PRIVATE CAPITAL ADVISORY

Global Secondary Market Review

JANUARY 2024

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Introduction

Global secondary volume increased while pricing improved throughout 2023. Strong public markets, a more favorable economic outlook, and LPs' demand for liquidity – combined with a notable narrowing of the bid-ask spread – drove secondary activity. Record buy-side capital coupled with evolving and creative liquidity solutions provide the optimal backdrop for further secondary market growth in 2024.

2023 Highlights

- Global secondary volume increased 4% to $112 billion as improved pricing levels and an increasing desire for liquidity drove volume on both the GP-led and LP side of the market. While GP-led volume remained flat, a 7% increase in LP volume ultimately drove overall market volume higher in 2023
- GP-led volume of $52 billion in 2023 was in line with levels achieved in 2022, though the annual total masks the strong momentum gained in H2 2023, which was driven by record secondary investor fundraising and new buy-side entrants
- H2 volume was 60% higher than H1 volume as LPs' desire to generate liquidity and/or de-risk their portfolios replaced private equity overallocation concerns as the primary driver of sales. The bid-ask spread also narrowed throughout the year, which further contributed to the 7% increase in LP volume to $60 billion
- Average pricing for LP portfolios was 85% of NAV, representing a 400 basis point improvement from 2022. Pricing steadily improved throughout 2023 on the heels of public market improvements and interest rate stabilization. A continued lack of M&A and IPO activity limited distributions and curtailed even stronger secondary pricing
- The ratio of available capital to LTM volume (capital overhang multiple) increased to 2.3x at the end of 2023. The five largest secondary buyers have raised more than $95 billion over the last 18 months, resulting in peak dedicated available capital of $255 billion. In fact, secondaries fundraising in 2023 exceeded the amount raised in 2021 and 2022 combined

About This Report

This report represents Jefferies' semi-annual review of the secondary market. We rely on insights from Jefferies' Private Capital Advisory ("PCA") team who works 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, PEI, PitchBook, S&P Capital IQ and Dealogic. Unless otherwise noted, data included herein is based on transactions executed by Jefferies' PCA team and public non-Jefferies transactions.

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Full-Year Review

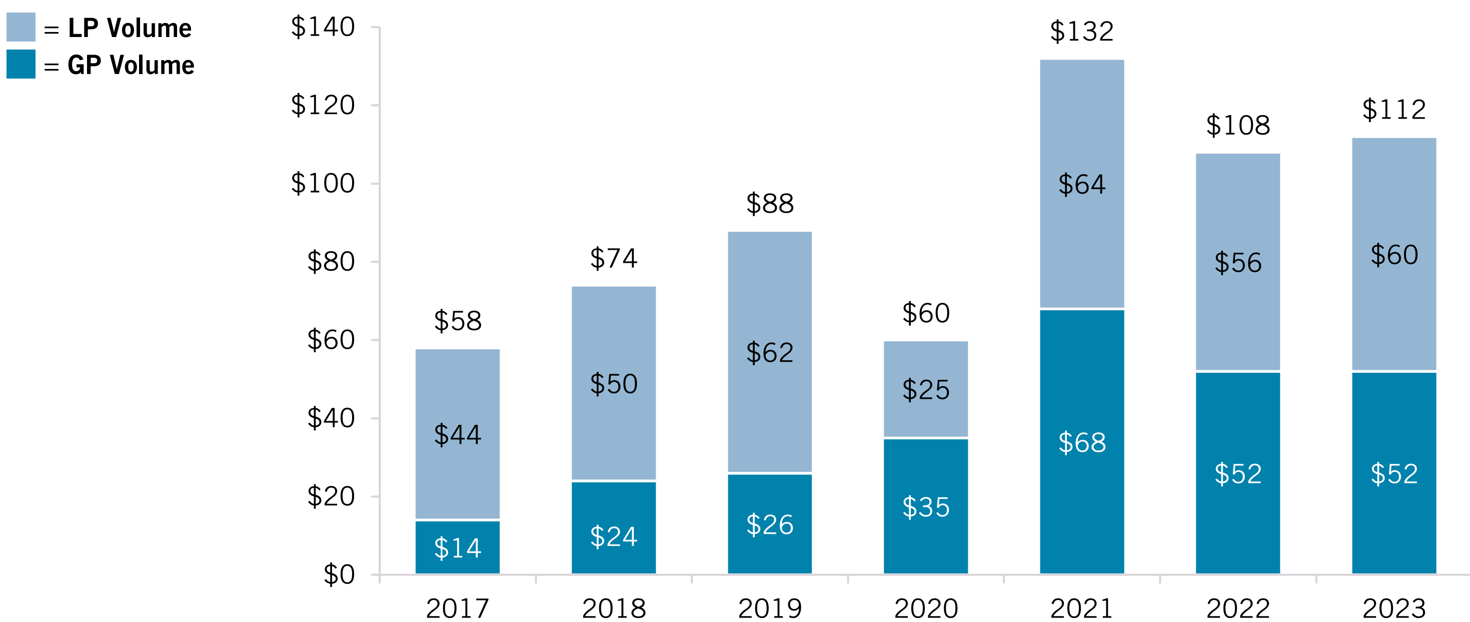
Themes From 2023 and Expectations For 2024

The secondary market experienced a modest increase in volume in 2023, driven by strong buyout pricing, an improving macro backdrop, and record amounts of buy-side capital. We believe the market is positioned for more robust growth in 2024.

