunities, as sponsors look to facilitate transactions in an environment where traditional exits are more challenging and LP demands for liquidity are elevated. With new sources of capital dedicated to GP-led secondaries emerging and a steady influx of non-traditional investors joining the market, the majority of high-quality transactions will continue to close.

1H 2022 Key Statistics	
$24 Billion	1H 2022 GP-Led Transaction Volume
42%	GP-Led Share of Total Secondary Volume
~80%	Continuation Fund Transactions *(% Share of GP-Led Volume)*
~60%	Single-Asset Continuation Fund Transactions *(% Share of Continuation Fund Volume)*
2017	Weighted Average GP-Led Asset Vintage
~85%	Buyout Strategy *(% Share of GP-Led Volume)*
20%	Average Unfunded Commitment *(% of Continuation Fund)*
~75%	GP-Led Transactions Priced at or Near NAV

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Dedicated Available Capital

Record Fundraising Continues

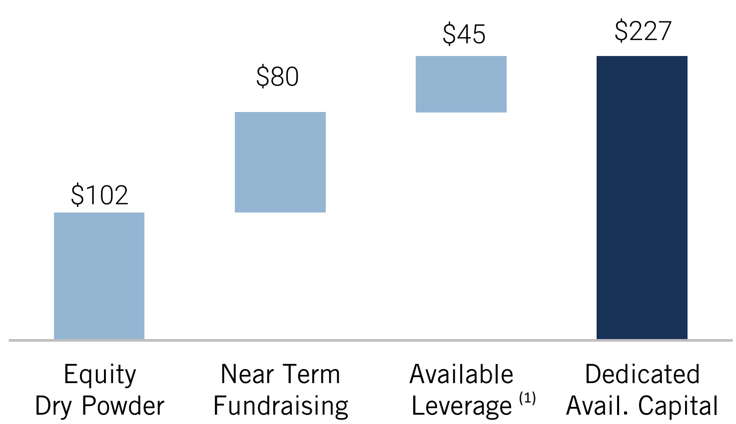
Despite an increasingly difficult fundraising environment across alternative assets, secondaries managers continue to raise larger and larger funds. We estimate near-term fundraising of $80 billion, which is down slightly from $105 billion in 2021 due to several large fund closings. Still, the market remains well-capitalized with only a modest decline in dedicated available capital to $227 billion at the end of 1H 2022. The capital overhang multiple [(1)] decreased slightly from 1.8x at year-end 2021 to 1.6x due to record capital deployment.

Buyer Capacity & Demand

Despite public market volatility and increasing economic uncertainty, secondary buyers have ample capacity and demand, particularly for diversified LP portfolios and high-quality, recession-resistant businesses within single-asset continuation fund and multi-asset continuation fund transactions. Buyers are eager to diligence high-quality, North American buyout exposure across transaction types. On the other hand, there is limited appetite for venture / growth assets in the current environment and buyers require steep discounts to March 31, 2022 (or earlier) NAVs. While volume remains limited, there is increasing buy-side capacity to acquire credit/distressed, real assets, and fund-of-funds exposure with dedicated fund strategies increasing in size and number.

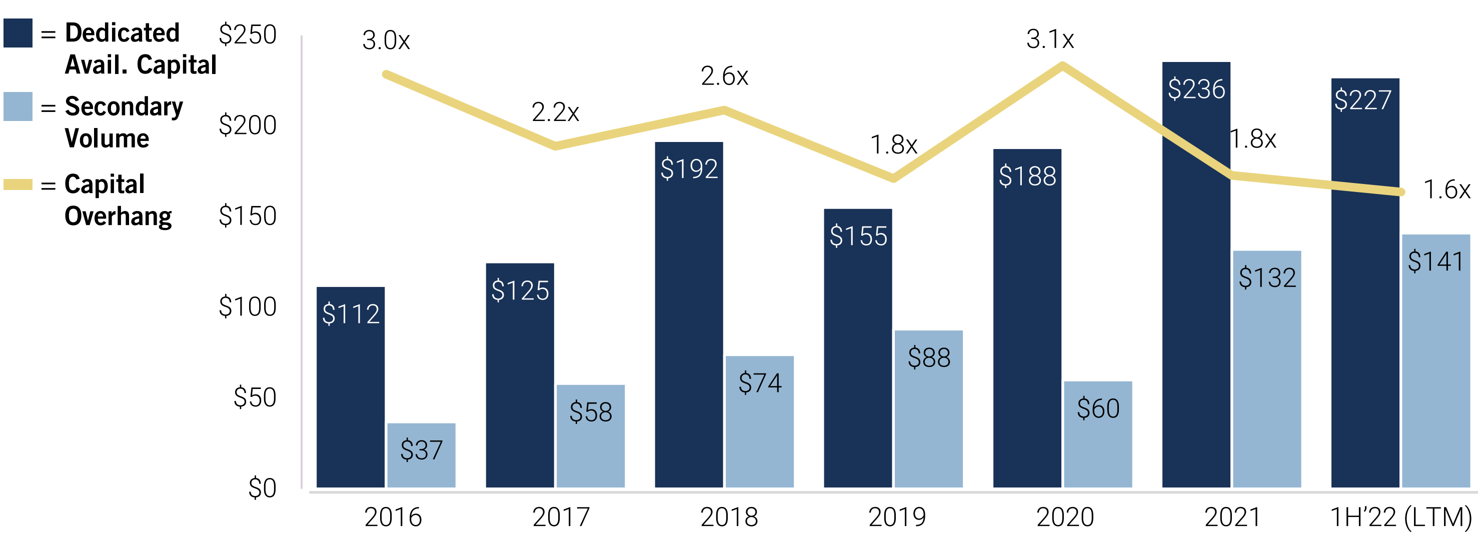
1H 2022 – Capital Overhang	
$227 Billion	**Dedicated Available Capital**
$141 Billion	**LTM Secondary Volume**
1.6x	**Secondary Market Capital Overhang**

Fig. 5. Dedicated available capital ($B)



(1) Estimated at 25% of equity dry powder plus current fundraising

Fig. 6. Secondary capital and activity ($B)



	2016	2017	2018	2019	2020	2021	1H'22 (LTM)
Capital Overhang Δ	--	(0.8x)	+0.4x	(0.8x)	+1.3x	(1.3x)	(0.2x)

(1) Capital overhang multiple represents the ratio of dedicated available capital to LTM transaction volume

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Conclusion

Second Half Outlook

As we look towards the second half of the year, available capital remains high due to healthy buy-side fundraising, and we expect total volume will finish over $100 billion for the second consecutive year. Q2 valuations are anticipated to decline on average from comparable Q1 marks, leading to increased buyer comfort and stronger expected pricing off of June 30, 2022 record dates. We expect the “LP squeeze” will take time to self-correct, and as a result, LPs will continue selling portions of their private equity portfolios to curb overallocation concerns. GPs are expected to continue supplying the market with high-quality, recession-resistant opportunities, and LP sellers who were waiting on Q2 private valuation marks to be released are expected to enter the market with the goal of executing deals by year-end.

Jefferies’ Private Capital Advisory team has advised institutional investors and general partners on over $160 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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