Year in Review	2022	2023
Total Volume Increases	$108 Billion	$112 Billion
LP Pricing Increases	81% of NAV	85% of NAV
GP-Led Volume Holds	$52 Billion	$52 Billion
Available Capital Increases	$225 Billion	$255 Billion
Rise in $1B+ Deals	29 Deals	34 Deals

Year Ahead	2024 Expectations
Volume Climbs	$130+ Billion
LP Pricing Improves	↗
GP-Led Volume Increases	$65+ Billion
Deployment Outpaces Fundraising	<2.0x Capital Overhang Multiple
Multi-Billion $ Deals Increase	↗

Fig. 1. Annual Transaction Volume ($B)



	2017	2018	2019	2020	2021	2022	2023
YoY Total Volume Growth (%)	--	28%	19%	(32%)	120%	(18%)	4%
YoY LP Volume Growth (%)	--	14%	24%	(60%)	154%	(13%)	7%
YoY GP-Led Volume Growth (%)	--	71%	8%	34%	95%	(24%)	–

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Secondary Volume

Volume Increased Modestly as Pricing Recovered

Annual secondary volume was $112 billion, representing a 4% increase from 2022's volume of $108 billion. Robust buyer demand, significant supply of both LP portfolios and GP-led opportunities, and stabilizing market conditions drove secondary volume higher in 2023. The market gained momentum throughout the year as public market rallies supported stronger pricing and LPs' need for liquidity intensified (H2 volume was $69 billion compared to $43 billion in H1). On the heels of record fundraises for the largest buyers, we expect 2024 could be a record year for both the GP-led and LP sides of the secondary market.

GP-Led Volume Surges in H2 2023

The GP-led secondary market has become a primary avenue of liquidity for sponsors and has remained actionable despite overall weakness in private equity exit volume in 2023, as the M&A and IPO markets remained well below record highs achieved in 2021. As a result, continuation funds represented ~12% of sponsor-backed exit volume in 2023, compared to 7% in 2022. Swelling demand for high-quality, mature buyout assets resulting from record secondary investor fundraising and new buy-side strategies entering the segment drove GP-led volume to increase significantly in H2 2023, representing an 88% increase in volume relative to H1 2023 and achieving the highest half-year levels since H2 2021.

LPs' Need for Liquidity Met with Robust Buyer Demand

Traditional LP portfolio volume increased 7% from 2022 to $60 billion. The desire for liquidity became the dominant theme of the year and drove 36% of all LP selling activity (up from 14% in 2022). Large pensions were willing to sell strips of core managers to minimize discounts and free up capital for new primary commitments. Buyout-anchored LP portfolios received ample demand, as buyers preferred to seed their new funds with high-quality, diversified LP interest opportunities.

Pensions / SWFs remained the most active sellers, accounting for 62% of LP volume, while fund-of-funds increased their selling activity (16% of volume) to wind down older vehicles and improve DPI. We estimate 39% of sellers were first-time sellers, which is an 11-percentage point drop from 2022.

Larger LP Portfolios with More Recent Vintages

There were 19 LP portfolio deals over $1 billion in value sold in 2023 (60% of total LP volume), which is up from 12 in 2022. LPs also brought newer vintages to market to reduce discounts, with the average age of funds sold at 7.0 years in 2023 versus 8.4 years in 2022. Many of the largest buyers in the market showed strong demand for these large, recent vintage portfolios, which led to a reemergence of single-buyer solutions (average number of buyers per transaction was 1.6 in 2023 versus 3.5 in 2022).

Volume Breakdown in 2023

✓ **$112 Billion**
Total Volume

✓ **4%**
2023 Volume Increase

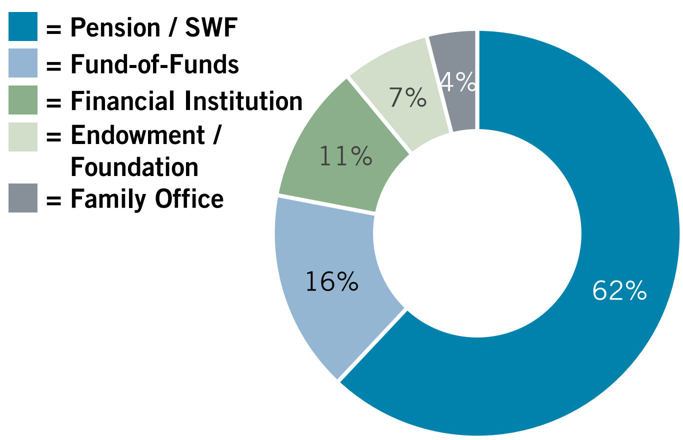
✓ **$52 Billion**
GP-Led Volume

✓ **15**
GP-Led Deals Over $1 Billion

✓ **$60 Billion**
LP Volume

✓ **19**
LP Deals Over $1 Billion

Fig. 2. LP Portfolio Transaction Volume by Seller Type



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LP Market

Resurgence in Secondary Pricing

LP secondary market pricing experienced a robust recovery from decade-low levels in 2022, with pricing rebounding by 400 basis points to 85% of NAV (relative to 81% of NAV in 2022). This notable recovery was fueled by rising public valuations (the S&P 500 index increased by 24% in 2023), but was tempered by a tepid distribution environment, with subdued M&A and IPO activity. Sustained high-interest rates in 2023 altered investors' required return on capital and limited their use of leverage, resulting in a mere 1% of funds pricing above NAV, and many older, tail-end interests trading below 75% of NAV. Looking ahead, we expect a further narrowing of the bid-ask spread in 2024, as secondary pricing continues to rise amidst interest rate cuts and record buy-side capital.

Key Factors Driving Pricing Increases

Rising Public Valuations	▪ S&P 500 index increased by ~24% ▪ NASDAQ index increased by ~44%	**Stabilizing Macro Environment**	▪ Visibility towards Fed rate cuts ▪ Possibility of a soft landing in the US
Younger Vintages Sold	▪ Youngest fund age in a decade (7 years) ▪ 46% of volume is <5 years old	**Increase in Available Capital**	▪ >$95B raised by 5 buyers in ~18 months ▪ Capital overhang multiple of 2.3x

Pricing & Demand by Strategy

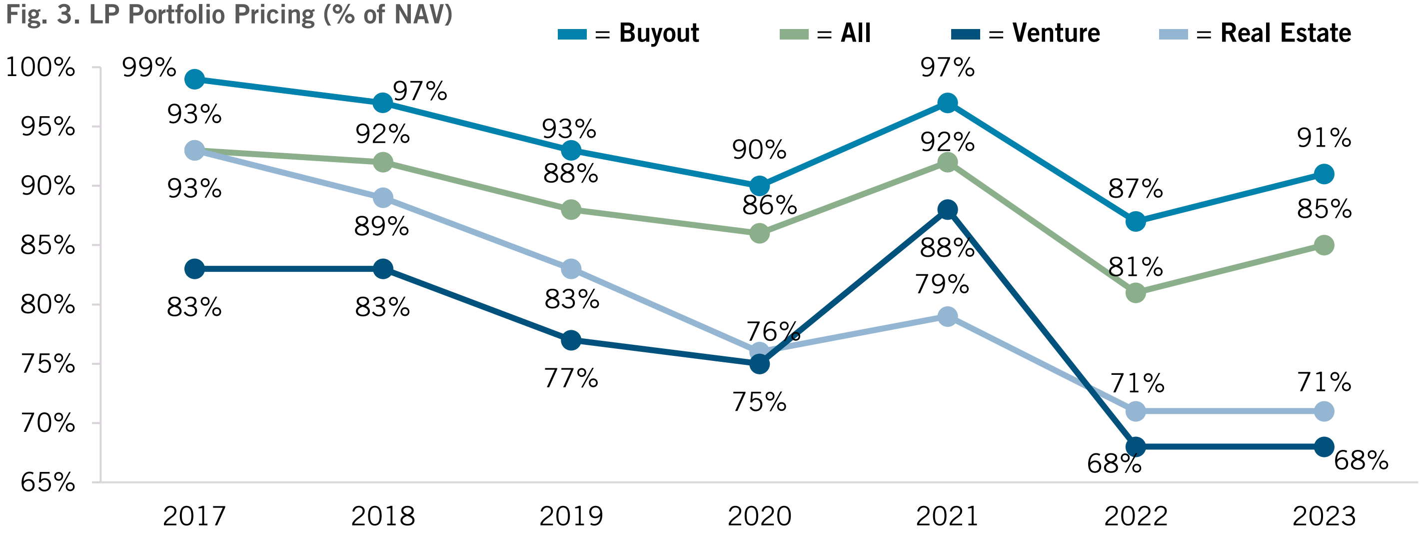
Buyout: Pricing climbed 400 basis points from 2022, reaching 91% of NAV, with buyout funds representing 72% of total transaction volume. A keen investor focus on later-stage, high-quality assets and an uptick in comparable public company multiples played a significant role in elevating buyout pricing and demand.

Venture: Pricing remained static at 68% of NAV, mirroring the previous year's depressed levels and lagging behind other strategies. There was a notable increase in supply – growing from 8% to 12% of overall volume – but buyer confidence in asset values remained low amidst the risk of down rounds in a challenging fundraising environment.

Real Estate: Pricing at 71% of NAV reflects a continuation of the challenging environment for real estate secondaries, which comprised only 2% of overall 2023 transaction volume. While the office and retail sectors faced headwinds due to reduced re-leasing rates, the industrial, logistics, and multi-family segments maintained more robust investor interest, relatively speaking.

Credit / Distressed: Pricing rose 400 basis points from 2022 to 77% of NAV, driven by senior lending funds, which garnered more robust pricing than mezzanine, special situations, or distressed interests. Despite increased capital availability, credit secondaries still comprised only 5% of the market.

Fig. 3. LP Portfolio Pricing (% of NAV)



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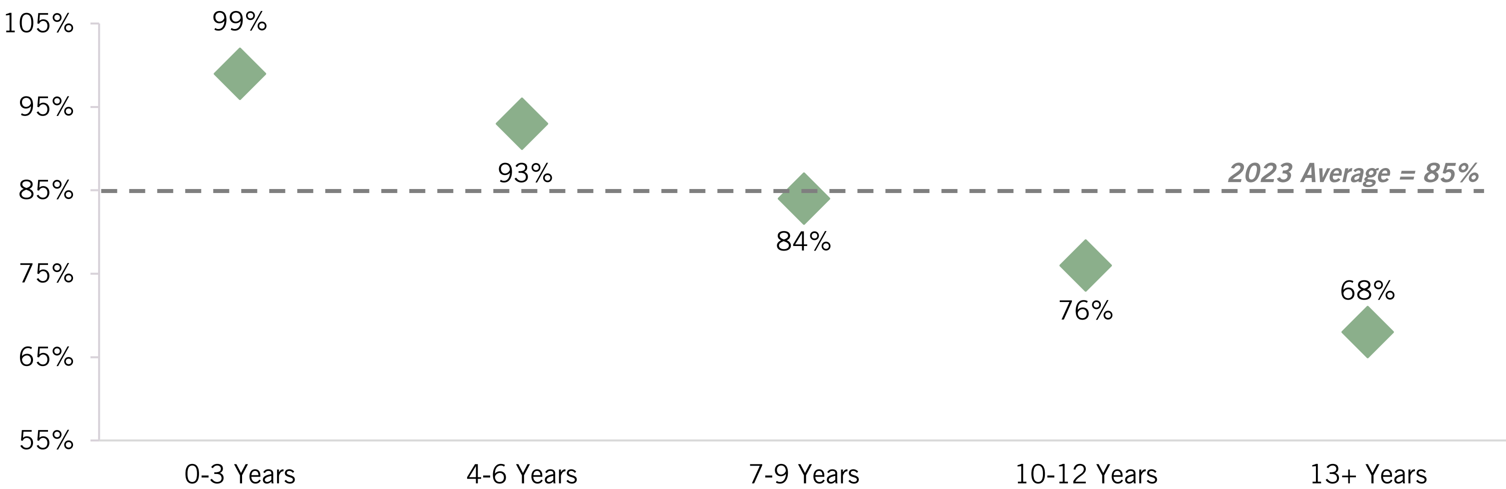
LP Market (Cont.)

Pricing & Demand by Vintage

The secondary market saw the youngest average fund age in a decade, with the weighted average vintage being 2016 (relative to an average age of 2014 in 2022). 46% of transaction volume was concentrated in funds with 2018 or newer vintages, while only 34% of volume was in funds with 2015 or older vintages. However, there were numerous smaller, tail-end transactions, as funds with vintages 2012 and older represented 50% of funds sold by count. Younger funds (those less than 5 years old) commanded high pricing at 94% of NAV due to buyers actively seeking high-quality investments with significant upside potential. In contrast, funds 10 years and older were priced at an average of 71% of NAV, due in part to investors' expectations of limited upside and delayed exits.

Fig. 4. Average Buyout Pricing by Age of Fund (% of NAV)



Pricing & Demand by Geography

North American funds held steady at 68% of volume, close to 2022 levels. Volume for European funds increased to 24% of the total, as compared to prior year volume of 18%. Asia, particularly China, also experienced a rise in secondary volume, jumping from 2% in 2022 to 5% in 2023. However, this increase came with lower pricing due to the challenging macroeconomic environment and limited dedicated buy-side capital, resulting in North American funds pricing 2,000 basis points higher than Asian funds; even funds from top-tier Asia GPs still faced substantial discounts of over 40%. Conversely, secondary volume in Latin America, Eastern Europe, and Africa funds plummeted, representing only 3% of 2023 volume, a significant drop from 10% in the previous year.

Public Market Indices Outstrip Secondary Market Pricing

Aggregate secondary pricing saw modest growth of ~5% in 2023 (2), a contrast to the significant gains in public indices (the NASDAQ and S&P 500 rose by ~44% and ~24%, respectively). However, when excluding the performance of the "Magnificent Seven" technology companies (3), the increase in secondary market pricing aligns more closely with the S&P 500's growth, which was an ~11% increase. Furthermore, higher interest rates disproportionately affected PE-backed companies (which tend to have floating rate debt), and low IPO / M&A exit activity in 2023 caused buyers to underwrite longer hold periods. Combined, these factors contributed to a smaller improvement in secondary pricing relative to the public market gains.

2023 Value Growth (1,2,3)

44%
NASDAQ Composite Index

24%
S&P 500

11%
S&P 500 (Ex: M7)

5%
Aggregate Secondary Pricing

(1) Source: S&P Capital IQ.
(2) Does not account for 2023 write-ups / write-downs to Net Asset Value.
(3) "Magnificent Seven" includes Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta, and Tesla.

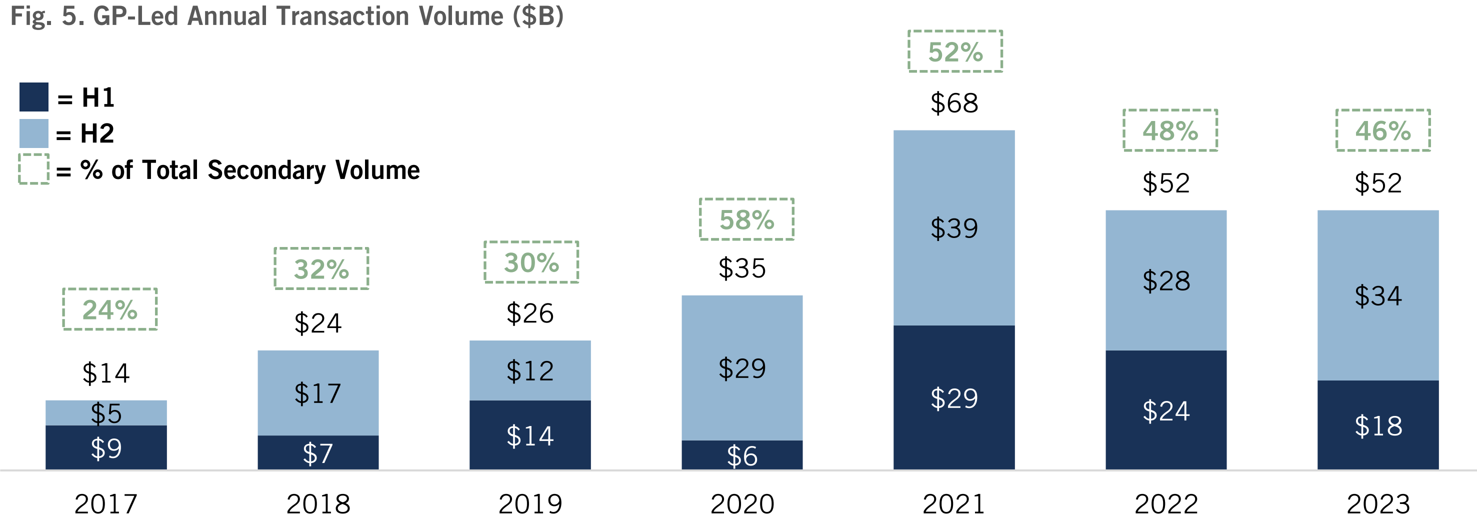
GP-Led Market

GP-Led Market Activity Accelerates in Second Half of 2023

We estimate GP-led secondary market volume was $52 billion in 2023, with volume in the second half of the year ($34 billion) far outpacing first half volume ($18 billion) and simultaneously exceeding second half 2022 volume ($28 billion). We further estimate that the total volume in 2023 ($52 billion) was comprised of $46 billion of volume from asset sale transactions (e.g., continuation funds, tender offers) and $6 billion of volume from structured equity and fund finance transactions. As a result, full-year 2023 GP-led volume was in-line with 2022 levels, despite the lassitudes facing the traditional exit environment for sponsor-backed companies. The GP-led market accounted for ~46% of total secondary volume in full-year 2023, similar to the overall secondaries market composition seen in the first half of 2023.

The GP-led secondary market has continued to be an effective and highly actionable channel for providing liquidity for sponsor-owned companies, particularly when contrasted with the M&A and IPO markets. GP-led secondary market volume stayed consistent to the previous year and was only down ~24% from record volume achieved in 2021. This compares favorably to relative M&A and IPO activity, which were down ~61% and ~80% in 2023 from their 2021 record levels, respectively [1].

Fig. 5. GP-Led Annual Transaction Volume ($B)



The continued resilience of the GP-led secondary market is driven by a confluence of factors that can be categorized as either: (i) supportive to buy-side demand for GP-led secondary opportunities or (ii) increasing the supply of funds / companies that are well-positioned for a GP-led secondary transaction. Although these supply-side elements were evident throughout 2022, it's clear the demand-side factors emerging over the course of 2023 were the main drivers of the recent surge in momentum.

Supply and Demand Drivers Behind GP-Led Volume Growth

Supportive Supply (Sell-Side) Factors	Supportive Demand (Buy-Side) Factors
Hindrances with customary exit paths for sponsor-backed companies (e.g., availability of leverage) are forcing sponsors to evaluate alternative means of liquidity	New investment strategies targeting GP-led secondaries launched by well-capitalized asset management platforms and multi-product private equity firms
LPs continue to experience a dearth of liquidity from their private market portfolios; global private equity exits reached a decade low in 2023, according to PitchBook	Growing universe of potential syndicate investors, including traditional direct investors in private equity, such as large- and mega-family offices
GPs have become increasingly familiar with GP-led secondary technologies: facilitating equity recapitalizations, fund-level financings, "club deal" management, etc.	Record fundraising volume achieved by secondary funds, with 2023 fundraising figures (~$84B) dwarfing the combined fundraising haul from the prior two years

(1) Source: Dealogic.

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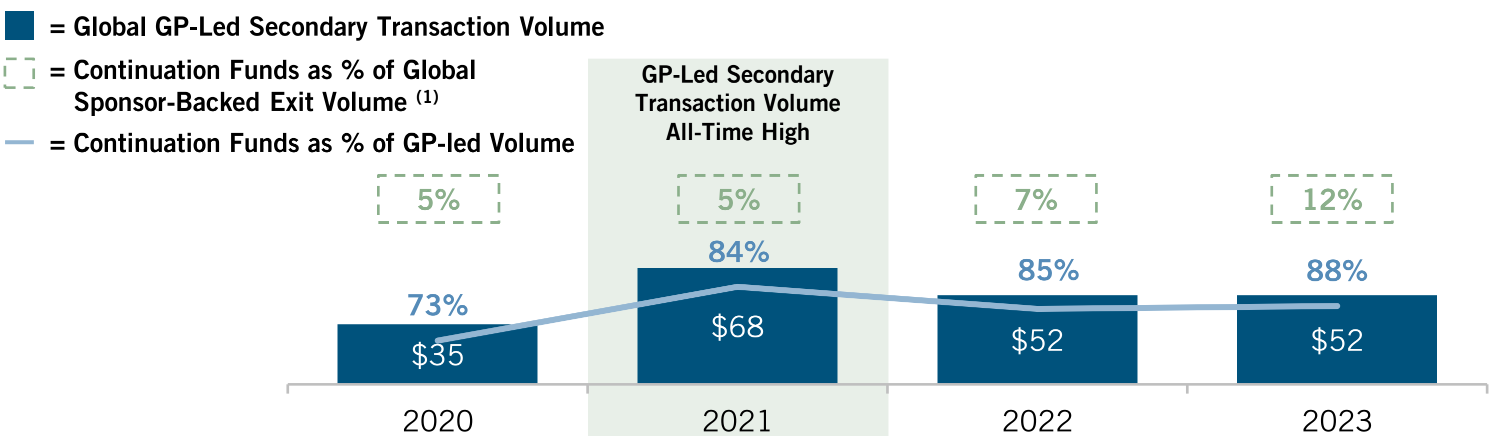
GP-Led Market (Cont.)

Search for Liquidity Drives Multi-Asset Continuation Fund Volume

As anticipated in our mid-year report, multi-asset continuation funds gained further share of total continuation fund activity in 2023 – up to ~59% of volume in 2023 from ~41% in 2022 – as sponsors sought to hasten distribution pacing of their funds and help liquidate vehicles nearing / past the end of their terms. Multi-asset continuation funds are well-suited to achieving portfolio management objectives, as they are able to deliver fund liquidity solutions at scale, and the current anemic exit environment creates ample rationale for sponsors to pursue more comprehensive liquidity solutions for their funds.

The marginal orientation towards multi-asset continuation funds is likely to persist as LPs are clamoring for liquidity and pressure is mounting on sponsors (especially those approaching the market with a primary fundraise) to produce realizations. Private equity exit volume reached a decade-low in 2023 and the average holding period of exited companies in the U.S. was 6.4 years, which is an all-time high and up materially from 5.1 years in 2021, according to PitchBook. The stability of the GP-led secondary market in recent years has resulted in the penetration rate of GP-led secondaries (predominantly continuation funds) more than doubling as a percentage of overall sponsor-backed exits from 2020 to 2023, from 5% to 12%.

Fig. 6. GP-Led Secondary Market Volume ($B)



Global Volume As % of 2021 Levels [2]

	2020	2021	2022	2023
GP-Led Secondary Volume	**51%**		**76%**	**76%**
IPO Volume	53%		28%	20%
M&A Volume	53%		65%	39%
SPAC Volume	40%		15%	16%
Sponsor-Backed Exit Volume	46%		63%	35%

Single-asset continuation funds, which comprised the plurality of continuation fund volume from 2020 through mid-2023, still constituted 41% of continuation fund volume in 2023 and appear poised to remain a significant market presence. This endurance is noteworthy, especially considering the earlier skepticism single-asset transactions faced when the modern GP-led market was emerging. The health of the single-company continuation fund segment is further evidenced by the roughly 50/50 ratio of single-asset / multi-asset continuation funds as measured by the number of closed transactions vs. transaction volume, which highlights the larger average size of multi-asset continuation funds.

Secondary investors' ability to lean into multi-company opportunities and capitalize larger, diversified transactions is demonstrated by the relative share of these opportunities from a transaction count / volume perspective in 2023. Secondary funds typically underwrite individual opportunities to maximum single-company concentration limits between 1.0-2.5% of their total fund commitments, greatly increasing an individual secondary investor's ability to speak for size in a multi-company opportunity vs. a single-asset continuation fund.

(1) Source: Dealogic estimates for sponsor-backed exit deal volume, including M&A and IPO proceeds. Percentage represents continuation fund transaction volume (numerator) over sponsor-backed exit deal volume (denominator).
(2) IPO, M&A and SPAC volume sourced from Dealogic. GP-led secondary transaction volume based on Jefferies estimates.

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GP-Led Market (Cont.)

Target Asset Profile Remains Largely Unchanged

As with 2022, buyout exposures constituted a significant majority of the GP-led secondary market, at ~75% of 2023 volume, with venture and growth exposures being the next-largest concentration at ~15% of 2023 volume. While the average holding period for portfolio companies contributed to continuation funds increased to slightly above 5 years in 2023, this likely reflects the tepid environment for liquidity and general increase in the current holding period of sponsor-owned companies across the board, which in the U.S. increased to a decade-plus high of 4.2 years in December 2023.

Continuation funds featuring middle market buyout assets were well-featured in 2023; the vast majority of single-asset continuation funds were less than $1 billion and typically featured a control equity exposure in the underlying portfolio company, suggesting portfolio company enterprise values generally below $2 billion. This is in part a function of the GP-led secondary market's ability to efficiently capitalize a midsized vehicle without requiring an elongated syndication exercise, but also a preference to invest in companies with multiple actionable terminal exit pathways (e.g., large-cap sponsors, strategic acquirors), rather than an overreliance on an exit via the public markets. We expect the middle market to continue to be a focus area for GP-led secondaries, as sponsors in the segment see opportunities to continue successful partnerships with oftentimes founding management teams and secondaries investors are able to curate distinct portfolios from their peers.

Shifting "Status Quo" of LP Roll-over Options

The first half of 2023 saw an increase in the prevalence of continuation fund transactions that offered existing LPs the option to retain elements of their existing management fee / carried interest terms from their incumbent fund into the new continuation fund. This is colloquially referred to as a "status quo" roll-over option in the GP-led secondary market. The shifting market adoption continued in the second half of 2023, with an estimated ~40% of continuation fund transactions in 2023 providing LPs a status quo option. Regardless of the roll-over options being offered to existing LPs, approximately ~80% of LPs elected to sell into continuation fund transactions in 2023, largely in-line with recent years.

FY 2023 Key Statistics	
$52B	FY 2023 GP-Led Transaction Volume
~88%	Continuation Funds *(% Share of GP-Led Volume)*
~41%	Single-Asset Continuation Funds *(% Share of Continuation Fund Volume)*
~75%	Buyout Strategy *(% Share of GP-Led Volume)*
~40%	Single-Asset Transactions with Parallel Cross-Fund Investments
~12%	Continuation Fund Exits *(% of Sponsor-Backed Exit Volume)*
2017	Average Vintage for Company Acquired by Single-Asset Continuation Fund
~40%	Continuation Funds Offering "Status Quo" Option

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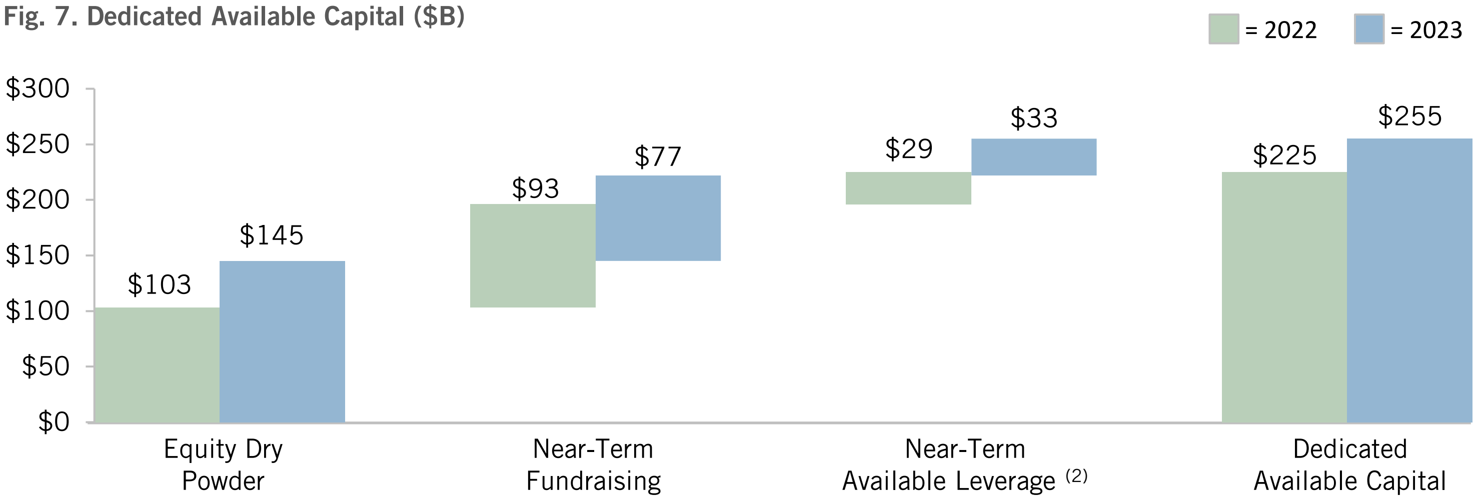
Dedicated Available Capital

A Year of Record Fundraises

The secondary market experienced a banner fundraising year in 2023, with total fundraising surging by ~180% from approximately 60 final closings, out of which ~20 closings exceeded $1 billion; altogether, 2023 secondaries fundraising surpassed the combined total of 2021 and 2022, despite an overall 4% decrease in broader PE fundraising [(1)]. The largest secondaries buyers remained dominant, with the top 10 investors accounting for ~50% of closed transactions from 2021 to 2023, and the top five investors raising $95 billion over the past 18 months. Consequently, our estimate of near-term dedicated available capital hit a new high of $255 billion, surpassing the previous record of $236 billion in 2021.

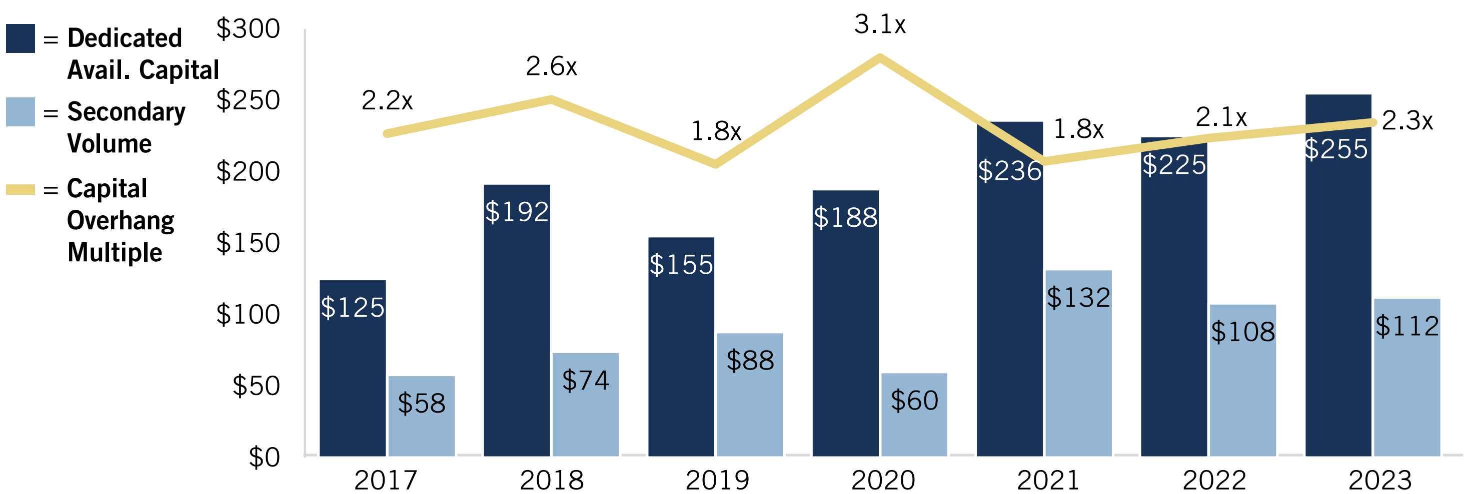
Fig. 7. Dedicated Available Capital ($B)



Secondary Market Capitalization

The secondary market recorded its second-highest transaction volume in history at $112 billion in 2023, and the soaring dedicated available capital of $255 billion led to an increase in the capital overhang multiple [(3)] to 2.3x (marking the second consecutive annual increase). Looking ahead to 2024 and 2025, we anticipate a gradual reduction in capital overhang, as deployment will likely outstrip fundraising in 2024, based on the potential for a high-deployment year and the likelihood that major secondary buyers, having raised record funds in 2023, will not initiate new fundraising efforts for another 18-24 months.

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



(1) Source: Preqin.
(2) Leverage estimated as approximately 15% of equity dry powder plus near-term fundraising.
(3) Capital Overhang Multiple defined as Dedicated Available Capital divided by Total Secondary Volume.

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Conclusion

Outlook for 2024

As 2024 unfolds, we anticipate a further resurgence in secondary market volume, encompassing both LP portfolio and GP-led transactions. This rebound is likely to be driven by a growing universe of secondary buyers, continued narrowing of the bid-ask spread and a sustained need for LP liquidity resulting from capital calls again exceeding distributions in the first half of 2024. On the LP-led side, LPs are expected to leverage innovative transaction structures like preferred equity, managed funds, and upside-sharing deals to navigate this unique market landscape. On the GP-led side, we anticipate sponsors to continue accessing the continuation fund market to generate exits as the IPO and M&A market remain challenged. We also predict multiple transactions exceeding $3 billion, fueled by larger LPs and GPs tapping the market and substantial capital held by the large buyers. We project that this dynamic, characterized by LPs seeking liquidity and well-capitalized buyers, will push transaction volume to surpass $130 billion, potentially eclipsing 2021 record volume levels.

Jefferies' over 60-person Private Capital Advisory team has advised institutional investors and general partners on over $14 billion of private equity secondary transaction value in 2023, and over $170 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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CONTACTS:

Matt Wesley
Global Head, Private Capital Group
mwesley@jefferies.com
+1 (212) 336-7340

Scott Beckelman
Global Co-Head of PCA
sbeckelman@jefferies.com
+1 (212) 778-8567

Todd Miller
Global Co-Head of PCA
todd.miller@jefferies.com
+1 (972) 701-3150

Wes Bender
Managing Director
wbender@jefferies.com
+1 (972) 701-3147

Chris Bonfield
Managing Director
cbonfield@jefferies.com
+1 (972) 701-3149

Ben Carper
Managing Director
bcarper@jefferies.com
+1 (212) 284-2042

Dennis Kwan
Managing Director
dennis.kwan@jefferies.com
+852 37671187

Jason Morris
Managing Director
jason.morris@jefferies.com
+1 (972) 701-3148

Andy Nick
Managing Director
anick@jefferies.com
+1 (415) 229-8728

Rodrigo Patiño
Managing Director
rpatino@jefferies.com
+44 20 7029 8647

Rich Saltzman
Managing Director
rsaltzman@jefferies.com
+1 (212) 778-8091

Joe Slevin
Managing Director
joe.slevin@jefferies.com
+1 (212) 707-6353

Please direct all media inquiries to mediacontact@jefferies.com